

KCOM Group Limited
Annual report and accounts
for the year ended 31 March 2021

Company number

2150618

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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
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Strategic report – Our business at a glance

Our business at a glance

KCOM is a leading provider of communications and IT services to consumers and businesses across Hull, East Yorkshire and the surrounding areas. We believe all our customers should have access to ultrafast broadband, which is why we provide fibre to the premise (FTTP) as our standard offering. This gives our customers a faster and more reliable service so they can enjoy all the things they love online.

FTTP runs fibre from the exchange direct to the premise. This removes all copper from the broadband service which reduces contention 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.

KCOM is proudly a Yorkshire-rooted business and one of the UK's longest-established communications companies. We have been connecting customers since 1904 and staying at the forefront of technology and communications in the decades since then. We are part of the community and passionate about being where our customers are – through our charity work in the area, and by employing our customer services and engineering teams locally.

Since August 2019, we have been owned by Macquarie Asset Management via the long-term infrastructure fund Macquarie European Infrastructure Fund 6 (“MEIF 6”). Macquarie Asset Management is the world's largest infrastructure manager, partnering with clients, governments and communities to finance, manage and develop roads, airports, ports, utilities, energy and telecommunications infrastructure.

Our principal activities are providing internet, voice and network infrastructure services to both wholesale and retail customers across Hull, East Yorkshire and North Lincolnshire.

Our principal activities previously involved providing national connectivity services and technology solutions to UK-based private and public sector organisations through KCOM's National Business. However, following Macquarie Asset Management's acquisition, we conducted an in-depth review of the services provided by the National Business and its fit with our long-term strategy. The conclusion of the review was that it was better suited to an owner that is fully focused on the enterprise communications services market.

As a result, we sold this business unit on 31 July 2021 to GCI Network Solutions Limited (“Nasstar”). This divestment will allow us to focus on our core strategy as a regional provider of full fibre broadband and to grow our presence in both our retail and wholesale markets. In the financial statements we have classified the trade as discontinued and the directly associated assets and liabilities as held for sale. Further information is available in the basis of preparation on page 49.

Read more – Our Strategy on pages 12 and 13

Strategic report – Chairman’s statement

Chairman’s statement

During the first full year of Macquarie Asset Management’s ownership, the KCOM Board and Executive Leadership Team have continued to focus on delivering transformation initiatives to create firm foundations for the company’s long-term growth and success.

Leadership changes

KCOM continued to strengthen its Executive Leadership Team over the past 12 months through the following appointments:

- Denise Chong was appointed as Chief People Officer, with responsibility for leading an expanded and restructured People function that also incorporates wellbeing, health and safety; diversity and inclusion; communications; estates management and corporate social responsibility;
- John Rooney was appointed as Managing Director of KCOM’s Retail operations. John’s experience leading the consumer division of mobile operator Three will be invaluable in the next stage of development of our retail arm as we seek to acquire customers in new markets opened up by our full fibre expansion;
- Lindsay Rodgers was appointed as KCOM’s Head of Digital. Lindsay was previously KCOM’s Head of Systems. In her new role Lindsay has coordinated a new focus on digital enablement across the business, setting digital strategy and priorities and overseeing major projects that will underpin growth; and
- Tim Shaw was appointed as Managing Director of KCOM’s newly-formed Wholesale and Networks business area. Previously KCOM’s Chief Technology Officer, Tim’s new role and other senior appointments in his team reflect the importance of the wholesale connectivity market to our overall strategy.

Strategic focus

With a strengthened Executive Leadership Team in place, we have made substantial headway in implementing our strategic priorities, including expanding KCOM’s full fibre network beyond our traditional footprint of Hull, East Yorkshire and the surrounding areas. By year-end, the network had passed almost 26,000 additional homes, providing greater customer choice in previously under-served markets and job creation in these areas. I am pleased to share the network build, which has been enabled through bank financing secured during the year, remains on schedule.

In preparation for taking full advantage of our network investment we have continued to build our wholesale capabilities, developing new products and introducing new systems that improve customer experience and allow us to scale up marketing and sales activities. We also achieved progress in our existing retail market, acquiring a record number of (net) new customers during the year. This was accompanied by significant copper-to-fibre migration, highlighting the demand for reliable and fast broadband with increased working, learning and playing from home.

Focusing on our core services

Another key strategic priority for the business over the past year has been reviewing KCOM’s National Business segment, which focuses on B2B connectivity and cloud services. Following an in-depth strategic review, the Executive Leadership Team concluded this part of the business was better suited to an owner fully focused on the enterprise communications services market. Shortly after the year-end, we entered discussions on the sale of KCOM’s National business, comprising its assets, people and customer and supply contracts, to managed services specialist Nasstar.

This transaction was a major milestone for the business and involved a considerable amount of effort across the Executive Leadership Team, the Board and our advisors. The sale will allow us to focus on our core strategy as a regional provider of full fibre broadband to wholesale and retail markets. Realigning our business following the sale of the National Business will be a key priority for us over the next two years.

Covid-19

While several changes have been taking place within our organisation, the Covid-19 pandemic has also continued to have a widespread effect on our business, our people and the communities we serve. Businesses and consumers alike have relied more than ever before on the services we provide, and we are proud to have kept them connected throughout the pandemic. KCOM’s employees have continued to show great commitment to keeping colleagues, customers and the wider community connected and safe.

I am pleased to report that we were able to find alternative duties for employees with roles that were affected by lockdown restrictions, meaning no employees were furloughed during the pandemic.

Strategic report – Chairman’s statement

The Board and Executive Leadership Team has remained focused on the health and safety of employees, where KCOM has taken a rigorous approach to implementing Covid-secure working practices, as well as providing extensive support with managing and enhancing employee wellbeing. This focus will continue over the months ahead as KCOM transitions to a new way of working that provides greater flexibility and opportunity for employees, while meeting the changing needs of our customers.

Wellbeing, health and safety

To support the management and Board’s focus on this critical area, we have welcomed the creation of a new, Group-wide leadership role and the introduction of initiatives to improve our wellbeing, health and safety culture. A Wellbeing, Health and Safety Steering Committee has been established with representation from across the company, specific wellbeing topics are promoted each month, and safety tours are conducted by members of the Executive Leadership Team regularly.

We have also continued to place a strong emphasis on identifying and managing cyber risks and ensuring data protection. Over the past 12 months, KCOM has invested in technology to improve vulnerability management and security event management, and established a Data Protection Steering Committee to coordinate management of sensitive data across the company.

To highlight the importance of risk management, employee participation in KCOM’s annual bonus scheme is conditional on their completion of annual training on wellbeing, health and safety, cyber security and data protection.

Environmental, social and governance

During the year, KCOM participated in the GRESB Global ESG Benchmark for Real Assets where we were pleased to outperform both our peer group and the global GRESB average with a score of 70. KCOM’s 2020 GRESB score is reflective of our continued efforts to reduce our environmental footprint, including through the introduction of electric vans and cars to our fleet. Macquarie Asset Management has commitment to reaching net zero greenhouse gas emissions across its portfolio by 2040, where KCOM’s decarbonisation efforts will play an important role.

As an organisation we have continued to leverage our ability to make positive change in the community. KCOM has a history of active involvement in its local communities which I was pleased to see continue throughout the year, including through a new community partnership with Hull City Football Club which promotes programming skills and internet safety awareness. KCOM also played a supportive role during Covid-19, offering its vans to deliver food and medical supplies to the vulnerable in addition to lifting data caps for these customers.

Market review by Ofcom

Ofcom has recently published the conclusions of the Hull Area Wholesale Fixed Telecoms Market Review (WFTMR) 2021-26. This is a periodic market assessment, considering the state of competition in the defined geographic region of Hull and whether and how market participants should be regulated to encourage competition and protect consumers, whilst promoting investment in future-proof gigabit-capable networks. Consistent with previous reviews, Ofcom continues to identify that KCOM has significant market power in Hull, and has updated the products KCOM is required to offer at a Wholesale level to reflect changes in technology and further promote competition in the fibre market. Certain other legacy products, including copper-based technology have been deregulated (subject in some cases to a transitional period) and removed from KCOM’s regulatory reporting requirements.

KCOM is supportive of its regulatory requirements, ensuring the best outcomes for our customers and for the region, and is committed to ensuring the required products are made available in the timeframes required.

Looking ahead

Following a very busy period of change involving the sale of KCOM’s National Business, and the various challenges overcome as a result of the global pandemic, I am very appreciative of my colleagues’ efforts across the entire business for their ongoing commitment. Their dedication, combined with the strategy we have set out and the investment we have secured to deliver it, give me great confidence in KCOM’s future success.

The Board and Executive Leadership Team is firmly focused on achieving growth and driving forward the transformation of KCOM as a regional infrastructure business.

Nathan Luckey

Chairman

Strategic report – CEO's statement

CEO's statement

Over the past year I have been extremely pleased with the way colleagues across KCOM have responded to the challenges of Covid-19. They have adopted and adapted to new ways of working and committed extra effort to delivering special measures to support customers and the community, while improving the financial and operating performance of the business and delivering against our transformation objectives and strategic priorities.

Throughout the pandemic we have worked closely with government departments and agencies on ways to help vulnerable customers and those more exposed to the impact of Covid-19; introduced new services to meet the changing needs of customers; and increased our charitable efforts – including through employee volunteering – to support those most in need among the communities we serve.

The business has benefited from the appointment of a number of new senior colleagues to strengthen our Executive Leadership Team who have focused on reinforcing their teams and building KCOM's resources and capabilities as a key step ahead of the next phase of our development.

After the successful start of our turnaround in the last financial year, we continued to improve our overall financial performance, overachieving against budget targets and delivering increases in Operating Profit in both our National ICT Business and our regional Fibre-to-the-Premise wholesale and retail business over the prior year.

This result – and the achievement of earnings growth for the first time in five years – follows significant restructuring and cost reduction activity and ongoing improvements to operating performance during the year.

We have continued our wider transformation work throughout the current financial year, focusing on addressing operational needs; our plans for the National Business segment; the expansion of our regional network; the development of our wholesale capabilities; and our approach to advancing our values and culture.

The restructuring of the National ICT Business and subsequent concentration of its resources on priority markets led to increased orders, which, bolstered by increased call volumes, produced significantly improved results with over 126 per cent increase in Operating Profit year-on-year – the first time this segment has achieved earnings growth for several years.

The sale of the Eclipse-branded off-net consumer business during the year, while retaining the base as a reseller, was part of this drive towards more focused operations.

Following an extensive review of development opportunities for the National Business segment and its fit with KCOM's long-term strategy we took the decision to sell this part of our business to a company more focused on the enterprise market segment and services as the best way for the national ICT business to realise its full potential.

This is an important milestone for KCOM as it will also allow the business to concentrate efforts and resources on the core strategies supporting growth as a regional provider of full fibre broadband.

Through regional network expansion, increased presence in both wholesale and retail markets, and utilisation of our network we continued to pursue growth of this regional business with results showing an increase in Operating Profit of £20.3 million over the previous year.

As key workers, our network construction teams remained in the field during lockdown, achieving and maintaining scale in our build operations despite ongoing Covid-19 related capacity challenges. The introduction of our own in-house construction teams alongside our subcontracted resource has given us greater flexibility to respond to market opportunities in rural communities and trial new approaches to build.

Lockdown restrictions led us to change the approach to marketing and encourage more sales through online channels and we reintroduced in-person sales and community engagement only when conditions were appropriate. Despite this operating limitation we achieved record retail sales of our full fibre Lightstream service during the period, with 14 per cent increase in fibre connections and an increase in take up on our existing network.

We have continued to strengthen the capabilities of our wholesale function creating 'KCOM Wholesale and Networks' as a commercial business unit and appointing our first Managing Director with responsibility for developing our wholesale services and operations. Its independence from our retail operations has been reinforced with a new identity and our investment in a self-service order portal for wholesale partners has laid the foundations for future growth while improving the experience of existing customers.

Strategic report – CEO’s statement

In addition to engaging a number of communications providers as new customers on our existing network, we launched a pilot scheme to offer a full fibre service to wholesale partners in our network expansion areas, as an important step in maximising utilisation of the network by third party providers.

We have made progress in building the right organisational culture through a broad programme driven by our People team.

Early in the year, changes to our family leave allowance, enabling more parental leave, came into place and the subsequent launch of our diversity and inclusion steering group led directly to the employee-initiated establishment of our gender balance network and brought about changes to our facilities, and approach to recruitment.

Our commitment to increasing diversity and inclusion has been strengthened by our participation in Stonewall’s Diversity Champion’s programme and by our status as a Disability Confident employer. We have also become a supporter of the Social Mobility Pledge and a signatory to the Armed Forces Covenant.

We have made further progress on our journey towards greater environmental sustainability. In addition to commissioning a solar panel system that will significantly reduce electricity consumption at one of our main sites, we are working with local government and emergency services bodies to trial approaches to using our network to support their plans for electric vehicle charging. We are also working with a local partner to ensure the pandemic-related PPE used by our field engineers is recycled.

Our increased focus on employee health and safety and the expansion of our health and safety programme to incorporate wellbeing in all its forms has enabled us to respond well to new needs and priorities brought about by Covid-19. The Wellbeing, Health and Safety team have introduced new monitoring and awareness programmes across the company aimed at improving both processes and our culture. Completion of wellbeing, health and safety training is now mandatory for all employees and objectives and KPIs have been included in our annual bonus scheme.

Community support activities were expanded to address new needs emerging as a result of Covid-19. We used our vans to help with deliveries of food and medicine, adapted our sponsorship support and focused digital information and learning online, and maintained our existing, and increasingly popular, community grants scheme. The company has also continued to support regional development through key groups such as the CBI and is actively involved in promoting local skills development through membership of the governing board of the Ron Dearing University Technical College and as a member of the Hull and East Yorkshire Local Enterprise Partnership’s Digital Skills Partnership.

As part of our efforts to create and promote a culture to drive long-term success we have introduced an enhanced reward programme with a performance related measure for senior managers that recognises outstanding individual performance. Our People team has also worked with managers to review employees’ roles and levels of development to improve understanding of our team structures as the first step in aligning to clear career path options.

As well as improved financial performance, our transformation efforts have resulted in increased employee engagement in our annual engagement survey results. Customers have also benefited, with Ofcom’s annual ‘Comparing Customer Service’ report showing KCOM’s performance has improved to be best in class for delivering services by the agreed date and outperforming many national broadband providers for responding quickly to problems. We have also been shortlisted for a several national industry awards recognising our work both as a builder of critical national infrastructure and as a provider of connectivity services to consumers and business.

Strategic report – CEO's statement

Outlook

We remain on track in the first phase of our full fibre network expansion within Yorkshire and North Lincolnshire. New wholesale and retail channels to market are increasing utilisation of our network, while our relationships with a growing number of third-party communication providers are providing greater choice for customers.

This progress, combined with the sale of our National Business, is creating a more stable and certain future for KCOM with more opportunities for our employees to develop.

As we emerge from the restriction of activities that has been necessary to limit the spread of Covid-19 we are prepared and eager for the next phase of our development, fully focused on our growth as a regional provider of full fibre broadband.

Dale Raneberg

Chief Executive Officer

Strategic report – Performance review

Performance review

Basis of preparation

On 25 June 2021, KCOM announced the sale of its national ICT business (the “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 as at the 31 March 2021.

As a result, all income and costs in relation to the National Business are disclosed separately as discontinued operations and prior year comparatives are restated. Assets held for sale and liabilities directly associated are presented as held for sale and disclosed on two separate lines in the balance sheet. Balance sheet comparatives are not restated. The cash flow statement includes the cash flows from discontinued operations, with cash flows relating to the discontinued operation disclosed in summarised form in Notes 31 and 32.

Throughout the report, we may refer to alternative performance measures (“APMs”) as they are deemed to be critical to understanding the financial performance of the Group. They are reconciled to statutory measures in the Glossary on page 84. As they are not defined by IFRS, they may not be directly comparable with other companies who use similar measures.

Group performance

The results for the year show revenue for continuing operations of £99.6 million, a £0.4 million increase on prior year and an increase in EBITDA of £1.6 million (5.4 per cent). Profit before tax from continuing operations is £4.3 million compared to a loss before tax of £14.3 million in the year ended 31 March 2020. This is predominantly due to lower exceptional charges in the current year.

Following an in-depth strategic review of our National Business segment, the decision was taken to sell the trade and assets of the business unit. The sale will allow us to focus on our core strategy as a regional provider of full fibre broadband to wholesale and retail markets. Revenue from discontinued operations has significantly declined year-on-year as anticipated, with a decrease of £11.8 million (7 per cent). Profit before tax from discontinued operations improved by £7.8 million from £5.2 million to £13.0 million.

On 31 March 2021, the Group finalised the sale of the National Business consumer base for £1.2 million, resulting in a gain on sale after taxation of £1.0 million which is classified within the discontinued operations results. The sale of the remaining discontinued operations and assets held for sale was finalised on 31 July 2021. For further information see Note 36.

Net debt excluding leases increased from £133.5 million at 31 March 2020 to £151.7 million at 31 March 2021, largely as a result of capex spend on the expansion of our full fibre network and a one-off pension deficit repair payment of £15.6 million.

Net debt including IFRS 16 leases reduced from £180.5 million at 31 March 2020 to £153.3 million at 31 March 2021, due to the reduction in lease liabilities. Note the 2020 balance sheet amount has not been restated for discontinued operations.

Continuing operations

	2021 £'m	2020 £'m
Revenue		
Consumer	62.9	60.1
Regional Business	26.8	27.3
Wholesale	9.0	10.6
Non-core – Media and Contact Centres	0.9	1.3
Roundings	-	(0.1)
Total revenue	99.6	99.2
EBITDA ¹	31.6	30.0
Profit/(loss) before taxation	4.3	(14.3)

1. Alternative performance measures, used throughout the Annual report, are defined and reconciled to statutory measures in the Glossary on page 84.

Strategic report – Performance review

Group revenue has increased by £0.4 million compared to 2020 and EBITDA and profit before tax have increased by £1.4 million and £18.6 million respectively. Growth in Consumer of £2.8 million is partly offset by a decline in Business, Wholesale, and non-core areas.

Consumer revenue has increased by £2.8 million due to an increase in overall customer numbers of 5,800 (4 per cent), a higher increase than recent years, and a higher ARPU of £36.26, an increase of £0.60 (2 per cent). Broadband customers have increased by 6 per cent to 132,300 (31 March 2020: 124,300), with 1,100 net adds in our fibre expansion area outside of our traditional footprint. Migration away from our legacy copper broadband has continued with 89.1 per cent of broadband customers on fibre, up from 82.4 per cent as at 31 March 2020.

Business revenue has declined by £0.5 million (2 per cent) predominately due to the impacts of Covid-19 with lower revenue from broadband rentals and voice calls due to small businesses temporarily closing and/or working from home. This is in part offset by bandwidth increasing from the full year impact of four public sector WAN wins. The decline also reflects the continued reduction in voice rentals due to a migration from analogue lines to internet-based communication or VoIP.

Wholesale revenue has declined by £1.6 million (15 per cent). This reflects a reduction in circuits for two large customers in addition to a regulated price decrease on bandwidth and a continued reduction of call volumes as customers move to using VoIP. Fibre volumes have increased, with revenues growing 78 per cent year-on-year.

The expansion of our full fibre network to surrounding areas ramped up during the year and as at 31 March 2021 we had passed 28,700 premises and we are on track to complete the build in the second half of 2022.

EBITDA has improved due to reductions in the cost base, specifically within the costs of running the network.

The key metrics for our continuing operations are as follows:

	2021	2020
Total Consumer customers ('000s)	147.0	141.1
Total Consumer broadband customers (fibre and copper – '000s)	132.3	124.3
Total Consumer fibre broadband customers ('000s)	117.8	102.6
Total Business fibre broadband sites ('000s)	7.4	6.6
Total fibre availability ('000s premises passed)	229	203

These are considered further in the KPI section on pages 16 and 17.

Exceptional items

The Group incurred exceptional charges totalling £1.7 million in the year, compared with £20.6 million in the prior year. The current year costs predominantly relate to the continuation of the strategic cost transformation programme leading to restructuring costs to right size and better align to our new operating model by reducing complexity, duplication, and cost. The comparative included acquisition related costs of £13.7 million, restructuring costs of £3.7 million and onerous contract costs of £3.1 million.

Discontinued operations

	2021 £'m	2020 £'m
Revenue	154.1	165.9
Profit before taxation	13.0	5.2

Revenue from discontinued operations has significantly declined year-on-year as anticipated, with a decrease of £11.8 million (7 per cent). Revenue has continued to fall, with churn across the recurring connectivity customers and a decline in project revenue due to a strategic decision to reduce risk from bespoke one-off activity. Underlying voice revenues continued to decline; however, we saw an overall increase, driven by increased call volumes due to Covid-19, with several large customers experiencing increased calls into their contact centres. Profit before tax improved by £7.8 million (150 per cent) predominately due to cost transformation initiatives established in the prior year and the high margins on calls.

On the 31 March 2021 we sold our Eclipse-branded off-net Consumer and SOHO customer relationships, which was part of the National Business, for £1.2 million. This is presented in discontinued operations. Further detail can be seen in Note 31.

Strategic report – Performance review

On initial classification as held-for-sale, the carrying value of the disposal group is held at the lower of its carrying amount and the fair value less cost to sell. At a KCOM Group level the carrying value of the disposal group exceeds the fair value less cost to sell. However, an impairment has been recognised in KCOM Holdco 1 Limited consolidated financial statements to write off the goodwill balance associated with the National ICT Business.

Net debt and cash flow

In line with expectations, net debt excluding leases as at 31 March 2021 is higher than last year, at £151.7 million (31 March 2020: £133.5 million). In September 2020, the external debt was settled by our Parent Company, resulting in there being no undrawn committed borrowing facilities as at 31 March 2021 in KCOM Group Limited.

The anticipated increase in net debt arises due to capital expenditure driven by the full fibre expansion outside of our traditional footprint and a one-off pension deficit payment. This increase was in part offset by improvements in working capital, principally due to a reduction of revenue and expenses in the National Business.

On 29 September 2020 the direct Parent Company, KCOM Holdco 3 Limited (formerly MEIF 6 Fibre Limited), entered into a new loan agreement. Certain statutory entities within the consolidated KCOM Group Limited accounts act as guarantors for the loan facility, see Note 33 for further details.

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 2021 is a combined net asset of £32.5 million (31 March 2020: £38.8 million net asset). The change in financial assumptions has resulted in a loss on liabilities of £41.6 million during the year, principally due to the reduction in high-quality corporate bond yields. This is offset by £23.3 million of employer contributions, an experienced gain of £7.2 million due to inflation experience since the 1 April 2019 actuarial valuations and a £3.9 million gain on assets in excess of interest income.

On 25th November 2020, the Group reached agreement with the Trustees to fully fund both schemes immediately on a low dependency valuation basis. Under this agreement, the remaining outstanding contributions due under the recovery plan at this date of £18.0 million (less contributions since 1 August 2020) for both schemes became payable within 30 days of the agreement date. In compliance with this agreement, the Group paid in full the £15.6 million remaining contributions due to both schemes on 21st December 2020.

During the year the split of the deficit repair payments as well as contributions made via the Asset-backed partnership was £17.0 million to the Main Scheme and £6.3 million to the Data Scheme.

Capital investment

Cash capital expenditure during the year was £40.1 million (2020: £27.2 million), which included amounts associated with the discontinued operation of £2.2 million. The major project in the year 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.

The Group's depreciation and amortisation charge for continued operations for the year was £17.3 million (2020: £16.8 million), excluding the depreciation of right-of-use assets under IFRS 16. ROU asset amortisation of £0.7 million (2020: £1.0 million).

Tax

The Group's combined tax charge was £5.1 million (2020: £1.4 million credit), of which a £1.2 million charge (2020: £2.2 million credit) related to continuing operations. The effective tax rate was 27.7 per cent.

Covid-19

Covid-19 has had several impacts on the company, both positive and negative, but due to the essential nature of the service to both consumers and businesses the overall financial impact has been limited. The main financial impacts include:

- Reduced churn in the Consumer base due to more customers been at home more and requiring connectivity to either work, school or just stay in contact with friends and family;
- An increase in overdue Consumer debt due to supporting initiatives to not remove service from customers who were struggling to pay during the pandemic;
- Lower revenues from businesses on our network as many were closed during the pandemic, reducing broadband rentals and call volumes;
- Employees working from home has reduced various costs, including travel; and
- Significant increase in call volumes for several customers in the National Business.

Strategic report – Our strategy

Our strategy

During the year there has been significant progress and change. We continue to focus on the key strategic priorities and growth programmes put in place in the previous financial year with the benefit of concentrating our efforts solely on the regional business. The realignment of our organisation over the next two years will play an important role in supporting these strategic priorities following the sale of KCOM's National Business.

Transforming our operations

Following the successful start of the turnaround programme launched in prior financial years we continued to implement initiatives throughout the past twelve months with significant impact on operating results and preparing the foundation for further improvement in the future.

This included ongoing attention to cost efficiency and management, cultural change, increased attention to wellbeing, health and safety, cyber security and regulatory functions, and support for improved operational effectiveness with new systems capabilities.

Our ability to provide a good online experience for all customers and the automation of internal processes is central to our growth and long-term success.

Our aim is to create a seamless online ordering, customer service and support journey and during the year we have invested in several systems that are key to transforming the experience of both customers and employees.

We are preparing to reduce and simplify the product offering to make best use of our systems investments, increase simplification and increase efficiency.

Work continued to restructure our retail and wholesale business areas to further independence and strengthen capability.

Refocusing on our core offering

During the year we completed an in-depth review of our Business segment that included an assessment of the investment needs to support the development plans for this part of our business and the fit with our long-term strategy.

The conclusion of the review was that the segment was better suited to an owner that is fully focused on the enterprise communications services market. The subsequent sale is an important milestone for KCOM as it allows us to focus on growing our presence as a regional provider of full fibre broadband in both retail and wholesale markets.

Realigning our business

Following the sale of the National ICT Business, the remaining business group functions need to be realigned to support the regional business. Similarly, existing systems and processes need to be reviewed and redesigned to be fit for purpose.

This realignment and transformation to the appropriate end state operating model will require work over the next two years.

Expanding our regional network

A central element of our strategy for growth in the Consumer and Regional Business includes investing to expand our full fibre network further within East Yorkshire and to North Lincolnshire.

With the first phase of our network expansion programme on track, we will continue to identify opportunities to build in areas where full fibre broadband is not yet available. We have recruited internal construction teams which gives us the flexibility required to quickly seize opportunities to deploy network in small, rural locations without diverting resources from our contractor-led core network build team.

Phase one of our expansion programme is on track to complete in 2022 with technical planning work already underway for further build and detailed analysis to determine the full scope of further phases.

Strategic report – Our strategy

Developing our wholesale capabilities

A developed wholesale market is needed to maximise utilisation of both our existing full fibre network footprint and across our expansion areas.

During the year we continued to strengthen the commercial capabilities of our Wholesale and Networks function to further promote its role as a supplier of services to third-party communications providers.

The wholesale team have also encouraged new customers to offer services on our existing footprint and, as part of our preparations for growth in new build areas, successfully piloted the launch of full fibre services with four communications providers in two of our expansion areas.

Key performance indicators

Financial key performance indicators (KPIs)

Revenue from continuing operations

FY2021: £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.
FY2020: £99.2m	

Revenue is a key measure of the Group's growth and progression. The target is growth in the Consumer, Regional Business and Wholesale areas and to manage decline within other non-core areas of the business.

Revenue has increased year-on-year driven by our Consumer customer numbers, this is in part offset by a decline in Regional Business and Wholesale revenues.

EBITDA¹ from continuing operations

FY2021: £31.6m	Earnings before exceptional items, interest, tax, depreciation and amortisation.
FY2020: £30.0m	

EBITDA is the key profit indicator used by the Group to track and assess performance.

Group EBITDA has increased year-on-year driven by growth in our Consumer area and a reduction in our overall cost base.

¹ Alternative performance measures, used throughout the Annual report, are defined and reconciled to statutory measures in the Glossary on page 84.

Profit/(loss) before tax from continuing operations

FY2021: £4.3m	This statutory measure reflects the profitability of the continuing business before corporation tax. The Directors believe profit before tax is an important metric as it is a statutory measure of profitability, directly comparable with other companies.
FY2020: £(14.3m)	

In the year ended 31 March 2021 there has been a return to overall profitability, increasing from a loss before tax of £14.3 million in the prior year, to a profit of £4.3 million. The improvement is driven by a reduction in exceptional charges from £20.6 million in the prior year to £1.7 million in the year ended 31 March 2021.

The significant exceptional costs in the prior year related to acquisition related costs of £11.8 million, settlement of LTIPs linked to the acquisition of £1.9 million and onerous contract costs and a ROU asset impairment linked to one of our properties. There were also £3.7 million of restructuring costs relating to organisational design changes and termination of executive directors. The restructuring costs have continued into the year ended 31 March 2021, making up the £1.7 million of costs incurred.

Depreciation and Amortisation charges, including IFRS 16 ROU lease asset depreciation is broadly in line year-on-year.

Net finance costs have increased from £5.9 million to £7.7 million in the year ended 31 March 2021. This is due to a full year of interest on our loan with our Parent Company.

Strategic report – Key performance indicators

Cash capex¹

2021: £40.1m
2020: £27.2m
2019: £37.5m

This reflects the amount of cash that has been paid out of the business in the year in relation to capital expenditure projects.

Cash capex has increased year-on-year due to the commencement of our 'Full Fibre Expansion' ("FFE") project in January 2020. During the year, we passed an additional 26,000 premises in both our existing footprint and FFE areas.

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. We also need to ensure that we invest appropriately to generate a strong return on investment and drive business performance.

1. Alternative performance measures, used throughout the Annual report, are defined and reconciled to statutory measures in the Glossary on page 84.

Strategic report – Key performance indicators

Non-financial key performance indicators (KPIs)

CO₂e emissions

2021: 2.6 ^{1*} 2020: 10.6* 2019: 12.9*	This is the number of tonnes of CO ₂ e produced from electricity usage by KCOM.
¹ Using market-based calculations	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. Our carbon emissions from combustion of fuel and operation of facilities have fallen in the year by 31.2 per cent due to a reduction in business travel.
* Thousands of tonnes	When using market-based calculations based on a 'Business 100% Renewable' tariff, our emissions year-on-year have reduced by 75.5 per cent. This is due to our move at the start of the financial year to use energy from 100 per cent renewable sources, backed by Ofgem's Renewable Energy Guarantees of Origin (REGO) certificate across our sites. Our CO ₂ e emissions from electricity consumption has decreased by 16.8 per cent on the prior year's emissions when calculated using location-based emissions based on the UK grid-average emissions factor provided by Defra. Further detail is included in our Sustainability section on pages 29 to 30. Our target is to continue to reduce emissions year-on-year.

Total premises passed

2021: 229,000 2020: 203,000 2019: 195,000	This is the cumulative number of premises that have been 'passed' by our full fibre deployment and are now able to take services over fibre rather than copper lines. This includes FTTP but excludes FTTC and ADSL services. In January 2020 we announced our plans to extend the full fibre network beyond our existing footprint into further towns and villages in East Yorkshire and North Lincolnshire. As at the end of March 2021, we have passed 28,700 properties in our new expansion areas (March 2020: 7,200 properties) which are able to take services. Full fibre broadband 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.
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Consumer & Regional Business total consumer customers

2021: 147,000 2020: 141,100 2019: 140,000	This is the total number of consumer customers in the Consumer and Regional Business segment that take either, or both, a voice and broadband service. This is considered an important KPI, as increasing the number of consumer customers is one of the key drivers of increasing revenue and profitability in our Consumer & Regional Business segment. This also links in with our strategy to lay more fibre as part of the full fibre expansion project. See Our Strategy on page 12 for more details. Consumer customer numbers have slowly increased over the last three years and as we expand into new areas with our full fibre broadband, we expect further growth. Our target is to increase this number to support our strategy to grow revenue and EBITDA.
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Strategic report – Key performance indicators

Consumer & Regional Business total consumer customers connected to fibre

2021: 117,800
2020: 102,600
2019: 85,500

This is the total number of consumer customers in the Consumer and Regional Business segment that take a fibre broadband service from us. The majority are fibre to the premises with a small minority of fibre to the cabinet.

This KPI supports our strategy 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 ARPUs. 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, this is linked with our rollout of full fibre in the Hull and surrounding areas. We expect this number to continue to grow as customers taking ADSL transition to more affordable Fibre packages and as we expand in the full fibre expansion areas.

Our target is to move all broadband customers to fibre products.

Total Business fibre broadband sites

2021: 7,400
2020: 6,600

This is the total number of business sites that take a fibre broadband service.

This is a KPI as it supports revenue growth from recurring broadband rentals. In addition, the connections drive set up revenues and support other supplementary service offering.

The number of sites has increased in the year due to several large public sector WAN wins in the prior year.

Our target is to increase the number of business fibre customers.

Days' Sales Outstanding (DSO)

2021: 23
2020: 36
2019: 28

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.

The varied nature of revenue streams within the Group means this is an aggregated figure which will not individually apply to each of our market segments.

The reduction in our DSO as at 31 March 2021 is driven by a combination of improved debt collection performance and a temporary increase in debt as at 31 March 2020 due to material one-off items billed close to the year end.

Whilst we do not set a specific quantified target for DSO, and fluctuation occurs during the year because of business cycles, we expect year end DSO to be relatively stable year-on-year. Following the sale of the National Business, we would expect the DSO to maintain at the existing level.

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 18 to 21 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.

Risks reported in the prior year

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 climbing telegraph poles, working in confined spaces, working alone or working next to roads. In addition, our full fibre expansion project has increased risk due to the level of civil engineering work involved.

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 inherent level of risk has increased during the year due to the civil engineering work involved in our full fibre deployment project and the continuation of the Covid-19 pandemic.

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 increased this team during the year to reflect the expanded scope of our operations. 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. A new Health and Safety Committee has been established to monitor performance against expected safety standards and ensure that policies are kept up to date and adhered to.

New initiatives to improve management and work practices include a new 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.

We have followed government guidance throughout the pandemic to ensure we provide Covid-secure working arrangements for employees and customers.

Accuracy, security and confidentiality of customer data

Why is it important?

The confidentiality, integrity and availability of our data is of paramount importance to us and to our customers.

There is an increased inherent risk from the constantly evolving nature of cyber-attacks, particularly for those businesses that operate in technological 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 is increasing as the volume and nature of cyber-attacks continues to grow and evolve, which threatens the security of data and the operation of critical processes within our business.

What are we doing to mitigate the risk?

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

Our Cyber and Information Security programme focuses on risk-based priorities to deliver the appropriate controls to protect our data. During the year we have implemented enhanced tooling to identify and address vulnerabilities across our IT infrastructure. We keep up to date on emerging cyber risks through involvement in industry information sharing forums.

Specific roles are in place that focus solely on data security to help ensure our ongoing compliance with the General Data Protection Regulation (GDPR).

Strategic report – Managing risk in our business

Customer Service and Delivery

Why is it important?

Our aim is to provide exceptional service to all our customers.

Change in level of risk

The level of risk remains the same.

What are we doing to mitigate the risk?

During the year we have continued our focus on improving the customer experience in all parts of our business. We have sought regular feedback from customer satisfaction metrics such as Net Promoter Score (“NPS”). We have made investments in the year to give us further insight to our customer feedback. In addition, there are significant programmes of work in Customer Experience to improve the customer journey at all touch points

Substitute technologies entering the consumer market

Why is it important?

Much of our regional business is based on the provision of services over a fixed-line network. If substitute technologies such as 5G were developed to the extent where similar services could be provided without the use of a fixed-line network, then this would present a competitive threat to the consumer part of our business.

Change in level of risk

The level of risk remains unchanged from the prior year.

What are we doing to mitigate the risk?

We are always seeking to improve our services to our consumers and to provide a speed and quality of service that would not be achievable over a wireless network. Our fibre deployment is part of this aim and this has been expanded beyond our traditional network area into other parts of East Yorkshire and North Lincolnshire during the year.

We offer bundles of products and services that we believe offer our customers value for money.

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).

Change in level of risk

The level of risk remains unchanged from the prior year.

What are we doing to mitigate the risk?

We hold certifications in several standards that relate to security and resilience, including ISO 27001, the Information Security Management standard, and ISO 22301, the Business Continuity Management standard. We regularly test our resilience plans and feedback any lessons learnt from such tests into the resilience planning process, which in turn is continually reviewed and updated on an ongoing basis. Such tests have assisted our readiness to provide continued service during the Covid-19 pandemic.

We have an in-house Cyber Security team in place to identify and address vulnerabilities. We keep up to date on emerging cyber risks through involvement in information sharing forums.

We monitor flood risk closely and are always alert to increased risks caused by extreme weather and high tides so that we can activate our defences as required.

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 the same.

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 online 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.

Strategic report – Managing risk in our business

Ability to attract and retain talent within the business

Why is 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.

As a business we are undergoing a period of change and transformation, which naturally creates some uncertainty among employees. Attracting and retaining talent within the business is key to navigating that period of change.

Change in level of risk

The level of risk has increased during the year due to the level of change and transformation.

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 will be reviewing our ways of working in conjunction with employee feedback to realise the desired organisational culture.

The impact of Covid-19 on our operations

Why is it important?

As previously stated, the wellbeing, health and safety of our colleagues is of paramount importance.

We also recognise that customer service needs to be maintained, potentially in periods of increased demand.

There is a risk that either colleague health or customer service will be adversely affected if a balanced approach is not taken. The economic impact of Covid-19 may reduce customers' ability to pay and adversely affect working capital and cash flow.

The impact of the pandemic on our supply chain has increased over time and has led to increasingly protracted lead times to procure electronic devices such as routers and firewalls.

Change in level of risk

The level of risk has fluctuated throughout the year as micro and macro events have occurred.

What are we doing to mitigate the risk?

We have followed government guidelines in responding to the pandemic, with the majority of employees working from home. Our engineers have been provided with appropriate PPE and calls have been screened to identify risks prior to appointments. Customer and employee feedback on our Covid-19 approach has been positive, however, we remain vigilant.

We have provided and signposted employees to support regarding physical and mental health issues in response to the any increased risk to wellbeing resulting from prolonged home working.

We have looked to support customers who may be struggling in these times through the temporary removal of data caps and late payment charges and by offering payment holidays and plans.

We have kept in place our Pandemic Response Team throughout the year to help monitor and minimise any impact on our employees, customers and business operations.

Strategic report – Sustainability

Sustainability

We are committed to operating in a sustainable way that considers environmental, social and governance (ESG) concerns. When making key business decisions we consider their potential impact on:

- The communities in which we operate;
- Our people;
- Our customers and supply chain; and
- The environment.

Our sustainability strategy is underpinned by three objectives:

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

Responsibility for our sustainability strategy and activities lies with our Chief People Officer, who is a member of our Executive Leadership Team.

During the year we participated for the first time in the GRESB Global ESG Benchmark for Real Assets, which assesses and benchmarks the ESG performance of real estate and infrastructure assets. As well as providing standardised and validated data to investors, the assessment allows us to identify opportunities to improve the sustainability of our business.

The assessment covers two dimensions: leadership and management of ESG, such as objective setting and decision making, and the performance and implementation of ESG actions and initiatives.

We were pleased to outperform our peer group average, with a score of 70, across both the management and performance dimensions of the assessment. We are using the results of the assessment to refine our approach to ESG issues and drive improvements in ESG-related activities.

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 and East Yorkshire – both as a major employer and as the region's main communications provider – means we consider the impact on this community when making certain business decisions. Our community relations programme is focused on activities which support the growth and sustainability of the region's economy and which increase life opportunities for residents.

In line with the expansion of our network to new towns and villages across East Yorkshire and North Lincolnshire during the year, we have also extended our community investment activities to cover these areas, with a focus on building relationships with local stakeholders and identifying opportunities to support existing community groups.

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 also supported Tech Week Humber, a week-long exhibition and conference to highlight and grow the local technology scene. As part of the event, we hosted an 'innovation hothouse' where businesses and students devised technology-based solutions to tackle challenges faced by the education and healthcare sectors.

In the months leading up to Christmas, we supported local businesses by setting up an online market where they could promote their products and services to a local audience. The market was highly successful, with over 180 traders who provided positive feedback regarding the impact it had on sales. We have since established the market as an ongoing hub for local traders.

Strategic report – Sustainability

Supporting the region's young people

As a major employer and supplier of services in the region we are committed to inspiring the next generation and helping local young people reach their full potential by giving them the skills and confidence to excel in a digital world.

While lockdown restrictions and the resulting disruption to school activities meant we were unable to carry out our normal school-based activities in the first half of the year, from October we were able to support careers events and employability skills sessions at 12 local schools.

We continued our partnership with Ron Dearing University Technical College, through which we provide learning support for STEM subjects (science, technology, engineering and maths) as well as support with employability skills.

Charity and community support

During the year we continued our support of community groups and charities in Hull, East Yorkshire and North Lincolnshire by donating funds, employee time and business services.

In the early weeks of the Covid-19 pandemic we made our employees and vehicles available to local community hubs to help with the delivery of essential supplies to vulnerable residents across East Yorkshire.

Through our community grants programme, which provided 12 grants each year to charities, community groups, sports clubs and schools in the region. we also made donations to local foodbanks at that time to support their efforts in responding to peaks in demand caused by increased financial hardship.

In July, we donated 26 Microsoft tablets to Hull University Teaching Hospitals NHS Trust to help patients connect with loved ones who could not visit. The tablets also enable patients from diverse communities to access translation services when seeking medical support in hospital departments and helped staff to access health and mindfulness apps during their breaks to help support their mental health and wellbeing.

In September we began a new partnership with Hull City AFC as a platform to expand the range of community-focused activities we support through the club. The new partnership includes the continuation of our successful KCOM Kits initiative, which provides kits for youth football teams.

At Christmas our people demonstrated their continued desire to make a positive difference in the communities we serve by working with Hull-based charity Hull Children's University to donate gifts to local children in care. They also raised funds for the regional branch of mental health charity Mind and a local foodbank, which were matched by company donations.

Strategic report – Sustainability

People

Much of the value we deliver to customers is through the expertise and experience of our people. Our sustainability relies on our ability to attract people with the right skills and behaviours and to motivate, develop, support and reward them appropriately.

Employee wellbeing

In the first half of the year, we expanded the scope of our People team to include responsibility for wellbeing, health and safety. This, together with the creation of a new, Group-wide wellbeing, health and safety leadership role, reflects our increased focus on these matters and provides senior policy and operational support for our work with the Board sub-committee on wellbeing, health and safety, which meets bi-monthly to monitor performance and progress.

We subsequently expanded our wellbeing programme provide support and information to cover a wider range of topics, covering not just physical and mental wellbeing but also social, financial and workplace wellbeing. These are all promoted through our monthly wellbeing, health and safety newsletter.

Throughout the Covid-19 pandemic we have supported employees in a variety of ways:

- Employees able to work from home were provided with the tools to set up a workstation in their home;
- Customer-facing engineers were provided with PPE to protect them and our customers from infection;
- We provided lateral flow testing kits to all engineers to reduce the potential for transmission of the virus;
- Covid-secure working environments were created in our offices for those unable to work from home;
- Regular updates on government guidance have been provided and employees encouraged to get their vaccination;
- We encouraged employees to keep connected with each other and physically active through our online social club;
- We commissioned personal trainers to run online fitness classes for employees;
- We provided a range of webinars covering topics such as parenting, mindfulness and mental wellbeing; and
- We asked employees their views and preferences regarding future ways of working to inform our plans for returning to our offices post-pandemic.

During the year we continued to focus on raising awareness of mental health issues and offering support for employees experiencing poor mental health. We trained an additional 15 mental health first aiders so that we now have one mental health first aider for every 40 employees. We have also held webinars for managers to understand how they can support employees with mental health issues and to help them understand the role of our mental health first aiders.

The introduction of our monthly wellbeing, health and safety newsletter is used to promote national awareness campaigns such as Time To Talk Day and Brew Monday, putting a spotlight on and helping to reduce the stigma surrounding mental health problems and encouraging employees to connect with each other during periods of lockdown.

To help employees work together and participate in discussions about wellbeing, health and safety we have introduced monthly wellbeing, health and safety team conversations where teams can raise any concerns or share experiences and knowledge about wellbeing topics, including how they could work differently in the future.

Our ELT have participated in several safety tours where they have been able to see what arrangements are in place for our employees and to talk to them about what works well and where there might be opportunities to make improvements.

Employee engagement

We recognise employee engagement as a key factor in motivating and retaining people and aim to create an environment where our people can have meaningful input into decisions that affect their working lives.

We consult with our people on planned organisational change on an ongoing basis through our Employee Voice Forum, which has representation from across our business and provides an opportunity for colleagues to give feedback on change programmes.

We conduct regular engagement surveys and during the year our average engagement across all teams increased by almost 10 per cent from 6.2 to 6.8.

Strategic report – Sustainability

Recruitment, selection and onboarding

During the year we continued to improve our recruitment, selection and onboarding processes and began a programme of improvements to enhance our ability to recruit the best people and introduce them to our business in a way that enables them to make the most of their capabilities as early as possible.

We have:

- Sought to widen the pool of potential candidates for our roles by highlighting our commitment to inclusiveness and diversity: for example, by promoting that we are a ‘forces friendly’ employer throughout the advertising and application process to support former members of the armed forces to return to work;
- Carried out direct recruitment wherever possible to improve engagement with candidates and better convey the benefits we offer;
- Enhanced the onboarding process to improve the experience of new starters at every touchpoint of their early relationship with us, from their acceptance of our employment offer through to their extended induction period;
- Continued to build a pipeline of future talent for roles where we are likely to face future demand – such as engineering – by creating talent pools for entry level roles and holding assessment centres for key roles; and
- Held workshops to upskill hiring managers on attracting, recruiting and onboarding the best talent fairly and consistently.

Learning and development

Through our learning and development platform, the Academy, we make available content, e-learning and workshops on areas including health and safety, regulation and compliance, finance and leadership.

During the year we launched ‘Academy Live’, a series of short, digital workshops adapted from content previously delivered in face-to-face workshops.

As a result of Covid-19 lockdown restrictions, the great majority of our office-based employees worked from home during the year. To help them in the transition to working and managing teams remotely, we have developed and delivered new learning materials covering content from creating a successful remote working culture to reducing isolation.

In addition to this, we have continued to deliver the ‘Inspire’ four-month middle management level leadership programme, adapting it for online delivery. The programme was completed by 24 employees during the year, developing their capabilities in areas such as performance development, change management and coaching.

Reward and recognition

Our overall approach to reward is to pay our people appropriately for the role they perform, using market rates that are based on robust, externally validated benchmarking data and reviewed annually. We aim to pay people relative to the median of the market rate, recognising their level of development in the role.

As part of our commitment to recognising and valuing the contribution our people make to our business, we continue to pay the real living wage as the minimum salary for employees and apply any increases to it as early as is feasible.

Our peer-to-peer recognition platform, through which our people can acknowledge and reward the efforts and contribution of their colleagues through a thankyou message or by nominating them to receive a shopping voucher, continues to be well-used. During the year our employees gave a total of 2,461 acknowledgments to colleagues.

Strategic report – Sustainability

Diversity and inclusion

We are committed to providing equal opportunities and will not tolerate discrimination of any kind. Our people are expected to embrace a culture of diversity and to act respectfully and with consideration for others. We make sure our people make the most of their talents through:

- Fair and equal promotion and pay policies;
- Transparent recruitment processes;
- Individual career development; and
- Ensuring a healthy work/life balance.

During the year we established the Diversity and Inclusion Steering Group to support the design of policies and processes that will help us achieve our goal of creating a positive, inclusive workplace where everyone can thrive.

The group has led initiatives such as our commitment to the Social Mobility Pledge, through which we hope to tackle the opportunity gap faced by those from disadvantaged backgrounds; and the introduction of software to help employees with dyslexia and others who experience difficulty with reading and writing.

We have also joined the Diversity Champions programme run by Stonewall, the UK charity that campaigns for the equality of LGBTQIA+ people, to help us develop policies and practices that embed inclusion.

As at 31 March 2021 the gender diversity of the business was as set out below:

	Male	Female	Female %
Board Directors	5	0	0%
Executive Leadership Team (ELT)*	6	2	25.0%
Other employees	872	379	30.4%

* The ELT is defined as the senior leaders who have overall responsibility for key functional areas. It includes Board member Dale Raneberg.

Our gender pay gap report for the year, based on the snapshot date of 5 April 2020, showed a mean pay gap of 29.3 per cent and a median pay gap of 39.3 per cent.

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.

As achieving significantly greater gender balance in these parts of our business is a challenge that is likely to take some years to resolve, we do not expect to reduce our gender pay gap substantially in the short term. However, we will continue to focus on encouraging more diverse participation in these areas while also addressing other factors contributing to our gender pay gap, including the under-representation of women in senior roles.

Our diversity and inclusion steering group has established a gender balance network with the goal of driving greater gender balance across all areas and throughout all levels of the business. It has identified several potential activities to support this goal, from improving family-friendly policies to providing support for employees for any issues that arise as a result of the menopause.

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 do not have any current human rights issues.

Strategic report – Sustainability

Customers and suppliers

Sustainable 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.

The Covid-19 pandemic created a range of challenges for both our National Business customers and the many consumers and businesses we serve in Hull, East Yorkshire and North Lincolnshire. Our teams worked tirelessly throughout the year to support them in adapting to these challenges and keep them connected at a time when it is more important than ever.

At the start of the pandemic, we worked with many of our National Business customers to enable their employees to move to home working, as well as supporting others to increase their contact centre capacity to handle new demands resulting from the circumstances.

The pandemic disproportionately affected many consumers who were already vulnerable as well as creating vulnerability among others. We participated in government forums set up to coordinate the response of the communications industry to the pandemic and put in place measures to support customers in need of extra help to stay connected.

These included removing broadband data caps for customers on fixed data packages, establishing a dedicated helpline and priority engineer visits for vulnerable customers and NHS workers, and flexible payment plans for those experiencing financial difficulties. We also offered free increased broadband speeds for clinicians to enable access to files while working from home.

We also launched a new low cost 'Flex' social access package and expanded the eligibility to include care home residents, customers using a "Lifeline" phone alarm service, care leavers and individuals on the government's Covid-19 Shielded Patients List.

Online safety remains a key concern for many of our customers and we have continued to raise awareness of online safety issues.

As well as regularly raising awareness of online and telephone scams among our consumer customers, we have established a facility on our website to enable customers to report nuisance or scam calls so that we can investigate and, where possible, block the numbers they originate from.

We recognise the vital role of parents and carers in helping their children use the internet safely. We make the most of our support of leading online safety organisation Internet Matters to raise awareness of online risks among parents and carers and share expert advice and resources to address them.

In response to the growth in online gaming among children and young people, and to mark Safer Internet Day 2021, we commissioned a video featuring a well-known online gaming expert to share safety advice and tips for families.

We are committed to treating all our customers with understanding and respect, including those who are in a vulnerable situation, whether caused by age, injury, physical or mental illness, physical or learning disability or by events such as bereavement. We aim to provide extra help and assistance to vulnerable consumers wherever we can.

Strategic report – Sustainability

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.

We expect suppliers to sign up to our Supplier and Partner Code of Conduct and we work closely with key suppliers to ensure we understand their approach to sustainability and the way in which their business operates. We also carry out regular credit checks on all suppliers.

Our business continuity planning activities place significant attention on ensuring that if key suppliers are affected by a business disruption, we can continue supplying services to our customers. This approach has stood us in good stead throughout the UK's exit from the EU and the Covid-19 pandemic and we continue to manage closely the supply of key goods and services.

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 www.kcom.com.

Strategic report – Sustainability

Environment

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. 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/>.

In previous years our biggest environmental impact has come from the electricity we consume in our offices, data centres and various network sites, both nationally and in the Hull and East Yorkshire region. During the year 82 per cent of our CO₂e emissions came from our electricity usage.

Scope 2 CO₂e emissions have been calculated using the UK grid-average emissions factor provided by Defra. Included in this year's report is a second, market-based figure, which represents our move at the start of the financial year to use energy from 100 per cent renewable sources, backed by Ofgem's Renewable Energy Guarantees of Origin (REGO) certificate across our sites. The market-based figure for Scope 2 CO₂e emissions shows a reduction of 5,839 tCO₂e.

Each year we seek to reduce our emissions wherever possible through various energy-saving schemes. During the year we have introduced a small fleet of electric vehicles for use by employees undertaking short journeys around our Hull and East Yorkshire estate. We have also invested in a new waste compressor which has reduced our operational costs by £5.5k per annum and our carbon emissions from 1.24tonne CO₂e to 0.04CO₂e.

The Covid-19 pandemic has presented many new challenges, none more so than the need to protect employees and those people they come into contact within the course of their work from the spread of the virus. The mandatory requirement for personal protective equipment (PPE) to be worn in many work environments generated more single-use material we needed to manage carefully. We partnered with local waste provider ReWorked on a recycling scheme for PPE and other single use plastics that means all the PPE used by our engineers is upcycled into useful items such as flower beds and benches.

We continually review and improve the recycling facilities we have in place at our offices, with the aim of making it as easy as possible for our people to recycle any waste we produce. Over 97.7 per cent of our waste is recycled, with the actual tonnage of waste that has gone to landfill falling from 5.5 tonnes to 5.3 tonnes. The current amount of our waste going to landfill should be representative of levels in future years.

Breakdown of our emissions based on CO₂e tonnes

Premises – electricity	82%
Premises – other fuel and waste	11%
Business travel	7%

Emissions in the year – tonnes of CO₂e

The table below sets out our annual emissions in tonnes of CO₂e, inclusive of Scope 1, 2 and 3.

	Year ended 31 March 2021 CO ₂ e	Year ended 31 March 2020 CO ₂ e (restated)
Combustion of fuel and operation of facilities	1,488	2,049
Purchase of electricity (market-based ¹ / location-based ²)	1,155 / 6,994	8,408
Total market-based ¹ / location-based ²)	2,643 / 8,482	10,457

1. Scope 2 market-based calculation using a 'Business 100% Renewable' tariff emissions factor results in emissions of: 0t CO₂e (market-based)

2. Scope 2 location-based emissions calculated using the UK grid-average emissions factor provided by Defra.

Our carbon emissions from combustion of fuel and operation of facilities have fallen in the year by 31.0 per cent due to a reduction in business travel.

Information for our carbon emissions reporting comes from our own internal systems, third-party travel companies, suppliers of fuel, waste collection and recycling services and from our electricity supplier.

Strategic report – Sustainability

Energy consumed in the year – kWh

The table below sets out our annual energy consumed in kWh:

	Year ended 31 March 2021 kWh (000's)	Year ended 31 March 2020 kWh (000's)
Combustion of fuel and operation of facilities	3,357	4,942
Purchase of electricity	29,998	32,895
Total	33,355	37,837

Emissions in tonnes of CO₂e and kWh

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

	FY 20/21		FY 19/20 (restated)*	
	Energy GWh	CO ₂ e Tonnes	Energy GWh	CO ₂ e Tonnes
Scope 1^a (direct emissions)				
Gas consumption	0.44	80	0.64	117
Oil consumption	0.69	188	0.88	225
Fugitive emissions – refrigerants		639		797
Company owned vehicle emissions ^b	1.88	481	1.70	317
Total Scope 1	3.01	A 1,388	3.22	1,456
Scope 2^c (electricity)				
Total consumption (LB ^d)	25.0	A 5,839	26.7	6,822
Renewable consumption (MB ^e)	25.0	-	n/a	n/a
Total scope 2 CO₂e market-based (MB) adjustment	25.0	-	26.7	6,822
Total scopes 1 & 2 (MB)	28.01	1,388	26.7	8,278
Intensity ratio scopes 1 & 2 tonnes CO₂e per '000 revenue^f		A 0.0285		0.0312
% change from previous year (Scope 1 & 2)		83%		
Scope 3^g (indirect emissions)				
Waste		1		1
Electricity	4.95	1,155	6.20	1,586
Commercial travel ^h	0.35	99	1.73	592
Scope 3 emissions CO₂e tonnes	5.30	1,255	7.93	2,179
Total scope 1, 2 & 3 (market-based)	33.31	2,643	34.63	10,457

* For comparative purposes, FY 19/20 figures have been restated due to using a more accurate methodology to calculate emissions from company vehicles. This is calculated as company owned vehicle emissions converted from litres fuel instead of previous methodology of converted from litres fuel / mileage.

- Scope 1:** direct emissions from our own operations- gas and oil consumption, fugitive refrigerant emissions, company-owned vehicle emissions.
- Company owned vehicle emissions converted from litres fuel. Replaces previous methodology - converted from litres fuel / mileage.
- Scope 2:** indirect emissions from the generation of purchased electricity.
- Location-based methodology - emissions calculated in line with the UK grid-average emissions factor provided by Defra.
- Market-based methodology – emissions calculated in line with the REGO-certified 100% renewable energy tariff supplied to KCOM.
- Inclusive of location-based methodology for consumption of electricity only.
- Scope 3:** other indirect emissions occurring from the generation of purchased electricity at leased assets, waste, and employee travel.
- employee vehicles - converted from mileage.
 - air travel – converted from travel distance.
 - rail, bus, taxi – converted from quantity of journeys/average journey distance.

Strategic report – Sustainability

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.

Performance against targets

Area	Actual	Target for the year under review	Target met?	Future target for 2021/2022
Total CO ₂ e	2,643 Tonnes	Reduce 2019/2020 levels by 50 per cent	Yes ¹	To reduce 2020/2021 levels
Waste sent to landfill	5.3 Tonnes	Maintain current levels of waste to landfill	Yes	To reduce current levels of waste to landfill
Energy efficiency in transport	580 Tonnes	Not to exceed 2019/2020 levels of 1,022 tonnes	Yes	To reduce 2020/2021 levels

¹ Target met based market-based methodology – emissions calculated in line with the REGO-certified 100% renewable energy tariff supplied to KCOM.

Non-financial information statement

In order to comply with the requirements of the Companies Act Sections 414CA and CB, we have disclosed the following information in the places referenced below:

- Information on environmental matters is shown in our Sustainability report on pages 29 and 30.
- Information on our employees is also shown in our Sustainability report on pages 24 to 26 and as part of Other disclosures on page 39.
- Information on social matters is shown in the community section of our Sustainability report on pages 22 and 23.
- Our respect for human rights is set out in the People section on page 26.
- Our approach to anti-corruption and anti-bribery matters is set out in Other disclosures on page 39.
- Our business at a glance is described on page 3.
- Our principal risks, and how we manage them, are described on pages 18 to 21.
- Other non-financial key performance indicators are shown on pages 16 and 17.

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 38.

Signed on behalf of the board



Samantha Booth

Chief Financial Officer

15 December 2021

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
John Bernard Fitzgerald	18/10/2019	N/A
Richard Greenleaf	18/10/2019	N/A
Nathan Andrew Luckey	18/10/2019	N/A
Jaap Postma	28/01/2020	N/A
Dale Wayne Raneberg	22/10/2019	N/A
Samantha Rosemary Jane Booth	29/09/2021	N/A

Read more information about our Board on our website www.kcom.com.

Read more – Corporate Governance on pages 33 to 36.

Directors' report – Corporate governance

Corporate governance

Oversight by Macquarie Infrastructure and Real Assets (Europe) Limited (“MIRA”).

The Company forms part of the assets managed by MIRA.

The individual managers at MIRA with responsibility for oversight of the Company are:

- Nathan Luckey; and
- Richard Greenleaf.

Nathan Luckey and Richard Greenleaf are also Directors of the Company.

Composition of the Board

The composition of the Board is as follows:

- Nathan Luckey and Richard Greenleaf have contracts of employment with MIRA and have been appointed to the Board at the request of MIRA. Both are Non-Executive Directors. Nathan Luckey is Chairman of the Board;
- John Fitzgerald and Jaap Postma are independent Non-Executive Directors. John Fitzgerald is Chairman of the Health and Safety Committee of the Board;
- Dale Raneberg is an Executive Director and has a service contract with the Company. Dale Raneberg is the Company's Chief Executive Officer; and
- Samantha Booth is the Chief Financial Officer and was appointed to the Board in September 2021.

Company Secretary

The Board has decided not to appoint a Company Secretary as this is no longer a statutory requirement. However, many of the administrative and governance functions traditionally carried out by a Company Secretary are carried out by the Company's Chief Legal and Risk Officer.

Matthew Pearson was appointed Chief Legal and Risk Officer on 26 March 2020. The Chief Legal and Risk Officer takes responsibility for organising Board meetings and related administrative matters.

Appointment and replacement of Directors

The Articles of Association allow the Board to appoint a new Director at any time by resolution. The Articles of Association do not require the periodic re-election of Directors. Once appointed, Directors serve indefinitely.

The Articles of Association allow the Board to remove Directors at any time by resolution. The Company's shareholders may also remove a Director at any time by ordinary resolution.

Board Committees

The Board has established a Health and Safety Committee with delegated responsibility for overseeing matters of employee health, safety and wellbeing. Nathan Luckey, Dale Raneberg and John Fitzgerald sit on the Committee, with John Fitzgerald acting as Committee Chairman. The Committee meets up to six times a year; generally, on the day before a scheduled Board meeting. As Chairman of the Committee, John Fitzgerald provides a verbal report to the Board after each Committee meeting.

The Health and Safety Committee is the only committee that has been established by the Board.

Directors' report – Corporate governance

How the Board operates

The Board has ten scheduled meetings a year, with other ad hoc meetings held as needed.

The Board agenda is set for each meeting by the Chairman with input from the Executive Director. In addition, any of the Non-Executive Directors can request a matter to be added to the agenda at any time. At each meeting the Board considers business performance, which includes reviewing past performance but also looking at the future long-term success of the business. There is considerable focus at each meeting on the strategy of the business and updates on the progress in each of the key strategic areas are provided at each meeting, which form the basis for discussion and debate around all aspects of strategy.

The Board receives monthly reports on financial performance, technical performance, cyber risks, and health and safety matters. There are also regular updates on risk registers, key projects and strategic programmes. The Board utilises external experts when it is believed useful to do so.

Board meetings are normally held at various KCOM offices throughout the year and the Board seeks to regularly meet both formally and informally with senior management from across the business to gain further insight into day-to-day operations and the key risks and opportunities facing each part of the business. This was not possible during this financial year due to Covid-19 pandemic restrictions. All board meetings were therefore held by on-line video conferencing during this period.

Members of the Executive Leadership Team and other key senior managers are regularly invited to attend Board meetings to provide updates and give the Non-Executive Board members regular direct access to the management team.

There is a Scheme of Delegated Authority ("SODA") which details those matters reserved for the Board and is reviewed and updated on a regular basis. The SODA requires that specific matters relating to budgets, strategy, performance against objectives, financial reporting, internal controls, communications, remuneration and governance, along with any proposed changes to business operations or the structure and capital of the Company, are referred to the Board for consideration and approval.

The Board has decided not to appoint a Company Secretary as this is no longer a statutory requirement. However, many of the administrative and governance functions traditionally carried out by a Company Secretary are carried out by the Company's Chief Legal and Risk Officer.

Executive Leadership Team

Operational management of the Company is carried out by an Executive Leadership Team, which meet every week for a roundtable discussion and to consider papers on relevant topics.

Read more information about our Executive Leadership Team on our website www.kcom.com.

Powers of the Directors

The business of the Company is managed by the Directors, who may exercise all the powers of the Company, subject to the provisions of the Articles of Association, relevant statutes and any special resolution of the Company.

The Articles of Association give the Directors the power to authorise conflicts of interest in relation to transactions or arrangements with the Company, in accordance with the Companies Act 2006. Conflicts of interest are a standing agenda item at Board meetings and each Director proposes any potential conflicts for consideration as soon as they become aware of them. The Director with the potential conflict is excluded from the vote to authorise the transaction or arrangement.

Any conflicts that are authorised are logged on a register, along with details of any specific terms imposed upon authorisation. Internal controls are in place to ensure that transactions or arrangements which may lead to a potential conflict of interest are conducted on an arm's length basis.

Directors' report – Corporate governance

Statement of Directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Director's 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 parent company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of the profit or loss of the group and parent company for that period.

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

- Select suitable accounting policies and then apply them consistently;
- State whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 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 the 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.

The directors are responsible for the maintenance and integrity of the parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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.

Conclusion on the Annual report

The Board is responsible for reviewing the Annual report and, after consideration, has concluded that the Annual report, taken as a whole, is fair, balanced and understandable and that it provides the necessary information for shareholders to assess the Group's position, performance, business model and strategy.

Amendments to the Company's Articles of Association

Any amendments to the Company's Articles of Association may be made by passing a special resolution at a general meeting of the shareholders.

Going concern

During the period under review and up to the date of signing we have 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, being growth rates in customer numbers and a reduction in the cost base following the disposal of the National ICT Business and with a reasonably plausible downside, we still expect covenant compliance.

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.

Directors' report – Corporate governance

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.

To do this, the Board has regular meetings with members of senior management and receives regular reports from each business area and the external auditors on the effectiveness of the systems of internal control and risk management.

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. A longer-term plan is also in place which is updated annually and approved by the Board to enable it to have a clear longer-term view of financial projections.

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 18 to 21 of the Strategic report.

Controls around consolidation

The basis of consolidation for the financial statements is detailed in Note 2 to the financial statements. Strong controls are in place around the process for preparing consolidated accounts. The work of consolidation is performed by experienced, qualified accountants and a review of the consolidation forms part of the audit work performed by our external auditors.

Stakeholder engagement

Stakeholders	Stakeholders' key interests	Ways we have engaged
Colleagues		
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.	<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 monthly updates colleagues • Board member safety walks and participation in wellbeing training • Employee engagement surveys Employee business improvement ideas programme
Customers		
Understanding our customers' needs and behaviours allows us to deliver relevant products and services, retain and attract customers and identify opportunities for growth.	<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
Community and local government		
KCOM has been at the heart of the Hull and East Yorkshire community since 1904 and we are committed to playing our part in making it a better place to live, work and invest.	<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
Suppliers		
We rely on the high standards of our carefully selected suppliers to deliver reliable services that meet customer needs.	<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
Regulators and government		
Our main regulatory relationship is with Ofcom.	<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 and KCOM's support of customers throughout the Covid-19 pandemic

Read more – Sustainability on pages 22 to 31.

Read more – KPIs on pages 14 to 17.

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 37.

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 33 to 36.

Read more – Stakeholder engagement on page 37.

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.

Directors

The names of the Directors who served during the year are on page 32.

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. The indemnity deed also obliges KCOM to maintain Directors' and Officers' insurance throughout the directorship and for six years after an individual ceases to be a Director.

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.

As well as an intranet we have internal communications tools that allow our people to post messages, share content and provide feedback to others across the business. We have a weekly round-up email which keeps everyone informed of activities and developments across the Group.

The Company does not offer any share-based incentives to employees and has no current plans to do so.

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.

Acquisition of own shares

During the year, the Company did not purchase any of its own shares.

Shares held by trusts

No shares are held in trust in relation to any employee share schemes or other employee benefits.

Allotted shares

No additional shares were allotted by the company during the year.

Directors' report – Other disclosures

Dividend

The Group did not declare or pay any dividends during the year (2020: nil).

Strategic report

Pursuant to Section 414c(11) of the Companies Act 2006 the Strategic report on pages 22 to 31 contains disclosures in relation to environmental matters, the Company's employees, social issues and gender diversity.

Proposal to re-appoint the external auditors

PricewaterhouseCoopers LLP have advised of their willingness to continue in office and have confirmed their continued independence. Following consideration of the relationship with the external auditors, it has been recommended to the Board that PricewaterhouseCoopers LLP are re-appointed. They have provided an independent audit opinion which can be found on pages 41 to 43.

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

Signed on behalf of the board



Samantha Booth

Chief Financial Officer

15 December 2021

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 company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2021 and of the group's profit and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements 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 accounts (the "Annual Report"), which comprise: the Consolidated and parent company balance sheets as at 31 March 2021; the Consolidated income statement and the Consolidated statement of comprehensive income, the Consolidated and parent company cash flow statements and the Consolidated and Parent company statements of changes in equity 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 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 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.

Independent auditors' report

to the members of KCOM Group Limited

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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

Based on 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 2021 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 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 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 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 taxation and 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 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:

Independent auditors' report

to the members of KCOM Group Limited

- Enquiring with management to understand relevant laws and regulations applicable to the 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;
- 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; and
- Reviewing correspondence with Ofcom to assess compliance with relevant 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 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 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 company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Andy Ward (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds

15 December 2021

Consolidated income statement

for the year ended 31 March 2021

	Note	2021 £'000	2020 (Restated*) £'000
Continuing operations			
Revenue	4	99,562	99,241
Operating expenses	5	(87,618)	(107,604)
Operating profit/(loss)		11,944	(8,363)
Finance income	9	1,069	192
Finance costs	9	(8,760)	(6,127)
Share of profit of associate	15	13	16
Profit/(loss) before taxation from continuing operations		4,266	(14,282)
Taxation	10	(1,235)	2,164
Profit/(loss) for the year from continuing operations attributable to owners of the Parent		3,031	(12,118)
Discontinued operations			
Profit from discontinued operations attributable to owners of the Parent	31	10,307	4,359
Profit/(loss) for the year attributable to owners of the Parent		13,338	(7,759)

* The prior year income statement has been restated to reflect the impact of classifying our National ICT Business activities as a discontinued operation (see Note 31).

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.

The profit for the Parent Company for the year was £Nil (2020: £150,000).

Consolidated statement of comprehensive income

for the year ended 31 March 2021

	Note	2021 £'000	2020 (Restated) £'000
Profit/(loss) for the year		13,338	(7,759)
Other comprehensive (expense)/income			
<i>Items that will not be reclassified to profit or loss:</i>			
Remeasurements of retirement benefit obligations	30	(29,712)	25,854
Tax on items that will not be reclassified	26	5,645	(4,912)
Total items that will not be reclassified to profit or loss		(24,067)	20,942
Total comprehensive (expense)/income for the year attributable to owners of the Parent		(10,729)	13,183
Total comprehensive (expense)/income for the year attributable to owners of the Parent arises from:			
Continuing operations		(21,036)	8,824
Discontinued operations		10,307	4,359
Total comprehensive (expense)/income for the year attributable to owners of the Parent		(10,729)	13,183

The Notes on pages 49 to 83 are an integral part of these consolidated financial statements.

Consolidated and parent company balance sheets

as at 31 March 2021

	Note	Consolidated		Parent Company	
		2021 £'000	2020 £'000	2021 £'000	2020 £'000
Assets					
Non-current assets					
Other intangible assets	12	30,325	34,030	—	—
Property, plant and equipment	13	141,053	134,235	—	—
Right-of-use assets	14	326	45,641	—	—
Investments	15	81	68	494,461	494,461
Retirement benefit asset	30	32,514	38,764	—	—
Deferred tax assets	26	1,865	5,811	—	—
Contract costs	16	695	5,129	—	—
		206,859	263,678	494,461	494,461
Current assets					
Inventories	17	3,357	4,638	—	—
Contract assets	18	1,168	3,318	—	—
Trade and other receivables	19	15,455	55,182	—	—
Cash and cash equivalents	23	8,320	15,126	—	—
		28,300	78,264	—	—
Assets classified as held for sale	31	86,249	—	—	—
		114,549	78,264	—	—
Total assets		321,408	341,942	494,461	494,461
Liabilities					
Current liabilities					
Trade and other payables	20	(14,743)	(42,306)	—	—
Contract liabilities	21	(7,711)	(20,158)	—	—
Lease liabilities	24	(575)	(14,086)	—	—
Loans from related parties	22	—	(148,661)	—	—
Provisions for other liabilities and charges	25	(350)	(3,580)	—	—
		(23,379)	(228,791)	—	—
Liabilities directly associated with assets classified as held for sale	31	(72,601)	—	—	—
		(95,980)	(228,791)	—	—
Non-current liabilities					
Trade and other payables	20	—	—	(450)	(450)
Deferred tax liabilities	26	(14,746)	(16,589)	—	—
Lease liabilities	24	(1,039)	(32,875)	—	—
Loans from related parties	22	(160,029)	—	—	—
Provisions for other liabilities and charges	25	(600)	(3,944)	—	—
		(176,414)	(53,408)	(450)	(450)
Total liabilities		(272,394)	(282,199)	(450)	(450)
Net assets		49,014	59,743	494,011	494,011
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)/retained earnings ¹		(356,239)	(345,510)	88,758	88,758
Total equity		49,014	59,743	494,011	494,011

1. Included within consolidated accumulated losses/retained earnings is a profit after tax of £13.3 million (2020: loss of £7.8 million) for the Group and profit after tax of £Nil (2020: £0.2 million) for the Parent Company.

The Notes on pages 49 to 83 are an integral part of these consolidated financial statements.

The financial statements on pages 44 to 83 were approved by the Board of Directors and authorised for issue on 14 December 2021.

They were signed on its behalf by:



Samantha Booth
Chief Financial Officer
15 December 2021

KCOM Group Limited
Registered number: 2150618

Consolidated statement of changes in equity

for the year ended 31 March 2021

	Note	Share capital £'000	Share premium account £'000	Accumulated losses £'000	Total equity £'000
At 1 April 2019		51,660	353,231	(359,740)	45,151
Loss for the year		—	—	(7,759)	(7,759)
Other comprehensive income		—	—	20,942	20,942
Total comprehensive income for the year ended 31 March 2020		—	—	13,183	13,183
Purchase of ordinary shares	27	—	—	(150)	(150)
Employee share schemes	11	—	—	1,683	1,683
Deferred tax charge relating to share schemes	26	—	—	(124)	(124)
Issue of ordinary shares	27	362	—	(362)	—
Transactions with owners		362	—	1,047	1,409
At 31 March 2020		52,022	353,231	(345,510)	59,743
Profit for the year		—	—	13,338	13,338
Other comprehensive expense		—	—	(24,067)	(24,067)
Total comprehensive expense for the year ended 31 March 2021		—	—	(10,729)	(10,729)
At 31 March 2021		52,022	353,231	(356,239)	49,014

The Notes on pages 49 to 83 are an integral part of these consolidated financial statements.

Parent company statement of changes in equity

for the year ended 31 March 2021

	Note	Share capital £'000	Share premium account £'000	Retained earnings £'000	Total equity £'000
At 1 April 2019		51,660	353,231	89,120	494,011
Profit for the year		—	—	150	150
Total comprehensive income for the year ended 31 March 2020		—	—	150	150
Purchase of ordinary shares	27	—	—	(150)	(150)
Issue of ordinary shares	27	362	—	(362)	—
Transactions with owners		362	—	(512)	(150)
At 31 March 2020		52,022	353,231	88,758	494,011
Result for the year		—	—	—	—
Total comprehensive income for the year ended 31 March 2021		—	—	—	—
At 31 March 2021		52,022	353,231	88,758	494,011

The Notes on pages 49 to 83 are an integral part of these consolidated financial statements.

Consolidated and parent company cash flow statements

for the year ended 31 March 2021

	Note	Consolidated		Parent Company	
		2021 £'000	2020 £'000	2021 £'000	2020 £'000
Cash flows from operating activities					
Operating profit/(loss) including discontinued operations	32	26,989	(2,238)	—	—
Adjustments for:					
– depreciation and amortisation	12,13	23,181	23,879	—	—
– right of use asset depreciation	14	14,571	15,151	—	—
– decrease/(increase) in working capital		3,864	(10,764)	—	—
– loss on disposal of other intangible assets	5	67	—	—	—
– loss on disposal of property, plant and equipment	5	10	—	—	—
– loss on disposal of leases	14	431	—	—	—
– non-employee-related pension charges	30	937	801	—	—
– share-based payment charge	11	—	1,685	—	—
Payments made to defined benefit pension schemes	30	(23,330)	(9,973)	—	—
Tax received		—	3,399	—	—
Net cash generated from operations		46,720	21,940	—	—
Cash flows from investing activities					
Purchase of property, plant and equipment	13	(31,295)	(18,068)	—	—
Purchase/generation of other intangible assets	12	(8,842)	(9,115)	—	—
Proceeds from the sale of property, plant and equipment		—	133	—	—
Dividends received		—	—	—	150
Net cash (used in)/generated from investing activities		(40,137)	(27,050)	—	150
Cash flows from financing activities					
Interest paid		(5,416)	(3,008)	—	—
Capital element of finance lease repayments	23	(15,152)	(14,242)	—	—
Repayment of bank loans		—	(150,000)	—	—
Drawdown of bank loans		—	35,000	—	—
Payment of loan issue costs		(182)	—	—	—
Prior year loans from related parties	22	24,475	145,289	—	—
Repayment of loans from related parties	22	(17,114)	—	—	—
Purchase of ordinary shares	27	—	(150)	—	(150)
Net cash (used in)/ generated from financing activities		(13,389)	12,889	—	(150)
(Decrease)/increase in cash and cash equivalents		(6,806)	7,779	—	—
Cash and cash equivalents at the beginning of the year		15,126	7,347	—	—
Cash and cash equivalents at the end of the year	23	8,320	15,126	—	—

The Notes on pages 49 to 83 are an integral part of these consolidated financial statements.

Notes to the financial statements

for the year ended 31 March 2021

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 31.

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 International Financial Reporting Standards (IFRS). 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 current economic conditions, including Brexit and the impact of Covid-19 continue to create uncertainty in the market. The company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company should be able to operate within the level of its current cash reserves and borrowings. 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 2020:

- Amendment to IFRS 9, IAS 39 and IFRS 7 "Interest Rate Benchmark Reform"
- Amendment to IFRS 16 "Covid-19-Related Rent Concessions"
- The Conceptual Framework For Financial Reporting
- Amendments to IFRS 3 "Definition of a business"
- Amendments to IAS 1 and IAS 8 "Definition of material"

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

New accounting standards, amendments and interpretations effective for annual periods beginning after 1 April 2021

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
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2	1 April 2021
Amendments to IFRS 3	References to the Conceptual Framework	1 April 2022
Amendments to IAS 16	Property, Plant and Equipment—Proceeds before Intended Use	1 April 2022
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 April 2022
Annual Improvements to IFRS Standards 2018-2020 Cycle	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture	1 April 2022
IFRS 17	Insurance contracts	1 April 2023
IFRS 10 and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Postponed
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	1 April 2023

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

Notes to the financial statements

for the year ended 31 March 2021

02 Accounting policies (continued)

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 2021. The results of new subsidiary undertakings are included from the dates of acquisition using the purchase method of consolidation. Where a company has ceased to be a subsidiary undertaking during the year, its results are included to the date of cessation.

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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's share of its associates' profits or losses is recognised in the income statement. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

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 2021. 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. Accordingly the net results of the National Business segment are presented within discontinued operations in the Group income statement (for which the comparatives have been restated) and the assets and liabilities of these operations are presented separately in the Group Balance Sheet. Further information is provided in Note 31.

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.

The Group also generates revenue for the sale of advertising space both online and in a paper directory distributed to consumers. Revenue from the sale of advertising space in the paper directory is recognised at the point in time that the directory is delivered to the consumers. Revenue from online advertising is recognised over time as the advert is available online.

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.

Notes to the financial statements

for the year ended 31 March 2021

02 Accounting policies (continued)

Revenue recognition (continued)

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.

Multi-element contracts including “installation” and “in-life” services

The Group frequently enters into large multi-element contracts which include two phases: an “installation” phase; and an “in-life” phases which represents the management of the IT platforms created during the “installation” phase.

The facts and circumstances of each contract must be analysed in order to determine whether separate distinct performance obligations exist. If the “installation phase” is deemed to be distinct, provided the Group has an enforceable right to payment during the “installation” phase, revenue is recognised over time on a stage of completion basis with reference to the costs incurred to date relative to the total expected costs to satisfy the performance obligation. If the Group does not have an enforceable right to payment, then revenue is recognised upon completion of the “installation” phase.

“In-life” revenue is recognised using a time-based measure over the enforceable term of the contract.

Similar to bundled offerings above, if the contractually agreed revenues for each phase do not represent a fair market value for the work performed, revenue is reallocated between the two phases based on typical selling prices had the phases been contracted separately.

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 on the face of the income statement. 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 2021

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. 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.

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.

Internally generated intangible assets are carried at cost less accumulated amortisation and are amortised on a straight-line basis over their estimated useful lives. 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
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 including labour costs 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

Notes to the financial statements

for the year ended 31 March 2021

02 Accounting policies (continued)

Property, plant and equipment (continued)

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.

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

Contract costs are comprised of costs of obtaining a contract and costs to fulfil a contract:

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.

Costs to fulfil a contract

Costs to fulfil a contract consist of initial direct costs incurred by the Group which generate or enhance resources available to satisfy performance obligations of the specific contract in the future. These costs are capitalised as incurred and subsequently released to the income statement on a basis consistent with the recognition of revenue as the performance obligations are satisfied.

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.

Notes to the financial statements

for the year ended 31 March 2021

02 Accounting policies (continued)

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 the amount of consideration that is unconditional. We do not have any material significant financing components. The Group holds trade receivables with the objective of collecting the contractual cash flows, and so it measures them subsequently at amortised cost using the effective interest method.

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.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the debtor;
- it is probable that the debtor will enter bankruptcy or other financial reorganisation; or
- a breach of contract such as default or delinquency in payments.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

The gross carrying amount of a financial asset is written off against the provision when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, this is done on a case-by-case basis. The Group expects no significant recovery from the amount written off, however, financial assets that are written off could still be subject to enforcement activities to comply with the Group's procedures for recovery of amounts due. Any subsequent recoveries of amounts previously written off are credited against operating expenses in the income statement.

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. Examples include:

- Milestone billing in the "installation phase" of a contract
Between performance milestones the Group does not have an unconditional right to receive consideration for performance completed to date, therefore a contract asset is recognised. Upon completion of the milestone, the contract asset is transferred to trade receivables.
- Bundled offerings combining the sale of a router and a fibre service for a fixed period
The router is provided at a reduced price leading to reallocation of a proportion of the amounts invoiced for the fibre service to the supply of the router. The excess of the amount allocated to the router is recognised as a contract asset and transferred to trade receivables as the fibre service is invoiced.

Contract assets, like trade receivables, are subject to impairment for credit risk.

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. Bank overdrafts are shown in current liabilities on the balance sheet unless a right of offset exists. 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.

Share capital

Ordinary shares are classified as equity.

Notes to the financial statements

for the year ended 31 March 2021

02 Accounting policies (continued)

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.

Prior year adjustments to current and deferred taxes are recognised if the estimated tax position differs from the final tax position subsequently agreed with the taxation authority.

Research and development (R&D) tax reliefs are recognised as a credit to profit before taxation in the year in which relief is claimed. Claims for R&D relief can be made up to two years after the end of the accounting period to which it relates, therefore the period in which the claim is recognised is not necessarily the same as the period in which the costs were borne. Unclaimed reliefs are not recognised.

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.

The Group uses derivative financial instruments to reduce its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its Treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are initially and subsequently recognised at fair value. Certain derivative financial instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of the resultant gain or loss depends on the nature of the item being hedged.

The fair value of the interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in other comprehensive income and the ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in other comprehensive income are included in the initial measurement of the asset or liability. For hedges that do not result in recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement in the period.

Notes to the financial statements

for the year ended 31 March 2021

02 Accounting policies (continued)

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.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Rental contracts typically have lease terms ranging from 12 months for assets such as fibres and cables up to 25 years for some network properties.

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.

Notes to the financial statements

for the year ended 31 March 2021

02 Accounting policies (continued)

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.

Employee share schemes and share-based payments

The Group has applied the requirements of IFRS 2. Prior to the acquisition by KCOM Holdco 3 Limited (formerly MEIF 6 Fibre Limited), the Group issued equity-settled share-based payments to certain employees.

Equity-settled employee schemes, including employee share options and discretionary long-term incentive schemes, provided employees with the option to acquire shares of the Company. Employee share options and long-term incentive schemes were generally subject to performance or service conditions.

The fair value of equity-settled share-based payments were measured at the date of grant and charged to the income statement over the period during which performance or service conditions were required to be met, or immediately where no performance or service criteria exist. The fair value of equity-settled share-based payments granted was measured using either the Black-Scholes or Monte Carlo model, depending on the terms under which the options were granted. When determining the fair value of share options with a two-year holding period, a Chaffe protected put method was used to apply a discount for the lack of marketability of the options. The amount recognised as an expense was adjusted to reflect the actual number of employee share options that vest, except where forfeiture is only due to market-based performance criteria not being met.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The Group also operated a Share Incentive Plan (SIP) under which employees had the option to purchase shares in the Company each month and offered employees free matching and partnership shares on a sliding scale of between 1:3 to 2:1. The Group recognised the free shares as an expense over the period of any applicable service condition, or immediately when no service condition exists.

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.

Notes to the financial statements

for the year ended 31 March 2021

02 Accounting policies (continued)

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.

Certain provisions are treated as exceptional items, in line with the treatment set out in our exceptional items accounting policy.

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.

Notes to the financial statements

for the year ended 31 March 2021

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 accounts, 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
Post-employment benefits (Continuing operations)		
<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:</p> <ul style="list-style-type: none"> • setting appropriate criteria to derive assumptions such as discount rates 	<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>
Valuation of investments in subsidiary undertakings (Parent Company) (Continuing operations)		
<p>The carrying value of investments held in subsidiary undertakings has to be assessed for impairment at the balance sheet date.</p> <p>Consistent with goodwill, the impairment assessment is based on the value in use, which is derived from a discounted cash flow model and/or the recoverable amount.</p> <p>The value in use is calculated using the present value of future cash flows expected to arise from the subsidiaries, by applying an appropriate discount rate to the timing and amount of cash flows.</p>	<p>The Directors apply judgement in determining the appropriate discount rate using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the investments.</p> <p>The Directors also apply judgement in determining the budgeted cash flows and a long-term, terminal growth rate.</p> <p>The Directors also apply judgement in the consideration of alternative valuation methodologies, namely, fair value less cost to sell.</p>	<p>In order to calculate the value in use, the Directors are required to estimate the amount and timing of cash flows applicable to the subsidiaries to which the investments relate. These are based on current budgets and forecasts and extrapolated for an appropriate period taking into account growth rate and expected changes to selling prices and operating costs.</p>
Leases (Continuing and discontinued operations)		
<p>Lease accounting requires determination of the lease term, which is defined as the noncancellable 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 of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.</p>
Significant contracts (Discontinued operations)		
<p>The Group, at times enters into significant and complex contracts with customers. These contracts may contain multiple elements including, but not limited to, an "installation" or "project phase" and an "in-life" or "managed service".</p> <p>In accordance with IFRS 15, the number of performance obligations must be identified and the transaction price allocated to each of them based on their standalone selling price.</p> <p>Provided the "installation" phase represents a performance obligation, revenue is recognised on a stage of completion basis if there is an enforceable right to payments. Otherwise costs are capitalised on the balance sheet and subject to impairment during the "installation" phase and upon completion revenue is recognised and the costs are released.</p>	<p>The Directors are required to make judgements when identifying the number of performance obligations within a contract and, due to the bespoke nature of the contracts, when allocating the transaction price between performance obligations.</p> <p>For performance obligations satisfied over time, the Directors are required to make judgements in determining the total costs to complete</p>	<p>In determining revenue and cost recognition on ongoing contracts, and the associated carrying value of assets and liabilities at the balance sheet date, the Directors are required to estimate total contract costs to complete.</p> <p>Taking into account the number of contracts entered into the Directors do not consider there to be any individual estimates made which could have a significant risk of 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 2021

04 Revenue

The Group derives revenue from providing communication and internet-based services to consumer and business customers within Hull, East Yorkshire and the surrounding areas.

Certain customers previously presented in the National Business segment have not been classified as part of the discontinued operation as they remain with KCOM following the sale. As such, £0.7 million of revenue has been restated to Regional Business for the year ended 31 March 2020.

The results for the year ended 31 March 2021 and for the year ended 31 March 2020, excluding amounts relating to discontinued operations, disaggregated by customer type are as follows:

Consolidated	2021 £'000	Restated 2020 £'000
Consumer	62,858	60,117
Regional Business	26,802	27,273
Wholesale	9,002	10,558
Other	900	1,293
Total from continuing operations	99,562	99,241

Derived from:

External customers	97,648	96,906
Inter-Group from discontinued operations	1,914	2,335
Total from continuing operations	99,562	99,241

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% of Group revenue.

The analysis of the Group's revenue between sale of goods and the provision of services is as follows:

Consolidated	2021 £'000	2020 £'000
Sale of goods	3,782	3,989
Provision of services	95,780	95,252
Group total	99,562	99,241

05 Operating expenses

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

Consolidated	Note	2021 £'000	Restated 2020 £'000
Staff costs		39,944	44,963
Restructuring costs relating to employees	7,8	1,610	2,355
Settlement of share schemes	7,8	—	1,948
Total staff costs	8	41,554	49,266
Own work capitalised	12,13	(7,963)	(7,144)
Other external charges		35,340	30,814
Auditors' remuneration	6	240	173
Amortisation of intangible assets	12	5,862	5,106
Depreciation of property, plant and equipment	13	11,427	11,652
Depreciation of right-of use assets	14	673	983
Right of use asset impairment	14	—	1,939
Non-employee related restructuring costs	7	61	1,370
Acquisition related costs	7	—	11,790
Onerous contract costs	7	—	1,176
Impairment loss on trade receivables and contract assets	28	347	479
Loss on disposal of other intangibles	12	67	—
Loss on disposal of property, plant and equipment	13	10	—
Total		87,618	107,604

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

Notes to the financial statements

for the year ended 31 March 2021

05 Operating expenses (continued)

Reconciliation of EBITDA before exceptional items to operating profit/(loss):

Consolidated	Note	2021 £'000	2020 (Restated*) £'000
Operating profit/(loss) from continuing operations analysed as:			
EBITDA before exceptional items		31,577	29,956
Right-of-use asset impairment	7	—	(1,939)
Other exceptional charges	7	(1,671)	(18,639)
Depreciation of property, plant and equipment	13	(11,427)	(11,652)
Amortisation of intangible assets	12	(5,862)	(5,106)
Depreciation of right of use assets	14	(673)	(983)
Operating profit/(loss) from continuing operations		11,944	(8,363)

06 Auditors' remuneration

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

Consolidated	2021 £'000	2020 £'000
Fees payable to the Company's auditors for the audit of the Company's annual financial statements and the consolidated financial statements	110	66
Fees payable to the Company's auditors and their associates for other services:		
– the audit of the Company's subsidiaries	399	239
– audit-related assurance services ¹	29	28
– other non-audit services	10	6
Total	548	339
Attributable to:		
– continuing operations	240	173
– discontinuing operations	308	166
Total	548	339

1. Relates to regulatory audit.

The auditor's remuneration for the year ended 31 March 2020 disclosed in the prior year and in the comparative of the table above does not include £123,000 of additional fees that were agreed after signing the accounts. The combined total audit fee for the year ended 31 March 2020 is £462,000.

07 Exceptional items

Consolidated	Note	2021 £'000	Restated 2020 £'000
Restructuring costs		1,671	3,725
Acquisition related costs		—	11,790
Settlement of share schemes (LTIP & MyShare)	11	—	1,948
Onerous contract costs		—	1,176
ROU asset impairment	14	—	1,939
Total charge to the income statement – continuing operations		1,671	20,578

The Directors continue to recognise the need to differentiate costs incurred outside the normal course of business from the underlying trading performance.

In the year ended 31 March 2021, exceptional restructuring costs of £1.7 million were incurred (2020: £3.7 million). Management scrutinises all restructuring costs on a line by line basis to determine whether they meet the exceptional criteria. During the year, these were incurred in the following two main areas:

- Organisation design change costs of £1.5 million (2020: £1.4 million) across all areas of the business following the application of cost saving measures introduced by the 'Fit for growth project' in the prior year. These costs predominantly relate to redundancy and associated exit costs for employees to reduce the size and complexity of our workforce and better align to our new operating model.
- £0.2 million (2020: £1.0 million) of costs have been incurred for termination costs associated with the exit of Executive Directors. These are treated as exceptional in line with our Group accounting policy.

As part of our site rationalisation strategy, during the prior year, we made the decision to exit a leasehold property in Finsbury Square, London. This was a lease arrangement with just over 4 years remaining. This had the impact of creating a charge under IAS 37 for unavoidable contract costs of £1.2 million and a £1.9 million ROU asset impairment charge under IFRS 16.

Notes to the financial statements

for the year ended 31 March 2021

07 Exceptional items (continued)

In the prior year, £11.8 million of acquisition related costs were incurred, primarily relating to external consultant and advisor fees associated with the purchase of all the ordinary share capital by KCOM Holdco 3 Limited (formerly MEIF 6 Fibre Limited) in July 2019. Fit for growth project costs of £1.3 million in relation to third-party consultant costs were incurred as part of the post-acquisition business review.

Linked to the acquisition, £1.9 million of share scheme costs for the Long-Term Incentive Plan ("LTIP") and Employee SIP scheme ("MyShare") were incurred. Further details are provided in Note 11. These are all considered to be significant expenses outside of the normal course of business.

The combined effect of exceptional items is a credit of £0.3 million (2020: credit of £1.3 million) in respect of current tax and £Nil (2020: £0.2 million) in respect of deferred tax.

Cash flow impact of exceptional items was an outflow of £4.7 million (2020: outflow of £15.4 million). The impact on working capital of exceptional items was £Nil (2020: outflow of £1.0 million).

08 Employees and remuneration

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

	Number of employees	
	2021	2020
Consumer & Regional Business	229	454
Central	564	628
Continued operations	793	1,082
Discontinued operations	509	372
Total	1,302	1,454

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	2021			2020		
		Continuing operations £'000	Discontinued operations £'000	Total £'000	Continuing operations £'000	Discontinued operations £'000	Total £'000
Wages and salaries		34,010	28,138	62,148	37,767	25,160	62,927
Social security costs		3,032	2,770	5,802	3,724	2,734	6,458
Other pension costs	30	2,902	1,556	4,458	3,136	1,513	4,649
Share scheme costs	11	—	—	—	336	—	336
Settlement of share scheme costs	7,11	—	—	—	1,948	—	1,948
Restructuring costs relating to employees	7,8	1,610	1,307	2,917	2,355	4,705	7,060
Total		41,554	33,771	75,325	49,266	34,112	83,378
Less own work capitalised	12,13	(7,963)	(470)	(8,433)	(7,144)	(324)	(7,468)
Charged to the income statement		33,591	33,301	66,892	42,122	33,788	75,910

All of the Group's employees were employed by KCOM Group Limited during the year ended 31 March 2021. 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	2021 £'000	2020 £'000
Remuneration		534	758
Aggregate amounts receivable under long term incentive plans		—	1,661
Company contributions paid to money purchase pensions schemes		85	90
Compensation for loss of office	7	160	950
Total		779	3,459

Consolidated	2021 No.	2020 No.
Members of money purchase pension schemes	1	3

Notes to the financial statements

for the year ended 31 March 2021

08 Employees and remuneration (continued)

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

	2021	2020
Consolidated	£'000	£'000
Remuneration	434	2,085
Company contributions paid to money purchase pension schemes	82	48
Total remuneration (including amounts receivable under long term incentive plans)	516	2,133

09 Finance income and costs

Consolidated	Note	2021 £'000	Restated 2020 £'000
Finance income:			
Retirement benefit obligations	30	1,069	192
Total finance income		1,069	192
Finance costs:			
Bank loans, overdrafts and other loans		(59)	(1,840)
Retirement benefit obligations		—	—
Interest charged on loans from related parties	22	(8,469)	(3,372)
Interest on lease liabilities	24	(50)	(62)
		(8,578)	(5,274)
Amortisation of loan arrangement fees		(182)	(238)
Exceptional finance charge		—	(615)
Total finance costs		(8,760)	(6,127)
Net finance costs		(7,691)	(5,935)

The amounts above exclude finance costs of £0.9 million (2020: £1.0 million) relating to discontinued operations (see Note 31).

Subsequent to the acquisition by KCOM Holdco 3 Limited (formerly MEIF 6 Fibre Limited) and due to the trigger of a change in control clause in the external revolving credit facility agreement, the full outstanding amount of the loan was settled in October 2019. Consequently, £0.6 million of unamortised loan arrangement fees were written off in the prior year when the loan was repaid. These have been separated from the underlying finance costs as they are one-off in nature.

10 Taxation

Analysis of tax charge/(credit) in the year

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

Consolidated	Note	2021 £'000	Restated 2020 £'000
UK corporation tax:			
– current tax on profit/(loss) for the year		—	(1,022)
– adjustment in respect of prior years		—	(1,517)
Total current tax		—	(2,539)
UK deferred tax:			
Origination and reversal of temporary differences in respect of:			
– profit/(loss) for the year		1,966	(646)
– change in rate		2	564
– adjustment in respect of prior years		365	(525)
– charge in respect of retirement benefit obligation		2,786	1,779
Total deferred tax	26	5,119	1,172
Total taxation charge/(credit) for the year		5,119	(1,367)
Income tax charge/(credit) attributable to:			
Profit/(loss) from continuing operations		1,235	(2,164)
Profit from discontinued operations		3,884	797
Total taxation charge/(credit) for the year		5,119	(1,367)

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for the year ended 31 March 2021

10 Taxation (continued)

Factors affecting tax charge/(credit) for the year

	2021 £'000	2020 £'000
Consolidated		
Profit/(loss) before taxation	18,457	(9,126)
Profit/(loss) before taxation at the standard rate of corporation tax in the UK of 19% (2020: 19%)	3,507	(1,734)
Effects of:		
– expenses not deductible for tax purposes	1,245	1,845
– adjustment in respect of prior years	365	(2,042)
– change in rate reflected in the deferred tax asset	2	564
Total taxation charge/(credit) for the year	5,119	(1,367)

Factors affecting the current and future tax charges

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2015 (on 26 October 2015) and Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020. A further change to the main UK corporation tax rate was announced in the Budget on 11 March 2020, this was substantively enacted for IFRS purposes on 17 March 2020. The rate applicable from 1 April 2020 now remains at 19%, rather than the previously enacted reduction to 17%. Deferred taxes at the balance sheet date have been measured using the enacted tax rate of 19%.

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. At the balance sheet date, the proposal to increase the rate to 25% had not been substantively enacted. Substantive enactment occurred on 24 May 2021; therefore, its effects are not included in these financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, would be to increase the tax expense for the period by £4,068,000 and to increase the deferred tax liability by £4,068,000.

11 Share-based payments

The Group had no share-based payment schemes (2020: two) in existence during the year ended 31 March 2021.

On 30 July 2019, KCOM Holdco 3 Limited (formerly MEIF 6 Fibre Limited) acquired 100% of the ordinary share capital of KCOM Group Limited via a Scheme of Arrangement. It became effective on 1 August 2019 and KCOM Group Limited was de-listed from the premium list of the London Stock Exchange on 2 August 2019.

As part of the acquisition, KCOM Holdco 3 Limited (formerly MEIF 6 Fibre Limited) acquired all shares that were in issue, leading to the cessation of both the SIP and LTIP schemes and acceleration of the costs upon vesting.

In the year ended 31 March 2020, the Group recognised a total charge of £2,284,000 relating to equity-settled share-based payment transactions. The total amount recognised in reserves was £1,683,000.

Share Incentive Plan (SIP)

The SIP was open to all employees. Under the SIP scheme, employees entered into an agreement to purchase shares in the Company each month. For each share purchased by an employee the Company awarded matching shares on a sliding scale of between 1:3 to 2:1. The matching shares were held in trust and passed to the employee after five years' service. During this vesting period both shares purchased by the employees and matching shares were entitled to receive dividends which are used to buy additional shares.

Matching shares were allocated each month at market value with this fair value charge being recognised in the income statement over the vesting period. The cost recognised in the income statement relating to matching shares during the year ended 31 March 2020 was £1,033,000. The charge up to the date of acquisition of £203,000 is recognised in operating expenses. The acceleration of £830,000, arising as a consequence of the acquisition, is included in exceptional charges. Under the scheme rules, a change in control event allows for the shares in issue to vest in full, with no penalty for not reaching the 5 years of service normally required to retain the matching shares. The total amount recognised in reserves was £1,033,000.

The number of matching shares granted by the Company during the year ended 31 March 2020 was 127,221. The cash transferred by the Company in order to purchase these shares was £150,000.

Long-Term Incentive Plan (LTIP)

The LTIP was an equity-settled share-based payment scheme open to the Executive Directors and selected senior employees at the discretion of the Remuneration Committee. The awards were granted at £Nil cost and vested dependent on Total Shareholder Return (TSR) performance over a three-year performance period relative to the TSR performance of each company within a comparator group. No options were granted during the current or prior year as a result of the acquisition of KCOM Group Limited by KCOM Holdco 3 Limited (formerly MEIF 6 Fibre Limited). During the year ended 31 March 2020 certain options lapsed due to employees leaving the business prior to the acquisition and the scheme with the grant date of 8 July 2016 also lapsed due to the vesting conditions not being met. All remaining options outstanding at the beginning of the year vested upon acquisition.

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for the year ended 31 March 2021

11 Share-based payments (continued)

	Number	Weighted average exercise price (pence)
Outstanding at 1 April 2019	4,787,062	Nil
Lapsed during the year	(1,168,442)	Nil
Vested during the year	(3,618,620)	Nil
Outstanding at the 31 March 2020	—	Nil

The expense recognised in the year ended 31 March 2020 in relation to the LTIP scheme was £1,251,000. The charge up to the date of acquisition of £133,000 was recognised in operating expenses. The acceleration of £1,118,000, arising as a consequence of the acquisition, was included in exceptional charges. The total amount recognised in reserves was £650,000.

12 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 2019		35,652	59,436	49,257	6,294	3,974	154,613
Additions		21	2,972	—	—	1,348	4,341
Own work capitalised	8	2,543	964	—	—	1,033	4,540
Disposals		(7)	(52)	—	—	—	(59)
Transfers		1,241	3,810	—	—	(3,682)	1,369
At 31 March 2020		39,450	67,130	49,257	6,294	2,673	164,804
Additions		278	597	—	—	3,257	4,132
Own work capitalised	8	2,443	135	—	—	1,988	4,566
Disposals		(89)	(11)	—	—	—	(100)
Transfers		948	622	—	—	(1,932)	(362)
Transfer to assets held for sale	31	(3,905)	(6,332)	—	—	(344)	(10,581)
At 31 March 2021		39,125	62,141	49,257	6,294	5,642	162,459
Accumulated amortisation							
At 1 April 2019		25,708	41,303	49,257	6,294	—	122,562
Charge for the year		3,567	4,648	—	—	—	8,215
Disposals		(3)	—	—	—	—	(3)
At 31 March 2020		29,272	45,951	49,257	6,294	—	130,774
Charge for the year		3,141	5,354	—	—	—	8,495
Disposals		(29)	(4)	—	—	—	(33)
Transfer to assets held for sale	31	(2,747)	(4,355)	—	—	—	(7,102)
At 31 March 2021		29,637	46,946	49,257	6,294	—	132,134
Carrying amount							
At 31 March 2021		9,488	15,195	—	—	5,642	30,325
At 31 March 2020		10,178	21,179	—	—	2,673	34,030
At 1 April 2019		9,944	18,133	—	—	3,974	32,051

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

£5.9 million (2020: £5.1 million) of the amortisation charge for the year and £4.1 million (2020: £4.2 million) of own work capitalised relates to continuing operations.

Notes to the financial statements

for the year ended 31 March 2021

13 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 2019		14,530	113,083	187,048	57,738	10,969	383,368
Additions		—	580	6,293	3,065	5,932	15,870
Own work capitalised	8	—	185	1,831	9	903	2,928
Disposals		—	—	(50)	(431)	—	(481)
Transfers		—	60	1,782	2,265	(5,477)	(1,370)
At 31 March 2020		14,530	113,908	196,904	62,646	12,327	400,315
Additions		—	48	7,935	2,074	17,882	27,939
Own work capitalised	8	—	—	1,857	55	1,955	3,867
Disposals		—	—	(4)	(8)	—	(12)
Transfers		—	41	2,401	1,034	(3,114)	362
Transfer to assets held for sale	31	(1,107)	(5,173)	(5,272)	(8,748)	(2,157)	(22,457)
At 31 March 2021		13,423	108,824	203,821	57,053	26,893	410,014
Accumulated depreciation							
At 1 April 2019		11,544	78,838	115,046	45,392	—	250,820
Charge for the year		353	3,499	6,587	5,225	—	15,664
Disposals		—	—	—	(404)	—	(404)
At 31 March 2020		11,897	82,337	121,633	50,213	—	266,080
Charge for the year		353	3,223	6,833	4,277	—	14,686
Disposals		—	—	—	(2)	—	(2)
Transfer to assets held for sale	31	(1,037)	(2,523)	(2,868)	(5,375)	—	(11,803)
At 31 March 2021		11,213	83,037	125,598	49,113	—	268,961
Net book value							
At 31 March 2021		2,210	25,787	78,223	7,940	26,893	141,053
At 31 March 2020		2,633	31,571	75,271	12,433	12,327	134,235
At 1 April 2019		2,986	34,245	72,002	12,346	10,969	132,548

£11.4 million (2020: £11.7 million) of the depreciation charge for the year and £3.9 million (2020: £2.9 million) of own work capitalised relates to continuing operations.

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for the year ended 31 March 2021

14 Right-of-use assets

Consolidated	Note	Land and buildings £'000	Exchange equipment £'000	External plant £'000	Vehicles, other apparatus and equipment £'000	Total £'000
Carrying amount						
At 1 April 2019		10,935	12,650	30,453	558	54,596
Additions		258	565	7,607	548	8,978
Disposals		(220)	(43)	(1,107)	(8)	(1,378)
At 31 March 2020		10,973	13,172	36,953	1,098	62,196
Additions		—	—	6,078	18	6,096
Modifications		268	—	7	19	294
Disposals		(695)	(168)	(5,497)	(449)	(6,809)
Transfer to assets held for sale	31	(8,409)	(13,004)	(37,541)	—	(58,954)
At 31 March 2021		2,137	—	—	686	2,823
Accumulated depreciation						
At 1 April 2019		—	—	—	—	—
Charge for the year		2,252	2,704	9,759	436	15,151
Disposals		(59)	(43)	(429)	(4)	(535)
Impairment loss	7	1,939	—	—	—	1,939
At 31 March 2020		4,132	2,661	9,330	432	16,555
Charge for the year		1,546	2,629	9,950	446	14,571
Disposals		(672)	(168)	(5,089)	(449)	(6,378)
Transfer to assets held for sale	31	(2,938)	(5,122)	(14,191)	—	(22,251)
At 31 March 2021		2,068	—	—	429	2,497
Net book value						
At 31 March 2021		69	—	—	257	326
At 31 March 2020		6,841	10,511	27,623	666	45,641
At 1 April 2019 (on transition)		10,935	12,650	30,453	558	54,596

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.

£0.7 million (2020: £1.0 million) of the depreciation charge for the year relates to continuing operations.

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:

Consolidated	2021 £'000	2020 £'000
Short-term leases	124	24
Low-value asset leases	499	346
Total	623	370

15 Investments

Consolidated	Shares in associate £'000
Cost	
At 1 April 2019	62
Share of net profit for the year	16
Dividends received from associate	(10)
At 31 March 2020	68
Share of net profit for the year	13
At 31 March 2021	81
Amounts written off	
At 1 April 2019, 31 March 2020 and 31 March 2021	—
Net book value	
At 31 March 2021	81
At 31 March 2020	68
At 1 April 2019	62

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for the year ended 31 March 2021

15 Investments (continued)

Parent Company	Shares in subsidiary undertakings £'000
Cost	
At 1 April 2019, 31 March 2020 and 31 March 2021	494,511
Amounts written off	
At 1 April 2019, 31 March 2020 and 31 March 2021	50
Net book value	
At 1 April 2019, 31 March 2020 and 31 March 2021	494,461

Subsidiary undertakings (as at 31 March 2021)

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
Network Holdco 3 BV*	Holland ²	Ordinary shares	100%	Dormant
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%	Dormant holding company
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 ³	Ordinary shares	100%	Intermediate holding company
KCOM Central Asset Reserve Limited Partnership*	Scotland ³	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%	Dormant
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%	Dormant
Eclipse Internet Limited*	England and Wales ¹	Ordinary shares	100%	Dormant
Kingston Communications (Hull) Limited*	England and Wales ¹	Ordinary shares	100%	Dormant
Omnetica Investment Limited*	England and Wales ¹	Ordinary shares	100%	Dormant holding company
Omnetica Inc*	USA ⁴	Ordinary shares	100%	Dormant
Smart421 Limited*	England and Wales ¹	Ordinary shares	100%	Dormant
Smart421 Solutions Inc*	USA ⁵	Ordinary shares	100%	Dormant
Smartintegrator Technology Limited*	England and Wales ¹	Ordinary shares	50%	Software development

* Indicates indirect shareholding.

1. 37 Carr Lane, Hull HU1 3RE.

2. Prins Bernhardplein 200, 1097 JB Amsterdam, The Netherlands.

3. 50 Lothian Road, Festival Square, Edinburgh EH3 9WJ.

4. 200 Knickerbocker Avenue, Bohemia, New York, 11716, USA.

5. 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.

16 Contract costs

Consolidated	2021 £'000	2020 £'000
Costs of obtaining a contract	695	1,996
Costs of fulfilling a contract	—	3,133
Total	695	5,129

The costs of obtaining a contract are comprised of sales commissions paid to employees. The costs of fulfilling a contract relate primarily to set-up activities that are not deemed to represent a performance obligation or in circumstances where it has been determined that there is no enforceable right to payment during the project phase and thus revenue cannot be recognised until project completion. The asset is amortised on a straight-line basis over the term of the specific contract it relates to, consistent with the pattern of recognition of the associated revenue. Capitalised contract costs of £0.4 million (2020: £0.4 million) relating to continuing operations were amortised and included in operating expenses.

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for the year ended 31 March 2021

17 Inventories

	2021 £'000	2020 £'000
Consolidated		
Raw materials and consumables	3,357	3,794
Equipment for resale	—	844
Total	3,357	4,638

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

Write-downs of inventories to net realisable value amounted to £0.1 million (2020: £0.2 million). These were recognised as an expense during the year ended 31 March 2021 and were included in 'operating expenses' in the consolidated income statement.

Inventories recognised as an expense during the year ended 31 March 2021 amounted to £0.6 million (2020: £1.0 million). These were included in operating expenses.

18 Contract assets

	2021 £'000	2020 £'000
Consolidated		
Contract assets	1,168	3,318

Contract assets represent the right to consideration in exchange for goods or services that we have transferred to the customer. A contract asset becomes a receivable when our right to consideration is unconditional.

The carrying amount of contract assets has decreased by £2.2 million to £1.2 million primarily due to £1.6 million of contract assets being classified as assets held for sale in the current year (see Note 31 for further details).

19 Trade and other receivables

	2021 £'000	2020 £'000
Trade receivables (net)	3,019	24,263
Amounts due from related parties	334	—
Other receivables	4,060	3,589
Prepayments	7,066	18,869
Unbilled receivables (net)	976	8,461
Total	15,455	55,182

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 2021 and the year ended 31 March 2020. An allowance has been made for estimated irrecoverable amounts from the sale of goods and services of £0.7 million (2020: £1.4 million). Note 28 provides further disclosures regarding the allowance for irrecoverable amounts and the credit risk of the Group's trade receivables.

Amounts due from related parties are unsecured, have no fixed date of repayment and bear no interest.

20 Trade and other payables

	Consolidated		Parent Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Current				
Trade payables	6,632	18,715	—	—
Other taxes and social security costs	1,150	7,488	—	—
Other payables	126	1,019	—	—
Accruals	6,835	15,084	—	—
Total	14,743	42,306	—	—
Non-current				
Amounts due to subsidiary undertakings	—	—	450	450
Total	—	—	450	450

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs.

Amounts owed to subsidiary undertakings are unsecured and have no fixed date of repayment. However, the subsidiary undertakings have confirmed that none of the amounts are due within one year. Interest at market rates is charged on amounts due to subsidiary undertakings after more than one year, except for amounts due to dormant entities where Nil interest is charged.

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21 Contract liabilities

Consolidated	2021 £'000	2020 £'000
Contract liabilities	7,711	20,158

During the year revenue of £4.2 million has been recognised in relation to the contract liability at the beginning of the period which relates to continuing operations.

The carrying amount has decreased by £12.4 million to £7.7 million as of 31 March 2021, this is primarily due to £8.6 million being classified as liabilities associated with assets held for sale (see Note 31 for further details).

22 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	2021 £'000	2020 £'000
Loans from related parties		
Beginning of year	148,661	—
Loans advanced	24,475	145,289
Interest charged	8,469	3,372
Loan repayment	(17,114)	—
Interest paid	(4,462)	—
End of year	160,029	148,661

On 31 October 2019 a direct subsidiary KCH (Holdings) Limited entered into an Intercompany Loan Agreement with the direct parent company, KCOM Holdco 3 Limited (formerly MEIF 6 Fibre Limited), for £145.3 million repayable within 360 days along with any accrued interest accrued at a rate of 5.5%. Therefore, as at the 31 March 2020 there was the loan of £145.3 million along with £3.4 of accrued interest payable within one year.

On 29 September 2020 the parent company entered into a new external loan agreement to fund the activities of the company and its subsidiaries (see Note 33 for further details). As a consequence, on 26 October 2020, KCOM Holdco 3 Limited (formerly MEIF 6 Fibre Limited) entered into a new Intercompany Loan Agreement with KCH (Holdings) Limited to provide a loan of up to £165.0 million 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%.

23 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	2021 £'000	2020 £'000
Cash and cash equivalents		8,320	15,126
Loan from related parties	22	(160,029)	(148,661)
Total net debt excluding lease liabilities		(151,709)	(133,535)
Lease liabilities (IFRS 16 definition)	24	(1,614)	(46,961)
Total net debt		(153,323)	(180,496)

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.

Cash and cash equivalents, which are presented as a single class of assets on the face of the balance sheet, comprise cash at bank, short-term deposits and other short-term, highly liquid investments with maturity of three months or less.

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	Bank loans £'000	Loans from related parties £'000	
Net debt at 1 April 2019	7,347	(12,411)	(41,332)	(114,129)	—	(160,525)
Cash flows	7,779	15,271	—	115,000	(145,289)	(7,239)
Other non-cash movements	—	(16,946)	8,457	(871)	(3,372)	(12,732)
Net debt at 31 March 2020	15,126	(14,086)	(32,875)	—	(148,661)	(180,496)
Cash flows	(6,806)	15,152	—	—	(2,899)	5,447
Other non-cash movements	—	(1,641)	31,836	—	(8,469)	21,726
Net debt at 31 March 2021	8,320	(575)	(1,039)	—	(160,029)	(153,323)

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24 Lease liabilities

Consolidated	2021	2020
	£'000	£'000
Lease liabilities:		
Minimum lease payments:		
– within 12 months	603	14,719
– in 1 to 5 years	1,060	35,301
– after 5 years	—	355
	1,663	50,375
Future finance charges	(49)	(3,414)
Present value of finance lease liabilities	1,614	46,961
The present value of finance lease liabilities is as follows:		
– within 12 months	575	14,086
– in 1 to 5 years	1,039	32,523
– after 5 years	—	352
Total	1,614	46,961

An interest expense of £0.9 million (2020: £1.0 million) was recognised in the year in relation to lease liabilities. Of this £50,000 (2020: £62,000) related to continuing operations (see Note 9).

The total cash outflow for leases during the year was £22.4 million (2020: £26.9 million) including £6.8 million (2020: £11.6 million) relating to short-term and low-value asset leases which have not been included in the finance lease liability. Of this, £1.0 million of the cash outflow for the year relates to continuing operations.

25 Provisions for other liabilities and charges

Consolidated	Dilapidations £'000	Onerous Contracts £'000	Restructuring £'000	Total £'000
At 1 April 2020	3,403	1,138	2,983	7,524
Established in the year	48	243	—	291
Unused amounts reversed	(105)	—	—	(105)
Utilised in the year	(159)	(491)	(2,983)	(3,633)
Transferred to liabilities associated with assets held for sale	(3,127)	—	—	(3,127)
At 31 March 2021	60	890	—	950
Total provisions for other liabilities and charges 2021				
Included in current liabilities	60	290	—	350
Included in non-current liabilities	—	600	—	600
At 31 March 2021	60	890	—	950
Total provisions for other liabilities and charges 2020				
Included in current liabilities	331	266	2,983	3,580
Included in non-current liabilities	3,072	872	—	3,944
At 31 March 2020	3,403	1,138	2,983	7,524

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 3.5 years. This cost excludes the lease rental payments that are included as a lease liability under IFRS 16.

The restructuring provision related to organisation design changes as referenced in Note 7, this has been fully settled in the current year.

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26 Deferred taxation assets and liabilities

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

	Assets		Liabilities		Net	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Consolidated						
Property, plant and equipment	—	—	(6,862)	(5,565)	(6,862)	(5,565)
Tax losses	1,865	2,092	—	—	1,865	2,092
Other timing differences	—	—	(10)	(20)	(10)	(20)
Retirement benefit obligation	—	—	(4,506)	(7,365)	(4,506)	(7,365)
Intangible assets on acquisition	—	3,719	—	—	—	3,719
Asset-backed partnership	—	—	(3,368)	(3,639)	(3,368)	(3,639)
	1,865	5,811	(14,746)	(16,589)	(12,881)	(10,778)

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

	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
Consolidated								
At 1 April 2019		(4,617)	—	346	(603)	3,789	(3,485)	(4,570)
(Charged)/credited to the income statement	10	(948)	2,092	(242)	(1,850)	(70)	(154)	(1,172)
Charged directly to equity and other comprehensive income		—	—	(124)	(4,912)	—	—	(5,036)
At 31 March 2020		(5,565)	2,092	(20)	(7,365)	3,719	(3,639)	(10,778)
(Charged)/credited to the income statement	10	(1,871)	(227)	10	(2,786)	(516)	271	(5,119)
Credited directly to equity and other comprehensive income		—	—	—	5,645	—	—	5,645
Re-classified as assets held for sale	31	—	—	—	—	(3,203)	—	(3,203)
Re-classified as liabilities directly associated with assets held for sale	31	574	—	—	—	—	—	574
At 31 March 2021		(6,862)	1,865	(10)	(4,506)	—	(3,368)	(12,881)

There are £Nil deferred tax assets in the Parent Company (2020: £Nil).

Deferred tax assets include an amount of £2.1 million of tax losses carried forward from the previous financial year. A further £3.3 million of tax losses relating to continued operations have been credited to the income statement in the current financial year. The tax losses have been generated due to significant one-off costs relating to the acquisition, restructuring of the business, disposal of the National ICT Business and a one-off pension deficit repair payment.

The tax loss was reduced by a tax charge to the income statement of £3.5 million relating to discontinued operations, resulting in an overall credit of £0.2 million to deferred tax losses brought forward.

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 Group is expected to generate taxable income from the year ended 31 March 2022 onwards. The losses are expected to be utilised over the next 4 years.

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

	Not recognised	
	2021 £'000	2020 £'000
Losses	289	462

Deferred tax assets of £1.9 million (2020: £5.8 million) 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 £0.3 million (2020: £0.5 million) 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.

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for the year ended 31 March 2021

27 Called-up share capital

	2021 £'000	2020 £'000
Allotted, called up and fully paid		
520,222,530 (2020: 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 (2020: Nil). However, prior to the acquisition of KCOM Group Limited by KCOM Holdco 3 Limited (formerly MEIF 6 Fibre Limited), the Company funded Employee Share Trusts to meet its obligations under the Company's share schemes. During the year ended 31 March 2020, the Trusts purchased 152,493 of the Company's ordinary shares through purchases on the London Stock Exchange for a total cash consideration of £150,000 in order to meet the Company's obligations under the SIP and LTIP schemes. The total amount paid to acquire the shares, net of expenses and cash received for the exercise of share options, of £150,000 has been deducted from retained earnings.

On 1 August 2019, MEIF 6 Fibre Limited acquired all issued share capital of KCOM Group Limited, including all shares held by trusts for the SIP. Therefore, as of 31 March 2020, the total number of ordinary shares held by the Trusts to meet the Company's obligations under the share schemes was nil.

On the 30 July 2019, 3,618,620 ordinary shares were allotted and fully paid up, to settle the obligations arising upon vesting of the LTIP schemes. These shares were acquired by MEIF 6 Fibre Limited as part of the acquisition.

28 Financial instruments and risk management

The Group's principal financial instruments during the year comprised bank loans, 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 27 May 2020, KCOM entered into an agreement with Lloyds Bank to provide a £12.0 million revolving credit facility to fund working capital requirements and a further £18.0 million facility available to fund capital expenditure. This was not drawn down.

On 29 September 2020 the direct parent company, KCOM Holdco 3 Limited (formerly MEIF 6 Fibre Limited), entered into a new external loan agreement. Certain statutory entities within the consolidated KCOM Group Limited accounts act as guarantors for the loan facility.

As at 31 March 2021, the Group has £8.3 million of available cash which is considered sufficient funding to meet our working capital requirements.

The net debt position of £180.5 million at the beginning of the financial year including lease liabilities has decreased during the year to £153.3 million. The Group experienced a cash outflow of £6.8 million for the year (2020: cash inflow £7.8 million).

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 2020			
Loans from related parties	152,667	—	—
Trade and other payables	34,744	—	—
Finance leases	14,713	19,914	15,727
Total	202,124	19,914	15,727
At 31 March 2021			
Loans from related parties	—	—	160,029
Trade and other payables	13,593	—	—
Lease liabilities	603	1,060	—
Total	14,196	1,060	160,029

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for the year ended 31 March 2021

28 Financial instruments and risk management (continued)

Liquidity risk (continued)

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 25 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.

Foreign currency risk

Cash flow exposure

The Group's only foreign currency risk arises due to the purchase of equipment in US Dollars. The prevailing rate is priced into sale prices, therefore the risk is between the timing of purchase and the settlement of the invoices. 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 on a net basis and are not hedged.

Net asset 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 that are subject to the expected credit loss model:

- Trade receivables;
- Unbilled receivables; and
- Contract assets.

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.

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for the year ended 31 March 2021

28 Financial instruments and risk management (continued)

Credit risk (continued)

On that basis, the loss allowance as at 31 March 2021 and 31 March 2020 was determined as follows for both trade receivables and contract assets:

At 31 March 2021	Days past due					Total
	Current	1-30	31-60	61-120	120+	
Weighted average expected loss rate	1.5%	9.4%	17.2%	36.5%	63.6%	11.4%
Gross carrying amount of trade receivables	1,812	719	216	281	623	3,651
Gross carrying amount of unbilled receivables	997	—	—	—	—	997
Gross carrying amount of contract assets	1,177	—	—	—	—	1,177
Loss allowance	(60)	(68)	(37)	(103)	(396)	(664)

At 31 March 2020	Days past due					Total
	Current	1-30	31-60	61-120	120+	
Weighted average expected loss rate	0.8%	2.6%	5.0%	17.1%	44.8%	4.0%
Gross carrying amount of trade receivables	16,012	4,679	2,108	1,007	1,817	25,623
Gross carrying amount of unbilled receivables	8,543	—	—	—	—	8,543
Gross carrying amount of contract assets	3,324	—	—	—	—	3,324
Loss allowance	(235)	(122)	(105)	(172)	(813)	(1,447)

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

Consolidated	Note	Trade receivables £'000	Unbilled receivables £'000	Contract assets £'000	Total £'000
At 1 April 2020		(1,360)	(81)	(6)	(1,447)
Written off in the year		(404)	—	—	(404)
Amounts released in the year		366	(14)	(5)	347
Transferred to assets held for sale		764	73	3	840
At 31 March 2021		(634)	(22)	(8)	(664)

Amounts released in the year includes amounts provided for of £0.3 million relating to continuing operations.

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

Financial assets

The Group had financial assets of £17.9 million at the year end (2020: £54.8 million), of which £8.3 million (2020: £15.1 million) 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 2021 and 31 March 2020 was:

Consolidated	2021 £'000	2020 £'000
Currency		
Sterling	7,441	14,582
US Dollar	802	374
Euro	77	170
Total	8,320	15,126

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 with the exception of a combined equivalent amount of £0.0 million (2020: £0.5 million) held in Euros and US Dollars.

At the year-end £1.3 million (2020: £1.3 million) of cash collateral was held by Barclays in respect of a bank guarantee given under Ofcom's "Funds for Liabilities" regulations. The £1.3 million 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 2021 and 31 March 2020 was:

Consolidated	2021			2020		
	Floating £'000	Fixed £'000	Total £'000	Floating £'000	Fixed £'000	Total £'000
Sterling	—	160,029	160,029	—	148,617	148,617

Undrawn committed borrowing facilities at the year-end were £Nil (2020: £Nil).

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 £0.9 million (2020: £1.3 million) which is held in US Dollars. Of this, £0.9 million is classified as part of the disposal group.

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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 84.

IFRS 7 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

All of the Group's financial instruments fall into hierarchy level 2.

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

Consolidated	2021 £'000	2020 £'000
Net debt	153,323	180,496
Total equity	49,014	59,743
Total capital	202,337	240,239

Up to the date of settlement, under the Group's £180.0 million revolving credit facility the Group was required to comply annually with certain financial and non-financial covenants. The Group was required to maintain a minimum interest cover ratio and a maximum net debt to EBITDA ratio. Both financial covenants were tested and complied with throughout the prior year and up to the date of settlement. The Board monitors both covenant compliance and net debt performance on a regular basis.

The loan from immediate Parent Company does not have any financial covenants in place. However on 29 September 2020 the direct Parent Company, KCOM Holdco 3 Limited (formerly MEIF 6 Fibre Limited), entered into a new external loan agreement, for which certain statutory entities within the consolidated KCOM Group Limited accounts 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 both continuing and discontinuing operations amounted to:

Consolidated	2021 £'000	2020 £'000
Property, plant and equipment	11,664	3,517
Intangible assets	1,271	1,207
Total	12,935	4,724

30 Retirement benefit obligation – 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.

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for the year ended 31 March 2021

30 Retirement benefit obligation – Consolidated (continued)

Funding

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 most recent valuations were carried out by independent professionally qualified actuaries as at 1 April 2019 and resulted in a funding deficit at this date of £4.2 million (1 April 2016: £25.4 million deficit) for the main scheme and a deficit of £4.0 million (1 April 2016: £9.4 million deficit) for the data scheme.

When determining the recovery plan as a result of these funding valuations, a partial allowance was made in respect of the deterioration in the funding position due to market movements between the valuation date and 30 April 2020. This resulted in a partial allowance of £7.6 million for the main scheme and £2.6 million for the data scheme. As a result of the funding valuations, the Group and the Trustees agreed to put in place plans to eliminate the deficits over 2.5 years (main scheme) and 2.75 years (data scheme).

Contributions agreed as part of these plans were as follows:

- Main scheme deficit repair payments from 1 April 2019 to 30 September 2021 of £4.7 million per annum to be paid in equal monthly instalments, increasing in line with CPI inflation from 1 April 2021.
- Data scheme deficit repair payments from 1 April 2019 to 31 December 2021 of £2.4 million per annum to be paid in equal monthly instalments, increasing in line with CPI inflation from 1 April 2021.

Subsequent to the agreement of these funding valuations, on 25 November 2020, the Group reached agreement with the Trustees to fully fund both schemes immediately on a low dependency valuation basis. Consequently on 21 December 2020, the Group paid in full the entire outstanding contributions due to both schemes totalling £15.6 million (£11.2 million for the main scheme and £4.4 million data scheme) in final settlement of these recovery plans.

The deficit repair payments are in addition to contributions made to the schemes via the Asset-backed partnership (see below).

Taking into account deficit repair payments and contributions via the asset-backed partnership the expected total contributions for the year ended 31 March 2022 are £2.6 million (main scheme) and £0.4 million (data scheme) (2021: £7.4 million (main scheme) and £2.8 million (data scheme)).

Asset-backed partnership

On 31 March 2013, the Group reached an agreement with the Trustees to provide the Group with an efficient mechanism of funding the schemes' deficit positions.

The Group established a general partner, KCOM (General Partner) Limited, and a partnership, KCOM Central Asset Reserve Limited Partnership ('the Partnership'), which are both consolidated within these financial statements. The Group takes advantage of the exception conferred by Regulation 7 of the Partnership (Accounts) Regulations 2008 and has therefore not appended the accounts of the Partnership to these accounts. Separate accounts for the Partnership are not required to be filed at Companies House. The Group provided sufficient capital to the Partnership to enable it to procure freehold property assets, with a market value of £12.6 million from fellow Group subsidiaries. These properties were immediately leased back and continue to be operated by those Group companies and not by the Partnership. The Group retains control over these properties including the flexibility of substituting the freehold property assets with other assets. As partners in the Partnership, the pension schemes are entitled to an annual income distribution of £1.1 million, rising in line with the Consumer Price Index (CPI) over a potential period of 15 years.

On 24 March 2014, the Group reached an agreement with the Trustees to provide further funding of the schemes' current deficit position through the Partnership.

As part of this agreement, a loan note of £20.0 million was secured over the Hull and East Yorkshire network asset. The security does not offer the Trustees any "normal" rights of enforcement over the assets. Instead it provides first priority payment of any value that would be realised from the Hull and East Yorkshire network on an insolvency event.

As partners in the Partnership, the pension schemes are entitled an annual income distribution of £1.6 million, rising in line with the Consumer Price Index (CPI) (capped at 5%) over a potential period of 15 years.

Under IAS 19, the investment held by the pension schemes in the Partnership does not represent a plan asset for the purpose of the Group's consolidated accounts. The distribution of the Partnership's profits to the pension schemes is reflected as pension contributions in these Group accounts on a cash basis.

Risk

The cost of the schemes to the Group depend upon a number of assumptions about future events. Future contributions may be higher (or lower) than those currently agreed if the assumptions are not borne out in practice or if different assumptions are agreed in the future.

Notes to the financial statements

for the year ended 31 March 2021

30 Retirement benefit obligation – Consolidated (continued)

Risk (continued)

Specific risks include:

Changes in future expectations of price inflation: The scheme's benefit obligations are linked to inflation and higher inflation will lead to higher liabilities. Hence, an increase in inflation will increase the deficit. This is offset in part by the Trustee's liability matching investment strategy as detailed below.

Changes in the discount rate used to value pension liabilities: A lower discount rate will lead to a higher present value being placed on future pension payments. Hence, a reduction in discount rate will increase the deficit. This is offset in part by the Trustee's liability matching scheme detailed below.

Unanticipated increase in life expectancy leading to an increase in the scheme's liabilities: An increase in life expectancy would mean pensions are expected to be paid for a longer period, so increasing the liability and the scheme's deficit. This is offset in part by the scheme applying a Life Expectancy Adjustment Factor, whereby future pensions coming into payment are adjusted to allow for increases in life expectancy.

Balance sheet amounts

The amounts recognised in the balance sheet (the "accounting valuation") and the movements in the net defined obligation over the year are calculated in accordance with IAS 19 and detailed below.

Differences between the funding valuation and the accounting valuation are mainly due to the use of different valuation assumptions and changes in market conditions between the two valuation dates of 31 March 2016 and 31 March 2019.

For funding valuation purposes the liabilities are determined based on assumptions used by the Trustees following consultation with the Group and scheme actuaries. In the financial statements the liabilities are determined in accordance with IAS 19.

As a result of the difference in the valuation methods used and also possible differences in the dates of the respective valuations, it is possible, and not unusual, for there to be large differences in the two valuations to the extent that the accounting measure could result in a surplus whilst the actuarial valuation could result in a deficit requiring additional contributions to be made.

The IAS 19 position, even if in surplus, has no bearing on cash requirements to the schemes and the Company remains legally obliged to pay contributions to the schemes.

Surplus positions of £27.3 million on the Main scheme and £5.2 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.

	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 2019	221,969	(227,893)	(5,924)	40,781	(38,403)	2,378	262,750	(266,296)	(3,546)
Administrative expenses	—	543	543	—	258	258	—	801	801
Interest expense/(income)	5,100	(5,319)	(219)	942	(915)	27	6,042	(6,234)	(192)
Total amount recognised in profit or loss	5,100	(4,776)	324	942	(657)	285	6,042	(5,433)	609
Remeasurements									
Return on plan assets, excluding amounts included in interest	—	(535)	(535)	—	(2,250)	(2,250)	—	(2,785)	(2,785)
Gains from change in financial assumptions	(11,982)	—	(11,982)	(414)	—	(414)	(12,396)	—	(12,396)
Experience losses/(gains) arising on liabilities	(12,197)	—	(12,197)	(1,525)	—	(1,525)	(13,722)	—	(13,722)
Gain arising from changes in demographic assumptions	1,815	—	1,815	1,234	—	1,234	3,049	—	3,049
Total amount recognised in other comprehensive income	(22,364)	(535)	(22,899)	(705)	(2,250)	(2,955)	(23,069)	(2,785)	(25,854)
Employer contributions:									
Contributions via asset-backed partnership	—	(2,518)	(2,518)	—	(345)	(345)	—	(2,863)	(2,863)
Deficit repair payments	—	(4,740)	(4,740)	—	(2,370)	(2,370)	—	(7,110)	(7,110)
Benefit payments	(9,871)	9,871	—	(1,354)	1,354	—	(11,225)	11,225	—
At 31 March 2020	194,834	(230,591)	(35,757)	39,664	(42,671)	(3,007)	234,498	(273,262)	(38,764)

Notes to the financial statements

for the year ended 31 March 2021

30 Retirement benefit obligation – 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 2020	194,834	(230,591)	(35,757)	39,664	(42,671)	(3,007)	234,498	(273,262)	(38,764)
Administrative expenses	—	734	734	—	203	203	—	937	937
Interest expense/(income)	4,274	(5,220)	(946)	869	(992)	(123)	5,143	(6,212)	(1,069)
Total amount recognised in profit or loss	4,274	(4,486)	(212)	869	(789)	80	5,143	(5,275)	(132)
Remeasurements (Return)/loss on plan assets, excluding amounts included in interest	—	(5,541)	(5,541)	—	1,596	1,596	—	(3,945)	(3,945)
Losses from change in financial assumptions	31,182	—	31,182	3,143	—	3,143	34,325	—	34,325
Losses/(gains) arising from changes in demographic assumptions	1	—	1	(669)	—	(669)	(668)	—	(668)
Total amount recognised in other comprehensive income	31,183	(5,541)	25,642	2,474	1,596	4,070	33,657	(3,945)	29,712
Employer contributions:									
Contributions via asset-backed partnership	—	(2,567)	(2,567)	—	(351)	(351)	—	(2,918)	(2,918)
Deficit repair payments	—	(14,417)	(14,417)	—	(5,995)	(5,995)	—	(20,412)	(20,412)
Benefit payments	(10,125)	10,125	—	(1,646)	1,646	—	(11,771)	11,771	—
At 31 March 2021	220,166	(247,477)	(27,311)	41,361	(46,564)	(5,203)	261,527	(294,041)	(32,514)

Significant estimates: IAS 19 assumptions and sensitivity

The significant IAS 19 assumptions were as follows:

	2021		2020	
	Main scheme	Data scheme	Main scheme	Data scheme
RPI inflation	3.30%	3.30%	2.60%	2.60%
CPI inflation	2.65%	2.65%	1.70%	1.70%
Rate of increase to pensions in payment	2.48%	3.83%	1.65%	3.71%
Discount rate for scheme liabilities	1.95%	1.95%	2.25%	2.25%

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:

	2021		2020	
	Main scheme	Data scheme	Main scheme	Data scheme
Retiring at the end of the reporting year:				
- Male	22	23	22	23
- Female	23	25	23	25
Retiring 20 years after the end of the reporting year:				
- Male	23	24	23	24
- 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			
	2021		2020		2021		2020	
	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 0.1% change to:								
Discount rate	(1.6%)	(1.6%)	(1.5%)	(1.5%)	1.6%	1.6%	1.5%	1.8%
RPI Inflation	1.4%	0.4%	1.4%	0.8%	(1.5%)	(0.4%)	(1.5%)	(0.5%)
Sensitivity to 1 year change in life expectancy	3.9%	4.2%	3.4%	3.8%	(3.9%)	(4.2%)	(3.4%)	(3.8%)

Notes to the financial statements

for the year ended 31 March 2021

30 Retirement benefit obligation – 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:

	2021				2020			
	Main scheme £'000	Data scheme £'000	Total £'000	%	Main scheme £'000	Data scheme £'000	Total £'000	%
Consolidated								
Leveraged gilts	6,104	6,669	12,773	4%	23,600	10,545	34,145	13%
Leveraged index linked gilts	46,561	1,616	48,177	16%	54,081	2,913	56,994	21%
Inflation swap fund	12,675	2,594	15,269	5%	—	—	—	0%
Liability matching funds (unquoted)	65,340	10,879	76,219	25%	77,681	13,458	91,139	34%
Diversified growth fund (unquoted)	132,438	30,955	163,393	56%	119,374	23,563	142,937	52%
Hedge funds (unquoted)	16,475	—	16,475	6%	14,386	—	14,386	5%
Cash and cash equivalents (quoted)	33,224	4,730	37,954	13%	19,150	5,650	24,800	9%
Total	247,477	46,564	294,041	100%	230,591	42,671	273,262	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.

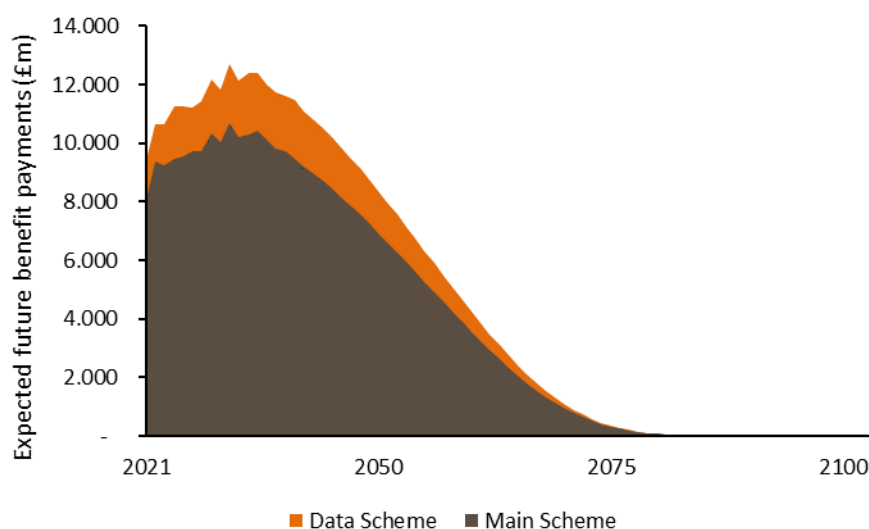
Notes to the financial statements

for the year ended 31 March 2021

30 Retirement benefit obligation – Consolidated (continued)

Future benefit payments

The graph below shows the estimated undiscounted benefit payments expected to be paid from the funds over their lives, derived from the data used in the triennial valuations of the funds as at 31 March 2019:



Parent Company

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 accounts 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 2021 (2020: £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 £1.9 million (2020: £2.3 million) for continuing operations.

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 (formerly MEIF 6 Fibre Limited) on 1 August 2019. The associated assets and liabilities are consequently presented as held for sale in the year ended 31 March 2021.

On 31 March 2021, the Group finalised the sale of the National Business consumer base for £1.2 million. The sale of the remaining discontinued operations and assets held for sale was finalised on 31 July 2021. For further information see Note 35.

Financial performance

The financial performance attributable to the discontinued operations for the years ended 31 March 2021 and 31 March 2020 are as follows:

	2021 £'000	2020 £'000
Revenue	154,126	165,942
Operating expenses	(140,273)	(159,817)
Operating profit	13,853	6,125
Finance costs	(854)	(969)
Profit before taxation from discontinued operations	12,999	5,156
Taxation	(3,658)	(797)
Profit for the year from discontinued operations	9,341	4,359
Gain on sale of National Business consumer base	966	—
Profit for the year from discontinued operations	10,307	4,359

Notes to the financial statements

for the year ended 31 March 2021

31 Discontinued operations and assets (continued)

Cash flow information

	2021 £'000
Net cash generated from operating activities	37,357
Net cash used in investing activities	(1,906)
Net cash used in financing activities	(15,142)
Net increase in cash generated by discontinued operations	20,309

Sale of National Business consumer base

	2021 £'000
Consideration receivable	1,192
Carrying amount of net assets sold	—
Gain on sale before taxation	1,192
Taxation	(226)
Gain on sale after taxation	966

Assets and liabilities of the disposal group classified as held for sale

The following assets and liabilities were reclassified as held for sale in relation to discontinued operations as at 31 March 2021:

	2021 £'000
Assets classified as held for sale	
Other intangible assets	3,479
Property, plant and equipment	10,654
Right of use assets	36,703
Contract costs	2,856
Inventories	198
Trade and other receivables	27,536
Contract assets	1,620
Deferred tax assets	3,203
Total assets of disposal group held for sale	86,249
Liabilities directly associated with assets classified as held for sale	
Trade and other payables	23,764
Finance leases	36,585
Contract liabilities	8,551
Provisions for other liabilities and charges	3,127
Deferred tax liabilities	574
Total liabilities of disposal group held for sale	72,601

32 Cash flow information

Reconciliation of operating profit/(loss):

Consolidated	Note	2021 £'000	2020 £'000
Operating profit/(loss) from:			
Continuing operations		11,944	(8,363)
Discontinued operations		13,853	6,125
		25,797	(2,238)
Gain on sale of National Business consumer base before taxation	31	1,192	—
Operating profit/(loss)		26,989	(2,238)

33 Other commitments and contingent liabilities

Contingent liabilities existed at 31 March 2021 and at 31 March 2020 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 (formerly MEIF 6 Fibre Limited), entered into a new loan agreement. Certain statutory entities within the consolidated KCOM Group Limited accounts act as guarantors for the loan facility.

The agreement is comprised of four facilities totalling total available funds of £475.0 million with a maturity date in 5 years.

At 31 March 2021 a combined amount of £325.0 million was drawn down under the agreement, with the remaining being available to draw down upon request over the duration of the loans.

Notes to the financial statements

for the year ended 31 March 2021

34 Related party transactions

Remuneration of key management personnel

Consolidated	2021	2020
	£'000	(restated)
		£'000
Remuneration	742	706
Aggregate amounts receivable under long term incentive plans	—	1,661
Company contributions paid to money purchase pensions schemes	113	99
Compensation for loss of office	160	950
Total	1,015	3,416

Consolidated	2021	2020
	No.	No.
Members of money purchase pension schemes	3	4

Key management personnel are those considered to exercise authority and responsibility for planning, directing and controlling the activities of the Group. Members of 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 £0.5 million as at 31 March 2021 (2020: £0.5 million).

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 £0.3m (2020: £Nil). See Note 19 for further details.

Amounts payable by the Group to KCOM Holdco 3 Limited, the immediate parent undertaking as at 31 March 2021 totalled £160.0 million (2020: £148.7 million). See Note 22 for further details.

35 Ultimate controlling party

The immediate parent undertaking is KCOM Holdco 3 Limited (formerly MEIF 6 Fibre Limited).

The ultimate UK parent company is KCOM Holdco 1 Limited (formerly MEIF 6 Fibre Holdings 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 (formerly MEIF 6 Fibre Holdings Limited) is the largest group to consolidate these financial statements in the UK. Copies of KCOM Holdco 1 Limited (formerly MEIF 6 Fibre Holdings Limited) accounts can be obtained from 37 Carr Lane, Hull, HU1 3RE.

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

36 Subsequent events

Following the year end, on the 31 July 2021 KCOM Group Limited completed the sale of the trade and assets of the National ICT business (predominantly the previously disclosed National Business segment) to GCI Network Solutions Limited ("Nasstar") for consideration of £31.4 million. The consideration was comprised of £29.4 million upfront cash and £2.0m of deferred consideration payable 12 months after the completion date. At the time of signing the financial statements, the final true up of working capital as part of the completion account process is yet to be finalised. Our current estimate is that this will not have a material impact on the outcome of the consideration receivable and therefore the ability to support the carrying value of the disposal group based on fair value less costs to sell at a KCOM Group level.

An impairment of the goodwill balance associated with the disposal group has been reflected in the financial statements of KCOM Holdco 1 Limited (formerly MEIF 6 Fibre Holdings Limited) in the current year. The finalisation of the completion accounts is not expected to have a material impact on the remaining carrying value of the disposal group in the financial statements of KCOM Holdco 1 Limited.

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

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	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 accounts as it assists with comparing performance from previous periods. The items classified as exceptional items are described in Note 7. EBITDA before exceptional items is defined as “profit/(loss) before tax” before share of profit before associates, finance costs, amortisation, depreciation and exceptional items.	Profit before tax as quoted in the consolidated income statement (£4.3 million), add back finance income and finance costs (net £7.7 million cost) as quoted on the consolidated income statement, less share of profit of associate (£0.0 million) as quoted on the consolidated income statement, add back depreciation and amortisation (£17.3 million) and depreciation of ROU assets (£0.7 million) as quoted on the consolidated cash flow statement, add back exceptional charge (£1.7 million) as quoted in Note 7.
Cash flows and net debt measures			
Net debt before leases	Cash and cash equivalents, bank overdrafts, bank loans and loans from related parties	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. 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.	A reconciliation of this measure is provided in Note 23 of the financial statements.
Cash capital expenditure	Net cash used in investing activities	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 accounts as it provides the outflow of cash expenditure in the current year relating to assets purchased in the current and prior years. 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.	Reported in the consolidated cash flow statement: Net cash used in investing activities (£40.1 million) add back proceeds from sale of property, plant and equipment (£nil) plus capital element of finance lease repayments (£nil) excluding the impact of IFRS 16.