Registered number: 08087551

Cornerstone Telecommunications Infrastructure Limited

Annual Report

for the year ended 31 March 2019

Cornerstone Telecommunications Infrastructure Limited

Annual Report for the year ended 31 March 2019

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Cornerstone Telecommunications Infrastructure Limited

Strategic Report for the year ended 31 March 2019

(a) Business Review

Cornerstone Telecommunications Infrastructure Limited ("CTIL" or the "Company") is engaged in maintaining and managing the non-radio (passive) assets supporting the mobile wireless network of Vodafone Limited ("Vodafone") and Telefonica UK Limited ("Telefonica"). Telefonica and Vodafone (together "the Parents") are seeking to generate efficiencies in the deployment and operation of their networks in order to provide the best 2G, 3G and 4G network in the UK and reduce the environmental impact of their operations.

In 2012, Telefonica and Vodafone pooled their respective networks into an evenly split joint venture, with the purpose of creating a joint single national grid of sites. Outside London, Vodafone is responsible for the design, deployment, operation and active maintenance of the shared radio access network in the West Region, thereby acting as host operator in these regions with Telefonica being the sharing operator. Conversely, Telefonica is the host operator in the East Region where Vodafone is the sharing operator. London is governed by a different set of rules.

The Company has the beneficial ownership and management of all of the cell sites operated by Telefonica and Vodafone, split between sites selected for the single national grid and decisions to decommission sites that are no longer required. CTIL also exclusively provides services to Telefonica and Vodafone in relation to use and access to sites and infrastructure assets on those sites.

Ofcom ran an auction in 2013 with the purpose of promoting strong competition in the 4G mobile market. The 4G network is expected to deliver faster mobile broadband speeds, lower prices, greater innovation, new investment and better coverage. Both the Parents acquired spectrum in the auction, with Telefonica winning the coverage obligation lot, whereby it was required to provide a mobile broadband service for indoor reception to at least 98% of the UK population (expected to cover at least 99% when outdoors) and at least 95% of the population of each of the UK nations by the end of 2017. On 9th March 2018, Ofcom announced that both Parents had complied with their "geographic" voice coverage obligations and Telefonica had complied with its indoor data coverage obligation.

The results for the Company for the year ended 31 March 2019 show a loss before income tax of £101.6m (2018: loss £93.0m) from revenue of £340.9m (2018: £355.0m). This is mainly due to the effect of depreciation charged on the passive network infrastructure assets transferred into the Company on 12 November 2012 and depreciation charged on capital expenditure since this date.

Management and the Parents consider the key measures of the Company's performance to be EBITDA and Capital expenditure. EBITDA is defined as earnings before depreciation, amortisation and other non-recurring or unusual items. EBITDA for the year ended 31 March 2019 is £44.7m (2018: £38.3m) and Capital Expenditure is £102.5m (2018: £128.5m). These results were in line with management's expectations.

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
Loss before income tax	**(101.6)**	(93.0)
Amortisation	**0.8**	0.7
Depreciation	**117.7**	106.7
Finance costs	**27.7**	23.8
Network insurance costs	**0.1**	0.1
EBITDA	**44.7**	38.3

The key performance indicators used for measures of internal performance are set out below:

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
EBITDA	**44.7**	38.3
Capital expenditure	**102.5**	128.5

(b) Future outlook

On 5th April 2018 the principle stage of the Ofcom auction of the 5G spectrum was completed. Both the Parents acquired spectrum in the auction and the Company is currently assessing the effect on CTIL's operations.

This underlines the commitment by the Parents to build and operate a single network, for which CTIL will manage the passive assets under the terms agreed with the Parents.

CTIL's future operations and performance will ultimately be determined by the costs and recharges agreed with the Parents. Over the next year the Company intends to build on the success of the year ended 31 March 2019 by continuing to increase operational efficiencies, drive down property costs and to build out the single grid network for the Parents to enable optimal radio coverage.

CTIL has an especially challenging programme of change to deliver on the critical path of what is arguably the biggest network change program in the UK and delivering strong acquisition capability is imperative. The Company has a number of other important challenges that require a clear focus and strong delivery. These come in the form of delivering commercially beneficial agreements with landlords, capitalising upon acquisition opportunities in London, and fully optimising Estates cost reduction as EBITDA is fundamentally impacted by property overheads.

In 2017 legislation enabling the updated Electronic Communications Code came into force. CTIL believe this will help drive investment and stimulate the growth, rollout and maintenance of the communication technology infrastructure. CTIL shares the Government's commitment to delivering digital connectivity to communities across the UK.

(c) Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks. The key risks and uncertainties affecting the Company are considered to relate to the successful implementation by the Parents of the programme of activities required to integrate the existing sites into the consolidated network and to maintain the performance of the consolidated network at the levels required, fluctuations to market rents payable on network sites, technological advances, and regulation. The Company's key risks, and the activities in place to manage them, are monitored on a regular basis.

Financial risk management

The Company's major non-derivative financial instruments include borrowings and cash that arise directly from its operations. The Company's financing has been provided in totality by the Parents.

It is the Company's policy not to enter into derivative transactions or to invest in financial products, including hedges or similar vehicles.

Strategic Report for the year ended 31 March 2019 (continued)

Credit risk

Concentration of credit risk with respect to customers defaulting on the payment of their debts is considered limited given that the Company's Parents are contractually committed to fund the operations of the Company. Where required for third party customers, checks are made to ensure the Company makes sales to customers with an appropriate credit history and the exposure to credit risk is monitored on an ongoing basis. The Company does not require collateral in respect of financial assets.

Liquidity risk

The Company maintains a mixture of equity and inter-company funding with the Parents that is designed to ensure that sufficient funds are available for ongoing operations and investment in property, plant and equipment.

The contract that underpins the relationship between CTIL and the Parents contains provisions wherein the Parents give financial support to CTIL to cover liabilities as they fall due, foreseen investment and working capital requirements. This support includes three loan facilities: a Committed loan for joint spend shared equally between the Parents and two Unilateral facilities to cover spend for the individual Parents.

During the year the Company made drawdowns from the Committed facility of £47.0m (2018: £89.0m). As at 31 March 2019, a balance of £52.3m remains available on the Committed facility (2018: £99.3m).

The Company made drawdowns from Unilateral facilities totalling £21.4m (2018: £12.1m). As at 31 March 2019, a balance of £77.3m remains available on the Unilateral facilities. (2018: £39.3m).

Interest rate risk

The Company's interest rate risk theoretically arises from its Parent loan facilities. However, this risk is managed as funding is provided by the Parents, which mitigates any material exposure to interest rate risk. In addition, the Company requests funding for a one month period on a monthly basis and maintains its cash balance in a range sufficient to cover its short term liabilities. Interest is incurred on the balance daily and settled with the Parent companies one month in arrears.

Going concern

The Directors have considered the provisions of the Joint Venture agreement between Vodafone Limited, O2 Cedar Limited and O2 Networks Limited and consider that the Company can continue its ongoing operations with funding of the business for the foreseeable future.

By order of the Board

Name: LAURA FERNANDEZ
Position: FINANCE DIRECTOR
Date: 18th June 2019

Name: Emanuele Tournon
Position: Finance Director
Date: 18TH June 2019

Registered number 08087551

Cornerstone Telecommunications Infrastructure Limited

Directors' Report for the year ended 31 March 2019

The Directors present their report and the audited financial statements of the Company for the year ended 31 March 2019.

CTIL is a limited company which was incorporated on 29 May 2012 and its share capital is beneficially held equally by Vodafone Limited and Telefonica. The Telefonica holding is via O2 Networks Limited and O2 Cedar Limited.

The Company is domiciled in the United Kingdom. The address of its registered office is Hive 2, 1530 Arlington Business Park, Theale, Berkshire RG7 4SA.

Directors

The Directors who held office during the year, and until the date these financial statements were signed, unless otherwise stated, are given below:

- Derek McManus
- Emanuele Tournon
- Laura Patricia Fernandez
- Scott Petty
- Kye Prigg (resigned 28 February 2019)
- Andrea Dona (appointed 26 April 2019)
- David Wormald
- Brendan O'Reilly

As permitted by the Articles of Association, the Directors and Officers have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors and Officers.

Dividend

The Directors do not recommend the payment of a dividend (2018: £nil).

Future developments

Please refer to the Strategic Report for the Company's business review and future developments.

Financial Risk Management

Please refer to the Strategic Report and Note 17 for the Company's financial risk management review.

Directors' Report for the year ended 31 March 2019 (continued)

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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.

The directors 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.

Disclosure of information to auditors

Each of the Directors in office at the date of approval of this report confirm that, so far as the Directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Company's auditors are unaware. The Directors have taken necessary steps to make themselves aware of relevant audit information and to establish that the auditors are aware of that information.

By order of the Board

Name: LAURA FERNANDEZ	Name: Emanuele Tournon
Position: FINANCE DIRECTOR	Position: Finance Director
Date: 18th June 2019	Date: 18th June 2019

Registered number 08087551

Independent auditors' report to the members of Cornerstone Telecommunications Infrastructure Limited

Report on the audit of the financial statements

Opinion

In our opinion, Cornerstone Telecommunications Infrastructure Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the balance sheet as at 31 March 2019; the income statement, the statement of cash flows, the statement of changes in equity for the year ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' 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 remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- 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.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Independent auditors' report to the members of Cornerstone Telecommunications Infrastructure Limited

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

Auditors' 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 auditors' 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Matthew Hall

Matthew Hall (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
21 June 2019

Cornerstone Telecommunications Infrastructure Limited

Income statement for the year ended 31 March 2019

Continuing Operations	Note	2019 £'000	2018 £'000
Revenue	2	**340,936**	354,964
Direct costs	3	**(401,234)**	(410,811)
Gross loss		**(60,298)**	(55,847)
Administrative expenses	3	**(13,617)**	(13,358)
Operating loss		**(73,915)**	(69,205)
Finance costs	5	**(27,692)**	(23,806)
Loss before income tax		**(101,607)**	(93,011)
Income tax expense	6	**(1,410)**	(2,706)
Loss for the year		**(103,017)**	(95,717)

There is no other comprehensive income or loss for either the current or prior years.

Cornerstone Telecommunications Infrastructure Limited

Balance sheet as at 31 March 2019

	Note	2019 £'000	2018 £'000
Assets			
Non-current assets			
Intangible assets	7	**3,234**	837
Property, plant and equipment	8	**1,140,300**	1,158,716
		1,143,534	1,159,553
Current assets			
Trade and other receivables	9	**164,957**	181,087
Cash and cash equivalents	10	**22,043**	15,475
Current income tax assets		**3,537**	3,846
		190,537	200,408
Total assets		**1,334,071**	1,359,961
Equity and liabilities			
Equity attributable to owners of the Parents			
Share capital	14	**160**	160
Share premium	14	**959,840**	959,840
Accumulated losses		**(544,903)**	(441,886)
Total equity		**415,097**	518,114
Liabilities			
Current liabilities			
Trade and other payables	11	**197,881**	188,580
Borrowings	12	**596,128**	527,690
Provisions for other liabilities and charges	13	**5,519**	13,289
Total current liabilities		**799,528**	729,559
Non-current liabilities			
Provisions for other liabilities and charges	13	**102,538**	98,806
Deferred tax liability	6	**16,908**	13,482
Total non-current liabilities		**119,446**	112,288
Total liabilities		**918,974**	841,847
Total equity and liabilities		**1,334,071**	1,359,961

The financial statements on pages 8 to 34 were approved by the Board of Directors and were signed on its behalf by:

Director FINANCE DIRECTOR

Date: 18th June 2019

Emanuele Tournon
Finance Director
18th June 2019

Registered number: 08087551

Cornerstone Telecommunications Infrastructure Limited

Statement of changes in equity for the year ended 31 March 2019

	Share capital £'000	Share premium £'000	Accumulated losses £'000	Total equity £'000
Balance at 1 April 2017	**160**	**959,840**	**(346,169)**	**613,831**
Loss for the year and total comprehensive expense	-	-	(95,717)	(95,717)
Balance at 31 March 2018	**160**	**959,840**	**(441,886)**	**518,114**
Loss for the year and total comprehensive expense	-	-	(103,017)	(103,017)
Balance at 31 March 2019	**160**	**959,840**	**(544,903)**	**415,097**

Cornerstone Telecommunications Infrastructure Limited

Statement of cash flows for the year ended 31 March 2019

	Note	2019 £'000	2018 £'000
Cash flows from operating activities			
Loss for the financial year		**(103,017)**	(95,717)
Adjustments for:			
Amortisation	3	**843**	692
Depreciation	3	**117,666**	106,694
Finance costs	5	**27,692**	23,806
Interest paid		**(25,844)**	(21,916)
Income tax expense	6	**1,410**	2,706
Changes in working capital:			
Decrease in trade and other receivables		**16,130**	748
Increase in trade and other payables		**10,927**	21,317
Increase in provisions	13	**4,619**	4,471
Cash generated from operations		**50,426**	42,801
Tax received		**-**	2,115
Net cash flow generated from operating activities		**50,426**	44,916
Cash flows from investing activities			
Purchase of intangible assets	7	**0**	(442)
Purchase of property, plant and equipment		**(102,490)**	(133,885)
Decommissioning costs incurred	13	**(9,916)**	(9,037)
Asset Retirement Obligation costs incurred	13	**-**	-
Interest received	5	**110**	60
Net cash flow used in investing activities		**(112,296)**	(143,304)
Cash flows from financing activities			
Proceeds from borrowings	18	**68,438**	101,110
Net cash flow generated from financing activities		**68,438**	101,110
Net cash flow		**6,568**	**2,722**
Cash and cash equivalents at beginning of the financial year	10	**15,475**	12,753
Cash and cash equivalents at end of the financial year	10	**22,043**	15,475

Notes to the financial statements for the year ended 31 March 2019

1 Accounting policies

Accounting basis

The financial statements of Cornerstone Telecommunications Infrastructure Limited (CTIL), a Company incorporated in England and Wales, have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRS Interpretations Committee (IFRS IC) interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention and going concern basis.

These financial statements are presented in sterling as this is the functional and the presentation currency of the Company.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied throughout the financial statements.

New Accounting Standards

New and amended standards and interpretations endorsed by the European Union which came into effect for the current reporting period and have an impact on the Company accounts are as follows:

- IFRS 9, 'Financial Instruments';
- IFRS 15, 'Revenue from Contracts with Customers';

The Company has adopted IFRS9 and IFRS15 to reflect these new standards as of 1st April 2018. However, these standards did not have a material impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

Based on the number of site lease agreements and quantum of future lease commitments, as disclosed in Note 15, the Company expects that the changes introduced by IFRS16 will have a significant impact on its financial statements from adoption on 1st April 2019.

The Company has a significant number of lease agreements (as a lessee) for the mast sites on which the telecommunication masts are sited. These agreements are currently accounted for as operating leases under IAS17 "Leases", with costs being recognised as an expense in the profit and loss account.

IFRS16 requires lessees to recognise "Right of Use" assets and liabilities arising from all leases (subject to certain exceptions) in the Company's balance sheet.

The Company intends to apply the following policies on adoption of IFRS16 requirements:

(a) Discount rate

IFRS16 permits that a lessee may apply a single discount rate to a portfolio of leases with reasonably similar characteristics such as lease term, class of underlying asset, currency and economic environment. As the leases relate to UK based mast sites, which share similar characteristics, a portfolio approach is considered appropriate. The Company will use the Loan Facility borrowing rate of 4.4% as the cost of capital applied in calculating the present value of the IFRS16 Right of Use asset and lease liabilities.

Notes to the financial statements for the year ended 31 March 2019 (continued)

(b) Lease term

For new leases and changes in current leases in term (not expired), the Right of Use asset will be calculated at net present value using a 5-year time horizon, which represents the period over which the network plans are assessed. The lease end date used in the calculation will be whichever of the next lease break date and the lease end date is closer to 5 years' time from the balance sheet date.

c) Treatment of expired lease agreements

For leases protected under the 1954 Landlord & Tenants Act, the Company will assume the lease term for IFRS16 is 5 years. If the lease is not protected, the Company will assume the lease term is the contractual notice period.

The Company will re-assess all leases with less than one year to the calculated lease end date, monthly.

IFRS16 allows for two transition methods: retrospectively for all periods presented or using a modified retrospective approach where the cumulative effect of adoption is recognised at the date of initial application. The Company will apply the modified retrospective approach.

As at the reporting date, the Company has non-cancellable operating lease commitments of £458m, see note 15.

The Company expects the adoption of IFRS16 will include the recognition on the balance sheet of Right of Use assets of approximately £728m and corresponding lease liabilities of £728m, principally in respect of site leases. In the income statement, the amortisation of the Right of Use assets and recognition of finance costs on the lease obligation will replace lease expense under IAS17.

Going Concern Basis of Accounting

Despite having made a loss in the current year and having net accumulated losses at 31 March 2019, the Company adopts the going concern basis in preparing its financial statements based upon the support and continued investment in working capital from the Parents. The Directors of the Company are confident that the Company will have adequate resources to continue in operational existence for the foreseeable future.

Under the contract that underpins the relationship between CTIL and the Parents there are provisions wherein the Parents give financial support to CTIL so that it can meet its liabilities as they fall due and sufficient committed loan funding to support foreseen investment and working capital requirements.

The Directors have considered the provisions of the Joint Venture agreement between Vodafone Limited, O2 Cedar Limited and O2 Networks Limited and consider that the Company can continue its ongoing operations with funding of the business for the foreseeable future.

Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and judgements that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and judgements are continually made and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable in the circumstances. The following critical accounting estimates were noted in these financial statements:

1 Accounting policies (continued)

(a) At the commencement of operations, assets were transferred from shareholders at fair value in exchange for share capital. The value of these assets was based on an independent valuation. The resulting Directors' valuation of £960 million was within the range specified in the independent valuation report.

(b) Provisions have been made in relation to the entity's obligations to decommission assets both in the short-term, as a result of developing a single network, and at the end of the life of the network. These provisions are based on the current estimated costs to decommission cell sites, the estimated timing of decommissioning and the number of sites expected to be decommissioned.

Revenue recognition

Revenue comprises recharges of rent and rates on the basis agreed in the contribution agreement, plus qualifying overheads and services, to which a management fee is added. Revenue also comprises site share income and recharge of maintenance, property service charges and depreciation to which a management charge is not added.

Revenue is recognised in the income statement when customers obtain control of the associated service. A customer obtains control when it has the ability to direct the use of and obtain the benefit from the service.

Revenue arises from single performance obligations and represents net invoice value after the deduction of discounts and allowances given and accruals for estimated future rebates and returns. Value added tax and other sales taxes are excluded from revenue.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Notes to the financial statements for the year ended 31 March 2019 (continued)

1 Accounting policies (continued)

Foreign exchange

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded in sterling at the rate ruling at the transaction date. All differences are taken to the income statement.

Computer software

Computer software comprises computer software purchased from third parties. Computer software licenses are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. Software integral to an item of hardware equipment is classified as property, plant and equipment.

Costs associated with maintaining computer software programs are recognised as an expense when they are incurred.

Amortisation is charged to the income statement on a straight line basis over the estimated useful life from the date the software is available for use. The estimated useful life of computer software assets is 3 – 5 years.

Property, plant and equipment

Land and buildings held for own use are stated at fair value on initial transfer or the cost of purchase or construction less provisions for accumulated depreciation and impairment.

Amounts for plant and equipment, which includes network infrastructure assets and which together comprise an all but insignificant amount of the Company's property, plant and equipment, are stated at fair value on initial transfer or the cost of purchase or construction less provisions for accumulated depreciation and impairment. The cost of assets transferred from the Parents has been based on an independent valuation. The resulting Directors' valuation of £960m was in the range specified in the independent valuation report and was recognised on 12 November 2012.

The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation is charged so as to write off the cost of assets, other than land, using the straight-line method, over their estimated useful lives as follows:

Land:	
- Freehold land	No depreciation is provided
Equipment, fixtures and fittings	
- Network infrastructure	15 years
- Other	3 – 10 years

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between any sale proceeds and the carrying amount of the asset and is recognised in the income statement. Retirements of property, plant and equipment pending disposal are included in current assets as assets awaiting disposal.

1 Accounting policies (continued)

Leased assets and obligations

Operating lease rentals are charged to the income statement on a straight line basis over the life of the lease.

Assets held under finance leases are capitalised and depreciated over their expected useful economic lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Assets under construction

Assets under construction comprise set-up costs, capitalised overheads, site acquisition and design work, and site expenditure incurred during construction, delivery and modification. Where a substantial period of time is required to bring the asset into use attributable finance costs are capitalised and included in the cost of the relevant asset. Assets under construction are not subject to depreciation as they are not yet available for use (i.e., in the location and condition necessary for the assets to be capable of operating in the manner intended by management).

Asset retirement obligations

The Company has an obligation to decommission cell sites at the end of the life of the network. The estimated obligation is based on the current estimated costs to decommission cell sites, the estimated timing of decommissioning and the number of sites expected to be decommissioned.

The cost of contributed, purchased and constructed assets includes the net present value of the estimated future cost of asset retirement obligations committed to at balance date. A corresponding liability has also been recognised in relation to these obligations.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost less provisions for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all the amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is recognised in the income statement within cost of sales. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'overheads and other costs' in the income statement.

Retirement benefit schemes

The Company operates a defined contribution plan. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current period. The Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

1 Accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, current balances with banks and similar institutions and highly liquid investments with original maturities of three months or less, and bank overdrafts. When applicable, bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Taxation

Current tax is provided at the amounts expected to be paid applying tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred tax is calculated at the average tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax is provided using rates of tax that have been enacted or substantively enacted by the balance sheet date.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

If the time value of money is material, provisions are discounted using a pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

The Company recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

Provisions have been made in relation to the entity's obligations to decommission cell sites both in the short-term, as a result of developing a single network, and at the end of the life of the network. These provisions have been fully recharged to the Parents and are based on the current estimated costs to decommission cell sites, the estimated timing of decommissioning and the number of sites expected to be decommissioned.

Given the uncertainties inherent in the estimates used to determine the amount of the provision, actual outflows of resources will inevitably differ from the amounts recognised originally on the basis of estimates.

Notes to the financial statements for the year ended 31 March 2019 (continued)

2 Revenue

The breakdown of revenue, all arising in the UK and in a single reporting segment, is as follows:

	2019 £'000	2018 £'000
Analysis of revenue by category:		
- Service charge revenue (note 18)	**334,990**	342,427
- Other revenue	**5,946**	12,537
Total	**340,936**	354,964

Service charge revenue includes recharges to the Parent companies of rent, rates and other direct costs, managed site share income, optional services and qualifying general administration and overhead costs. These expenses are set out in note 3 below.

Other revenue includes retained site share income and other receipts from third parties.

3 Expenses by nature

	2019 £'000	2018 £'000
Site property costs	**101,850**	117,735
Site rental costs	**163,709**	169,264
Maintenance costs	**17,181**	16,426
Amortisation of intangible assets (note 7)	**843**	692
Depreciation of property, plant and equipment (note 8)	**117,651**	106,694
Direct costs	**401,234**	410,811
Other overheads and operational costs	**13,431**	13,265
Audit fees	**186**	93
Administrative expenses	**13,617**	13,358
Total direct costs, overheads and other operational costs	**414,851**	424,169

Notes to the financial statements for the year ended 31 March 2019 (continued)

3 Expenses by nature (continued)

Services provided by the Company's auditors and its associates

During the year the Company obtained the following services from the Company's auditors and their associates:

	2019 £'000	2018 £'000
Fees payable to Company's auditors and their associates for the audit of the Company's financial statements and other Parent reporting requirements	**93**	93
Audit related assurance services	**93**	30
Total fees payable	**186**	123

4 Directors and employees

All statutory Directors are remunerated by CTIL's Parent companies and no recharge is made in respect of these amounts to the Company in the current and prior year. The Directors are appointed to a number of fellow subsidiaries and joint venture companies, and it is not possible to make an accurate apportionment of their emoluments in respect of each of the entities. Accordingly, results of the Company include no emoluments in respect of the Directors. The total emoluments of the Directors are included in the aggregate of Directors' emoluments disclosed in the financial statements of the Parent companies. No director accrued benefits under a defined contribution scheme in CTIL.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. For CTIL, key management personnel include the operational but non statutory Directors; known collectively as the 'Senior Leadership Team'.

Key management compensation during the year comprised:

	2019 £'000	2018 £'000
Wages and salaries	**1,298**	1,558
Social security costs	**170**	170
Other pension costs	**58**	57
	1,526	1,785

The total number of persons employed at 31 March 2019 was 161 (2018: 129) and they were employed to provide estates management, site deployment and administrative support functions.

Notes to the financial statements for the year ended 31 March 2019 (continued)

4 Directors and employees (continued)

Average monthly number of employees during the year were:

	2019 No.	2018 No.
Estates management	**24**	31
Site deployment	**38**	35
Administration	**89**	58
	151	124

Employee costs during the year were:

	2019 £'000	2018 £'000
Wages and salaries	**11,410**	9,193
Social security costs	**1,089**	890
Other pension costs (note 16)	**740**	623
	13,239	10,706
Amount capitalised	**(11,187)**	(9,036)
Recorded in income statement	**2,052**	1,670

Capitalised costs are employee costs incurred directly in the acquisition, build and upgrading of assets.

5 Finance costs

	2019 £'000	2018 £'000
Accretion in asset retirement obligation (note 13)	**1,259**	1,575
Interest income on short term bank deposits	**(110)**	(60)
Interest expense on loans from related parties	**26,543**	22,291
Net finance costs	**27,692**	23,806

Accretion is charged on the Asset Retirement Obligation (see note 13) using a long-term real rate of interest of 1.52% (2018: 1.67%) per annum and an inflation rate of 2.0% (2018: 2.0%). The total accretion charged in the year was £1.3m (2018: £1.6m) relating to unwinding of the discount.

Interest is calculated daily and charged on the committed loan facility (see notes 12 and 18) using a fixed rate of 4.4% per annum.

Notes to the financial statements for the year ended 31 March 2019 (continued)

6 Income tax expense

Income tax represents the sum of the current tax (receivable)/payable and deferred tax.

Income tax expense	2019 £'000	2018 £'000
Current tax credit on loss for the year	**(1,704)**	(1,522)
Adjustments in respect of prior year	**(312)**	(160)
Total current tax credit	**(2,016)**	(1,682)
Deferred tax on origination and reversal of temporary differences in the year	**3,316**	4,330
Effect of change in rate	**(349)**	(455)
Adjustments in respect of prior year	**459**	513
Total deferred tax subtotal	**3,426**	4,388
Total income tax expense	**1,410**	2,706

Notes to the financial statements for the year ended 31 March 2019 (continued)

6 Income tax expense (continued)

The tax expense assessed for the year is higher than the standard rate of corporation tax in the United Kingdom (19%). The differences are explained below.

Reconciliation of the notional tax charge based on standard rates of tax to the actual tax charge:

	2019 £'000	2018 £'000
Loss before income tax	**(101,607)**	(93,011)
Loss before income tax multiplied by standard rate in the UK of 19%	**(19,305)**	(17,672)
Effects of:		
Adjustments in respect of prior year	**147**	353
Permanent differences	**19,213**	18,958
Effect of change in rate	**(349)**	(455)
Losses not utilised	**1,704**	1,522
Income tax expense	**1,410**	2,706

The taxable loss is offset by the effect of adding back permanent differences for depreciation and non-deductible interest costs. Depreciation on transferred assets is considered a permanent difference since CTIL and the Parent companies have made a joint election under s.198 CAA 2001 to retain the capital allowances within the Parent companies. As a result, the difference is considered permanent and no deferred tax has been recognised in relation to this.

A reduction in the rate to 17% (effective 1 April 2020) was announced in the Chancellor's Budget on 16 March 2016 and was substantively enacted before the balance sheet date. The deferred tax liability at the balance sheet date has been calculated based on these rates and the effect has been included in these financial statements.

New corporate interest restrictions ("CIR") rules, published by HMRC, came into force with effect from 1 April 2017 for CTIL. The CIR restrict the amount of interest expense allowable in calculating tax liabilities to a proportion of profits. CTIL is funded entirely by interest bearing loans from Telefonica & Vodafone and is impacted by the restriction such that the full interest costs are not deductible in the Tax Computation.

Factors that may affect future tax charges
A potential deferred tax asset of £7.7m (2018: £5.9m) in relation to unutilised tax losses has not been recognised as the Directors do not believe that the availability of future tax profits against which these losses can be utilised is sufficiently certain.

Notes to the financial statements for the year ended 31 March 2019 (continued)

6 Income tax expense (continued)

Deferred tax liability

Analysis of movements in the deferred tax balance during the year:

	£'000
At 1 April 2018	13,482
Debited to the income statement (continuing operations)	3;316
Adjustments in respect of prior year	459
Effect of change in rate	(349)
At 31 March 2019	**16,908**

All the deferred tax liability is due to be settled more than 12 months after the balance sheet date.

The movement in deferred tax assets and liabilities during the year is as follows:

Deferred tax liabilities/(assets)	**Timing differences on fixed assets**	**Other short- term differences**	**Total**
	£'000	**£'000**	**£'000**
At 1 April 2017	9,157	(63)	9,094
Charged to the income statement	4,465	(77)	4,388
As at 31 March 2018	13,622	(140)	13,482
Charged to the income statement	3,403	23	3,426
As at 31 March 2019	**17,025**	**(117)**	**16,908**

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related Tax benefit through future taxable profits is probable. The company did not recognise potential deferred income tax assets of £7.7m (2018: £5.9m) in respect of losses amounting to £45.5m (2018: £34.8m) that can be carried forward against future taxable income.

Notes to the financial statements for the year ended 31 March 2019 (continued)

7 Intangible assets

	Computer software £'000
Cost at 1 April 2018	3,201
Reclassifications from assets under construction	3,240
At 31 March 2019	**6,441**
Accumulated amortisation	
At 1 April 2018	(2,364)
Charge for the year	(843)
At 31 March 2019	**(3,207)**
Net book value	
At 31 March 2019	**3,234**
At 31 March 2018	837

Intangible assets consist of computer software purchased from third parties. Computer software licenses have been capitalised on the basis of the costs incurred to acquire and bring into use the specific software.

Notes to the financial statements for the year ended 31 March 2019 (continued)

8 Property, plant and equipment

	Land	Equipment, fixtures and fittings	Assets under construction	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 April 2018	30	1,445,246	124,484	1,569,760
Additions	-	-	102,490	102,490
Reclassifications	-	75,402	(78,642)	(3,240)
Disposals	-	(26,699)	-	(26,699)
At 31 March 2019	**30**	**1,493,949**	**148,332**	**1,642,311**
Accumulated depreciation				
At 1 April 2018	-	(411,044)	-	(411,044)
Charge for the year	-	(117,666)	-	(117,666)
Disposals	-	26,699	-	26,699
At 31 March 2019	**-**	**(502,011)**	**-**	**(502,011)**
Net book value				
At 31 March 2019	**30**	**991,938**	**148,332**	**1,140,300**
At 31 March 2018	30	968,734	168,633	1,137,397

Additions

Property, plant and equipment (PP&E) additions in the current and prior years consist of cell site upgrades and new builds which have been capitalised on the basis of achieving passive build complete milestones. Costs have been accrued ahead of final accounts being agreed with suppliers, and a retrospective true-up accounted for upon receipt and agreement of the final accounts. The final amount capitalised has not been materially different to the initial capitalisation from experience to date and is expected to remain closely aligned.

Disposals

Property, plant and equipment (PP&E) disposals in the current year consist of decommissioned cell sites which were originally transferred into the Company in November 2012 by the shareholders at fair value and have been fully depreciated and disposed at nil value on the basis of achieving decommissioning complete milestone. There is no secondary market for these assets.

Assets under construction

Assets under construction comprise set-up costs, capitalised overheads and site acquisition and design work. These assets are not depreciated as they are not yet available for use (i.e., in the location and condition necessary for the assets to be capable of operating in the manner intended by the Parents).

Notes to the financial statements for the year ended 31 March 2019 (continued)

9 Trade and other receivables

	2019	2018
	£'000	£'000
Trade receivables	**540**	1,630
Amounts owing from related parties (note 18)	**62,250**	55,965
Work in progress	**2,286**	2,771
Other receivables	**99,881**	120,721
	164,957	181,087

Receivables from related parties are interest free, unsecured and repayable on demand.

The fair value of trade and other receivables are the current book values and all carrying amounts are denominated in GBP.

As of 31 March 2019, trade receivables of £0.2m (2018: £0.5m) were identified as being past due but no provision or impairment was required. These relate to a number of third party customers for whom there is no recent history of default.

Other receivables comprise prepayments of rent and rates, cash advances, accrued site share income, and general prepayments. The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each receivable mentioned above. The Company does not hold any collateral as security.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. CTIL's credit risk is concentrated on the amounts owing from the Parents, both of which are related parties with no defaults in the past.

10 Cash and cash equivalents

	2019	2018
	£'000	£'000
Cash at bank and in hand	**4,559**	1,705
Cash equivalents	**17,484**	13,770
	22,043	15,475

The fair value of cash and cash equivalents is the current book value.

Cash at bank is all held with a banking institution with an external credit rating of at least A.

All cash and cash equivalents are held in UK sterling denominated accounts. Cash equivalents are amounts held in client accounts by firms of solicitors and an external property management company on behalf of CTIL for the settlement of amounts due the third parties involved in property transactions.

Notes to the financial statements for the year ended 31 March 2019 (continued)

11 Trade and other payables

Amounts payable within one year	2019 £'000	2018 £'000
Trade payables	**15,029**	18,331
Amounts owing to related parties (note 18)	**5,115**	9,594
Accruals and deferred income	**174,121**	160,450
Other taxation and social security	**3,503**	122
Other payables	**113**	83
	197,881	188,580

Payables, excluding loans, from related parties are interest free, unsecured and repayable on demand. Trade payables with suppliers are on standard credit terms. The fair value of the trade and other payables is not significantly different from their book value.

12 Borrowings

Current	2019 £'000	2018 £'000
Parent Committed Loan Facility	**534,000**	487,000
Parent Unilateral Facilities	**62,128**	40,690
	596,128	527,690

At 31 March 2019, the following undrawn borrowing facilities were available to the Company:

Fixed rate: expiring within one year	2019 £'000	2018 £'000
Parent Committed Loan Facility	**52,300**	99,300
Parent Unilateral Facilities	**77,300**	39,300
	129,600	138,600

The committed loan facility has been arranged by the Parents to facilitate the Company's operations and is reviewed periodically to ensure that the Company continues to have sufficient resources to continue as a going concern.

Notes to the financial statements for the year ended 31 March 2019 (continued)

13 Provisions for other liabilities and charges

	Asset retirement £'000	Decommissioning £'000	Total £'000
At 1 April 2018	96,103	15,992	112,095
Additions	4,619	-	4,619
Charged to the Income Statement - accretion	1,259	-	1,259
Utilised during the year	-	(9,916)	(9,916)
At 31 March 2019	**101,981**	**6,076**	**108,057**

Analysis of total provisions:

	2019 £'000	2018 £'000
Non-current		
- Decommissioning liabilities	**557**	2,703
- Asset retirement obligations	**101,981**	96,103
Current		
- Decommissioning liabilities	**5,519**	13,289
Total	108,057	112,095

(a) Decommissioning liabilities

Decommissioning costs have been calculated based on the sites expected to be decommissioned based on agreed contractual terms through development of the single national network. The provision includes deconstruction costs, environmental make-good costs, other related overheads and related rental costs. The current portion is based on the specific sites expected to be decommissioned within the next 12 months.

It is expected that the full provision will be utilised over the next two years of operation. As a result, the provision has not been discounted as it would not result in a material change to the provision.

The cost of decommissioning is recoverable from the Parents. Any increase or decrease in the value of the decommissioning provision are recognised in the income statement of the Company in the year in which they are incurred and recharged to the Parents accordingly.

(b) Asset retirement obligations

The Company has recognised provisions for its obligations to decommission its network of sites at the end of its operating life. The provision recognised represents the best estimate of the expenditure required to settle the present obligation at the current balance sheet date. Such cost estimates, expressed at current price levels at the date of the estimate, are discounted at 31 March 2019 using a long-term real rate of interest of 1.52% (2018: 1.67%) per annum. The initial discounted cost amount has been capitalised as part of property, plant and equipment and depreciated over the life of the assets.

Notes to the financial statements for the year ended 31 March 2019 (continued)

13 Provisions for other liabilities and charges (continued)

Each year the provision is increased to reflect the accretion of discount and to accrue an estimate of the inflation, with charges being recognised as a component of interest expense. At 31 March 2019 the estimate in use for the effect of inflation was 2.0% (2018: 2.0%). The actual asset retirement costs could vary substantially from the above estimate because of changes in technology, increased costs of labour and materials, and the ability to resell or recycle components of the network.

During the year the Asset Retirement Obligation had additions of £4.6m which was made up of £7.2m due to movements in inflation and discount rates in the year, and £2.6m due to a net decrease in the number of sites provided for.

14 Share capital and premium

	2019 £'000	2018 £'000
Number of shares authorised, allotted and fully paid		
160,020 ordinary shares of £1 each	**160**	160

The movement of shares during the year was as follows:

	Number of shares	Ordinary shares £'000	Share premium £'000	Total £'000
At 1 April 2018	160,020	160	959,840	960,000
At 31 March 2019	**160,020**	**160**	**959,840**	**960,000**

The 160,020 shares were allocated as follows:

	2019 Number of shares	2018 Number of shares
O2 Cedar Limited	**16,002**	16,002
O2 Networks Limited	**64,008**	64,008
Vodafone Limited	**80,010**	80,010
	160,020	160,020

The fair value of the property plant and equipment transferred to CTIL in November 2012 was £960m (see note 8), thereby creating a share premium reserve of £959.8m on recognition.

Notes to the financial statements for the year ended 31 March 2019 (continued)

15 Commitments

Operating lease commitments

CTIL has entered a range of site leases in accordance with the terms agreed with the Parents, although the majority of sites had not formally novated from Vodafone or Telefonica to CTIL at 31 March 2019. CTIL also has commitments in relation to an external office building lease. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Site leases		Buildings		Total	
	2019	2018	**2019**	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Those falling due:						
- not later than one year	**162,604**	125,796	**-**	915	**162,604**	126,711
- later than one year and no later than five years	**166,821**	217,626	**2,129**	-	**168,950**	217,626
- later than five years	**128,322**	163,458	**284**	-	**128,606**	163,458
	457,747	506,880	**2,413**	915	**460,160**	507,795

Capital commitments

At 31 March 2019, capital expenditure amounting to £114.4m had been committed under contractual arrangements (31 March 2018: £133.5m).

16 Retirement benefit obligation

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in independently administered funds. The amount recorded as an expense in the year was £0.7m (31 March 2018: £0.6m).

Notes to the financial statements for the year ended 31 March 2019 (continued)

17 Financial risk management

The Company's simple structure and lack of external debt financing reduce the range of financial risks to which it is exposed. Monitoring of financial risk is part of the Company's ongoing risk management.

The financial assets and liabilities of the Company are detailed in notes 9, 11 and 12, and there is no significant difference between the fair value and carrying values of these assets and liabilities. All financial assets are classified as 'loans and receivables' (note 9), and all financial liabilities are classified as 'other financial liabilities at amortised cost'.

Capital risk management
The Company is funded by the two Parents. Interest bearing funding is available by way of a combined £586.3m Committed Loan Facility and a combined £140.0m Unilateral Loan Facility. During the year £47.0m of drawdowns were made from the committed loan facility (2018: £89.0m) and £21.4m from the unilateral loan facility (2018: £12.1m).

Under the contract that underpins the relationship between CTIL and the Parents there are provisions wherein the Parents give financial support to CTIL so that it can meet its liabilities as they fall due and sufficient committed loan funding to support foreseen investment and working capital requirements.

Liquidity risk
The Company actively maintains a mixture of equity and inter-company funding with the Parents that is designed to ensure that sufficient funds are available for operations and investment in property, plant and equipment.

Interest rate risk
The Company's interest rate risk theoretically arises from its Parent loan facilities. However, this risk is managed as funding is provided by the Parents at an agreed fixed rate of 4.4%, which mitigates any material exposure to interest rate risk.

Credit risk
The Company's exposure to its customers defaulting on the payment of their debts is limited as the most significant customers of the Company are the Parents, and the Parents are contractually committed to fund the operations of the Company. Where required for other customers, checks are made to ensure the Company makes sales to customers with an appropriate credit history and the exposure to credit risk is monitored on an ongoing basis. The Company does not require collateral in respect of financial assets.

18 Related party transactions

The Company is jointly owned by Vodafone Limited, O2 Networks Limited and O2 Cedar Limited, with ultimate ownership being with Vodafone and Telefonica respectively as set out in note 14. The nature of CTIL's operations means that a significant proportion of its transactions are, and will continue to be, carried out with these shareholders/related parties.

The following transactions were carried out with related parties in the year ended 31 March 2019:

	Vodafone		Telefonica		Total	
	2019	2018	**2019**	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Service revenue	**163,904**	168,334	**171,086**	174,093	**334,990**	342,427
	163,904	168,334	**171,086**	174,093	**334,990**	342,427

Services are provided based on agreed price lists and on terms that would be available to third parties. Due to the agency relationship undertaken by CTIL for the Parents, the revenue earned and recognised by the Company includes recharges to the Parent companies of rent, rates and other direct costs, site share income, optional services, qualifying general administration and overhead costs, providing a total to which a management fee is applied.

Notes to the financial statements for the year ended 31 March 2019 (continued)

18 Related party transactions (continued)

Year-end balances arising from related party transactions

The following balances were owing from related parties at 31 March. These have been categorised according to the nature of the transactions undertaken, although the nature of the Parent trading relationship means these balances are settled on a net basis.

	Vodafone		Telefonica		Total	
Amounts owing from related parties	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000
Receivables and accrued income	**30,190**	27,921	**32,060**	28,044	**62,250**	55,965
	30,190	27,921	**32,060**	28,044	**62,250**	55,965

Amounts owing to and from Vodafone and Telefonica primarily relate to timing differences on invoicing under the agreed terms with CTIL's Parents.

The receivables from the Parents arise mainly from recharged estate and network management costs, together with accrued revenue adjustments to correct for timing differences on invoicing. These receivables are unsecured in nature, bear no interest and are receivable on normal commercial terms.

	Vodafone		Telefonica		Total	
Amounts owing to related parties	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000
Payables	-	1,722	**467**	5,852	**467**	7,574
Accrued rent, rates and other	**3,444**	1,004	**1,204**	1,016	**4,648**	2,020
	3,444	2,726	**1,671**	6,868	**5,115**	9,594

The payables to related parties primarily comprise deferred revenue adjustments to correct for timing differences on invoicing, together with recharged costs that are due from CTIL to external parties, but are currently being settled by the Parents directly. These payables are unsecured in nature, bear no interest and are settled on normal commercial terms.

During the year, the Company utilised its loan facilities as follows:

	Vodafone		Telefonica		Total	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000
Committed facility drawdowns (note 12)	**23,500**	44,500	**23,500**	44,500	**47,000**	89,000
Unilateral facility drawdowns (note 12)	**6,614**	678	**14,824**	11,432	**21,438**	12,110
	30,114	45,178	**38,324**	55,932	**68,438**	101,110

Total interest expense charged on the facilities was £26.5m in the year ended 31 March 2019 (2018: £22.3m).

Notes to the financial statements for the year ended 31 March 2019 (continued)

18 Related party transactions (continued)

Year-end balances arising from related party transactions

At the year end, the following facility amounts were owing to Parent companies:

	Vodafone		Telefonica		Total	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000
Committed Facility drawdown (note 12)	**267,000**	243,500	**267,000**	243,500	**534,000**	487,000
Unilateral Facility drawdown (note 12)	**25,465**	18,851	**36,663**	21,839	**62,128**	40,690
Total Facility drawdown (note 12)	**292,465**	262,351	**303,663**	265,339	**596,128**	527,690

19 Ultimate Parent companies and controlling parties

The immediate Parent companies of the Company are Vodafone Limited, O2 Cedar Limited and O2 Networks Limited, as set out in note 14. The ultimate Parent companies of the joint venture partners are Vodafone Group plc and Telefonica S.A.

The smallest Groups which prepare consolidated financial statements and of which the Company forms a part, are Vodafone Group Plc, and Telefónica Europe plc, both companies registered in England and Wales. The largest Groups which prepare consolidated financial statements and of which the Company forms a part, are Vodafone Group Plc, a company registered in England and Wales, and Telefónica, S.A., a Company registered in Spain.

Copies of the financial statements for Vodafone Group plc are available from:
http://www.vodafone.com/content/index/investors/investor_information/annual_report.html

Copies of the financial statements for Telefonica S.A. are available from:
http://www.telefonica.com/en/web/shareholders-investors/financial_reports/