Third-Party A response to the CMA's Interim Report

Dear Members of the Inquiry Group,

We welcome the opportunity to provide further observations following the Competition and Markets Authority's (**CMA**) Interim Report of 2 October 2026 (the **Interim Report**) on the proposed acquisition of Substantial by nexfibre (the **Transaction**).

[REDACTED]

Our perspective is therefore informed by extensive experience of investing in and financing fibre infrastructure internationally, as well as direct exposure to the evolution of the UK market.

The UK fibre sector is at a critical point in its development

The UK has successfully attracted substantial private investment in fibre infrastructure over the past decade, supported by a regulatory framework designed to encourage competition with Openreach. An estimated >£20 billion funding has been invested across the alternative networks (**altnets**), creating significant additional infrastructure capacity and bringing greater choice, innovation and competitive pricing to consumers.

However, the Interim Report records Ofcom's expectation that further altnet build will be more limited than in previous years, given a changed investment climate (paragraph 4.8). We agree with that assessment: the sector has entered a new phase. Network deployment has generally been more expensive than anticipated, customer penetration has developed more slowly than originally forecast, and higher financing costs have increased the capital required to reach sustainable profitability. Investors and lenders are materially more cautious about investing in altnet fibre projects and are undertaking greater scrutiny of business plans, customer penetration assumptions and achievable returns. In our experience, this reticence reflects concerns about funding requirements and execution risk, rather than doubt about long-term retail demand for fibre across the market as a whole. Many operators now face a prolonged period of additional funding needs before their networks can generate sustainable cash flows.

To illustrate how significantly financing conditions have changed, when [REDACTED]-sponsored funds first invested in [REDACTED], the cost of debt financing was approximately [0-5]%, compared with 8% today. The current cost of debt is at its highest level in the [REDACTED] years since our investment. This materially changes the economics of fibre infrastructure investment, increasing the cost of funding network deployment and extending the period required to achieve sustainable returns. Combined with more selective lending and equity investment, it makes raising the

substantial capital required for further network expansion and upgrades considerably more challenging.

Future competition must be assessed against realistic financing conditions

We recognise that the CMA must assess the likely competitive effects of the Transaction, including what would most likely happen in its absence. However, we believe the practical availability of capital deserves particular weight in that assessment.

The Interim Report considers future investment scenarios in which existing networks continue to expand or undergo substantial upgrades, including the conversion of legacy cable infrastructure to full fibre. While operators may have strong commercial incentives to undertake such investment, this does not necessarily mean that the required financing will be available.

The Interim Report finds that nexfibre would be unlikely to expand its network materially absent a significant change in market conditions (paragraph 26). It also finds that VMED O2 UK Limited (**VMO2**) and nexfibre would likely have reached some form of nexfibre-funded upgrade arrangement absent the Transaction, notwithstanding that earlier discussions of such an arrangement had been paused (paragraphs 7.23-7.25). We have no visibility of those arrangements. As a general matter, however, a funded transaction that combines scale, an anchor tenant and a credible wholesale proposition (as the Transaction does) is precisely the type of structure that unlocks investment in the current market. Absent such a structure, we would not assume that equivalent funding would be forthcoming on comparable terms.

In other words, potential acquisition scenarios should be assessed not only by reference to the willingness of parties to transact, but also to the certainty, timing and conditions of the financing required. There is an important difference between a transaction being theoretically financeable and capital being available on executable terms.

We would therefore encourage the Inquiry Group to consider carefully whether the future investment and competitive outcomes assumed in its counterfactual are sufficiently grounded in the financing realities facing the sector.

Prohibition would not reliably deliver the CityFibre counterfactual

The Interim Report finds that the price of c. £2 billion was the product of competition between two bidders, and that absent a competing bidder Substantial may have accepted less (paragraphs 5.69, 5.72 and 5.141(d)). It identifies CityFibre as the only likely alternative purchaser, the other scenario considered being that Substantial remains under its current ownership (paragraph 5.10). As such, if the Transaction is prohibited, the competitive bidding process described in the Interim Report cannot be

recreated and overall circumstances for the parties would have evolved, including potentially their ability to finance the transaction. In our view, that makes the timing and certainty of any CityFibre transaction materially less predictable than the counterfactual assumes. Prohibition would therefore not reliably deliver the conditions of competition against which the substantial lessening of competition (**SLC**) has been assessed. On the contrary, it would risk substantially reducing the return that Substantial's shareholders obtain on their investment in UK infrastructure, which in our view could materially dampen market appetite for future financing in the sector, to the detriment of end customers.

Consolidation can be essential to sustaining effective competition

In our view, consolidation is a natural and increasingly important part of the UK fibre market's development. The substantial capital already invested needs to be converted into sustainable businesses capable of attracting customers, generating appropriate returns and continuing to invest.

The Interim Report accepts that, as a result of the Transaction, CityFibre may have more immediate funding to pursue alternative consolidation (paragraph 6.163) but concludes that consolidation prospects would be similar with or without the Transaction in the longer term (paragraph 6.173). In our experience, capital available for consolidation is finite and time-sensitive. In the CMA's counterfactual, a significant amount of the equity available to CityFibre would be committed to Substantial, leaving CityFibre as the only funded consolidator for a material period, whereas following the Transaction both CityFibre and the enlarged nexfibre would have capital available for further consolidation. The number of credible, funded acquirers, and the pace at which consolidation occurs, determine how long sub-scale networks remain focused on securing funding rather than on competing. This also bears on the CMA's long-run overbuild analysis (paragraph 6.174), which assumes that the remaining altnet footprint will be consolidated by a funded acquirer.

Consolidation can improve operating efficiency, increase network utilisation, reduce unnecessary duplication and strengthen the ability of operators to access capital. These benefits can translate into more competitive and sustainable pricing, better services and greater investment capacity.

The relevant consideration should therefore not be limited to the number of independent networks that might exist under different scenarios, but should also include their financial sustainability and their realistic ability to compete effectively over time.

The UK has benefited enormously from a predictable regulatory environment that has attracted long term private capital. Investors understand that commercial and regulatory

outcomes carry risk. However, confidence in the consistency and predictability of the investment framework remains important when allocating capital across competing markets internationally.

Conclusion

In our view, the Transaction is consistent with the evolution towards a more efficient and sustainable UK fibre market, and we do not believe it would materially weaken competition over the long term. On the contrary, enabling the development of stronger infrastructure platforms can help preserve meaningful competition with Openreach and support continued investment for the benefit of UK consumers.

We would encourage the Inquiry Group to give greater weight to these financing and investment considerations in reaching its final decision.

26 October 2026