

KCOM Group Limited

Annual report and financial statements

for the year ended 31 March 2023

Company number

2150618

WEDNESDAY



ACCX82WB

A15

27/09/2023

#126

COMPANIES HOUSE

Contents

Strategic report

3	Strategy and outlook
4	Performance review
5	Key performance indicators
7	Managing risk in our business
9	Sustainability

Directors' report

14	Board of Directors
15	Corporate governance
17	Stakeholder engagement
18	Section 172
19	Other disclosures

Financial statements

20	Independent auditors' report
23	Consolidated income statement
23	Consolidated statement of comprehensive income
24	Consolidated and parent company balance sheets
25	Consolidated statement of changes in equity
25	Parent company statement of changes in equity
26	Consolidated and parent company cash flow statements
27	Notes to the financial statements
59	Glossary

Company information

Registered office

KCOM Group Limited
37 Carr Lane
Hull
HU1 3RE
Registered in England and Wales

Company number

2150618

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Central Square, 29 Wellington Street
Leeds
LS1 4DL
United Kingdom

Strategic report – Strategy and outlook

Strategy and outlook

KCOM is proudly a Yorkshire-rooted business and one of the UK's longest-established communications companies providing communications to consumers and businesses across Hull, East Yorkshire, and North Lincolnshire.

We believe all our customers should have access to ultrafast broadband, which is why we provide Fibre To The Premises (FTTP) as our standard offering. This gives our customers a faster and more reliable service so they can be connected online to all the things that matter to them most.

FTTP runs fibre from the exchange direct to the premises. This removes all copper from the broadband service which reduces traffic congestion with other customers on the network, leading to more reliable speeds. It also means multiple users within the home or business can be online, even at peak times, with no impact to the service.

We are at the heart of the communities we serve and passionate about supporting local people, groups and businesses. We employ the majority of our people locally and are heavily involved in supporting local community groups and charities both through volunteering, technical support and donations.

We are owned by Macquarie European Infrastructure Fund 6, a long-term infrastructure fund managed by Macquarie Asset Management. Macquarie Asset Management ("MAM") is the world's largest infrastructure manager, trusted by institutions, pension funds, governments and individuals to manage investments in businesses across the world relied on by millions of people each day. Our principal activities are providing internet, voice and network infrastructure services to both wholesale and retail customers across Hull, East Yorkshire and North Lincolnshire.

The expansion of our full fibre broadband network has progressed as planned with the help of our own Internal Construction Teams. We have now reached more than 20 new towns and villages outside of our traditional network heartland of Hull and East Yorkshire including homes and businesses.

In September, as part of our Full Fibre Future vision, we announced the next £62 million phase of our disciplined investment plan to further expand our full fibre network. This will take the size of our network footprint to 350,000 premises by connecting at least 14 more communities across the region.

We also announced a further £10 million investment to upgrade 14,000 properties in East Yorkshire currently without full fibre and a £10 million long-term upgrade of the existing fibre network to enable download speeds of 10Gbps.

We also announced arguably the largest infrastructure project in KCOM history to invest a further £17 million upgrading the ageing copper phone landline network in Hull and East Yorkshire to full fibre. This project is now underway and will migrate 170,000 homes and businesses across our network within the next two years – putting KCOM and our region at the forefront of UK innovation once again.

As well as substantially reducing energy costs, this project will deliver a more reliable, easier to fix phone landline network that is fit to face future demands while also enabling digital inclusion for those not previously connected to the internet.

In February, we made a bold statement of intent by announcing KCOM's vision to be net zero by 2040, ten years ahead of the UK Government's targets. To do this we are engaging in a wide range of net zero activities as described in our sustainability report.

Despite the backdrop of economic uncertainty, high inflation and rising costs, especially energy costs which have doubled for two years running, we have recorded another solid year of results with a growth in both revenue and EBITDA. This has been driven by an encouraging uptake of full fibre broadband services within our traditional heartland areas as well as winning new customers in our expansion areas.

Our Wholesale business has continued to perform solidly with more than 150 reseller partners now providing services over our expanding network.

This has been another pivotal year for KCOM, entering a phase of disciplined and carefully planned expansion, winning new fibre customers in core and expansion areas and developing our wholesale offering. We have done this while focusing on our role as a leading regional broadband provider and setting the foundations for future growth. We are now in a strong position to move forward for future success.

Strategic report – Performance review

Performance review

Group performance

The results for the year show revenue for continuing operations of £101.2 million (2022 £100.7 million), a £0.5 million increase. EBITDA for continuing operations is £38.1 million (2022 £39.2 million), a decrease of £1.1 million. Profit before tax from continuing operations is £5.6 million (2022: Loss £0.3 million).

Pensions

The Group operate two defined benefit schemes that are both closed to new members and future benefit accrual. The IAS 19 pension position at 31 March 2023 is a combined net asset of £7.5 million (2022: £40.5 million).

Significant market volatility over the period has resulted in a significant fall in both the value of the assets and the liabilities. An increase in corporate bond yields has reduced assets and liabilities over the period. Asset values are not entirely invested in corporate bonds and fell by more than liabilities over the period. Higher inflation in the year has increased scheme liabilities.

Following the triennial funding of the pension scheme completed on 30 June 2023 a funding plan was put in place until 2026, to ensure that the pension scheme is fully funded over time.

Capital investment

Cash capital expenditure during the year was £32.8 million (2022: £41.2 million). The major project in both financial years was the full fibre expansion project, expanding our fibre network into surrounding areas, with additional cost associated with the continued migration of existing customers from copper to fibre.

Exceptional items

The Group incurred no exceptional charges (2022: £8.6 million). The details are given in Note 7.

Discontinued operations (prior year only)

	4 months ended 31 July 2021 £'m
Revenue	44.7
Profit before taxation	4.7

The prior year figures include results related to sale of the National ICT Business to Nasstar which was completed on 31 July 2021, for consideration of £31.4 million, which included £2.0 million of deferred consideration received on 1 August 2022. The profit before tax for the prior year from discontinued operations for the four months of trading up to the date of disposal on 31 July 2021 is £4.7 million.

Tax

The Group's combined tax credit was £353k (2022: £11,580k charge), of which £353k credit (2022: £8,157k charge) related to continuing operations. The effective tax rate was 30.9 per cent (2022: -87.2 per cent).

The increase in effective tax rate is mainly driven by:

- Current tax credit of £354k in relation to adjustments in respect of prior year.
- There has been no change in the deferred tax rate reflected in the current year's deferred tax charge. In 2022 there was a deferred tax charge of £5.2 million to reflect a change in tax rate from 19 per cent to 25 per cent for any deferred tax amounts expected to unwind after the year ended 31 March 2023

Strategic report – Key performance indicators

Key performance indicators

Financial key performance indicators (KPIs)

Revenue from continuing operations

2023: £101.2m 2022: £100.7m 2021: £99.6m	This statutory measure reflects the total amount the Group recognises from the sale of goods and services net of applicable sales, taxes and discounts. Revenue is a key measure of the Group's growth and progression. The target is growth across all three channels, Consumer, Business and Wholesale, predominately from increased fibre sales. Revenue has increased year-on-year driven by our Consumer customer numbers.
--	---

EBITDA from continuing operations

2023: £38.1m 2022: £39.2m 2021: £31.5m*	Earnings before exceptional items, interest, tax, depreciation and amortisation. EBITDA is the key profit indicator used by the Group to track and assess performance. Group EBITDA has decreased year-on-year driven by non-recurring restructuring costs.
---	---

Profit/(Loss) before tax from continuing operations

2023: £5.6m 2022: £(0.3m) 2021: £(10.5)m*	This statutory measure reflects the profitability of the continuing business before corporation tax. In the year ended 31 March 2023 profit before tax has increased from £0.3 million loss in 2022 to a profit of £5.6 million in 2023. This is as a result of one-off exceptional costs in the prior year of £8.5 million. The increase is driven by an increase in profit from operating activities from £7.1 million in 2022 to £13.4 million in 2023. Depreciation and Amortisation charges, including IFRS 16 right of use lease asset depreciation is £1.2 million lower than 2022. Net finance costs have increased from £7.4 million to £7.7 million in the year ended 31 March 2023. This is primarily due to an increase in the loan balance with the parent company.
---	--

Cash capex¹

2023: £32.8m 2022: £41.0m 2021: £40.1m	This reflects the amount of cash that has been paid out of the business in the year in relation to capital expenditure projects. It is important that we monitor and control our level of capex to manage the impact on the Group's performance (profit before tax) alongside our net debt in a disciplined and focused way. We also need to ensure that we invest appropriately to generate a strong return on investment and drive business performance. Cash capex has continued in 2023 due to the continuation of our full fibre network expansion. During the year, we passed an additional 10,000 homes.
--	---

Net debt excluding lease liabilities

2023: £151.4m 2022: £142.1m 2021: £151.7m	Net debt reflects cash held less loans to related parties. The increase in net debt reflects the continued capex spend over operating cashflows and net interest payable. The decrease in net debt in 2022 was due to the disposal proceeds from the sale of the National ICT business.
---	---

¹ Alternative performance measures, used throughout the financial statements, are defined and reconciled to statutory measures in the Glossary on page 59.

Strategic report – Key performance indicators

Non-financial key performance indicators (KPIs)

CO₂e emissions thousands of tonnes (Scope 1 and 2)

2023: 1.1
2022: 0.9
2021: 0.8

This is the number of tonnes of CO₂e, using market-based calculations, produced from direct emissions sources operated or controlled by KCOM, and indirect emissions resulting from purchased electricity.

We believe all businesses have a responsibility to minimise any negative impact they have on the environment and consequently we make decisions with environmental sustainability in mind.

Further detail is included in our Sustainability section on pages 9 to 13.

Total premises passed

2023: 297,000
2022: 277,000
2021: 249,000

This is the cumulative number of premises that have been 'passed' by our full fibre deployment (FTTP) and are now able to take services over fibre rather than copper lines.

A core element of our strategy for growth involves expanding our full fibre broadband, which provides a higher quality of service to our customers than broadband delivered over copper cables and will allow us to transform our underlying network in Hull and East Yorkshire as copper lines and the associated infrastructure can be retired.

The first phase of our network expansion programme, to extend our full fibre network beyond our existing footprint into further towns and villages in East Yorkshire and North Lincolnshire, is on track. Technical planning work is underway for further build. As at the end of March 2023, we have passed 80,000 properties in our new expansion areas (March 2022: 61,000 properties) which are able to take services.

Consumer customers

2023: 152,400
2022: 149,100
2021: 147,000

This is the total number of consumer customers in the Consumer segment that take either, or both, a voice and broadband service.

This is considered an important KPI, and a strategic priority, as increasing the number of consumer customers across both our existing network and expansion areas is one of the key drivers of increasing revenue and profitability.

Consumer customer numbers have increased over the last three years and as we expand into new areas with our full fibre broadband, we expect further growth.

Total consumer customers connected to fibre

2023: 133,600
2022: 125,900
2021: 117,800

This is the total number of consumer customers in the Consumer segment that take a fibre broadband service from us.

This KPI supports our ambition to transition customers from ADSL products on our copper network to fibre products on our fibre network, which offer better speeds for customers and higher average revenue per user. It will also allow us to focus on enhancing the fibre network and planning the decommissioning of the copper network over time.

The total number of customers taking a fibre product has increased year-on-year over the three-year period. We expect this number to continue to grow as customers taking ADSL transition to faster, more reliable fibre packages and as we expand our full fibre network.

Total Wholesale fibre broadband connections

2023: 6,000
2022: 4,929
2021: 3,040

This is the total number of connections that take a fibre broadband service sold via our Wholesale channel.

This is a KPI as it supports our ambition to maximise utilisation of both our existing full fibre network and across our expansion areas, driving revenue growth from recurring broadband rentals.

Days' Sales Outstanding (DSO)

2023: 11
2022: 14
2021: 13

DSO is calculated on the countback method based on underlying ledgers.

DSO is a measure of how quickly cash is received after an invoice is raised. Unlike the payment of trade creditors which is largely within our control, managing the receipt of cash from debtors requires significant effort on the part of the business.

DSO as at 31 March 2023 has remained consistent with previous years and is driven by a focus on debt management even with increased customer volumes.

Strategic report – Managing risk in our business

Managing risk in our business

As with all businesses, we are affected by several risks and uncertainties. The tables on pages 7 and 8 show the principal risks and uncertainties, some of which are beyond our control, that could have a material adverse effect on the business and have been identified through our risk management framework. This list is not exhaustive and there may be risks and uncertainties of which we are currently unaware, or which are believed to be immaterial, that could have an adverse effect on the business.

Wellbeing, health and safety

Why is it important?

The wellbeing, health and safety of our people is of paramount importance to us. We have a number of people who undertake high risk activities, such as working at height, working in confined spaces, working alone or working next to roads as well as civils work associated with the full fibre expansion project.

It is important to us to mitigate wellbeing, health and safety risk as far as possible to try to prevent incidents from occurring.

Change in level of risk

The level of risk has remained unchanged from the previous year.

What are we doing to mitigate the risk?

We have an in-house wellbeing, health and safety team with significant experience of wellbeing, health and safety issues specific to our industry. We have a comprehensive training programme in place which provides general training to all our people, through mandatory e-learning, and specific training to those who undertake higher risk activities, which is then followed up by on-the-job checks.

Contractors involved in the fibre deployment project are observed via safety walks which are routinely attended by Board members. The Health, Safety and Environmental Sustainability Sub-Committee continues to monitor performance against expected safety standards and ensure that policies are kept up to date and adhered to.

Initiatives to improve management and work practices include our WH&S Management System which includes incident review and reporting process, a system of 'good spots' to record near misses, and red and yellow cards to bring attention to where improvement is needed.

Accuracy, security and confidentiality of customer data

Why is it important?

The confidentiality, integrity and availability of our data and our customer's data is of paramount importance to us.

There is an increased inherent risk from the constantly evolving nature of cyber-attacks, particularly for those businesses that operate in technology, utility and communications sectors.

Ransomware attacks are becoming increasingly prevalent which could have a significant impact on critical business processes if a breach occurs.

Change in level of risk

The risk has slightly increased from the previous year as the volume and nature of cyber-attacks continues to grow and evolve, which threatens the security of our data and the operation of our business.

Ongoing external events such as national conflicts are a growing risk.

What are we doing to mitigate the risk?

We have clear and comprehensive policies in place to support the management of data and security, augmented by mandatory e-learning for all employees.

Our Risk, Compliance and Information Security programme focuses on risk-based priorities to deliver the appropriate controls to protect our data.

We keep up to date on emerging cyber risks through involvement in industry information sharing forums and liaison with government agencies.

We have an in-house data protection team in place to help ensure our ongoing compliance with the UK General Data Protection Regulation (UK GDPR).

Strategic report – Managing risk in our business

Security and resilience of our networks and IT systems

Why is it important?

We need our networks and IT systems to continue operating to continue to provide service to our customers. It is therefore essential that we have secure systems and networks in place that are resilient to network upgrades, malicious activity and physical factors (e.g. risk of flooding and extreme weather).

Change in level of risk

The risk has increased from the previous year as the volume and nature of cyber-attacks continues to grow and evolve, which threatens the security of our data and the operation of our business.

Ongoing external events such as national conflicts are a growing risk.

What are we doing to mitigate the risk?

We continue to maintain a number of security and resilience standards, including ISO 27001 Information Security Management standard and Cyber Essentials Plus.

We regularly test our business continuity and disaster recovery plans and feedback any lessons learnt into the resilience planning process, which in turn is continually reviewed and updated on an ongoing basis.

We have an in-house cyber security team in place to identify and address vulnerabilities and keep up to date on emerging cyber risks through involvement in information sharing forums and liaison with government agencies.

In line with the UK telecommunications industry, KCOM is implementing the requirements of the Telecommunications Security Act 2021 and the Product Security and Telecommunications Infrastructure Act 2022.

We monitor flood risk and high tides closely so that we can activate our defences as required, as well as monitoring risks caused by extreme weather.

Regulatory obligations

Why is it important?

As a telecommunications provider, we are regulated by Ofcom and there are multiple conditions and regulations with which we need to comply. A failure to meet our regulatory obligations may impact our ability to operate effectively, result in financial penalties, and lead to reputational damage.

Change in level of risk

The level of risk remains unchanged from the previous year.

What are we doing to mitigate the risk?

We have an in-house regulatory team which is responsible for ensuring we understand our obligations and that these are communicated to the appropriate people across the business so that we can ensure the necessary controls are in place. This is augmented by mandatory e-learning.

We continue to work closely with our suppliers to make sure that our obligations are passed on and complied with in the areas where we are reliant on third parties for the provision of services.

Ability to attract and retain talent within the business

Why was it important?

Many of the services that we provide are technically complex and require skills that are hard to find. Attracting and retaining the right skills is key to being able to deliver the services that our customers require.

Change in level of risk

The level of risk remains unchanged from the previous year.

What are we doing to mitigate the risk?

Colleague feedback has been obtained from satisfaction surveys in the year and acted upon where appropriate. We continue to review our ways of working in conjunction with employee feedback to realise the desired organisational culture.

Strategic report – Sustainability

Sustainability

We are committed to operating in a sustainable way that considers Environmental, Social and Governance (ESG) concerns.

Our sustainability strategy is underpinned by three objectives:

- To use our communications technology expertise and services to create a positive impact on stakeholders and minimise our impact on the environment;
- To promote our values, both as an employer and in our dealings with external stakeholders; and
- To engage and empower our people to make a positive contribution to our sustainability strategy.

Responsibility for our sustainability strategy and activities lies with a Sub-Committee of the Board dealing with environmental matters. Our Environmental Sustainability Working Group coordinate initiatives around the environmental sustainability strategy and during 2023 have developed our business net zero plan.

The Health, Safety and Environmental Sustainability Board Sub-Committee meet quarterly to review and monitor performance against our annual plan.

Read more information on our sustainability report on our website <https://www.kcom.com/responsibility/sustainability/>

People

Diversity and inclusion

At KCOM we're proud to be an inclusive employer, and we want to make sure we foster a culture where everyone feels welcome and part of the KCOM community.

This year, we've created a new KCOM Inclusion Team, which consists of Five Employee Representative Groups (ERGs): LGBTQ+, Women & Gender, Faith, Beliefs, Heritage & Ethnicity, Disability & Accessibility and Parents & Carers.

As of 31 March 2023, the gender diversity of the business was as set out below:

	Male	Female	Female %
Board Directors	5	1	16.7%
Executive Leadership Team (ELT) ¹	5	1	16.7%
Other employees	517	211	29%

¹ The ELT is defined as the senior leaders who have overall responsibility for key functional areas.

Our gender pay gap report for the year, based on the snapshot date of 5 April 2023, showed a mean pay gap of 17.6 per cent (2022: 22.4 per cent) and a median pay gap of 25.4 per cent (2022: 29.0 per cent) both of which are a reduction on the previous year. Our pay gap is driven principally by the ratio of male to female employees within certain specific functional areas of our business, such as the traditionally male-dominated technical and engineering workstreams.

Ongoing actions for progress with regards to the gender pay gap include:

- We've developed the Inclusion Team, with a women and gender ERG to continue to build equality for female employees at KCOM by sharing information, supporting our peers and raising awareness of women's issues
- We're in the process of creating a women in engineering focus group, with the aim of looking at ways to encourage more women in to the engineering space, and to make sure it's a great place for women to work
- We attend Women into Manufacturing and Engineering (WiME) events, with a network of 50 local companies, which has engaged with over 2,700 women and girls, encouraging them to consider STEM subjects and career opportunities

Human rights

We respect fundamental human rights consistent with the United Nations Universal Declaration of Human Rights and we ensure that all our internal policies are consistent with this.

We are committed to doing all we can to assist in the eradication of slavery and human trafficking. We have a zero-tolerance approach to any slavery or human trafficking activity within our business or in our supply chain. Our most recent Modern Slavery Act Transparency Statement is available on our website <https://www.kcom.com/responsibility/corporate-governance/modern-slavery-statement/>.

We encourage employees to raise any concerns through our Speaking Up process, ensuring that whistle blowers are protected from any unfair treatment as a result of making a report.

Strategic report – Sustainability

Customers and Suppliers

The strength of our relationships with customers and suppliers are vital to our success.

Relationships with customers

We have a responsibility to treat customers fairly, with the highest ethical standards, and to do business in a way that has a positive effect on them and society more widely. We also believe we have a responsibility to our customers to tackle issues that are important to them in relation to the products and services they buy from us.

Relationships with suppliers

As well as treating our suppliers fairly and doing business with them in a sustainable way, we have a responsibility to make sure that our suppliers operate with high ethical standards.

Community

We aim to operate in a way that benefits local communities as well as supporting our strategic business aims. Our significant presence in Hull, East Yorkshire and North Lincolnshire means we consider the impact on this community when making business decisions. Our community engagement work is focused on activities which support the growth and sustainability of the region's economy, and which promote life opportunities for residents.

We have two days of paid volunteering time for all employees and have provided a number of group volunteering activities including tree planting and beach cleans for employees to participate in.

We continue to put our community first by supporting local groups and charities in Hull, East Yorkshire, and North Lincolnshire by donating funds, employee volunteering time and business services.

Our popular community grants programme provided 18 grants of up to £1,000 to charities, community groups, sports clubs, and local schools in the region. A big focus this year has been addressing the cost-of-living crisis through the support of local foodbanks and pantries, community fridge projects and staff donations. We've also donated a van to Emmaus to be used as an outreach van to support rough sleepers.

Playing our part in the local business community

During the year we continued to be an active member of local business organisations. We are a Principal Partner of Humber Bondholders, which promotes the region as a destination for inward investment, and a Partner of C4DI (Centre for Digital Innovation), a technology hub that is helping to drive the development of the region's digital sector.

We are actively engaged in improving the region's potential as a member of the Hull and East Yorkshire Digital Skills Partnership (DSP), part of the Hull and East Yorkshire Local Enterprise Partnership. The partnership brings together public, private and education organisations to help increase the digital capability of individuals and businesses throughout the region, creating a more vibrant future for all.

We are also back to partner with Tech Week Humber 2023, a week-long festival of events connecting enterprise and education in all things Tech.

Strategic report – Sustainability

Environment

We recognise our business has a responsibility to minimise its impact on the environment and consequently we make decisions with environmental sustainability in mind.

Net Zero

We're committed to reducing our carbon footprint, and have developed a plan to become net zero by 2040, 10 years ahead of the government target. We have an interim target to reduce our scope 1 and 2 emissions by 92 per cent by 2030.

We partnered with the University of Hull to complete our Scope 3 emissions screening assessment and to develop our scope 1 and 2 emissions carbon reduction plan. This has expanded the reporting of our scope 3 emissions and is responsible for the overall increase in the total of our reported scope 1, 2 and 3 emissions.

Our strategy to reduce emissions looked at what emissions could be avoided, what could be reduced, the potential to switch to lower emission alternatives and finally what emissions could be offset. The 2040 target and the 2030 interim target (for scope 1 and 2 only) have been based on the anticipated projects that will be completed by 2030 and 2040 and an assessment of the resulting carbon reductions.

Waste management

We use the waste hierarchy when considering how we dispose of items we no longer require as a business. This includes donating things like office furniture to local charities or selling redundant equipment so it can be reused elsewhere, often this will be in developing countries.

Where items cannot be reused, we look at ways to ensure waste equipment is fed into the circular economy, this includes sending waste printed circuit boards to a facility that can reclaim trace metals through a bioleaching process.

We promote the recycling facilities we have in our offices, with the aim of making it as easy as possible for our people to recycle any waste we produce. Any waste from our offices that cannot be recycled is taken for incineration at a heat recovery plant, none of our office waste goes to landfill.

We have expanded the scope of waste that we report on to include waste from our operational activities as well as the waste from our buildings. This is responsible for the increase in our scope 3 emissions associated with waste.

Greenhouse Gas Emissions Report

As in previous years, most of our greenhouse gas emissions resulted from the electricity we consume in our offices, data centres and various network sites.

Methodologies used to produce scope 1 and 2 greenhouse gas emissions are aligned with the GHG Protocol Corporate Accounting and Reporting Standard. Scope 3 greenhouse emissions, which are those resulting from activities in the business' value chains, are produced using methodologies set out in the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard.

UK government conversion factors for company reporting of greenhouse gas emissions have been used to calculate GHG emissions figures.

Where subsidiaries, sites or joint ventures are deemed not to be under operational control of the Group or are not material to the Group, their energy and fuel usage have not been included within the scope of the GHG emissions reported.

For reporting Scope 2 emissions associated with purchased electricity we have chosen to report both location-based and market-based figures. A location-based method reflects the average emissions intensity of grids on which energy consumption occurs (using mostly grid-average emission factor data). A market-based method reflects emissions from electricity that companies have purposefully chosen and reflects our decision to purchase electricity via a 100 per cent renewable tariff, (backed by Ofgem REGO) certificates.

We have increased the size of our operational team within engineering and have continued the full fibre expansion across the region, both these factors have contributed to an increase in our fleet greenhouse gas emissions.

Where subsidiaries, sites or joint ventures are deemed not to be under operational control of the Group or are not material to the Group, their energy and fuel usage have not been included within the scope of the GHG emissions reported.

In accordance with the Streamlined Energy Carbon Reporting requirements, we are disclosing our environmental impact both in terms of CO₂e tonnage and energy consumed in kWh. However, the commentary below refers to CO₂e tonnage as this is considered the key internal metric for measuring performance. Items marked **A** denote that the metric has been subject to independent limited assurance under ISAE 3000 and ISAE 3410. The limited assurance report and our reporting criteria used to prepare these metrics can be found on our website: <https://www.kcom.com/responsibility/corporate-governance/reporting/>.

Strategic report – Sustainability

Emissions in tonnes of CO₂e and GWh

The table below sets out our annual emissions in tonnes of CO₂e and GWh by Scope:

	FY23		FY22	
	Energy GWh	Tonnes CO ₂ e	Energy GWh	Tonnes CO ₂ e
Scope 1 (direct emissions)				
Gas consumption ^a	0.28	52	0.25	47
Oil consumption ^b	0.57	146	1.02	247
Fugitive emissions – refrigerants ^c		276		159
Company-controlled vehicle emissions ^d	2.56	602	2.12	488
Total Scope 1	3.41	A 1,076	3.39	941
Scope 2 (Indirect GHG emissions from purchased electricity)				
Total electricity consumption (LB) ^e	13.57	A 2,640	14.19	3,012
Of which renewable electricity consumption (MB) ^f	13.57	A 0	14.19	-
Total Scopes 1 & 2 (LB)	16.98	3,716	17.58	3,953
Total Scopes 1 & 2 (MB)	16.98	1,076	17.58	941
Intensity ratio Scopes 1 & 2 tonnes CO ₂ e per '000 revenue (LB)		A 0.0367		0.0392
% change from previous year (Scope 1 & 2 MB CO ₂ e)		+14%		+15%
Scope 3 (indirect value chain emissions)				
1	Purchased goods and services ^g	49,721		
2	Capital goods ^h	Included in category 1		
3	Fuel and energy-related activities ⁱ	186		
4	Upstream transportation and distribution ^j	Included in category 1		
5	Waste generated in operations ^k	26	3	
6	Business travel ^l	196	166	
7	Employee commuting ^m	419		
8	Upstream leased assets ⁿ	10		
9	Downstream transportation and distribution ^o	Included in category 1		
10	Downstream transportation and distribution ^p	N/A		
11	Use of sold products ^q	N/A		
12	End-of-life treatment of sold products ^r	N/A		
13	Downstream leased assets ^s	4,393		
14	Franchises ^t	N/A		
15	Investments ^u	N/A		
	Total Scope 3	54,951	169	
	Total scope 1, 2 & 3 (LB)	58,667	4,122	
	Total scope 1, 2 & 3 (MB)	56,027	1,110	

a - Natural gas consumption for heating of premises. Propane used in engineering operations.

b - Oil processed in ICE generators for electricity generation. Oils used in engineering operations.

c - Refrigerants used in cooling and air conditioning systems.

d - Company owned vehicle emissions converted from litres fuel. Not inclusive of electric vehicles.

e - LB - Location-based methodology - emissions calculated in line with the UK grid-average emissions factor provided by the UK government.

f - MB - Market-based methodology – emissions calculated in line with the REGO-certified 100% renewable energy tariff supplied to KCOM.

g - Category emissions associated with the extraction, production, and transportation of goods and services purchased or acquired by KCOM in the reporting year.

h - Environmentally Extended Input Output Analysis (EEIOA) has been used to calculate emissions from this category based on KCOM spend during the financial year.

i - For the reporting period, category emissions have been included in EEIOA analysis completed for category 1 – purchased goods and services.

j - Category emissions relating to the extraction, production, and transportation of fuels and energy purchased or acquired by the reporting company in the reporting year, which have not already been accounted for in Scope 1 or scope 2. This includes transmission and distribution losses associated with generation of electricity.

k - For the reporting period, category emissions have been included in EEIOA analysis completed for category 1 – purchased goods and services.

l - Category emissions are those associated with the disposal and treatment of waste generated in the reporting company's operations in the reporting year.

m - Transportation of employees for business-related activities during the reporting year (in vehicles not owned or operated by the reporting company).

n - Category emissions reflect the results of an employee survey conducted to understand employee commuting habits during the reporting period.

o - Category emissions associated with property assets where KCOM is the lessee are included within this category.

p - For the reporting period, category emissions have been included in EEIOA analysis completed for category 1 – purchased goods and services.

Strategic report – Sustainability

Emissions in tonnes of CO₂e and GWh (continued)

- p - KCOM does not offer products for sale. Subsequently this category does not apply. Products provided to enable delivery of service to customers are included in contract rates and are considered leased assets.
- q - KCOM does not offer products for sale. Subsequently this category does not apply. Products provided to enable delivery of service to customers are included in contract rates and are considered leased assets.
- r - KCOM does not offer products for sale. Subsequently this category does not apply. Products provided to enable delivery of service to customers are included in contract rates and are considered leased assets. Category emissions relate to energy consumption of equipment provided to service users in order to enable delivery of KCOM services.
- s - Category emissions associated with property assets where KCOM is the lessor are also included within this category.
- t - KCOM does not operate franchises. Subsequently this category does not apply.
- u - KCOM does not hold investments which fall within the boundaries of this category as defined by the GHG protocol. Subsequently this category does not apply.

Performance against targets

Area	Actual	Target for the year under review	Target met?	Future target for 2022/2023
Total Scope 1 and 2 CO ₂ e (MB)	1,076 Tonnes CO ₂ e	To reduce 2021/22 levels	No	To reduce 2022/23 levels
Waste sent to landfill	0 Tonnes	To reduce 2021/22 levels of waste to landfill	Yes	To reduce current levels of waste to landfill
Energy efficiency in transport	798 Tonnes CO ₂ e	To reduce 2021/22 levels	No	To reduce 2022/23 levels

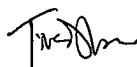
Section 172 statement

A statement in accordance with the matters set out in section 172 of the Companies Act 2006 has been included in the Directors report on page 18.

Read more information about our Sustainability on our website <https://www.kcom.com/>

Signed on behalf of the board

Tim Shaw
Chief Executive Officer



22 September 2023

Directors' report – Board of Directors

Board of Directors

The directors of the company who were in office during the year and up to the date of signing the audited consolidated financial statements of the Group were as follows:

Name of Director	Date of appointment	Date of resignation
Samantha Rosemary Jane Booth	29/09/2021	16/12/2022
Johan Dannelind	23/05/2022	N/A
John Bernard Fitzgerald	18/10/2019	N/A
Fiona Goldsmith	28/04/2022	N/A
Richard Greenleaf	18/10/2019	18/05/2022
Nathan Andrew Luckey	18/10/2019	N/A
Jaap Postma	28/01/2020	N/A
Dale Wayne Raneberg	22/10/2019	20/04/2022
Tim Shaw	28/04/2022	N/A
Achal Anil Kumar Arora	29/06/2023	N/A

Read more information about our Board on our website <https://www.kcom.com/about-us/leadership-and-governance/>.

Directors' report – Corporate governance

Corporate governance

Oversight by Macquarie Asset Management (MAM).

The Company forms part of the assets managed by MAM. Nathan Luckey and Achal Anil Kumar Arora are the managers at MAM with responsibility for oversight of the Company. They are also statutory Directors.

Composition of the Board

The composition of the Board at the date of signing is as follows:

- Nathan Luckey and Achal Anil Kumar Arora have a contract of employment with MAM and have been appointed to the Board at the request of MAM. They are Non-Executive Directors;
- Johan Dannelind, John Fitzgerald, Fiona Goldsmith and Jaap Postma are independent Non-Executive Directors. Johan is Chair of the Board, John Fitzgerald is Chair of the Health, Safety and Environmental Sustainability Committee, Fiona Goldsmith is Chair of the Audit and Risk Committee and Jaap Postma is the chair of the Remuneration Committee; and
- Tim Shaw is an Executive Director and is the Company's Chief Executive Officer.

Carrie Hutchison joined the company in January 2023 as Chief Financial Officer.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Directors' 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 group and the parent company financial statements in accordance with UK-adopted international accounting standards.

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of the profit or loss of the group 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 UK-adopted international accounting standards 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 group and parent company will continue in business.

The directors are responsible for safeguarding the assets of the group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the group's and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the group and parent company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the group's and parent company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group's and parent company's auditors are aware of that information.

Directors' report – Corporate governance

Going concern

During the period under review and up to the date of signing, the Group has complied with the covenants required on our external lending facility. In addition, we have assessed forecast covenant compliance for at least 12 months from the period after signing. As part of this exercise, we have sensitised the key assumptions including growth rates in customer numbers. Using a reasonably plausible downside and the rephrasing of capital expenditure and the delay in repayment of intercompany debt, we expect covenant compliance throughout the going concern review period. Further details are in Note 2.

The Directors confirm that, having reviewed the Group's budget and forecasts along with the principal risks and uncertainties facing the Group, they are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Group continues to adopt the going concern basis in preparing the financial statements.

Our risk management framework

For us, risk management is about taking the right amount of risk to support our business strategy and to align with our risk appetite.

We seek to understand our risks so that informed decisions can be taken from a risk perspective and so that risks can be either managed or mitigated as appropriate. We have controls in place to mitigate risk to an appropriate level, but we recognise that our internal control systems can provide only reasonable and not absolute assurance against material misstatement or loss.

We have a risk management framework in place to help us to identify, assess, measure, manage and monitor our key risks in a consistent way. We define key risks to be anything that may prevent us from meeting our objectives.

The framework has been in place throughout the year under review, and up to the date of approval of this Annual report.

Risk management responsibilities

The Board

The Board has overall responsibility for setting the risk appetite for the business and for ensuring that the overall risk profile is aligned with this. It is also responsible for ensuring that the business maintains sound internal control and risk management systems, as well as reviewing the effectiveness of those systems.

The Company's internal risk team produces a Corporate Risk Register that is reviewed by the Board every six months. The Corporate Risk Register consolidates risks that are recorded in local registers maintained by individual teams and business units throughout the Company.

The Board is satisfied that these systems and processes are embedded within the day-to-day activities of the business and cover all material controls, including financial, operational and compliance controls.

Executive Leadership Team

The risk registers produced by the Company's internal risk team are also reviewed by the ELT before they are presented to Board. The ELT is responsible for reviewing the risks that have been recorded, to ensure completeness and accuracy, as well as assessing the suitability of the mitigations in place and any proposed timescales for further controls to be implemented.

Financial risk management

Each business area produces an annual budget which is reviewed by senior management and ultimately approved by the Board.

Performance against budget is monitored at monthly ELT meetings and reviewed by the Board each month. Further information about the financial risk management policies in place, and the way in which credit risk, liquidity risk, interest rate risk and foreign currency risk are managed, is in Note 28 to the financial statements.

The principal risks and uncertainties facing the business are set out on pages 7 and 8 of the Strategic report.

Directors' report – Stakeholder engagement

Stakeholder engagement

Stakeholders	Stakeholders' key interests	Ways we have engaged
<p>Colleagues</p> <p>Our most important asset is our people. Our focus is on attracting, engaging, developing and retaining talented individuals, providing opportunities for career-long learning and development and providing safe workplaces within an inclusive culture that values diversity.</p>	<ul style="list-style-type: none"> • Business strategy and plans • Health, safety and wellbeing • Reward and recognition • Learning and development opportunities • Diversity and inclusion 	<ul style="list-style-type: none"> • Senior management regular updates • Board member safety walks and participation in wellbeing training • Employee engagement surveys • Employee business improvement ideas programme • Monthly wellbeing calls within teams focusing on physical, mental and financial health • Employee wellbeing month focused on physical, mental and financial health
<p>Customers</p> <p>Understanding our customers' needs and behaviours allows us to deliver relevant products and services, retain and attract customers and identify opportunities for growth.</p>	<ul style="list-style-type: none"> • Availability and reliability of services • Value for money • Protection from harms related to the services we provide (such as online threats) 	<ul style="list-style-type: none"> • Net Promoter Score (NPS) surveys • Senior management interaction with key business customers • Senior management involvement in resolution of customer complaints • Make social tariff more accessible and affordable
<p>Community and local government</p> <p>Committed to playing our part in making it a better place to live, work and invest.</p>	<ul style="list-style-type: none"> • Creation of jobs and wealth within the region's economy • Contribution to improving the lives of local residents 	<ul style="list-style-type: none"> • Meetings between Board members / senior management and local civic and business leaders • Community investment programme focused on connecting communities, delivering digital skills and boosting business success • Series of community initiatives and sponsorships
<p>Suppliers</p> <p>We rely on the high standards of our carefully selected suppliers to deliver reliable services that meet customer needs.</p>	<ul style="list-style-type: none"> • Long-term relationships • Fair payment terms • Responsible and ethical business practices 	<ul style="list-style-type: none"> • Senior management meetings with key suppliers • Informing suppliers of changes to the business in advance
<p>Regulators and government</p> <p>Our main regulatory relationship is with Ofcom.</p>	<ul style="list-style-type: none"> • Protection of consumers, particularly those who are vulnerable • Promotion of competition • Encouraging investment and innovation • Supporting investment in critical digital infrastructure 	<ul style="list-style-type: none"> • Meetings between Board members / senior management and Ofcom • Engagement with DCMS about the Government's gigabit-capable connectivity ambitions

Read more – Sustainability on pages 9 to 13.

Read more – KPIs on pages 5 and 6.

Directors' report – Section 172

Section 172

In accordance with section 172 of the Companies Act 2006 each of our Directors acts in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole.

In doing so Directors have regard, among other matters, to:

- the likely consequences of any decision in the long-term;
- the interests of KCOM's employees;
- the need to foster KCOM's business relationships with suppliers, customers and others;
- the impact of KCOM's operations on the community and the environment;
- the desirability of the company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the company.

Information about key stakeholder groups, their interests and how KCOM engages with them and takes their views and concerns into account is shown on page 17.

While direct stakeholder engagement often takes place at senior management or operational level rather than at Board level, during the year the Board received information about stakeholder views and interests that enabled it to consider the impact of KCOM's activities and Board decisions on these groups.

Directors also receive information relating to company strategy, financial and operational performance, risks and compliance with legal and regulatory requirements.

As a result, the Directors are able to comply with their legal duty under section 172 of the Companies Act 2006. For information about how the Board operates and the way it reaches decisions, including matters discussed during the year, see pages 15 and 16.

Read more – Stakeholder engagement on page 17.

Directors' report – Other disclosures

Other disclosures

Disclosure of all relevant information to auditors

The Directors who approve this report are satisfied that, as far as they are aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditors are unaware. Each of the Directors has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Indemnification of Directors

The Company has a qualifying third-party indemnity provision in force for each Director who served during the year and at the date of approval of the financial statements against potential liabilities incurred in connection with any claim brought against him or her, to the fullest extent permitted by the Companies Act 2006.

Employees

Our people make the difference to our customers and our workplace and enable us to differentiate ourselves from our competitors. We therefore want our employment strategies to help our people develop to their full potential while also driving our business performance. Our employment policies are designed to provide equal opportunities irrespective of age, disability, ethnicity, gender, gender reassignment, marital and civil partnership status, nationality, pregnancy, maternity and paternity, race, religion and belief, and sexual orientation, as detailed on our website at www.kcom.com/careers/.

All employees, whether part-time or full-time, temporary or permanent, are treated fairly and equally. We select employees for employment, promotion, training or other matters affecting their employment on the basis of aptitude and ability.

The Company gives full and fair consideration to applications for employment by disabled persons where the candidates aptitudes and abilities adequately meet the requirements of the job. It is the Company's policy to provide continuing employment of, and to arrange appropriate training wherever practicable where an existing employee becomes disabled. The Company also provides equal opportunities for the training, career development and promotion of disabled persons.

Anti-corruption and anti-bribery

We have an Ethics and Anti-fraud policy which sets out our zero-tolerance approach to corruption and bribery and the conduct expected of all our employees and contractors. We also have a Gifts and Hospitality policy, which defines the process that must be followed before any gifts or hospitality are offered or accepted, and a panel which must give approval of any such gifts or hospitality. Regular reminders are sent to all employees to maintain awareness of these policies and processes.

Dividend

The Group did not declare or pay any dividends during the year (2022: Nil).

Subsequent events

There are no subsequent events after the reporting date that would have a material impact on the financial performance and position of the Group.

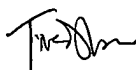
Strategic report

Pursuant to Section 414c(11) of the Companies Act 2006 the Strategic report on pages 3 to 13 contains disclosures in relation to environmental matters, the Company's employees, social issues and gender diversity.

This report has been reviewed and approved by the Board of KCOM Group Limited.

Signed on behalf of the board

Tim Shaw
Chief Executive Officer



22 September 2023

Independent auditors' report to the members of KCOM Group Limited

Report on the audit of the financial statements

Opinion

In our opinion, KCOM Group Limited's group financial statements and parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2023 and of the group's profit and the group's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006; 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 and financial statements (the "Annual Report"), which comprise: the consolidated and parent company balance sheets as at 31 March 2023; the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and parent company statements of changes in equity and the consolidated and parent company cash flow statements for the year then 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 group 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

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

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

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the parent company's ability to continue as a going concern.

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

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

Independent auditors' report to the members of KCOM Group Limited

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 our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

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 2023 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 group and parent company and their 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 group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

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.

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

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to Ofcom regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as UK tax legislation and the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting journal entries to manipulate financial performance and management bias in determining significant accounting estimates that could influence reported performance. Audit procedures performed by the engagement team included:

- Enquiring with management to understand relevant laws and regulations applicable to the group and company and their assessment of fraud related risks;
- Identifying and testing journal entries using a risk based targeting approach for unexpected account combinations and users;

Independent auditors' report to the members of KCOM Group Limited

- Testing accounting estimates that we deemed to present a risk of material misstatement including assessing the data, methods and assumptions applied by management in the development of each estimate;
- Reviewing correspondence with Ofcom to assess compliance with relevant regulations; and
- Reviewing financial statement disclosures and testing to support documentation where appropriate to assess compliance with applicable laws and regulations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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 parent 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.

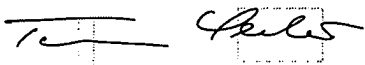
Other required reporting

Companies Act 2006 exception reporting

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

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent 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 parent company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Tom Yeates (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
22 September 2023

Consolidated income statement for the year ended 31 March 2023

	Note	2023 £'000	2022 £'000
Continuing operations			
Revenue	4	101,213	100,741
Other income		322	226
Operating expenses	5	(88,174)	(93,842)
Operating profit		13,361	7,125
Finance income	9	1,451	931
Finance costs	9	(9,183)	(8,309)
Profit/(loss) before taxation from continuing operations		5,629	(253)
Taxation	10	1,741	(8,157)
Profit/(loss) for the year from continuing operations attributable to owners of the Parent		7,370	(8,410)
Discontinued operations			
Profit from discontinued operations attributable to owners of the Parent		—	10,111
Profit for the year attributable to owners of the Parent		7,370	1,701

The Company has elected to take the exemption under Section 408 of the Companies Act 2006 not to present the Parent Company income statement or statement of comprehensive income.

There was no result for the Parent Company in the year (2022: loss £95k).

Consolidated statement of comprehensive income for the year ended 31 March 2023

	Note	2023 £'000	2022 £'000
Profit for the year		7,370	1,701
Other comprehensive (expense)/income			
<i>Items that will not be reclassified to profit or loss:</i>			
Remeasurements of retirement benefit obligations	30	(36,086)	5,275
Tax on items that will not be reclassified	26	9,022	(1,002)
Total comprehensive (expense)/income		(27,064)	-4,273
Total comprehensive (expense)/income for the year attributable to owners of the Parent		(19,694)	5,974
Total comprehensive (expense)/income for the year attributable to owners of the Parent arises from:			
Continuing operations		(19,694)	(4,137)
Discontinued operations		—	10,111
Total comprehensive (expense)/income for the year attributable to owners of the Parent		(19,694)	5,974

The Notes on pages 27 to 58 are an integral part of these consolidated financial statements.

Consolidated and parent company balance sheets as at 31 March 2023

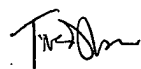
	Note	Consolidated		Parent Company	
		2023 £'000	2022 £'000	2023 £'000	2022 £'000
Assets					
Non-current assets					
Intangible assets	11	37,144	33,405	—	—
Property, plant and equipment	12	159,696	154,901	—	—
Right-of-use assets	13	1,599	2,370	—	—
Finance lease receivable	24	5,646	10,490	—	—
Investments	14	46	81	494,461	494,461
Retirement benefit asset	30	7,522	40,543	—	—
Deferred tax assets	26	5,208	4,150	—	—
Contract costs	15	264	492	—	—
		217,125	246,432	494,461	494,461
Current assets					
Inventories	16	4,894	5,753	—	—
Contract assets	17	1,696	1,412	—	—
Trade and other receivables	18	15,802	22,379	—	—
Finance lease receivable	24	3,578	7,290	—	—
Contract costs	15	398	—	—	—
Cash and cash equivalents	22	14,089	9,551	—	—
		40,457	46,385	—	—
Total assets		257,582	292,817	494,461	494,461
Liabilities					
Current liabilities					
Trade and other payables	19	(20,373)	(27,873)	(545)	(545)
Contract liabilities	20	(6,424)	(8,443)	—	—
Finance Leases	23	(4,662)	(8,759)	—	—
Provisions for other liabilities and charges	25	(1,397)	(303)	—	—
		(32,856)	(45,378)	(545)	(545)
Non-current liabilities					
Deferred tax liabilities	26	(15,412)	(24,761)	—	—
Lease liabilities	23	(6,725)	(12,344)	—	—
Loans from related parties	21	(165,500)	(151,664)	—	—
Provisions for other liabilities and charges	25	(1,795)	(3,682)	—	—
		(189,432)	(192,451)	—	—
Total liabilities		(222,288)	(237,829)	(545)	(545)
Net assets		35,294	54,988	493,916	493,916
Equity					
Capital and reserves attributable to owners of the Parent					
Share capital	27	52,022	52,022	52,022	52,022
Share premium account		353,231	353,231	353,231	353,231
Accumulated losses		(369,959)	(350,265)	88,663	88,663
Total equity		35,294	54,988	493,916	493,916

1. Included within consolidated accumulated losses is a profit after tax of £7,370k (2022: £1,701k) for the Group and no result for the Parent Company (2022: loss after tax of £95k).

The Notes on pages 27 to 58 are an integral part of these consolidated financial statements.

The financial statements on pages 23 to 58 were approved by the Board of Directors and authorised for issue on 22 September 2023. They were signed on its behalf by:

Tim Shaw
Chief Executive Officer



KCOM Group Limited
Registered number: 2150618

22 September 2023

Consolidated statement of changes in equity for the year ended 31 March 2023

	Share capital £'000	Share premium account £'000	Accumulated losses £'000	Total equity £'000
At 1 April 2021	52,022	353,231	(356,239)	49,014
Profit for the year	—	—	1,701	1,701
Other comprehensive income	—	—	4,273	4,273
Total comprehensive income for the year ended 31 March 2022	—	—	5,974	5,974
At 31 March 2022	52,022	353,231	(350,265)	54,988
Profit for the year	—	—	7,370	7,370
Other comprehensive expense	—	—	(27,064)	(27,064)
Total comprehensive expense for the year ended 31 March 2023	—	—	(19,694)	(19,694)
At 31 March 2023	52,022	353,231	(369,959)	35,294

The Notes on pages 27 to 58 are an integral part of these consolidated financial statements.

Parent company statement of changes in equity for the year ended 31 March 2023

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Total equity £'000
At 1 April 2021	52,022	353,231	88,758	494,011
Loss for the year	—	—	(95)	(95)
Total comprehensive expense for the year ended 31 March 2022	—	—	(95)	(95)
At 31 March 2022	52,022	353,231	88,663	493,916
Result for the year	—	—	—	—
Total comprehensive income for the year ended 31 March 2023	—	—	—	—
At 31 March 2023	52,022	353,231	88,663	493,916

The Notes on pages 27 to 58 are an integral part of these consolidated financial statements.

Consolidated and parent company cash flow statements for the year ended 31 March 2023

	Note	Consolidated		Parent Company	
		2023 £'000	*Restated 2022 £'000	2023 £'000	2022 £'000
Cash flows from operating activities					
Operating profit/(loss) including discontinued operations	31	13,361	20,659	—	(95)
Adjustments for:					
– depreciation and amortisation	11,12	23,594	18,122	—	—
– right of use asset depreciation	13	1,143	5,431	—	—
– decrease/(increase) in receivables		6,155	(398)	—	—
– decrease/(increase) in inventories		859	(2,315)	—	—
– increase/(decrease) in payables		(11,963)	1,959	—	95
– loss on disposal of other intangible assets	5	64	11	—	—
– (profit)/loss on disposal of property, plant and equipment	5	(11)	11	—	—
– profit/(loss) on disposal of leases	5	174	(361)	—	—
– profit on disposal of National business trade and net assets	31	—	(8,820)	—	—
– property, plant and equipment impairment	7	—	5,915	—	—
– non-employee-related pension charges	30	978	1,002	—	—
Payments made to defined benefit pension schemes	30	(2,945)	(3,102)	—	—
Tax received		244	274	—	—
Net cash generated from operations		31,653	38,388	—	—
Cash flows from investing activities					
Purchase of property, plant and equipment	12	(21,660)	(32,054)	—	—
Purchase of other intangible assets	11	(11,178)	(9,184)	—	—
Interest received on right of use assets		353	277	—	—
Capital element of lease payments received	24	5,993	5,496	—	—
Proceeds from sale of National business consumer base, net of transaction costs	31	—	1,192	—	—
Proceeds from license of IP addresses to third parties	5, 20	—	1,644	—	—
Dividends received		35	—	—	—
Proceeds from sale of National business trade and net assets, net of transaction costs	31	2,423	22,929	—	—
Net cash used in investing activities		(24,034)	(9,700)	—	—
Cash flows from financing activities					
Interest paid		(8,933)	(7,568)	—	—
Interest paid on right of use assets		(421)	(605)	—	—
Capital element of lease repayments	23	(7,698)	(10,784)	—	—
Drawdown of loans from related parties	21	45,000	40,000	—	—
Repayment of loans from related parties	21	(31,029)	(48,500)	—	—
Net cash used in financing activities		(3,081)	(27,457)	—	—
Increase in cash and cash equivalents		4,538	1,231	—	—
Cash and cash equivalents at the beginning of the year		9,551	8,320	—	—
Cash and cash equivalents at the end of the year	22	14,089	9,551	—	—

*See Note 36 for detail on prior year restatement.

The Notes on pages 27 to 58 are an integral part of these consolidated financial statements.

Notes to the financial statements for the year ended 31 March 2023

01 General information

KCOM Group Limited is a private company limited by shares and is incorporated and domiciled in England in the United Kingdom. The address of the registered office is 37 Carr Lane, Hull HU1 3RE. The nature of the Group's operations is described within the Strategic report on pages 3 to 13.

On 25 June 2021, KCOM announced the sale of its National ICT Business (National Business) to GCI Network Solutions Limited (Nasstar). This sale was subsequently completed on 31 July 2021. Following the criteria in IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", management considered the requirements to treat the National Business as held for sale to be met up to the completion date and hence results were presented in the four months to the date of sale as discontinued operations.

02 Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated and Parent Company financial statements have been prepared in accordance with the requirements of the Companies Act 2006 as applicable to companies using UK-adopted International Accounting Standards. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss. The financial statements have been prepared on a going concern basis.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

Going concern

The company meets its day-to-day working capital requirements through its cash reserves and borrowings. The Group's loan facilities, entered into by KCOM Holdco 3 Limited in September 2020, mature in September 2025. The loan facilities require compliance with leverage and interest cover ratios, on both a forward and backward looking 12-month basis, that are submitted on a biannual basis. All covenants have been complied with up to the date of signing the financial statements.

Management has produced forecasts for the Group that have been sensitised to reflect reasonably plausible downside scenarios from current economic conditions. These have been reviewed by the Group directors and demonstrate the Group is forecast to generate profits and cash and that the Group has sufficient cash reserves and headroom on its banking facility covenants to enable the Group to meet its obligations as they fall due for a period of at least 12 months from the date of signing of these financial statements.

As part of the covenant compliance modelling, we have sensitised forecast cash flows to reflect a severe downside case. In addition, we are able to rephrase cash outflows through capital expenditure and restrict the repayment of intercompany debt (as confirmed by the parent and ultimate controlling party). There are no severe downside cases that breach the default covenants.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

Initial application of new accounting standards, interpretations and amendments

The following amendments to standards published by the International Accounting Standards Board (IASB) were effective for the first time for the financial year beginning 1 April 2022:

- Amendment to IFRS 16 "Covid-19-Related Rent Concessions beyond 30 June 2021"
- Amendment to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest Rate Benchmark Reform Phase 2"

The above new and amended standards do not have a material effect on the Group.

Notes to the financial statements for the year ended 31 March 2023

02 Accounting policies

New accounting standards, amendments and interpretations effective for annual periods beginning after 1 April 2023

The following accounting standards, amendments and interpretations have been issued by the IASB but are not yet effective and have not been applied in preparing these financial statements:

Standards and amendments	Description	Date of mandatory application: annual periods beginning
IFRS 17	Insurance Contracts	1 April 2023
Amendments to IAS 8	Definition of Accounting Estimates	1 April 2023
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 April 2023
Amendments to IAS 1 and IFRS 2	Disclosure of Accounting Policies	1 April 2023

None of these new standards, interpretations and amendments are expected to have a material impact on the Group's financial statements.

Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The consolidated financial statements include the financial statements of the Company and its undertakings made up to 31 March 2023.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the income statement in the period of acquisition.

Partnerships are controlled when the Group has the power, directly or indirectly, to govern the financial and operating policies of the partnership so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The consolidated financial statements include the financial statements of the KCOM Central Asset Reserve Limited Partnership and its undertakings made up to 31 March 2023. The results of new partnership undertakings are included from the dates of acquisition using the purchase method of consolidation. Where a company has ceased to be a partnership undertaking during the year, its results are included to the date of cessation.

Assets held for sale and discontinued operations

In accordance with IFRS 5 'Non-current assets held for sale and discontinued operations', non-current assets and disposal groups are classified as held for sale only if they are available for immediate sale in their present condition, and a sale is highly probable and expected to be completed within one year from the date of classification. Such assets are measured at the lower of carrying amount and fair value, less the costs of disposal, and are not depreciated or amortised.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations which has been disposed of or is classified as held for sale. In the prior year, all income and costs in relation to the National Business are disclosed separately as discontinued operations in the Group income Statement. As the sale completed prior to the 31 March 2022 year end there were no balance sheet items relating to the National Business in the prior year comparatives. The prior year cash flow statement includes the cash flows from discontinued operations, with cash flows relating to the discontinued operation disclosed in summarised form in Note 31.

Notes to the financial statements for the year ended 31 March 2023

02 Accounting policies (continued)

Revenue recognition

The Group's product and service offerings include service only contracts, product only contracts and contracts which combine the provision of equipment and services as described in more detail below. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services supplied, stated net of discounts, returns and value-added taxes.

Standalone service offerings

The Group offers a range of fixed telephone, internet access and hosting services. Service revenue is recognised as the service is provided, based on usage (e.g. minutes of traffic or bytes of data used) or the period (e.g. monthly service costs). Service obligations which are substantially the same and have the same pattern of transfer to the customer are treated as a single performance obligation.

Service only offerings may include an initial service connection fee. In general, this is not deemed to be a separate performance obligation and thus the connection fee is deferred as a contract liability and recognised over the enforceable term of the contract.

In some hosting arrangements the Group acts solely as an agent, enabling the supply of third-party hosting services to the customer, and not as a principal in the supply of the service. In these circumstances, revenue is recognised net of amounts transferred to the third party.

Standalone product sales

Equipment sales may be separate from, or bundled with, a service offer. When equipment sales are separate to a service offer, the amount invoiced is recognised in revenue upon delivery of the equipment, at the point that control is deemed to transfer to the customer.

Bundled equipment and service offerings

The Group often enters into contracts with customers which comprise equipment (e.g. a router) and services (e.g. an internet access contract).

Equipment revenue is recognised separately if the two components are deemed to be distinct (i.e. the customer can benefit from each component of the contract separately). Where one of the components is provided at a reduced selling price, revenue is allocated to each component in proportion to their individual selling prices.

Contract modifications

Contracts with customers generally do not include a material right, as the price invoiced for goods and services purchased by the customer beyond the specific scope of the contract (e.g. additional IT platform functionality) generally reflect their standalone selling prices. We therefore have no significant impact related to contract modifications as these are generally accounted for as a separate contract.

Variable consideration

Contracts may include variable consideration (e.g. "in-life" phase consists of a fixed fee plus a variable element based on the number of users, or the customer is entitled to a rebate based on sales volumes). In these circumstances, the variable element is estimated and included in the transaction price allocated between the distinct performance obligations identified.

Exceptional items

Exceptional items are defined as items of income and expenditure which are material and unusual in nature and which are considered to be of such significance that they require separate disclosure in the operating expenses note. Any future movements on items previously classified as exceptional will also be classified as exceptional.

Restructuring and transformational costs are considered on a case-by-case basis as to whether they meet the exceptional criteria. Other items are considered against the exceptional criteria based on the specific circumstances. The presentation is consistent with the way financial performance is measured by management and reported to the Board.

Intangible assets

Development costs

An internally generated intangible asset arising from the Group's internal development activities is recognised only if all of the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Notes to the financial statements for the year ended 31 March 2023

02 Accounting policies (continued)

Intangible assets (continued)

Internally generated intangible assets are carried at cost less accumulated amortisation and are amortised on a straight-line basis over their estimated useful lives. Amortisation is recognised within operating expenses in the income statement. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred. Research costs are expensed to the income statement as and when they are incurred.

Customer and supplier relationships

Contractual customer and supplier relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer and supplier relations have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the relationship.

Technology and brand

Technology and brand acquired through business combinations are recorded at fair value at the date of acquisition. Assumptions are used in estimating the fair values of acquired intangible assets and include management's estimates of revenue and profits to be generated by the acquired businesses. These intangible assets are amortised on a straight-line basis over their useful lives.

Software

Software comprises computer software purchased from third-parties and also the cost of internally developed software. Computer software purchased from third-parties and internally developed software is initially recorded at cost.

Software development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the criteria detailed above are met. These intangible assets are amortised on a straight-line basis over their useful lives.

Other software development expenditures that do not meet these criteria are recognised as an expense as incurred. Software development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Assets under construction (AUC)

AUC relates to costs incurred in the construction of an intangible asset. Once the asset is available for use it is transferred to the appropriate asset class and amortisation commences.

Amortisation

Amortisation of intangible assets is charged to the income statement on a straight-line basis over the estimated useful life of each intangible asset. Intangible assets are amortised from the date they are available for use.

The estimated useful lives are as follows:

Customer and supplier relationships	up to 8 years
IP Addresses	up to 20 years
Technology and brand	up to 10 years
Software	up to 10 years
Development costs	3 years

Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and any provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Network infrastructure and related equipment (included within exchange equipment and external plant) is recorded at cost directly attributable to the cost of the network construction. Depreciation is provided so as to write off the cost of assets to residual values on a straight-line basis over the assets' useful estimated lives as follows:

Freehold buildings	40 years
Leasehold buildings and improvements	period of lease
Exchange equipment	1 to 20 years
External plant	10 to 40 years
Vehicles, other apparatus and equipment	1 to 10 years

Freehold land is not depreciated.

Exchange equipment includes assets and equipment which relate to the network. External plant relates to assets which connect the network to our customers.

Similar to AUC in Intangible Assets detailed above, AUC relates to costs incurred during the construction of an item of property, plant and equipment. Once the asset is available for use it is transferred to the appropriate asset class and depreciation commences.

The residual value, if not insignificant, is reassessed annually. Depreciation of network infrastructure and related equipment is provided for from the date the network comes into operation.

Notes to the financial statements for the year ended 31 March 2023

02 Accounting policies (continued)

Fixed asset investments

Fixed asset investments are shown at cost less provision for impairment. They are reviewed at each reporting date for possible reversal of the impairment.

Impairment of non-financial assets

Assets that have an indefinite useful life – for example, goodwill – are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Recoverable amount is the higher of fair value less selling costs and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash generating units (CGUs) are allocated first to reduce the carrying amount of any goodwill allocated to CGUs and then to reduce the carrying amount of other assets in the CGU on a pro-rata basis.

Contract costs

Costs of obtaining a contract

The internal sales team earn commission when a new contract is signed based predominantly on tiered target commission schemes. Since these costs are incremental and would not have been paid in the absence of a contract, the commission costs attributable to each contract are estimated and capitalised on the balance sheet. These costs are released to the income statement on a time-apportioned basis over the enforceable term of the relevant contract.

The Group has chosen to recognise the cost of obtaining a contract as an expense when incurred if the enforceable term of the contract, and hence the amortisation period of the asset if it was to be recognised, does not exceed a year.

Pre-contract costs, such as bid costs on key contract wins, are generally expensed as incurred as they would have been paid even if the contract was not obtained.

Unanticipated costs that are incurred from the use of excessive resources are expensed as incurred.

Contract costs are subject to impairment testing if the facts and circumstances of the contract change during the term. The amortisation of contract costs is included as an operating expense.

Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined using the weighted average cost method. Costs include raw materials and, where appropriate, direct overhead expenses. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Provision is made for obsolete, slow moving or defective items where appropriate.

Inventories include routers that are held for sale and recognised at a point in time on sale of a broadband bundle contract under IFRS 15.

Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are initially recognised at fair value.

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Loss allowances are deducted from the gross carrying amount of the assets.

Contract assets

The timing of revenue recognition from contracts may differ from customer invoicing.

Trade receivables presented on the balance sheet represent an unconditional right to receive consideration, i.e. the services and goods promised to the customer have been transferred and only the passage of time is required before payment of that consideration is due.

Contract assets represent the right to receive consideration for goods and services transferred to date, but in contrast to trade receivables, these are conditional on providing further services or goods under the same contract. Contract assets, like trade receivables, are subject to impairment for credit risk.

Notes to the financial statements for the year ended 31 March 2023

02 Accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents include cash in hand, short-term deposits and other short-term, highly liquid investments with original maturities of three months or less and bank overdrafts. See Note 28 for details of the restricted cash held which is not available to the Group for general use.

Trade payables

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

Contract liabilities

Contract liabilities represent amounts paid by customers in advance of receiving the goods and/or services promised in the contract and lease payments received under operating leases released as other income on a straight-line basis over the lease term.

Taxation

The tax expense represents the sum of the current tax and deferred tax expense.

The current tax is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and/or items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised generally for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced or increased to the extent that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items recognised in other comprehensive income or directly to equity. In this case the deferred tax is also recognised in other comprehensive income or directly in equity, respectively.

Adjustments to tax relating to previous accounting periods are adjusted as soon as the Company identifies them.

Financial instruments and hedge accounting

Financial assets and liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Derivative financial instruments are initially and subsequently recognised at fair value.

Foreign currency translation

These financial statements are presented in Pounds Sterling which is the currency of the primary economic environment in which the Group operates.

Transactions in foreign currencies are recorded at the rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated using the exchange rate at the balance sheet date.

Leasing

At inception of a contract, the Group assesses whether a contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group leases various office and network properties, data centre space, fibres and cables, vehicles and office equipment.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Notes to the financial statements for the year ended 31 March 2023

02 Accounting policies (continued)

Leasing (continued)

At lease commencement, to determine the lease term, the Group assesses whether, or not, it is reasonably certain to exercise any extension or termination options in the contract. The assessment of reasonably certain is only revised if a significant event or a significant change in circumstances occurs in relation to the lease, which is within the control of the lessee. The Group will also revise the lease term if there is a change in the non-cancellable period of a lease, for example the Group exercises an option not previously included in the determination of the lease term.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option;
- penalty payments for terminating the lease, if the lease term reflects the Group exercising that option; and
- lease payments to be made in an extension period, if the Group is reasonably certain to exercise the extension option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

The Group has elected not to recognise right-of-use asset and lease liabilities for short-term leases or low-value asset leases. Short-term leases are leases with a lease term of 12 months or less and typically include leases which are in rolling where both parties have a right to terminate within 12 months. Low-value assets comprise IT equipment and small items of office furniture which have an underlying asset value below the value set out by IFRS 16. Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the income statement.

Lessor accounting – sub-leases

A sub-lease is a transaction in which a lessee (or 'intermediate lessor') grants the lessor the right to use the underlying asset during the period of the lease in exchange for amounts equal to the amounts payable under the head lease. The 'head lease' between the original lessor and lessee remains in effect.

When the Group acts as a lessor it determines whether the sub-lease is a finance or operating lease. The Group assesses if the lease transfers substantially all of the risks and rewards of ownership of the underlying asset along with the below criteria and if so this is treated as a finance lease:

- indicators that the lease is for a major part of the economic life of the underlying asset; and
- at the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the underlying asset.

The Group sub-leases various properties, data centre space and leased lines to Nasstar. The net investment in a lease is defined as the present value of the lease payments receivable plus any unguaranteed residual accruing to the lessor, discounted at the rate implicit in the lease. As the sub-lease arrangement was entered into as part of the wider National Business sale transaction, the interest rate implicit in the sub-lease cannot be readily determined; the Group therefore measures the finance lease receivable based on the discount rate applicable under the head lease.

Notes to the financial statements for the year ended 31 March 2023

02 Accounting policies (continued)

Lessor accounting – sub-leases (continued)

The original finance lease liability of the head lease continues to be recognised by the Group under the original lease term and discount rates applied.

The associated right-of-use asset is derecognised and any difference to the finance lease receivable is recognised in the income statement as a gain or loss on disposal.

Lease income is allocated between principal and finance income. The finance income is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the receivable for each period. The finance income is presented separate to the finance costs arising on the head lease. On completion of the legal novation of the leases to Nasstar, the Group will derecognise both the finance lease receivable and the finance lease liability payable to the head lessor.

If the head lease is determined to be a short-term lease (as per the criteria listed above) the sub-lease is classified as an operating lease. Lease payments received associated with short-term lease is recognised on a straight-line basis as other income in the income statement.

The Group applies the impairment requirements in IFRS 9 to the net investment of the lease.

Lessor accounting – operating leases (IP addresses)

When the Group acts as a lessor it determines at lease inception whether the arrangement is a finance or operating lease. To do this the Group assesses if the lease transfers substantially all of the risks and rewards of ownership of the underlying asset and if so this is treated as a finance lease, otherwise it is treated as an operating lease.

The Group recognises lease amounts received for IP address operating leases as other income on a straight-line basis over the lease term as part of other income in the income statement and any deferred revenue within contract liabilities.

The Group applies the impairment requirements in IFRS 9 to the net investment of the lease.

Bank borrowings and issue costs

Bank borrowings are stated at the amount of proceeds after deduction of issue costs, which are amortised over the period of the loan. Any issue costs remaining on settlement of bank borrowings will be repaid at the date of repayment. Finance charges, including direct issue costs are accounted for in the income statement on an accruals basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Borrowings are carried subsequently at amortised cost and any differences between the proceeds (net of transaction costs) and the redemption value are recognised in the income statement over the period of the borrowings using the effective interest method.

Pensions

Defined contribution

Obligations for contributions to the defined contribution (money purchase) scheme are charged to the income statement in the period they fall due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Defined benefit

For defined benefit retirement schemes, the cost of providing benefits is determined using a building block approach, with IAS 19 actuarial valuations being carried out at each balance sheet date. Remeasurements are recognised in full in the period in which they occur and are recognised in equity and presented in the Consolidated statement of comprehensive income.

The current and past service costs of the scheme (the increase in the present value of employees' future benefits attributable to the current or prior periods) are charged to the income statement in the period. The cost or benefit of committed settlements and curtailments is recognised immediately in the income statement. The interest cost of the scheme is recognised in the income statement in the period to which it relates.

The retirement benefit obligation recognised on the balance sheet represents the present value of the defined benefit obligation as reduced by the fair value of scheme assets. Should an IAS 19 actuarial valuation result in a net asset position then the amount recognised will be limited to the recoverable amount. The recoverable amount shall be determined with reference to the agreements made between the Group and the Trustees within the pension scheme rules and considered against the requirements of IFRIC 14.

Notes to the financial statements for the year ended 31 March 2023

02 Accounting policies (continued)

Dividends

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or, in the case of interim dividends, paid.

Dividend income is recognised when the right to receive payment is established.

Provisions

A provision is recognised in the balance sheet when the Group has a present, legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Provisions for onerous contracts are recognised should the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The estimated onerous element of the contract is recognised in full in the period in which the contract is identified as onerous. The assessment of whether a multi-element customer contract is onerous is undertaken separately for the installation and in-life phases should the revenues for that contract also be recognised on that basis.

03 Critical accounting judgements and key sources of estimation uncertainty

The table below shows the judgements which have the most significant effect on amounts that are recognised in the financial statements, and the assumptions and estimates at the end of the current reporting year that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Area	Critical accounting judgements	Key sources of estimation uncertainty
<p>Post-employment benefits (Continuing operations)</p> <p>The Group operates two defined benefit schemes. All post-employment benefits associated with these schemes have been accounted for in accordance with IAS 19 "Employee benefits (revised)". As detailed within the accounting policies note, in accordance with IAS 19, all actuarial gains and losses have been recognised immediately through the Consolidated statement of comprehensive income.</p>	<p>Accounting for defined benefit pension schemes requires judgement over areas such as setting appropriate criteria to derive assumptions such as discount rates</p>	<p>Several estimates contribute to the year-end valuation including discount rates, inflation and rate of increase to pensions in payment. Changes to these estimates could result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Sensitivity analysis is provided in Note 30.</p>
<p>Leases (Continuing operations)</p> <p>Lease accounting requires determination of the lease term, which is defined as the non-cancellable period of the lease adjusted for the impact of any reasonably certain extension, termination and purchase options.</p> <p>The lease term and the discount rate are key determinants of the size of the lease liability and right-of-use asset recognised where the Group acts as lessee.</p>	<p>Determining the lease term requires judgement to evaluate whether the lessee is reasonably certain to exercise any options available.</p> <p>The Directors also apply judgement in determining the appropriate incremental borrowing rate that reflects the risks specific to leases.</p>	<p>The Directors do not consider there to be any estimates made which could have a significant risk resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.</p>

Notes to the financial statements for the year ended 31 March 2023

04 Revenue

The Group derives revenue from providing communication and internet-based services to consumer and business customers.

Certain customers previously presented in the National Business segment have not been classified as part of the discontinued operation in the prior year as they remain with KCOM following the sale.

The results for the year ended 31 March 2023 and for the year ended 31 March 2022, excluding amounts relating to discontinued operations in the prior year, disaggregated by customer type are as follows:

Consolidated	2023 £'000	2022 £'000
Consumer	67,369	66,208
Business	23,415	25,384
Wholesale	10,396	8,353
Other	33	796
Total from continuing operations	101,213	100,741
Derived from:		
External customers	101,213	100,140
Inter-Group from discontinued operations	—	601
Total from continuing operations	101,213	100,741

In the prior year, Inter-Group sales are charged at prevailing market prices. Sales have been shown on a gross basis in continuing operations to better reflect the position going forward. The revenue and costs still consolidate out in the Income statement.

No material revenue, operating profit or net operating assets arises outside the United Kingdom. No revenue from transactions with one customer exceeded 10 per cent of Group revenue.

05 Other income and operating expenses

Operating expenses incurred in the year included the following items charged/(credited):

Consolidated	Note	2023 £'000	2022 £'000
Staff costs		37,859	38,469
Restructuring costs relating to employees	7,8	—	2,645
Total staff costs	8	37,859	41,114
Own work capitalised	11,12	(10,798)	(8,616)
Other external charges		35,188	31,507
Auditors' remuneration	6	726	345
Amortisation of intangible assets	11	8,338	6,736
Depreciation of property, plant and equipment	12	15,256	11,386
Depreciation of right-of use assets	13	1,143	5,431
Impairment loss on trade receivables and contract assets	28	400	363
Loss/(Profit) on disposal of leases	13	9	(361)
Property, plant and equipment impairment	7	—	5,915
(Profit)/loss on disposal of other intangibles	11	(11)	11
Loss on disposal of property, plant and equipment	12	64	11
Total		88,174	93,842

The comparative operating expenses detailed above exclude the amounts relating to discontinued operations.

Reconciliation of EBITDA before exceptional items to operating profit:

Consolidated	Note	2023 £'000	2022 £'000
Operating profit from continuing operations analysed as:			
EBITDA before exceptional items		38,098	39,238
Exceptional items	7	—	(8,560)
Depreciation of property, plant and equipment	12	(15,256)	(11,386)
Amortisation of intangible assets	11	(8,338)	(6,736)
Depreciation of right of use assets	13	(1,143)	(5,431)
Operating profit from continuing operations		13,361	7,125

Notes to the financial statements for the year ended 31 March 2023

06 Auditors' remuneration

During the year the Group obtained the following services from the Company's auditors:

Consolidated	2023 £'000	2022 £'000
Fees payable to the Company's auditors for the audit of the Company's annual financial statements and the consolidated financial statements	635	94
Fees payable to the Company's auditors and their associates for other services:		
– the audit of the Company's subsidiaries	—	337
– audit-related assurance services ¹	55	45
– other non-audit services ²	39	24
Total	729	500
Attributable to:		
– continuing operations	729	345
– discontinuing operations	—	155
Total	729	500

1. Relates to regulatory audit.

2. CO₂e reporting assurance.

3. The audit of the Company's subsidiaries is included within the fee for the Company's annual financial statements.

07 Exceptional items

Consolidated	2023 £'000	2022 £'000
Restructuring costs	—	2,645
Property, plant and equipment impairment	—	5,915
Total charge to the income statement – continuing operations	—	8,560

In the year ended 31 March 2023, no exceptional restructuring costs were incurred (2022: £2,645k) The following costs were incurred in the previous financial year:

- Organisation design change costs of (2022: £850k).
- Costs incurred for termination costs associated with the exit of Executive Directors (2022: £1,795k).

In the prior financial year an impairment loss was recognised in respect of certain equipment that will no longer be utilised, leading to an impairment of the assets of £5,915k.

The combined effect of exceptional items in the previous financial year was 2022: £Nil in respect of current tax and a credit of 2022: £1,785k in respect of deferred tax.

Cash flow impact of exceptional items in the previous financial year was an outflow £1,999k. The impact on working capital of exceptional items in the previous financial year was a £647k inflow.

Notes to the financial statements for the year ended 31 March 2023

08 Employees and remuneration

The average monthly numbers (including Executive Directors) employed by the Group during the year were as follows:

	Number of employees	
	2023	2022
Consumer & Business	259	281
Central	501	510
Continued operations	760	791
Discontinued operations	—	458
Total	760	1,249

Included within the Central segment are employees who work in central functions (e.g., technology, finance, legal, risk, etc). The costs are recharged to the applicable market segments as appropriate.

The costs incurred in respect of these employees were:

Consolidated	Note	2023		Total	2022		Total
		Continuing operations £'000	Discontinued operations £'000		Continuing operations £'000	Discontinued operations £'000	
Wages and salaries		31,985	—	31,985	32,597	11,134	43,731
Social security costs		3,009	—	3,009	2,962	804	3,766
Other pension costs	30	2,865	—	2,865	2,910	466	3,376
Restructuring costs relating to employees	7,8	—	—	—	2,645	41	2,686
Total		37,859	—	37,859	41,114	12,445	53,559
Less own work capitalised	11,12	(10,798)	—	(10,798)	(8,616)	—	(8,616)
Charged to the income statement		27,061	—	27,061	32,498	12,445	44,943

All of the Group's employees were employed by KCOM Group Limited during the year ended 31 March 2023. No employee costs are borne by the Parent Company.

With the exception of administrative expenses and interest costs, the expenses relating to the defined benefit pension schemes are recognised within other comprehensive income, see Note 30 for further details.

Remuneration of Directors

Consolidated	Note	2023 £'000	2022 £'000
Remuneration		1,072	849
Aggregate amounts receivable under long term incentive plans		270	—
Company contributions paid to money purchase pensions schemes		65	104
Compensation for loss of office	7	188	1,742
Total		1,595	2,695

Consolidated	2023 No.	2022 No.
Members of money purchase pension schemes	3	2

The amounts in respect of the highest paid Director are as follows:

Consolidated	Note	2023 £'000	2022 £'000
Remuneration		555	575
Aggregate amounts receivable under long term incentive plans		206	—
Company contributions paid to money purchase pensions schemes		33	82
Compensation for loss of office	7	—	1,742
Total		794	2,399

Notes to the financial statements for the year ended 31 March 2023

08 Employees and remuneration (continued)

Remuneration of Key Management Personnel

Consolidated	Note	2023 £'000	2022 £'000
Remuneration		1,097	1,013
Aggregate amounts receivable under long term incentive plans		270	—
Company contributions paid to money purchase pensions schemes		85	124
Compensation for loss of office	7	188	1,742
Total		1,640	2,879

Consolidated	2023 No.	2022 No.
Members of money purchase pension schemes	4	3

09 Finance income and costs

Consolidated	Note	2023 £'000	2022 £'000
Finance income:			
Retirement benefit obligations	30	1,098	654
Interest received on finance sub-leases	24	353	277
Total finance income		1,451	931
Finance costs			
Bank loans, overdrafts and other loans		(36)	—
Interest charged on loans from related parties	21	8,798	7,703
Interest on lease liabilities	23	421	606
Total finance costs		9,183	8,309
Net finance costs		7,732	7,378

Notes to the financial statements for the year ended 31 March 2023

10 Taxation

Analysis of tax (credit)/charge in the year

The (credit)/charge based on the profit for the year comprises:

Consolidated	Note	2023 £'000	2022 £'000
UK corporation tax:			
– current tax on profit for the year		1	—
– adjustment in respect of prior years		(354)	1,883
Total current tax		(353)	1,883
UK deferred tax:			
Origination and reversal of temporary differences in respect of:			
– profit for the year		276	3,360
– adjustment in respect of prior years		(3,217)	—
– change in rate		—	5,247
– charge in respect of retirement benefit obligation		1,553	1,090
Total deferred tax	26	(1,388)	9,697
Total taxation (credit)/charge for the year		(1,741)	11,580
Income tax (credit)/charge attributable to:			
Profit from continuing operations		(1,741)	8,157
Profit from discontinued operations		—	3,423
Total taxation (credit)/charge for the year		(1,741)	11,580

Factors affecting tax (credit)/charge for the year

Consolidated	2023 £'000	2022 £'000
Profit before taxation	5,629	13,281
Profit before taxation at the standard rate of corporation tax in the UK of 19% (2022: 19%)	1,069	2,523
Effects of:		
– expenses not deductible for tax purposes	761	1,927
– adjustment in respect of prior years	(3,571)	1,883
– change in rate reflected in the deferred tax asset	—	5,247
Total taxation (credit)/charge for the year	(1,741)	11,580

Factors affecting the current and future tax charges

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase from 19% to 25%. The increase in rate was substantively enacted for IFRS purposes on 24 May 2021. As a result, the relevant deferred tax balances were remeasured in the prior year. Deferred tax expected to unwind in the year to 31 March 2023 was calculated using a rate of 19% and subsequently at a rate of 25%. The impact of the change in tax rate was recognised in the tax charge in the prior year income statement.

Notes to the financial statements for the year ended 31 March 2023

11 Other intangible assets

Consolidated	Note	Development costs ¹ £'000	Software £'000	Customer and supplier relationships £'000	Technology and brand £'000	Assets under construction £'000	Total £'000
Cost							
At 1 April 2021 (Restated)		26,197	56,860	49,257	6,294	5,642	144,250
Additions		40	1,542	—	—	2,292	3,874
Own work capitalised	8	2,791	260	—	—	2,257	5,308
Disposals (Restated)		(12,264)	(2,482)	—	—	—	(14,746)
Transfers		1,865	2,029	—	—	(2,934)	960
Transfer to assets held for sale	31	(525)	(17,746)	—	—	(51)	(18,322)
At 31 March 2022 (Restated)		18,104	40,463	49,257	6,294	7,206	121,324
Additions		13	1,992	—	—	2,183	4,188
Own work capitalised	8	2,984	584	—	—	3,422	6,990
Disposals		—	—	—	—	—	—
Transfers		2,150	3,670	—	—	(4,932)	888
At 31 March 2023		23,251	46,709	49,257	6,294	7,879	133,390
Accumulated amortisation							
At 1 April 2021 (Restated)		16,710	41,664	49,257	6,294	—	113,925
Charge for the year	5	2,087	4,649	—	—	—	6,736
Disposals (Restated)		(12,264)	(2,472)	—	—	—	(14,736)
Transfers to assets held for sale	31	(329)	(17,677)	—	—	—	(18,006)
At 31 March 2022		6,204	26,164	49,257	6,294	—	87,919
Charge for the year	5	2,477	5,861	—	—	—	8,338
Disposals		—	(11)	—	—	—	(11)
At 31 March 2023		8,681	32,014	49,257	6,294	—	96,246
Carrying amount							
At 31 March 2023		14,570	14,695	—	—	7,879	37,144
At 31 March 2022		11,900	14,299	—	—	7,206	33,405

¹ Development costs are predominantly capitalised staff costs associated with assets relating to new products and provision of services.

After a comprehensive review of the fixed asset register, a restatement has been made against the prior period opening balances, in relation to assets which have been replaced or decommissioned. Both cost and accumulated amortisation have been reduced by £18,209k as at April 2021, and disposals and depreciation in the prior period, have been reduced by £14,733k. There has been no impact on reserves.

Notes to the financial statements for the year ended 31 March 2023

12 Property, plant and equipment

Consolidated	Note	Land and buildings £'000	Exchange equipment £'000	External plant £'000	Vehicles, other apparatus and equipment £'000	Assets Under construction £'000	Total £'000
Cost							
At 1 April 2021 (Restated)		13,423	103,635	176,127	45,483	26,893	365,561
Additions		—	—	12,098	1,093	16,016	29,207
Own work capitalised	8	—	—	966	—	2,342	3,308
Disposals (Restated)		(36)	(2,895)	(5,355)	(19,980)	—	(28,266)
Impairment	5	—	—	—	—	(5,915)	(5,915)
Transfers		—	—	14,415	1,582	(16,957)	(960)
Transfers to assets held for sale	31	—	—	310	(8,612)	(265)	(8,567)
At 31 March 2022 (Restated)		13,387	100,740	198,561	19,566	22,114	354,368
Additions		—	—	5,963	1,048	10,185	17,196
Own work capitalised	8	—	—	5	404	3,399	3,808
Disposals		—	—	—	(129)	—	(129)
Transfers		—	—	10,176	2,344	(13,408)	(888)
At 31 March 2023		13,387	100,740	214,705	23,233	22,290	374,355
Accumulated depreciation							
At 1 April 2021		11,213	77,848	97,904	37,543	—	224,508
Charge for the year	5	276	2,462	6,847	1,801	—	11,386
Disposals (Restated)		(36)	(2,895)	(5,355)	(19,969)	—	(28,255)
Transfer to assets held for sale	31	—	—	416	(8,588)	—	(8,172)
At 31 March 2022		11,453	77,415	99,812	10,787	—	199,467
Charge for the year	5	226	2,307	10,539	2,184	—	15,256
Disposals		—	—	(20)	(44)	—	(64)
At 31 March 2023		11,679	79,722	110,331	12,927	—	214,659
Net book value							
At 31 March 2023		1,708	21,018	104,374	10,306	22,290	159,696
At 31 March 2022		1,934	23,325	98,749	8,779	22,114	154,901

After a comprehensive review of the fixed asset register, a restatement has been made against the prior period opening balances, in relation to assets which have been replaced or decommissioned. Both cost and accumulated amortisation have been reduced by £44,453k as at April 2021, and disposals and depreciation in the prior period, have been reduced by £28,248k. There has been no impact on reserves.

Notes to the financial statements for the year ended 31 March 2023

13 Right-of-use assets

	Land and buildings £'000	Exchange equipment £'000	External plant £'000	Vehicles, other apparatus and equipment £'000	Total £'000
Consolidated					
Carrying amount					
At 1 April 2021	10,546	13,004	37,541	686	61,777
Additions	—	—	2,071	1,096	3,167
Modifications	268	—	(49)	96	315
Disposals	(8,668)	(13,004)	(37,014)	(304)	(58,990)
At 31 March 2022	2,146	—	2,549	1,574	6,269
Additions	—	—	340	47	387
Modifications	6	—	12	141	159
Disposals	—	—	(634)	—	(634)
At 31 March 2023	2,152	—	2,267	1,762	6,181
Accumulated depreciation					
At 1 April 2021	5,006	5,122	14,191	429	24,748
Charge for the year	463	855	3,649	464	5,431
Disposals	(3,381)	(5,977)	(16,622)	(300)	(26,280)
At 31 March 2022	2,088	—	1,218	593	3,899
	18	—	715	410	1,143
Charge for the year	—	—	—	—	—
Disposals	—	—	(460)	—	(460)
At 31 March 2023	2,106	—	1,473	1,003	4,582
Net book value					
At 31 March 2023	46	—	794	759	1,599
At 31 March 2022	58	—	1,331	981	2,370

The group leases various offices, exchange sites, fibre lines and vehicles. Rental contracts are typically made for fixed periods but may have extension options or break clauses.

The right-of-use assets are included in the same line item as where the corresponding underlying assets would be presented if they were owned.

£Nil (2022: £20,219k) included in disposals is due to the Group entering into finance sub-lease arrangements on these leases and therefore derecognising the right-of-use assets.

In accordance with our accounting policy, short-term leases and low-value asset leases have not been recognised as right-of-use assets. The expense recognised in relation to these assets during the year for continuing operations is as follows:

	2023 £'000	2022 £'000
Consolidated		
Short-term leases	1,064	6,922
Low-value asset leases	—	435
Total	1,064	7,357

14 Investments

	Shares in associate £'000
Consolidated	
Cost	
At 1 April 2021	81
Share of net result for the year	—
At 31 March 2022	81
Dividends received from associate	(35)
Share of net result for the year	—
At 31 March 2023	46
Amounts written off	
31 March 2022 and 31 March 2023	—
Net book value	
At 31 March 2023	46
At 31 March 2022	81
At 31 March 2021	81

Notes to the financial statements for the year ended 31 March 2023

14 Investments (continued)

Shares in
subsidiary
undertakings
£'000

Parent Company	
Cost	
At 1 April 2021, 31 March 2022 and 31 March 2023	494,511
Amounts written off	
At 1 April 2021, 31 March 2022 and 31 March 2023	50
Net book value	
At 1 April 2021, 31 March 2022 and 31 March 2023	494,461

Subsidiary undertakings and associates (as at 31 March 2023)

Name of company	Place of business/ country of incorporation	Holding	Proportion held	Nature of business
KCH (Holdings) Limited	England and Wales ¹	Ordinary shares	100%	Intermediate holding company
Smart 421 Technology Group Limited*	England and Wales ¹	Ordinary shares	100%	Dormant holding company
Kingston Network Holdings Limited*	England and Wales ¹	Ordinary shares	100%	Placed into liquidation June 2022
Kingston Service Holdings Limited*	England and Wales ¹	Ordinary shares	100%	Dormant holding company
KCOM International Limited*	England and Wales ¹	Ordinary shares	100%	Dormant
KCOM (General Partner) Limited*	Scotland ²	Ordinary shares	100%	Intermediate holding company
KCOM Central Asset Reserve Limited Partnership*	Scotland ²	Ordinary shares	100%	Partnership
KCOM Contact Centres Limited*	England and Wales ¹	Ordinary shares	100%	Provision of call centre facilities
Kingston Communications (Data) Trustees Limited*	England and Wales ¹	Ordinary shares	100%	Dormant
Kingston Communications (Hull) Trustees Limited*	England and Wales ¹	Ordinary shares	100%	Dormant
Affiniti Integrated Solutions Limited*	England and Wales ¹	Ordinary shares	100%	Dormant
Kingston Information Services Limited*	England and Wales ¹	Ordinary shares	100%	Liquidated May 2023
KCOM Holdings Limited*	England and Wales ¹	Ordinary shares	100%	Design and delivery of communication and integration services
Eclipse Networking Limited*	England and Wales ¹	Ordinary shares	100%	Placed into liquidation June 2022
Eclipse Internet Limited*	England and Wales ¹	Ordinary shares	100%	Liquidated May 2023
Kingston Communications (Hull) Limited*	England and Wales ¹	Ordinary shares	100%	Liquidated May 2023
Omnetica Investment Limited*	England and Wales ¹	Ordinary shares	100%	Dormant holding company
Omnetica Inc*	USA ³	Ordinary shares	100%	Dormant
Smart421 Limited*	England and Wales ¹	Ordinary shares	100%	Placed into liquidation June 2022
Smart421 Solutions Inc*	USA ⁴	Ordinary shares	100%	Dormant
Smartintegrator Technology Limited*	England and Wales ¹	Ordinary shares	50%	Placed into liquidation June 2022

* Indicates indirect shareholding.

1. 37 Carr Lane, Hull HU1 3RE.

2. 50 Lothian Road, Festival Square, Edinburgh EH3 9WJ.

3. 200 Knickerbocker Avenue, Bohemia, New York, 11716, USA.

4. 9 East Loockerman Street, Dover, Delaware, 19901, USA.

The Directors believe the values of the investments are supported by the higher of value in use and fair value less costs to sell. Both of these valuation methodologies have been considered in the year when assessing the carrying value of investments for potential impairment.

Associates

The Group's associate is Smartintegrator Technology Limited, in which the Company indirectly holds 50% of the ordinary shares. Under an agreement between the shareholders of Smartintegrator Technology Limited, neither the Group nor the shareholders are able to exercise control over the operational and financial policies of Smartintegrator Technology Limited. The associate is registered in England and its main business activity is software development. On 8 June 2022, Smartintegrator Technology Limited, was placed into liquidation.

15 Contract costs

Consolidated	2023 £'000	2022 £'000
Contract costs current	398	—
Consolidated	2023 £'000	2022 £'000
Contract costs non-current	264	492

In the current financial year, capitalised contract costs of £394k (2022: £335k) relating to continuing operations were amortised and included in operating expenses.

Notes to the financial statements for the year ended 31 March 2023

16 Inventories

	2023	2022
Consolidated	£'000	£'000
Raw materials and consumables	4,894	5,575
Equipment for resale	—	178
Total	4,894	5,753

There is no material difference between the carrying value and the replacement cost of inventories.

Write-downs of inventories due to slow moving items to net realisable value amounted to £70k (2022: £92k). These were recognised as an expense during the year and were included in 'operating expenses' in the consolidated income statement.

Inventories recognised as an expense during the year ended 31 March 2023 amounted to £171k (2022: £500k). These were included in operating expenses.

17 Contract assets

	2023	2022
Consolidated	£'000	£'000
Contract assets	1,696	1,412

Contract assets represent the right to consideration in exchange for goods or services that we have transferred to the customer.

18 Trade and other receivables

	2023	2022
Consolidated	£'000	£'000
Trade receivables (net)	6,922	5,321
Amounts due from related parties	760	540
Other receivables	3,186	11,068
Prepayments	4,123	4,741
Unbilled receivables (net)	811	709
Total	15,802	22,379

The majority of the Group's trade and other receivables are denominated in Sterling.

All of the Group's receivables are due within one year in both the year ended 31 March 2023 and the year ended 31 March 2022. An allowance has been made for estimated irrecoverable amounts from the sale of goods and services of £478k (2022: £675k). Note 28 provides further disclosures regarding the allowance for irrecoverable amounts and the credit risk of the Group's trade receivables.

19 Trade and other payables

	Consolidated		Parent Company	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Current				
Trade payables	8,924	10,103	—	—
Other taxes and social security costs	3,979	4,587	—	—
Other payables	260	2,120	—	—
Accruals	7,210	11,063	—	—
Total	20,373	27,873	—	—
Non-current				
Amounts due to subsidiary undertakings	—	—	545	545
Total	—	—	545	545

20 Contract liabilities

	2023	2022
Consolidated	£'000	£'000
Contract liabilities	6,424	8,443

During the year revenue of £5,206k (2022: £4,622k) has been recognised in relation to the contract liability at the beginning of the period which relates to continuing operations.

Included within contract liabilities is £1,079k (2022: £1,418k) relating to rentals received from the lease of IP addresses. These are classified as an operating lease from a lessor perspective. Rental income of £322k (2022: £226k) has been recognised by the Group in the year.

Notes to the financial statements for the year ended 31 March 2023

21 Loans from related parties

This section sets out an analysis of loans from related parties and the movements for each of the financial years presented.

Consolidated	2023 £'000	2022 £'000
Loans from related parties		
Beginning of year	151,664	160,029
Loans advanced	45,000	40,000
Interest charged	8,798	7,703
Loan repayment	(31,029)	(48,500)
Interest paid	(8,933)	(7,568)
End of year	165,500	151,664

On 26 October 2020, KCOM Holdco 3 Limited entered into an Intercompany Loan Agreement with KCH (Holdings) Limited to provide a loan of up to £165,000k on an uncommitted basis for a period of five years from the date of the first advance, attracting interest at a fixed rate of 5.5%. During the year £39,962k (2022: £56,068k) of combined principal and interest was repaid on the loan.

22 Net debt

This section sets out an analysis of net debt and the movements in net debt for each of the financial years presented.

Consolidated	Note	2023 £'000	2022 £'000
Cash and cash equivalents		14,089	9,551
Loan from related parties	21	(165,500)	(151,664)
Total net debt excluding lease liabilities		(151,411)	(142,113)
Lease liabilities (IFRS 16 definition)	23	(11,387)	(21,103)
Total net debt		(162,798)	(163,216)

Net debt has been presented before and after the impact of lease liabilities from the application of the leasing accounting standard, IFRS 16. This is to aid reconciliation to the KPIs disclosed in the Strategic report.

Consolidated	Other assets		Liabilities from financing activities			Total £'000
	Cash/bank overdraft £'000	Lease liabilities due within 1 year £'000	Lease liabilities due after 1 year £'000	Loans from related parties £'000		
Net debt at 1 April 2021	8,320	(11,682)	(26,517)	(160,029)	(189,908)	
Cash flows	1,231	10,179	—	16,068	27,478	
Other non-cash movements	—	(7,256)	14,173	(7,703)	(786)	
Net debt at 31 March 2022	9,551	(8,759)	(12,344)	(151,664)	(163,216)	
Cash flows	4,538	7,277	—	(5,038)	6,777	
Other non-cash movements	—	(3,180)	5,619	(8,798)	(6,359)	
Net debt at 31 March 2023	14,089	(4,662)	(6,725)	(165,500)	(162,798)	

23 Finance lease liability

Consolidated	2023 £'000	2022 £'000
Lease liabilities:		
Minimum lease payments:		
– within 12 months	4,932	9,120
– in 1 to 5 years	6,892	12,394
– after 5 years	49	357
	11,873	21,871
Future finance charges	(486)	(768)
Present value of finance lease liabilities	11,387	21,103
The present value of finance lease liabilities is as follows:		
– within 12 months	4,662	8,759
– in 1 to 5 years	6,676	12,344
– after 5 years	49	—
Total	11,387	21,103

An interest expense of £421k (2022: £605k) was recognised in the year in relation to lease liabilities.

The total cash outflow for leases during the year was £8,254k (2022: £19,724k) including £1,064k (2022: £7,356k) relating to short-term and low-value asset leases which have not been included in the finance lease liability.

Notes to the financial statements for the year ended 31 March 2023

24 Finance lease receivable

Consolidated	2023 £'000	2022 £'000
Finance lease receivables:		
Undiscounted lease payments to be received:		
– within 12 months	3,807	7,604
– in 1 to 5 years	5,793	10,523
– after 5 years	36	333
Total undiscounted lease receivable	9,636	18,460
Future finance income	(412)	(680)
Net investment in the lease	9,224	17,780
The present value of finance lease receivables is as follows:		
– within 12 months	3,578	7,290
– in 1 to 5 years	5,611	10,164
– after 5 years	35	326
Total	9,224	17,780

From the point of sale of the trade and the assets of the National ICT Business to Nasstar, the Group began to sub-lease a number of buildings, data centre space and leased lines to Nasstar and will continue to do so until the lease contracts legally novate or the properties leases are reassigned. These leases were previously recognised as part of right-of-use assets and the Group recognised a gain on derecognition of the right-of-use assets relating to these buildings and leased lines in the prior year. The gain in the prior year is presented in Note 5 within profit on disposal of leases.

Interest income of £353k (2022: £277k) was recognised in the year in relation to finance lease receivables.

After 31 March 2023, up to the date of signing disposals of £1,981k have occurred in relation to lease contracts novated to Nasstar. Interest income of £356k (2022: £295k) was recognised in the year in relation to finance lease receivables.

25 Provisions for other liabilities and charges

Consolidated	Dilapidations £'000	Onerous Contracts £'000	Total £'000
At 1 April 2022	3,297	688	3,985
Established in the year	102	(15)	87
Unused amounts reversed	—	—	—
Utilised in the year	(567)	(313)	(880)
At 31 March 2023	2,832	360	3,192
Total provisions for other liabilities and charges 2023			
Included in current liabilities	1,094	303	1,397
Included in non-current liabilities	1,738	57	1,795
At 31 March 2023	2,832	360	3,192
Total provisions for other liabilities and charges 2022			
Included in current liabilities	—	303	303
Included in non-current liabilities	3,297	385	3,682
At 31 March 2022	3,297	688	3,985

The dilapidations provision relates to the outflows which will be incurred when returning properties to their original condition at the end of the lease period.

Provision has been made for the estimated fair value of unavoidable incremental contract costs on unoccupied buildings. It is expected that these payments will arise over the next 2 years. This cost excludes the lease rental payments that are included as a lease liability under IFRS 16.

26 Deferred taxation assets and liabilities

Deferred tax assets/(liabilities) are attributable to the following:

Consolidated	Assets		Liabilities		Net	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Property, plant and equipment	—	—	(10,670)	(11,878)	(10,670)	(11,878)
Tax losses	5,208	4,150	—	—	5,208	4,150
Retirement benefit obligation	—	—	(1,093)	(8,857)	(1,093)	(8,857)
Asset-backed partnership	—	—	(3,649)	(4,026)	(3,649)	(4,026)
Total	5,208	4,150	(15,412)	(24,761)	(10,204)	(20,611)

Notes to the financial statements for the year ended 31 March 2023

26 Deferred taxation assets and liabilities (continued)

Movements in net deferred tax assets/(liabilities) are as follows:

Consolidated	Note	Property, plant and equipment £'000	Tax losses £'000	Other timing differences £'000	Retirement benefit obligation £'000	Intangible assets arising on acquisition £'000	Asset- backed partnerships £'000	Total £'000
At 1 April 2021		(6,862)	1,865	(10)	(4,506)	—	(3,368)	(12,881)
(Charged)/credited to the income statement	10	(4,780)	2,285	10	(3,349)	(3,205)	(658)	(9,697)
Charged directly to equity and other comprehensive income		—	—	—	(1,002)	—	—	(1,002)
Re-classified as assets held for sale	31	—	—	—	—	3,205	—	3,205
Re-classified as liabilities directly associated with assets held for sale	31	(236)	—	—	—	—	—	(236)
At 31 March 2022		(11,878)	4,150	—	(8,857)	—	(4,026)	(20,611)
(Charged)/credited to the income statement	10	1,208	1,058	—	(1,258)	—	377	1,385
Credited directly to equity and other comprehensive income		—	—	—	9,022	—	—	9,022
At 31 March 2023		(10,670)	5,208	—	(1,093)	—	(3,649)	(10,204)

There are no deferred tax assets in the Parent Company (2022: £Nil).

Management have confirmed that the deferred tax assets will be recoverable using the estimated future taxable income based on approved forecasts for the Group. The losses are expected to be utilised over the next 3 years.

The major components of the deferred taxation asset not recognised are as follows:

	Not recognised	
	2023 £'000	2022 £'000
Losses	380	380

Deferred tax assets of £3,757k (2022: £4,150k) have been recognised in those subsidiary companies in which there is sufficient available evidence that suitable taxable profits will arise against which these assets are expected to reverse. There are additional deferred tax assets of £380k (2022: £380k) which have not been recognised, as there is insufficient evidence as to the generation of suitable profits against which these assets can be offset. The utilisation of these assets would reduce the Group's tax charge in future periods. Deferred tax has been provided at the rate at which it is expected to unwind.

27 Share Capital

	2023 £'000	2022 £'000
Allotted, called up and fully paid		
520,222,530 (2022: 520,222,530) ordinary shares of 10 pence each	52,022	52,022

During the financial year, the Company did not purchase any of its own shares (2022: Nil).

Notes to the financial statements for the year ended 31 March 2023

28 Financial instruments and risk management

The Group's principal financial instruments during the year comprised loans from related parties, cash on short-term deposits, lease liabilities and forward foreign exchange contracts. The main purpose of these financial instruments is to finance the Group's operations and to minimise the impact of fluctuations in exchange rates on future cash flows. The Group has various other financial instruments such as short-term receivables and payables which arise directly from its operations.

The Group regularly reviews its exposure to interest, liquidity and foreign currency risk. Where appropriate the Group will take action, in accordance with a Board approved Treasury policy, to minimise the impact on the business of movements in interest rates and currency rates.

The Group only enters into derivative instruments with members of the banking group to ensure appropriate counterparty credit quality.

Liquidity risk

The Group keeps its short, medium and long-term funding requirements under constant review. Its policy is to have sufficient committed funds available to meet medium-term requirements, including the ability to fund planned capital expenditure.

On 29 September 2020 the direct parent company, KCOM Holdco 3 Limited, entered into an external loan agreement. The agreement comprises of four facilities totalling available funds of £475,000k with a maturity date of 28 September 2025. Certain statutory entities within the consolidated KCOM Group Limited financial statements act as guarantors for the loan facility.

As at 31 March 2023, the Group has £14,089k of available cash which is considered sufficient funding to meet its working capital requirements.

The net debt position of £163,216k at the beginning of the financial year including lease liabilities has decreased during the year to £162,798k. The Group experienced a cash inflow of £4,538k for the year (2022: £1,231k).

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Notional interest is included for the period from the year-end up to the contractual maturity date of the debt, calculated on the amount of debt drawn down at the year-end.

Consolidated	Less than one year £'000	One to three years £'000	Over three years £'000
At 31 March 2022			
Loans from related parties	—	—	151,664
Trade and other payables	23,291	—	—
Finance leases	9,120	12,394	357
Total	32,411	12,394	152,021
At 31 March 2023			
Loans from related parties	—	165,500	—
Trade and other payables	16,390	—	—
Lease liabilities	4,932	6,892	49
Total	21,322	172,392	49

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Rental contracts typically have a fixed term ranging from 12 months for assets such as fibres and cables up to 10 years for some network properties. Once the fixed term is complete, leases enter a rolling period which can be terminated by both parties upon giving notice of 12 months or less. Generally, there are no specific extension options included in the contracts.

Some property lease contracts include termination options which are exercisable by the Group either with or without an early termination penalty. At the lease commencement date, the Group assesses whether it is reasonably certain to exercise these options when determining the contract term and consequently the lease liabilities which arise. The lease term is reassessed if there is a significant event or change in circumstances which affected the previous assessment.

Notes to the financial statements for the year ended 31 March 2023

28 Financial instruments and risk management (continued)

Foreign currency risk

Cash flow exposure

The Group's only foreign currency risk arises due to the purchase of equipment in US Dollars. Given the values involved and therefore risk, we do not actively hedge this position.

The Group also has some Euro cash flows but these are not material.

Translation exposure

The Dollar-denominated purchases described above results in a balance sheet exposure for any outstanding creditors. It is the Group's policy not to hedge this exposure.

Market risk

The Group is exposed to market risk with respect to foreign currency fluctuations, as detailed above, and regarding the valuation of the pension assets. IAS 19 assumptions and sensitivity analysis are detailed in Note 30.

Credit risk

Risk management

Credit risk arises from cash and cash equivalents and derivative financial instruments, as well as credit exposures to business and retail customers.

Credit ratings of institutions which hold the Group's financial assets are regularly monitored to ensure they meet the minimum credit criteria set by the Board through the Group Treasury policy.

The credit quality of customers is assessed by taking into account their financial position, past experience and other factors. Individual risk limits are set and the utilisation of credit limits is monitored regularly.

The Group's exposure to credit risk is spread over a large number of customers.

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

Impairment of financial assets

The group has three types of financial assets which are trade receivables, unbilled receivables and contract assets that are subject to the expected credit loss model:

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables, unbilled receivables and contract assets.

Receivables and contract assets have been grouped based on shared credit risk characteristics and days past due. A provision rate matrix derived from historical information has been applied to estimate the expected credit losses. The unbilled receivables and contract assets relating to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the unbilled receivables and contract assets.

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the group's past history and existing market conditions, as well as forward-looking estimates at the end of each reporting period. Details of the key assumptions and inputs are disclosed in the subsequent tables.

A default on a financial asset is when the counterparty fails to make contractual payments within 180 days of when they fall due.

Notes to the financial statements for the year ended 31 March 2023

28 Financial instruments and risk management (continued)

Credit risk (continued)

On that basis, the loss allowance as at 31 March 2023 and 31 March 2022 was determined as follows for both trade receivables and contract assets:

At 31 March 2023	Days past due					Total
	Current	1-30	31-60	61-120	120+	
Weighted average expected loss rate	0.9%	1.4%	4.9%	27.1%	48.9%	5.1%
Gross carrying amount of trade receivables	2,732	3,582	428	271	633	7,646
Gross carrying amount of unbilled receivables	558	—	—	—	—	558
Gross carrying amount of contract assets	1,706	—	—	—	—	1,706
Loss allowance	(48)	(52)	(22)	(73)	(309)	(504)

At 31 March 2022	Days past due					Total
	Current	1-30	31-60	61-120	120+	
Weighted average expected loss rate	0.6%	8.0%	3.5%	3.5%	(3.9%)	12.5%
Gross carrying amount of trade receivables	6,354	995	1,655	4,119	(9,659)	3,464
Gross carrying amount of unbilled receivables	729	—	—	—	—	729
Gross carrying amount of contract assets	1,422	—	—	—	—	1,422
Loss allowance	(48)	(80)	(59)	(143)	(374)	(704)

Movements in the Group's provision for impairment of receivables and contract assets is as follows:

Consolidated	Trade receivables £'000	Unbilled receivables £'000	Contract assets £'000	Total £'000
At 1 April 2022	(675)	(20)	(9)	(704)
Written off in the year	(200)	—	—	(200)
Amounts released in the year	397	4	(1)	400
At 31 March 2023	(478)	(16)	(10)	(504)

Currency and interest rate risk profile of financial assets and financial liabilities

Financial assets

The Group had financial assets of £28,705k at the year-end (2022: £28,601k), of which £14,089k (2022: £9,551k) comprised cash on overnight money market deposits and cash at bank. This attracts floating rates of interest.

The currency profile of the Group's cash and cash equivalents at 31 March 2023 and 31 March 2022 was:

Consolidated	2023 £'000	2022 £'000
Currency		
Sterling	13,493	9,430
US Dollar	562	12
Euro	34	109
Total	14,089	9,551

Foreign currency cash balances are held on a short-term basis to fund cash flow requirements in these currencies. All trade receivable balances bear no interest and are held in Sterling.

At the year-end £1,300k (2022: £1,300k) of cash collateral was held in respect of a bank guarantee given under Ofcom's "Funds for Liabilities" regulations. The £1,300k guarantee is included within the above table is classified as 'restricted cash' and is not available for general use.

Financial liabilities

The currency and interest rate risk profile of KCOM Group's financial borrowings at 31 March 2023 and 31 March 2022 was:

Consolidated	2023 Fixed £'000	2022 Fixed £'000
Sterling	165,500	151,664

There was no undrawn committed borrowing facilities at the year-end.

Interest on amounts owed to related parties is based on a fixed rate of 5.5%. All trade payable balances bear no interest and are held in Sterling with the exception of an equivalent of £0.5 million (2022: £0.4 million) which is held in US Dollars.

Notes to the financial statements for the year ended 31 March 2023

28 Financial instruments and risk management (continued)

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, support the growth of the business and maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Group monitors capital on the basis of its gearing ratio. This ratio is calculated as net debt divided by total capital. For the definition and reconciliation of net debt to the closest equivalent IFRS measure see the definitions on page 59.

All of the Group's financial instruments are measured by inputs other than quoted prices.

Total capital is shown in the table below and is calculated as "equity" as shown in the consolidated balance sheet plus net debt.

Consolidated	2023 £'000	2022 £'000
Net debt	162,798	163,216
Total equity	35,284	54,988
Total capital	198,082	218,204

On 29 September 2020 the direct Parent Company, KCOM Holdco 3 Limited, entered into a new external loan agreement, for which certain statutory entities within the consolidated KCOM Group Limited financial statements act as guarantors. Consequently, the Group is required to comply bi-annually with certain financial covenants, namely maintaining a minimum interest cover ratio and a maximum leverage ratio. Both financial covenants were tested and complied with during the year.

29 Financial commitments

Authorised future capital expenditure and financial investment for continuing operations in the years ended 31 March 2023 and 31 March 2022 amounted to:

Consolidated	2023 £'000	2022 £'000
Property, plant and equipment	2,804	8,362
Intangible assets	924	801
Total	3,728	9,163

30 Retirement benefit asset – Consolidated

Defined benefit schemes

The Group operates two defined benefit schemes, the Kingston Communications Pension Scheme ('Main scheme') and the Kingston Communications (Data) Pension Scheme ('Data scheme'). Both schemes are closed to both new members and future benefit accrual.

The defined benefit schemes are operated in the UK under the same regulatory frameworks. Both schemes are final salary pension schemes which provide benefits to members in the form of a guaranteed level of pension payable for life at retirement. The level of benefits provided depends on the members' length of service and their final pensionable salary at the date they left the scheme.

In both cases, the schemes are funded and the assets of the schemes are held separately from the assets of the Group in Trustee administered funds.

All of the benefit payments are made from these Trustee-administered funds. Scheme assets held in trusts are governed by local regulations and practice, as is the nature of the relationship between the Group and the Trustees (or equivalent) and their composition. The schemes are also offered additional security and funded, in part, via asset-backed partnerships. Details on this can be found below.

Responsibility for governance of the schemes lies with the Trustees. The Trustees must be composed of representatives of the Group and scheme participants in accordance with each scheme's individual Rules.

Notes to the financial statements for the year ended 31 March 2023

30 Retirement benefit asset – Consolidated (continued)

The pension schemes are subject to a full actuarial valuation every three years using assumptions agreed between the Trustees and the Group. The purpose of this valuation is to design funding plans to ensure that the pension schemes have sufficient funds available to meet future benefit payments. The company's funding policy is to ensure assets are always sufficient to cover accrued service liabilities. There are no employer contributions scheduled for the future for both schemes. The Scheme's liabilities continue for (approximately 13 years for the Main Scheme and 14 years for the Data Scheme).

The information disclosed below is based on the preliminary results of the latest formal actuarial valuation of the plans, which was undertaken as at 1 April 2022. This has been updated to 31 March 2023 by an independent qualified actuary, using assumptions that are consistent with the requirements of IAS19.

From the preliminary results of the pension valuation changes in mortality of members and commutation factors have resulted in an actuarial gain of £7.4 million recognised within other comprehensive income in the year.

Surplus positions of £6.3 million on the Main scheme and £1.2 million on the data scheme have been recognised. This is recognised on the basis that, in line with the scheme rules, any excess funds are recoverable upon winding up of the scheme. This is consistent for both the schemes and supports the application that there are no additional liabilities from minimum funding requirements under IFRIC 14.

There is no employer contributions scheduled for the future for both schemes. The schemes' liabilities continue for (approximately 13 years for the Main Scheme and 14 years for the Data Scheme).

	Main scheme			Data scheme			Combined schemes		
	Present value of obligation £'000	Fair value of plan assets £'000	Total £'000	Present value of obligation £'000	Fair value of plan assets £'000	Total £'000	Present value of obligation £'000	Fair value of plan assets £'000	Total £'000
Consolidated									
At 1 April 2021	220,166	(247,477)	(27,311)	41,361	(46,564)	(5,203)	261,527	(294,041)	(32,514)
Administrative expenses	—	710	710	—	292	292	—	1,002	1,002
Interest expense/(income)	4,203	(4,755)	(552)	796	(898)	(102)	4,999	(5,653)	(654)
Total amount recognised in profit or loss	4,203	(4,045)	158	796	(606)	190	4,999	(4,651)	348
<i>Remeasurements:</i>									
Loss on plan assets, excluding amounts included in interest	—	351	351	—	1,865	1,865	—	2,216	2,216
Gains from change in financial assumptions (Gains)/losses arising from changes in demographic assumptions	(4,343)	—	(4,343)	(3,056)	—	(3,056)	(7,399)	—	(7,399)
	(325)	—	(325)	233	—	233	(92)	—	(92)
Total amount recognised in other comprehensive income	(4,668)	351	(4,317)	(2,823)	1,865	(958)	(7,491)	2,216	(5,275)
<i>Employer contributions:</i>									
Contributions via asset-backed partnership	—	(2,729)	(2,729)	—	(373)	(373)	—	(3,102)	(3,102)
Benefit payments	(8,739)	8,739	—	(1,117)	1,117	—	(9,856)	9,856	—
At 31 March 2022	210,962	(245,161)	(34,199)	38,217	(44,561)	(6,344)	249,179	(289,722)	(40,543)

Notes to the financial statements for the year ended 31 March 2023

30 Retirement benefit asset – Consolidated (continued)

Consolidated	Main scheme			Data scheme			Combined schemes		
	Present value of obligation £'000	Fair value of plan assets £'000	Total £'000	Present value of obligation £'000	Fair value of plan assets £'000	Total £'000	Present value of obligation £'000	Fair value of plan assets £'000	Total £'000
At 1 April 2022	210,962	(245,161)	(34,199)	38,217	(44,561)	(6,344)	249,179	(289,722)	(40,543)
Administrative expenses	—	637	637	—	341	341	—	978	978
Interest expense/(income)	5,470	(6,400)	(930)	971	(1,139)	(168)	6,441	(7,539)	(1,098)
Total amount recognised in profit or loss	5,470	(5,763)	(293)	971	(798)	173	6,441	(6,561)	(120)
<i>Remeasurements:</i>									
Loss on plan assets, excluding amounts included in interest	—	68,798	68,798	—	14,393	14,393	—	83,191	83,191
Gains from change in financial assumptions	(31,715)	—	(31,715)	(7,479)	—	(7,479)	(39,194)	—	(39,194)
Gains arising from changes in demographic assumptions	(6,317)	—	(6,317)	(1,594)	—	(1,594)	(7,911)	—	(7,911)
Total amount recognised in other comprehensive expense	(38,032)	68,798	30,766	(9,073)	14,393	5,320	(47,105)	83,191	36,086
<i>Employer contributions:</i>									
Contributions via asset-backed partnership	—	(2,590)	(2,590)	—	(355)	(355)	—	(2,945)	(2,945)
Benefit payments	(9,339)	9,339	—	(2,950)	2,950	—	(12,289)	12,289	—
At 31 March 2023	169,061	(175,377)	(6,316)	27,165	(28,371)	(1,206)	196,226	(203,748)	(7,522)

Significant estimates: IAS 19 assumptions and sensitivity

The significant IAS 19 assumptions were as follows:

	2023		2022	
	Main scheme	Data scheme	Main scheme	Data scheme
RPI inflation	3.30%	3.30%	3.75%	3.75%
CPI inflation	2.85%	2.85%	3.25%	3.25%
Rate of increase to pensions in payment	2.73%	3.88%	3.00%	3.93%
Discount rate for scheme liabilities	4.75%	4.75%	2.65%	2.65%

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics.

The assumptions translate into an average life expectancy in years for a pensioner retiring at age 65 as follows:

	2023		2022	
	Main scheme	Data scheme	Main scheme	Data scheme
Retiring at the end of the reporting year:				
Male	21	22	22	23
Female	23	24	23	25
Retiring 20 years after the end of the reporting year:				
Male	23	24	23	23
Female	25	26	25	26

The sensitivity of the defined benefit obligation to changes in the significant weighted principal assumptions is:

	Increase in assumption				Decrease in assumption			
	2023		2022		2023		2022	
	Main scheme £'000	Data scheme £'000	Main scheme £'000	Data scheme £'000	Main scheme £'000	Data scheme £'000	Main scheme £'000	Data scheme £'000
Sensitivity to 1% change to:								
Discount rate	(10.6%)	(11.4%)	(1.5%)	(1.5%)	12.8%	13.9%	1.5%	1.5%
RPI Inflation	10.3%	3.5%	1.4%	0.6%	(8.3%)	(3.1%)	(1.3%)	(0.4%)
Sensitivity to 1 year change in life expectancy	(3.1%)	(3.3%)	(3.9%)	(4.0%)	3.0%	3.3%	3.9%	4.0%

Notes to the financial statements for the year ended 31 March 2023

30 Retirement benefit asset – Consolidated (continued)

The above sensitivity analyses are based on a change in a single assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and the changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting year) has been applied as when calculating the defined benefit liability recognised on the balance sheet.

The methods used to determine the liabilities and types of assumptions used in preparing the disclosed results and sensitivity analysis has not changed compared to the prior year.

Balance sheet amounts

The major categories of plan assets are as follows:

Consolidated	2023				2022			
	Main scheme £'000	Data scheme £'000	Total £'000	%	Main scheme £'000	Data scheme £'000	Total £'000	%
Leveraged gilts (unquoted)	487	5,054	5,541	3%	—	—	—	0%
Leveraged gilts (quoted)	—	—	—	0%	—	4,509	4,509	2%
Gilts (quoted)	3,568	—	3,568	2%	—	—	—	0%
Indexed linked gilts (quoted)	27,118	—	27,118	13%	—	—	—	0%
Leveraged index linked gilts (unquoted)	—	4,107	4,107	2%	—	—	—	0%
Leveraged index linked gilts (quoted)	—	—	—	0%	37,370	3,203	40,573	14%
Interest rate swaps (unquoted)	163	—	163	0%	—	—	—	0%
Inflation swap fund (unquoted)	3,731	896	4,627	2%	—	—	—	0%
Inflation swap fund (quoted)	—	—	—	0%	11,629	804	12,433	4%
Liability matching funds (unquoted)	35,067	10,057	45,124	22%	48,999	8,516	57,515	20%
Diversified growth fund (unquoted)	—	—	—	0%	—	3,618	3,618	1%
Hedge funds (unquoted)	109,777	16,360	126,137	62%	17,112	—	17,112	6%
Hedge funds (quoted)	—	—	—	0%	164,807	29,311	194,118	67%
Illiquid credit (unquoted)	14,798	—	14,798	7%	—	—	—	0%
Cash and cash equivalents (unquoted)	—	—	—	0%	6,936	803	7,739	3%
Cash and cash equivalents (quoted)	15,735	1,954	17,689	9%	7,307	2,313	9,620	3%
Total	175,377	28,371	203,748	100%	245,161	44,561	289,722	100%

Liability Matching Funds

Part of the investment objective of the Schemes is to minimise fluctuations in the Schemes' funding levels due to relative changes in the value of the Schemes' assets and liabilities. This is primarily achieved through "liability matching funds", whose main goal is to align movements in the value of assets with movements in the schemes' liabilities arising from changes in market conditions. The schemes have hedging that covers a proportion of the interest rate movements and inflation movements, as measured on the Trustees' funding assumptions which use a discount rate derived from gilt yields.

Liability matching funds primarily involve the use of government and corporate bonds. Derivatives such as interest rate and inflation swaps may also be used. There are no annuities or longevity swaps currently held by the Schemes.

The value of the liability matching fund assets are determined based on the latest market bid price for the underlying investments, which are traded daily/weekly on liquid markets.

Diversified Growth Funds

The schemes employ diversified growth funds to reduce volatility in the Schemes' asset values (compared to traditional equity investments), whilst maintaining an appropriate level of return. These funds typically invest in a range of public and private market assets, including equities, bonds, commodities, property and other assets.

Unquoted securities, consisting of pooled investment vehicles, are stated at fair value at year-end as provided by the investment managers. Pooled investment vehicles are stated at bid price for funds with bid/offer spreads, or single price where there are no bid/offer spreads.

Future benefit payments

KCH (Holdings) Limited, a wholly owned subsidiary of the Parent Company, is responsible for all obligations and liabilities of the schemes. An equivalent liability has been provided in the financial statements of KCH (Holdings) Limited.

The Parent Company provides a guarantee to both defined benefit schemes, whereby if KCH (Holdings) Limited is unable to meet its obligations to the schemes, such obligations would be met by the Parent Company. No liability has been recognised in respect of the guarantee at **31 March 2023 (2022: £Nil)**.

Defined contribution schemes

The Group operates defined contribution schemes, which are open to all eligible employees. Contributions charged to the income statement in respect of defined contribution schemes amounted to £1,842k (2022: £1,901k).

Notes to the financial statements for the year ended 31 March 2023

31 Discontinued operations and assets

On 25 March 2021 the Group committed to a plan to sell a significant proportion of the National Business after a period of strategic review following the acquisition of the Group by KCOM Holdco 3 Limited on 1 August 2019. The associated assets and liabilities were consequently presented as held for sale in the year ended 31 March 2021 and the National Business segment was classified as a discontinued operation.

On 31 March 2021, the Group finalised the sale of the National Business consumer base for £1,192k. On the 31 July 2021 KCOM Group Limited completed the sale of the trade and net assets of the National ICT business (predominantly the previously disclosed National Business segment) to GCI Network Solutions Limited (Nasstar) for consideration of £31,466k. The consideration was comprised of £29,466k upfront cash and £2,000k of deferred consideration payable 12 months after the completion date. Financial information relating to the discontinued operation for the period to the date of disposal is set out below.

Financial performance

The financial performance attributable to the discontinued operations for the four months ended 31 July 2021 (2022 column) and the year ended 31 March 2022 are as follows:

	2022 £'000
Revenue	44,658
Operating expenses	(39,944)
Operating profit	4,714
Finance costs	—
Profit before taxation from discontinued operations	4,714
Taxation	(1,240)
Profit for the year from discontinued operations	3,474
Gain on sale of discontinued operations	6,637
Profit for the year from discontinued operations	10,111

Cash flow information

	2022 £'000
Net cash generated from operating activities	513
Net cash generated from investing activities	22,930
Net increase in cash generated by discontinued operations	23,443

Sale of National Business trade and net assets

	2022 £'000
Consideration receivable	22,340
Deferred consideration	2,000
Carrying amount of net assets sold	(15,520)
Gain on sale before taxation	8,820
Taxation	(2,183)
Gain on sale after taxation	6,637

The carrying amount of the assets and liabilities in relation to the discontinued operations of the National Business at the date of disposal (31 July 2021) were:

	31 July 2021 £'000
Assets classified as held for sale	
Other intangible assets	3,407
Property, plant and equipment	11,437
Contract costs	1,791
Inventories	117
Trade and other receivables	24,511
Contract costs	1,422
Total assets of disposal group held for sale	42,685
Liabilities directly associated with assets held for sale	
Trade and other payables	13,544
Contract liabilities	10,201
Provisions for other liabilities and charges	3,080
Deferred tax liabilities	340
Total liabilities of disposal group held for sale	27,165
Carrying amount of net assets sold	15,520

Notes to the financial statements for the year ended 31 March 2023

32 Cash flow information

Reconciliation of operating profit:

<u>Consolidated</u>	Note	2023 £'000	2022 £'000
Operating profit from:			
Continuing operations		13,361	7,125
Discontinued operations		—	4,714
		13,361	11,839
Gain on sale of National Business trade and net assets before taxation	31	—	8,820
Operating profit		13,361	20,659

33 Other commitments and contingent liabilities

Contingent liabilities existed at 31 March 2023 and at 31 March 2022 in respect of guarantees given by the Parent Company on behalf of subsidiary undertakings. None of these guarantees are considered material in the context of the net assets of the Group.

On 29 September 2020 the direct Parent Company, KCOM Holdco 3 Limited, entered into a new loan agreement. Certain statutory entities within the consolidated KCOM Group Limited financial statements act as guarantors for the loan facility.

The agreement is comprised of four facilities totalling total available funds of £475,000k with a maturity date on 28 September 2025.

At 31 March 2023, a combined amount of £390,000k was drawn down under the agreement, with the remaining being available to draw down upon request over the duration of the loans.

The company has contingent liabilities in respect of payments under minimum usage agreements of £3,120k, and has provided guarantees to properties leased by third parties to landlords of £1,846k.

34 Related party transactions

Remuneration of key management personnel

The total remuneration for key management personnel for the year totalled £1,640k (2022: £2,879k).

Key management personnel are those considered to exercise authority and responsibility for planning, directing and controlling the activities of the Group. Members of the Executive leadership team assist the Directors in their duties but do not hold authority to control the activities of the Group. Therefore, key management personnel are considered to be the Executive Board Directors and the Chief Financial Officer. See Note 8 for disclosure of the directors' remuneration.

Intra-Group transactions

Amounts payable by the Company to subsidiaries totalled £545k as at 31 March 2023 (2022: £545k).

Amounts receivable from KCOM Holdco 1 Limited (the ultimate UK parent company), KCOM Holdco 2 Limited and KCOM Holdco 3 Limited (the immediate parent undertaking) totalled £760k (2022: £540k). See Note 18 for further details.

Amounts payable by the Group to KCOM Holdco 3 Limited, the immediate parent undertaking as at 31 March 2023 totalled £165,500k (2022: £151,664k). See Note 21 for further details.

Associates

There were no related party transactions with associates during the year ended 31 March 2023.

35 Ultimate controlling party

The immediate parent undertaking is KCOM Holdco 3 Limited.

The ultimate UK parent company is KCOM Holdco 1 Limited, a wholly owned indirect subsidiary of Macquarie European Infrastructure Fund 6 SCSp (an investment fund managed by Macquarie Infrastructure and Real Assets (Europe) Limited), registered in Luxembourg). KCOM Holdco 1 Limited is the largest group to consolidate these financial statements in the UK. Copies of KCOM Holdco 1 Limited financial statements can be obtained from 37 Carr Lane, Hull, HU1 3RE.

The ultimate parent and controlling party is Macquarie European Infrastructure Fund 6 SCSp.

Notes to the financial statements for the year ended 31 March 2023

36 Prior Year Restatement – Cash Flows

Following a review of the classification of line items in the consolidated cash flow statement, the company identified errors in the comparative figures that have been corrected in these financial statements for the following reasons:

1. Amounts of £277,000 for lease interest received and £5,496,000 in relation to the capital element of lease receivables have been reclassified from cash flows from financing activities to cash flows from investing activities to accurately reflect the substance of the cash flows.
2. The company has also taken the opportunity to i) present the movements in working capital separately for each component of working capital within cash flows from operating activities (which had previously been presented as a net movement) and ii) present interest paid on right of use assets separately from other interest paid within cash flows from financing activities.

The above restatements had no impact on the closing cash position at 31 March 2022.

Glossary – Unaudited

Alternative Performance Measures (“APMs”)

The Directors use the APMs listed below as they are critical to understanding the financial performance of the Group. As they are not defined by IFRS, they may not be directly comparable with other companies who use similar measures.

Measure	Closest equivalent IFRS measure	Definition and purpose	Reconciliation to closest equivalent IFRS measure
Profit/(loss) measures			
EBITDA before exceptional items ('EBITDA')	Profit/(loss) before tax	<p>EBITDA before exceptional items is the key measure used by management to monitor the underlying performance of the Group. EBITDA before exceptional items is also reported to the Board, is incorporated in banking covenants and is an important measure for setting remuneration. EBITDA before exceptional items is important to the users of the financial statements as it assists with comparing performance from previous periods. The items classified as exceptional items are described in Note 7.</p> <p>EBITDA before exceptional items is defined as “profit/(loss) before tax” before share of profit before associates, finance costs, amortisation, depreciation and exceptional items.</p>	<p>Profit before tax as quoted in the consolidated income statement (£5,629k), add back finance income and finance costs (net £7,732k cost) as quoted on the consolidated income statement, add back depreciation and amortisation (£23,594k) and depreciation of ROU assets (£1,143k) as quoted on the consolidated cash flow statement, add back exceptional charge (£Nil) as quoted in Note 7.</p>
Cash flows and net debt measures			
Net debt before leases	Cash and cash equivalents, bank overdrafts, bank loans and loans from related parties	<p>Net debt before leases is important as it allows management to assess available funds by calculating how much headroom there is within the Group's borrowing facilities. It is used in the monitoring, reporting and planning of cash flows.</p> <p>Net debt before leases is cash and cash equivalents, bank overdrafts, bank loans and loans from related parties. It excludes the impact of lease liabilities.</p>	<p>A reconciliation of this measure is provided in Note 22 of the financial statements.</p>
Cash capital expenditure	Net cash used in investing activities	<p>A proportion of our capital expenditure is obtained under financing arrangements therefore, compared to capital additions, this measure allows management to monitor, report and plan the cash flows relating to capital projects. This measure is important to the users of the financial statements as it provides the outflow of cash expenditure in the current year relating to assets purchased in the current and prior years.</p> <p>Cash capital expenditure is net cash used in investing activities before proceeds from sale of property, plant and equipment plus capital element of finance lease repayments.</p>	<p>Reported in the consolidated cash flow statement: Net cash used in investing activities (£24,034k), add back proceeds from sale of property, plant and equipment (£Nil) and proceeds from sale of national business trade and net assets (£2,423k).</p>