

ZAYO GROUP UK LIMITED

Registered Company No. 03726666

Directors' Report and Financial Statements

For the year ended 30 June 2017

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Zayo Group UK Limited

DIRECTORS AND ADVISERS

Registered No. 03726666

DIRECTORS

Hans Lehmann
Wendy Cassity
Matthew Steinfort

SECRETARY

Abogado Nominees Limited
100 New Bridge Street
London EC4V 6JA

AUDITORS

Crowe Clark Whitehill LLP
St Bride's House
10 Salisbury Square
London EC4Y 8EH, UK

BANKERS

Barclays Bank PLC
1 Churchill Place
London E14 5HP

SOLICITORS

Baker & McKenzie
100 New Bridge Street
London EC4V 6JA

REGISTERED OFFICE

100 New Bridge Street
London
EC4V 6JA

STRATEGIC REPORT

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

Principal activities

The company's principal activities during the financial year ended 30 June 2017 and 2016 included the lease of dedicated, secure and reliable fibre optic networks, the provision of high bandwidth optical services over the company's fibre optic network, and the provision of high performance internet connectivity solutions for e-commerce and other business-critical internet operations. During the year, the company continued to focus on providing multiple products from its managed lit fibre-optic service range to its customers. These products and services were provided primarily to telecommunications carriers, large corporate enterprises and government organisations.

There was strong demand for the company's products and services during the financial year due to its ability to leverage and expand existing relationships with company's customer base. The company produced an operating profit of £22,376 thousand (2016: £12,807 thousand).

Review of the key developments during the year

The company continued to expand its network in London and the surrounding area. A significant number of new buildings and customers were added to the network during the financial year.

Principal risks and uncertainties

The company has no long term debt other than what is owed to its parent undertaking. The company is not exposed to market fluctuations in interest rates and the related cash flow requirements to service this debt. This provides the company with a favourable outlook regarding its cash on hand and increases the company's ability to service all other debt as and when it falls due.

The balance sheet shows the company has a net current assets position of £58,256 thousand (2016: £54,426 thousand).

The company leases fibre and services from other telecommunication providers in order to provide services to its customers. These contracts tend to be long term which limits the company's exposure to unfavourable increases in price.

Key performance indicators ("KPIs")

Management monitors the company's performance by reference to KPIs. These include turnover, gross profit and operating profit which are shown in the table below.

	Year ended	
	30 June 2017 £'000s	30 June 2016 £'000s
Turnover	53,126	49,747
Gross Profit	34,090	26,883
Operating profit	22,376	12,807

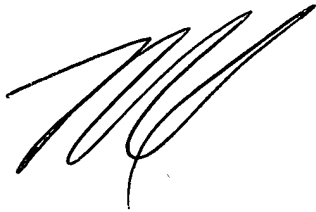
Turnover increased by 7% (2016: 35%) from £49,747 thousand to £53,126 thousand in 2017.

STRATEGIC REPORT

FUTURE DEVELOPMENTS

The company will continue to lead the Zayo Group's UK business, with the support of its affiliate companies in both Europe and the USA, offering global connectivity. It will continue to provide a wide range of high bandwidth products and services designed to meet the changing needs of both its existing and future customers. Current focus is on maximising customer satisfaction, further investment in UK infrastructure and improving cost effectiveness.

By order of the board

A handwritten signature in black ink, consisting of several fluid, overlapping loops and strokes, representing the name Hans Lehmann.

Hans Lehmann

Director

100 New Bridge St
London
EC4V 6JA
18 May 2018

DIRECTORS' REPORT

The directors present the annual report and audited financial statements for the year ended 30 June 2017.

RESULTS AND DIVIDENDS

The profit for the financial year, after taxation, amounted to £18,998 thousand (2016: £10,113 thousand). The directors do not recommend the payment of an ordinary dividend for the financial year (2016: £nil).

DIRECTORS

The directors during the financial year were as follows:

Daniel Caruso (resigned 19 Jun 2017)
Wendy Cassity (appointed 19 Jun 2017)
Ken desGarennes (resigned 13 Oct 2017)
Hans Lehmann (appointed 13 Oct 2017)
Matthew Steinfert (appointed 13 Oct 2017)

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

The directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

FUTURE DEVELOPMENTS

Details of future developments are provided in the strategic report on page three.

AUDITORS

Pursuant to a shareholders' resolution the company is not obliged to reappoint its auditors annually.

Each of the persons who is a director at the date of approval of this report confirms that:

- So far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- The director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

By order of the board



Hans Lehmann
Director

100 New Bridge Street
London
EC4V 6JA
18 May 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing 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 UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 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;
- 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF ZAYO GROUP UK LIMITED

Opinion

We have audited the financial statements of Zayo Group UK Limited for the year ended 30 June 2017 which comprise of a profit and loss account, balance sheet, statement of changes in equity, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

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.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF ZAYO GROUP UK LIMITED

Opinion on other matters prescribed by the Companies Act 2006

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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



Leo Malkin
Senior Statutory Auditor
For and on behalf of:
Crowe Clark Whitehill LLP
Statutory Auditor
St Brides House
10 Salisbury Square
London, EC4Y 8EH, UK

31 May 2018

PROFIT AND LOSS ACCOUNT
For the financial year ended 30 June 2017

	<i>Note</i>	<i>2017 £'000</i>	<i>2016 £'000</i>
TURNOVER	3	53,126	49,747
Cost of sales before depreciation		(11,375)	(15,149)
Depreciation	11	(7,661)	(7,715)
Total cost of sales		<u>(19,036)</u>	<u>(22,864)</u>
GROSS PROFIT		34,090	26,883
Total administrative expenses		<u>(11,714)</u>	<u>(14,076)</u>
OPERATING PROFIT	4	22,376	12,807
Interest receivable and similar income	6	1,526	1,230
Interest payable and similar charges	7	<u>(546)</u>	<u>(560)</u>
PROFIT BEFORE TAXATION		23,356	13,477
Tax on profit	10	<u>(4,358)</u>	<u>(3,364)</u>
PROFIT FOR THE FINANCIAL YEAR		<u><u>18,998</u></u>	<u><u>10,113</u></u>

The company has no recognised gains and losses in the current year other than those reported in the profit and loss account.

The notes on pages 11 to 23 form part of these financial statements.

BALANCE SHEET
At 30 June 2017

	<i>Note</i>	<i>30/06/2017</i> <i>£'000</i>	<i>30/06/2016</i> <i>£'000</i>
FIXED ASSETS			
Tangible assets	11	63,091	43,440
Deferred tax asset	14	-	552
		<u>63,091</u>	<u>43,992</u>
CURRENT ASSETS			
Stock	12	11,297	27,669
Debtors	13	59,434	34,823
Cash at bank and in hand	15	7,847	6,613
Total Current Assets		<u>78,578</u>	<u>69,105</u>
CREDITORS: amounts falling due within one year	16	(20,322)	(14,679)
NET CURRENT ASSETS		<u>58,256</u>	<u>54,426</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		121,347	98,418
CREDITORS: amounts falling due after more than one year	17	(24,808)	(23,707)
NET ASSETS		<u>96,539</u>	<u>74,711</u>
CAPITAL AND RESERVES			
Called up share capital	18	60,619	60,619
Share premium account		500	500
Stock-based compensation	22	4,390	26,483
Profit and loss account		31,030	(12,891)
Shareholder's funds		<u>96,539</u>	<u>74,711</u>

The financial statements have been prepared in accordance with provisions of FRS102.

The financial statements were approved by the Board of Directors and authorised for issue on 18 May 2018.



Hans Lehmann
Director

The notes on pages 11 to 23 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2017

	Called up share capital	Share Premium	Stock based compensation	Profit and Loss account	Total
At 1 July 2015	60,619	500	20,244	(19,234)	62,129
Profit for the year	-	-	-	10,113	10,113
Stock based compensation	-	-	6,239	-	6,239
Deemed dividends due to loan below market rate under FRS 102	-	-	-	(3,770)	(3,770)
At 30 June 2016	60,619	500	26,483	(12,891)	74,711
Profit for the year	-	-	-	18,998	18,998
Stock based compensation	-	-	(22,093)	24,923	2,830
At 30 June 2017	60,619	500	4,390	31,030	96,539

The notes on pages 11 to 23 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

Basis of preparing the financial statements

Zayo Group UK Limited is a private company incorporated in the United Kingdom under the Companies Act with a registered company address of 100 New Bridge St, London EC4V 6JA.

The financial statements have been prepared in accordance with the historical cost convention, modified to include certain items at fair value, and in accordance with the Companies Act 2006 and Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note 2).

A summary of the principal accounting policies is set out below. These have been applied consistently throughout the current and preceding year.

Reduced disclosure

Zayo Group UK Limited meets the definition of a qualifying entity under FRS 102 paragraph 1.12(b), and has therefore taken advantage of the disclosure exemptions in relation to financial instruments, remuneration of key management personnel and presentation of a cash flow statement on the grounds that it is a wholly owned subsidiary of Zayo Group Holdings Inc., as detailed in note 23.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

The functional currency of the company is considered to be Great British Pound because that is the currency of the primary economic environment in which the company operates. These financial statements are presented in GBP.

Going concern

The company is expected to generate positive cash flows. On the basis of their assessment of the company's financial position, including in respect of material uncertainties, the company's directors have a reasonable expectation that the company will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Turnover

Revenues for a service over a contracted period of time (e.g. fibre leases, managed services, and IP transit) are recognised from the commencement of the service to the customer over the life of the customer contract. Revenue from the connection and installation of the customer on to the metropolitan fibre network is recognised over the life of the contract or the estimated customer relationship period. Other revenues (e.g. 'burst billing' for IP traffic in excess of committed traffic levels) are recognised in the period they occur. All revenues are stated net of VAT and arise in the UK.

Tangible fixed assets

The fibre optic transmission network and related equipment is stated at cost. Costs in connection with the installation and expansion of the network, including, (since 1 July 2006) the cost of own labour spent substantially on network development, are capitalised.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (CONTINUED)

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost less estimated residual value of each asset evenly over its expected useful life, as follows:

Metropolitan fibre optic network	the lesser of the right of way for the related network or 20 years
Fibre optic transmission network and related equipment	over 5 years
Motor vehicles	over 3 years
Leasehold improvements	over the lease term
Furniture and fittings	over 4 years
Computer equipment	over 3 years

Fibre optic transmission network and related equipment has been depreciated since the network commenced operations in February 2001.

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Stock and work in progress

Stocks are valued at the lower of cost and net realisable value. Cost is based on the cost of purchase on a first in, first out basis. Work-in-progress relates to costs incurred in the construction of customer-related infrastructure. This work-in-progress is transferred to fixed assets when completed.

Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Leases

Assets held under finance leases, hire purchase contracts and other similar arrangements, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets at the fair value of the leased asset (or, if lower, the present value of the minimum lease payments as determined at the inception of the lease) and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant periodic rate of interest on the remaining balance of the liability.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (CONTINUED)

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

Pensions

The company makes contributions to the personal pension plans of its employees. Contributions are charged in the profit and loss account as they become payable in accordance with employee services contracts.

Share-based payment

Zayo Group Holdings, Inc. issued share-based payments for certain management of the Group under which common units in Communications Infrastructure Investments (CII) LLC (ultimate parent of Zayo Group Holdings, Inc.) were granted.

Common units represent an agreement by CII to deliver common units in the future. The fair value of these share-based payments is re-measured at each reporting date and expense is recorded for vested units over the requisite service period.

In October 2014, the company adopted a new stock-based compensation plan. Grants under the new plan are made quarterly for all participants. The company recognizes all stock-based awards to employees, based on their grant-date fair values and the Company's estimates of forfeitures. The Company recognizes the fair value of outstanding awards as a charge to administrative expenses over the vesting period.

The company uses the straight-line method to recognize share-based compensation expense for outstanding share awards that do not contain a performance condition.

Prior to the adoption of the new plan, certain employees were awarded profit interests in the form of common units of the entity that was a majority owner in the company's ultimate parent undertaking. The common units were historically considered to be stock-based compensation with terms that required the awards to be classified as liabilities due to cash settlement features. The vested portion of the awards was reported as a liability and the fair value was re-measured at each reporting date until the date of settlement, with a corresponding charge (or credit) to stock-based compensation expense. In October 2014, the company's ultimate parent undertaking went through an initial public offering which triggered a deemed modification to the stock compensation arrangements with the company's employees. As a result, previously issued common units which were historically accounted for as liability awards, became classified as equity awards.

For additional information regarding stock-based compensation, see Note 22 – Share-based payments.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Directors consider that key accounting policies and key sources of estimation uncertainty relate to recoverability of trade debtors.

Impairment of trade debtors

An impairment loss is recognised when there is objective evidence that a financial asset is impaired. Management specifically reviews its trade debtor assets and analyses historical bad debts, customer creditworthiness and current economic trends when making a judgement to evaluate the adequacy of the allowance for impairment losses. Where there is objective evidence of impairment, the carrying amount is adjusted accordingly. Total trade debtors of £7,005 thousand have been reported inclusive of provisions of £1,868 thousand.

Zayo Group UK Limited

NOTES TO THE FINANCIAL STATEMENTS

3. TURNOVER

	2017	2016
	£'000	£'000
Recurring contracted revenue	49,062	44,791
Installation revenues	4,064	4,956
Total revenues	53,126	49,747

4. OPERATING PROFIT

This is stated after charging/(crediting):

	2017	2016
	£'000	£'000
Auditor's remuneration	52	62
Depreciation:		
Depreciation of owned fixed assets	7,241	7,255
Assets held under finance leases	420	460
Operating lease charges:		
Operating lease rentals - land and buildings	5,294	3,334
Gain on foreign exchange loss/(gain) on trading transactions	33	(688)
Defined contribution pensions plan cost	314	176

5. AUDITORS' REMUNERATION

	2017	2016
	£'000	£'000
Audit of financial statements	40	55
Taxation services	12	7
	52	62

6. INTEREST RECEIVABLE AND SIMILAR INCOME

	2017	2016
	£'000	£'000
Interest receivable on amounts owed from fellow subsidiaries	1,053	733
Net foreign exchange gain on amounts owed to parent undertaking	451	471
Bank interest received and other	22	26
	1,526	1,230

Zayo Group UK Limited

NOTES TO THE FINANCIAL STATEMENTS

7. INTEREST PAYABLE AND SIMILAR CHARGES

	2017	2016
	£'000	£'000
Interest payable on amounts owed to parent undertaking	11	19
Interest on capital leases and other	535	526
Loss on foreign currency exchange	-	15
	<u>546</u>	<u>560</u>

8. DIRECTORS' EMOLUMENTS

In both the current and prior year the Directors were remunerated by other group companies in respect of services rendered to the company.

9. STAFF COSTS

	2017	2016
	£'000	£'000
Staff costs (including directors) consist of:		
Wages and salaries	6,267	5,095
Social security costs and other	1,019	762
Defined contribution pensions cost	314	176
	<u>7,600</u>	<u>6,033</u>

The average number of employees during the year was as follows:

	2017	2016
	No.	No.
Administration	24	10
Sales and marketing	17	17
Operations	66	46
	<u>107</u>	<u>73</u>

10. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2017	2016
	£'000	£'000
<i>UK corporation tax</i>		
Current tax on profits for the year	(967)	(74)
Current tax credit prior year	74	-
Payment for group relief	(2,637)	(2,308)
<i>Deferred tax</i>		
Origination and reversal of timing differences	(915)	(268)
Effect of change in tax rates	-	(230)
Adjustments to the recoverable amount of deferred tax assets arising in previous periods	87	(484)
	<u>(4,358)</u>	<u>(3,364)</u>

Tax on profit

NOTES TO THE FINANCIAL STATEMENTS

10. TAXATION ON PROFIT ON ORDINARY ACTIVITIES FACTORS AFFECTING CURRENT TAX CHARGE (CONTINUED)

The tax assessed on the profit on ordinary activities for the year is different to the average rate of corporation tax in the UK of 19.75 % (2016: 20.0%). The differences are reconciled below:

	<i>2017</i> <i>£'000</i>	<i>2016</i> <i>£'000</i>
Profit before tax	23,356	13,477
Tax on profit at UK corporation tax rate of 19.75% (2016: 20.0%)	4,613	2,695
<i>Effects of:</i>		
Expenses not deductible for tax purposes	(137)	516
Impact of change in tax rate on opening provision	-	230
Impact of change in tax rate on future tax years	(147)	(47)
UK corporation tax charge/(credit) re prior periods	29	(30)
Total current tax	4,358	3,364

Factors that may affect future tax charges

The deferred tax assets recognised as at 30 June 2017 have been calculated at the tax rate of 17% (2016: 17%) which had been substantively enacted at the balance sheet date.

Reductions in the UK corporation tax rate from 20% to 19% effective from 1 April 2017 and to 18% effective 1 April 2020 were substantively enacted on 26 October 2015. The UK 2016 Finance Bill reduced the previously enacted rate of 18% to 17% effective 1 April 2020 and received royal assent on 15 September 2016.

Zayo Group UK Limited

NOTES TO THE FINANCIAL STATEMENTS

11. TANGIBLE FIXED ASSETS

Cost:	Metro Fibre Optic Network	Motor Vehicles	Leasehold Improvements	Furniture and fittings	Computer Equipment	Total
At 30 June 2016	91,217	71	749	272	1,969	94,278
Additions	26,539	-	234	-	539	27,312
At 30 June 2017	<u>117,756</u>	<u>71</u>	<u>983</u>	<u>272</u>	<u>2,508</u>	<u>121,590</u>
Depreciation:						
At 30 June 2016	48,038	71	627	272	1,830	50,838
Charge for the year	7,474	-	14	-	173	7,661
At 30 June 2017	<u>55,512</u>	<u>71</u>	<u>641</u>	<u>272</u>	<u>2,003</u>	<u>58,499</u>
Net book value:						
At 30 June 2017	62,244	-	342	-	505	63,091
At 30 June 2016	<u>43,179</u>	<u>-</u>	<u>122</u>	<u>-</u>	<u>139</u>	<u>43,440</u>

Included in the amounts for network infrastructure above, are the following amounts relating to leased assets.

Cost	
At 30 June 2016	6,511
Additions	243
At 30 June 2017	<u>6,754</u>
Depreciation and impairment	
Balance at 30 June 2016	460
Charge for the year	420
Balance at 30 June 2017	<u>880</u>
Net book value	
At 30 June 2017	<u>5,874</u>
At 30 June 2016	<u>6,051</u>

Zayo Group UK Limited

NOTES TO THE FINANCIAL STATEMENTS

12. STOCK & WORK IN PROGRESS

	2017	2016
	£'000	£'000
Stock	1,227	631
Work in progress	10,070	27,038
	<u>11,297</u>	<u>27,669</u>

13. DEBTORS

	2017	2016
	£'000	£'000
Trade debtors	7,005	6,540
Amount due from parent undertakings	17,501	16,448
Amount due from fellow subsidiaries	25,467	4,425
Prepayments and other	9,461	7,410
	<u>59,434</u>	<u>34,823</u>

All debtors are due within one year with the exception of £1,196 thousand (2016: £583 thousand) included within prepayments.

14. DEFERRED TAX

	2017	2016
	£'000	£'000
Accelerated capital allowances	(485)	377
RSU Share compensation	201	175
Other	8	-
	<u>(276)</u>	<u>552</u>
Provision at start of the year	552	1,534
Deferred tax charge for the year	(915)	(268)
Less amounts due to group relief	-	-
Impact of change in tax rate on opening provision	-	(230)
Adjustments in respect of prior periods	87	(484)
Deferred tax (liability)/asset at 30 June	<u>(276)</u>	<u>552</u>

Zayo Group UK Limited

NOTES TO THE FINANCIAL STATEMENTS

15. CASH AT BANK AND IN HAND

At 30 June 2017 cash balances with banks include £147 thousand (2016: £128 thousand) of cash deposits which are subject to a legal charge in favour of a third party.

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2017 £'000	2016 £'000
Trade creditors	867	3,187
Other taxes and social security	707	2,161
Accruals and deferred revenue	12,161	8,552
Due to affiliates	6,147	-
Capital lease obligations	440	779
	<u>20,322</u>	<u>14,679</u>

17. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2017 £'000	2016 £'000
Amounts due to parent undertakings	-	837
Deferred revenue	18,161	17,039
Accrued Stock based compensation	127	129
Capital lease obligations	5,206	5,415
Deferred tax liability	276	-
Other creditors	1,038	287
	<u>24,808</u>	<u>23,707</u>

Settlement of amounts due to parent undertakings occurred in November 2016.

18. SHARE CAPITAL

Allotted, called up and fully paid

	2017 No.	2017 £'000	2016 No.	2016 £'000
Ordinary shares of £1 each	60,618,567	60,619	60,618,567	60,619
	<u>60,618,567</u>	<u>60,619</u>	<u>60,618,567</u>	<u>60,619</u>

NOTES TO THE FINANCIAL STATEMENTS

19. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption in Financial Reporting Standard 102 section 33.1A “Related party disclosures” not to disclose transactions with members of the group headed by Zayo Group Holdings, Inc. (which was the entity’s ultimate parent company at the balance sheet date) on the grounds that all of the voting rights in the company are controlled within that group and the company is included in consolidated financial statements which are available to the public and can be obtained from the address stated in note 23.

20. PENSION COMMITMENTS

The company operates a defined contribution personal pension scheme for its employees. The assets of the scheme are held separately from those of the company in an independently administered account. The pension cost for the year represents amounts payable to the scheme and amounted to £314 thousand (2016: £176 thousand). The unpaid contributions outstanding at year end included within accruals and deferred revenue (note 17) are £47 thousand (2016: £18 thousand).

21. OBLIGATIONS UNDER LEASES AND HIRE PURCHASE CONTRACTS

The Company uses finance leases to acquire network infrastructure. These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the lessee. Future minimum payments under finance leases:

	2017 £'000	2016 £'000
Finance leases which expire:		
Within one year	806	1,279
In two to five years	2,003	2,640
After five years	<u>5,710</u>	<u>5,548</u>
	8,519	9,467
Less Finance charges allocated to future periods	<u>(2,874)</u>	<u>(3,272)</u>
	<u>5,645</u>	<u>6,195</u>

The company had total commitments under non-cancellable operating leases as follows:

	2017 £'000	2016 £'000
Operating leases which expire:		
Within one year	1,525	2,314
In two to five years	2,410	3,712
After five years	<u>1,217</u>	<u>1,441</u>
	5,152	7,467

NOTES TO THE FINANCIAL STATEMENTS

22. SHARE-BASED PAYMENTS

During the year ended 30 June 2017, the company recorded stock-based compensation expense of £3,205 thousand (2016: £6,293 thousand). The stock-based compensation expense recorded by Zayo Group UK Limited related to stock-based compensation to direct employees of the company and stock-based compensation allocated from other group companies and is reflected as an increase to share capital during the year ended June 30, 2017. The stock compensation expense recognized by Zayo Group UK Limited relates to the following compensation plans:

CII Common Unit Plan

In October 2014, the company's ultimate parent undertaking – Zayo Group Holdings, Inc. (the "Parent"), completed an initial public offering ("IPO") of shares of its common stock, which were listed in the United States of America on the New York Stock Exchange under the ticker symbol "ZAYO".

Prior to the Parent's IPO, the Parent was a wholly owned subsidiary of Communications Infrastructure Investments LLC ("CII") and was given authorization by CII to award 625,000,000 of CII's common units as profits interests to employees, directors, and affiliates of the Parent. The common units were historically considered to be stock-based compensation with terms that required the awards to be classified as liabilities due to cash settlement features. The vested portion of the awards was reported as a liability and the fair value was re-measured at each reporting date until the date of settlement, with a corresponding charge (or credit) to stock-based compensation expense. In connection with the Parent's IPO, there was a deemed modification to the stock compensation arrangements with the company's employees and directors. As a result, previously issued common units which were historically accounted for as liability awards, became classified as equity awards. Prior to reclassifying the common unit liability to equity, the company re-measured the fair value of the CII common units factoring in the change in fair value since June 30, 2014 and the change in fair value caused by the modification. The fair value of the unrecognized compensation expense associated with unvested CII common units have been recognized over the remaining vesting period of the outstanding common units through May 15, 2017.

The valuation of the CII common units as of the IPO date was determined based on a Monte Carlo simulation. The Monte Carlo valuation analysis attempts to approximate the probability of certain outcomes by running multiple trial runs, called simulations, using random variables to generate potential future stock prices. This valuation technique was used to estimate the fair value associated with future distributions of common stock to CII common unit holders. The Monte Carlo simulation first projects the number of shares to be distributed by CII to the common unit holders at each subsequent measurement date based on stock price projections under each simulation. Shares attributable to unvested CII common units are subject to the existing vesting provisions of the CII common unit awards. The estimated future value of shares scheduled to be distributed by CII based on vesting provisions are calculated under each independent simulation. The present value of the number of shares of common stock to be distributed to common unit holders under each simulation is then computed, and the average of each simulation is the fair value of the Parents common shares to be distributed by CII to the common unit holders. Various inputs and assumptions were utilized in the valuation method, including forfeiture behaviour, vesting provisions, holding restrictions, peer companies' historical volatility, and an appropriate risk-free rate.

During the years ended 30 June 2017, the company recognised £1,496 thousand (2016: £4,544 thousand) of stock-based compensation expense related to the CII common unit plan.

Performance Incentive Compensation Plan ("PCIP")

In October 2014, the Parent adopted the 2014 Performance Compensation Incentive Plan ("PCIP"). The PCIP includes incentive cash compensation ("ICC") and equity in the Parent's common stock (in the form of restricted stock units or "RSUs"). Grants under the PCIP RSU plans are made quarterly for all participants. The PCIP was effective on 16 October 2014 and will remain in effect for a period of 10 years (or through 16 October 2024) unless it is earlier terminated by the Parent's Board of Directors. The PCIP has two components: Part A and Part B.

NOTES TO THE FINANCIAL STATEMENTS

22. SHARE-BASED PAYMENTS (CONTINUED)

Part A

Under Part A of the PCIP, full-time employees are eligible to earn quarterly awards of RSUs. Each participant in Part A of the PCIP has an RSU annual award target value, which is allocated to each fiscal quarter. The final Part A value awarded to a participant for any fiscal quarter is determined by the Parent's Compensation Committee subsequent to the end of the respective performance period taking into account the Parent company's measured value creation for the quarter, as well as such other subjective factors that it deems relevant (including group and individual level performance factors). The number of Part A RSUs granted is calculated based on the final award value determined by the Parent's Compensation Committee divided by the average closing price of the Parents common stock over the last ten trading days of the respective performance period. Part A RSUs vest assuming continuous employment fifteen months subsequent to the end of the performance period. Upon vesting, the RSUs convert to an equal number of shares of the Parent's common stock.

Part B

Under Part B of the PCIP, participants, who include members of the Parent's senior management team, are awarded quarterly grants of RSUs. The number of the RSUs earned by the participants is based on the Parent's stock price performance over a four fiscal quarter measurement period and vest, assuming continuous employment at the end of the measurement period. The existence of a vesting provision that is associated with the performance of the Parent's stock price is a market condition, which affects the determination of the grant date fair value. Upon vesting, RSUs convert to an equal number of shares of the Parent's common stock.

The table below reflects the total Part B RSUs granted during each period presented, the maximum eligible shares of the Parent's stock that the respective Part B RSU grant could be converted into shares of the Parent's common stock and the grant date fair value per Part B RSU:

	During the three months ended		
	June 30, 2017	March 31, 2017	December 31, 2016
Part B RSUs granted	152,808	171,316	191,015
Maximum eligible shares of the Parent's stock	550,109	880,564	981,817
Grant date fair value per Part B RSU	\$26.52	\$27.39	\$75.56

The grant date fair value of Part B RSU grants is estimated utilizing a Monte Carlo simulation. This simulation estimates the ten-day average closing stock price ending on the vesting date, the stock price performance over the performance period, and the number of common shares to be issued at the vesting date. Various assumptions are utilized in the valuation method, including the target stock price performance ranges and respective share pay-out percentages, the Parent's historical stock price performance and volatility, peer companies' historical volatility and an appropriate risk-free rate. The aggregate future value of the grant under each simulation is calculated using the estimated per share value of the common stock at the end of the vesting period multiplied by the number of common shares projected to be granted at the vesting date. The present value of the aggregate grant is then calculated under each of the simulations, resulting in a distribution of potential present values. The fair value of the grant is then calculated based on the average of the potential present values.

During the years ended 30 June 2017, Zayo Group UK Limited recognised £1,709 thousand (2016:£1,749 thousand) of compensation expense associated with the vested portion of the Part A and Part B awards that were issued directly to employees of Zayo Group UK limited or allocated from other affiliated companies.

NOTES TO THE FINANCIAL STATEMENTS

23. ULTIMATE PARENT UNDERTAKING

At the balance sheet date the company's ultimate parent undertaking was Zayo Group Holdings, Inc. a company incorporated in the United States of America. The group financial statements for Zayo Group Holdings, Inc. can be obtained from 1805 29th Street, Suite 2050, Boulder, Colorado 80202, United States of America

The company's immediate parent company is Zayo Group International Limited, a company incorporated in the United Kingdom. Group financial statements for Zayo Group International Limited are not prepared as the company is exempt under section 401 of the Companies Act 2006. Zayo Group Holdings, Inc. was the parent of both the largest and smallest groups of undertakings for which group accounts are drawn up, and their group financial statements can be obtained from the SEC website at www.sec.gov.