KCOM Group PLC

Annual report and accounts

2018/19

Company number

2150618

Contents

Summary

IFRS 15 and IFRS 9 were adopted on 1 April 2018, without restating prior year figures. As a result, for comparative purposes, discussion of our operating results is primarily based on an IAS 11, IAS 18 and IAS 39 basis for all periods presented.

- Group revenue[1] declined by 5%
- Group EBITDA[1,2,4] declined by 14%
- Continued progress in Hull & East Yorkshire
  - Rollout of fibre across existing network complete
  - Percentage of broadband customers taking full fibre continues to increase
- Ongoing challenges in two national businesses in line with revised expectations set at the half year
  - Broadly flat revenue in Enterprise reflecting disappointing order intake performance
  - Revenue decline in National Network Services, due to continuing customer churn
- Performance of the national businesses results in a non-cash exceptional impairment of goodwill of £51.4 million
- Increase in net debt to £107.2 million (2018: £62.6 million), driven by:
  - Planned capital investment in Hull & East Yorkshire
  - Material one-off working capital outflow as previously communicated in the first half of the year

	IFRS 15/ IFRS 9 2019 £'m	**Pro forma (unaudited) IAS 11/ IAS 18/ IAS 39 2019 £'m**	IAS 11/ IAS 18/ IAS 39 2018 £'m	IAS11/ IAS 18/ IAS 39 Change over prior year
Revenue	**281.6**	**285.9**	301.9	(5%)
EBITDA [2,4]	**57.1**	**58.9**	68.3	(14%)
Profit before tax [2,4]	**24.3**	**24.2**	33.3	(27%)
Adjusted basic earnings per share (pence) [3,4]	**3.84p**	**3.81p**	5.26p	(28%)
Cash capital expenditure [4]	**37.5**	**38.4**	43.9	(13%)

	IFRS 15/ IFRS 9 2019 £'m	IAS 11/ IAS 18/IAS 39 2018 £'m	Change over prior year
Reported results			
(Loss)/profit before tax	**(31.6)**	34.0	(193%)
Basic (loss)/earnings per share (pence)	**(6.63p)**	5.38p	(112%)
Net debt [4]	**107.2**	62.6	71%
Final dividend per share (pence)[5]	**-**	4.00p	(100%)
Full year dividend per share (pence)[5]	**1.00p**	6.00p	(83%)

1. All numbers and movements quoted in summary are on a pre-IFRS 15 and IFRS 9 basis.
2. Before exceptional items.
3. Adjusted basic EPS is basic EPS adjusted for exceptional items (including the tax impact of exceptional items).
4. Alternative performance measures, used throughout the Annual Report, are defined and reconciled to statutory measures in the Glossary on page 118.
5. As a result of the acquisition of KCOM outlined in Note 35 "Subsequent events"', no final dividend was declared for the year ended 31 March 2018.

Post-period end

As per the process set out in detail in Note 35 "Subsequent events", and hereafter referred to as the '"acquisition of KCOM", KCOM Group PLC is expected to de-list from the London Stock Exchange in early August 2019, upon completion of the acquisition of KCOM by MEIF 6 Fibre 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) ("MEIF 6 Fibre").

Our business at a glance

KCOM is a leading provider of communications solutions to consumers and businesses across the UK.

The Group is one of the UK's longest-established communications companies, helping customers get connected since 1904 and staying at the forefront of technology and communications in the decades since then. Our activities are focused on three markets:

1) Hull & East Yorkshire: providing internet and voice services to 140,000 consumers and businesses in the region
2) Enterprise: serving large enterprise and public sector organisations that need complex technology solutions to serve customers better and adapt to an ever-changing competitive and regulatory environment
3) National Network Services: providing connectivity to UK-based multisite organisations

As outlined in Note 35 on page 117, after the end of the financial year following a bid process, the Board recommended shareholders to accept the final offer of 120.3p per share from MEIF 6 Fibre relating to the acquisition of KCOM. The reconvened Court Meeting and Extraordinary General Meeting relating to the MEIF 6 Fibre offer took place on 26 July 2019 at which 99.48% and 99.52% respectively of shares voted were in favour of the scheme. It is expected that the Group will move into private ownership in early August 2019.

In the interim results for the six months ended 30 September 2018 an in-depth review of the businesses and strategy was announced to identify how to create the best value for shareholders and improve overall business performance.

The results and recommendations of the strategy review have yet to be formally adopted pending the acquisition offer from MEIF 6 Fibre. A high-level summary of the recommendations from the review is as follows:

a) grow the Hull & East Yorkshire part of the business, increasing its addressable market through the further rollout of fibre across selected areas of East Yorkshire and the Humber;
b) transform the operating model of the company, reducing costs through a simplified operational structure that removes both duplication and complexity;
c) grow the core business of connectivity and collaboration through sales focus, improved customer experience and the launch of new products and services; and
d) focus the cloud business within Enterprise on the corporate mid-market with services that leverage connectivity.

MEIF 6 Fibre is aware of KCOM's strategic review. Following completion of the acquisition, MEIF 6 Fibre intends to:

a) work with KCOM's management team to review the strategy of the Hull & East Yorkshire business with the aim of maximising network utilisation and consumer choice. MEIF 6 Fibre is intending to work with KCOM to increase the number of households and businesses being served by its best in class network, by both increasing the number of customers buying KCOM's own retail offerings, and by increasing the amount of business with third party Internet Services Providers;
b) work with KCOM's management to establish opportunities to use additional investment to expand the fibre network beyond the current footprint of the Hull & East Yorkshire business, to drive growth and employment opportunities. Whilst no decisions have yet been taken on whether additional investment would be made, if such additional investment was made, it would be funded from KCOM's existing cash resources, new equity from MEIF 6 Fibre, and/or third party debt;
c) review initiatives to improve the performance of the National Network Services and Enterprise businesses to enhance customer experience, provide relevant and profitable services to customers, and improve platform efficiency to enhance margins;
d) undertake a review of the strategic options for the National Network Services and Enterprise businesses. The review will focus on operating performance, viability of its offerings and long-term strategic fit in relation to MEIF 6 Fibre's overall strategy. MEIF 6 Fibre will work closely with management to evaluate different possible outcomes. At this stage, MEIF 6 Fibre does not have sufficient insight to conclude on any outcomes, however it would expect potential options to include disposal of these businesses to a third party, refocusing of product catalogues, and integration into other business lines, among others; and
e) work with KCOM's management to understand and implement any recommendations regarding costs efficiencies, service improvements and organisational structure which result from the KCOM Review.

Chairman's statement

Dear Shareholder

The last year has seen significant changes for KCOM with new leadership, a strategic review led by our new CEO, Graham Sutherland and, most recently, the recommendation to take the Group private under the ownership of MEIF 6 Fibre.

Leadership changes and Board effectiveness

There have been a number of changes to the PLC Board during the current financial year:

- On 30 June 2018 Jane Aikman left her role as Chief Financial Officer and was replaced by Anna Bielby who took the role on an interim basis until she was appointed on a permanent basis in January 2019.
- In October 2018, Graham Sutherland was appointed as Chief Executive Officer, bringing extensive experience in the telecommunications industry. In November 2018, the Group's former CEO, Bill Halbert, resigned from the Board and subsequently left the business in April 2019.
- Since January 2019, I have performed the role of Interim Non-Executive Chairman, following Graham Holden's decision to step down from this role, and from the Board, on 31 December 2018.

We would like to thank Graham Holden, Bill Halbert and Jane Aikman for their contribution and wish them well for the future.

Throughout this period of change the Board has remained focused on its responsibility for the long-term success of the Group and each Director has contributed significant time and effort to ensure the continued effectiveness of the Board.

Dividend

At the half year, the Group declared and paid an interim dividend of 1.00 pence per share (2018: 2.00 pence per share). As the acquisition of KCOM by MEIF 6 Fibre is due to complete in early August 2019, the Board did not declare a final dividend for the year ending 31 March 2019 (2018: 4.00 pence per share). Consequently, the full year dividend is 1.00 pence per share (2018: 6.00 pence per share).

Strategic review

In November 2018, as outlined on page 2, we announced our intention to complete a strategic review of the business to identify the best opportunities to deliver long-term value. The outcomes of this review have yet to be formally adopted due to the current process relating to the acquisition of KCOM.

At a high level our review recommended that the Group should:

a) grow the Hull & East Yorkshire part of the business, increasing its addressable market through the further rollout of fibre across selected areas of East Yorkshire and the Humber;

b) transform the operating model of the company, reducing costs through a simplified operational structure that removes both duplication and complexity;

c) grow the core business of connectivity and collaboration through sales focus, improved customer experience and the launch of new products and services; and

d) focus the cloud business within Enterprise on the corporate mid-market with services that leverage connectivity.

Strategic report – Chairman's statement

Acquisition of KCOM

As detailed in Note 35 on page 117, after the end of the financial year, the Board of KCOM recommended that shareholders accept the final offer of 120.3 pence per share from MEIF 6 Fibre. The reconvened Court Meeting and Extraordinary General Meeting relating to the MEIF 6 Fibre offer took place on 26 July 2019 at which 99.48% and 99.52% respectively of shares voted were in favour of the Scheme. It is expected that the Group will move into private ownership in early August 2019.

The Board acknowledges the benefits of KCOM being a private company, including the creation of a favourable environment to effect its transformation and the ability to obtain finance from private capital.

On behalf of the Board, I would like to thank all our shareholders for their support and commitment to the business. I am sure you will all join the Board in wishing the leadership team and employees of KCOM every success as they move into the next phase of the Group's future.

Patrick De Smedt

Interim Non-Executive Chairman

31 July 2019

CEO's statement

Dear Shareholder

I was delighted to join KCOM in October 2018 and have the opportunity to lead an organisation with such a rich history of success and innovation.

The 2019 financial year has not been without its challenges. In November 2018, we outlined that Group trading for the full year for 2019 would be around 5% weaker than originally expected, driven by lower than expected order intake in the Group's Enterprise segment and continued customer churn in the Group's National Network Services segment. We also explained that these trends would continue into the next financial year. The performance of our two national segments has resulted in a non-cash goodwill impairment in the year.

In addition, we indicated that net debt at 31 March 2019 would be c. 10% higher than market expectation, impacted by a permanent working capital outflow in relation to the insource of a significant managed service contract.

Because of these challenges, I and the Board considered it inappropriate to commit to continuing to pay an uncovered dividend and decided to review the Group's ongoing dividend policy, resolving to pay a dividend of not less than 3.00 pence per share for the current financial year ending 31 March 2019, rather than the previously stated commitment to pay 6.00 pence per share. As the acquisition of KCOM by MEIF 6 Fibre is due to complete in early August 2019, the Board has not declared a final dividend for the year ending 31 March 2019 (2018: 4.00 pence per share). Consequently, the full year dividend is 1.00 pence per share (2018: 6.00 pence per share).

Despite the challenges we have faced through weaker business performance, I have been encouraged by the strength of the Group's skills, assets and capabilities. During the year, our Hull & East Yorkshire segment has continued to make progress. Our full fibre network leads the market and in March, we achieved a significant strategic milestone, completing the rollout of fibre across our existing network footprint. We have a clear strategy to leverage this investment which will continue to generate sustainable cash flows.

In the second half of the year, we performed a review of our business strategy to identify how to create the best value from KCOM's assets to improve business performance. Whilst the outcomes of our strategic review have not been formally adopted because of ongoing activity related to the acquisition of KCOM, we intend to increase our addressable market in Hull & East Yorkshire through the further rollout of fibre, reducing costs across the Group though a simplified operating model, and focus on our core business of connectivity and related services across our two national businesses.

The past year has been one of change and uncertainty for many KCOM employees, but despite this, they have remained focused on delivering the exceptional experiences that our customers expect of us. I would like to thank them for their contribution and commitment to our company.

Graham Sutherland

Chief Executive

31 July 2019

Our business model

Our key inputs

People

We want to provide an environment where we attract, retain, develop and enable all our people to demonstrate, grow and apply their capabilities, offering opportunities for everyone to reach their full potential.

Customers and partners

We understand and anticipate the needs of our customers and align our products, services and solutions to meet those needs, leveraging our market-leading partnerships to create a unique and differentiated brand experience.

Systems and processes

Our organisation and customer experience are underpinned by robust processes and systems. The ability to understand, manage and interpret the data we hold is key to developing compelling propositions and providing clear and transparent information on segmental performance.

Assets

Our offerings to customers are underpinned by our technology platforms. We seek to invest in consolidating and transforming them to deliver new services and reduce operating costs and complexity.

How we generate revenue	Stakeholder value creation
Hull & East Yorkshire We provide internet and voice services to 140,000 consumers and businesses in the region.	**For shareholders** Our operations in Hull & East Yorkshire deliver strong income and cash generation. **For customers** We help consumers and businesses in Hull & East Yorkshire live and work in a digital world.
Enterprise We serve large enterprise and public sector organisations that need complex technology solutions to serve customers better and adapt to an ever-changing competitive and regulatory environment.	**For shareholders** We create value from combining our relationships, cloud capabilities and network heritage. **For customers** We help enterprises improve their business performance, including the experience they offer customers.
National Network Services We provide connectivity and related services to UK-based multisite organisations.	**For shareholders** We drive value from our national network infrastructure. **For customers** The connectivity-based services we provide to national businesses help them operate more effectively.

Performance review

Basis of preparation

IFRS 15 "Revenue from contracts with customers" and IFRS 9 "Financial Instruments" have been adopted for the first time in the year ended 31 March 2019.

The Group has applied both these new standards in the current year only. As a result, our reported results in the current year are prepared in accordance with IFRS 15 and IFRS 9 and our comparatives are in line with previous accounting standards (IAS 11, IAS 18 and IAS 39).

In order to aid the comparison of year on year results, the directors have deemed it appropriate to provide and analyse proforma results as well as reported results for the Group on a like for like basis. Proforma results are presented for the year ended 31 March 2019 under the previous accounting standards (IAS 11, IAS 18 and IAS 39) for this purpose.

In aggregate, the standards have an impact of a reduction in revenue of £4.3 million, in EBITDA of £1.9 million and an increase in profit before tax and exceptional items of £0.1million. The impact of both these new standards is cash flow neutral. Further detail is provided in Note 2.

Group performance

On a reported basis, the results for the year show an anticipated decline in Group revenue of £20.3 million (7%) and a decline in EBITDA of £11.2 million (16%), compared to the prior year. When adjusting for the impact of IFRS 15 and IFRS 9, revenue has reduced by £16.0 million (5%) and EBITDA by £9.4 million (14%).

Our Hull & East Yorkshire segment continued to perform well with revenue growth in the Consumer channel. Our conversion and acquisition of customers onto fibre broadband continues to drive higher average revenue per user ("ARPU") across our consumer base.

We have now completed the rollout of fibre across our existing network, passing all properties we are able to pass and making full fibre broadband available across our network. However, there are c. 9,000 premises where third party permission is required (for example to access multi-dwelling units and private land) that will delay fibre availability for those premises.

EBITDA in the Group's Hull & East Yorkshire segment has declined; however, the prior year benefited from a £4.4 million multi-year rebate on network infrastructure hereditament (rateable value). Without the effect of this rebate, adjusting for the impact of IFRS 15 and IFRS 9, EBITDA is broadly flat.

As discussed at the half year, the performance of our two national business segments has been significantly below expectation in the year.

In the Group's Enterprise segment, revenue has remained broadly flat. EBITDA has improved; however, the prior year was impacted by £5.3 million of losses on complex software contracts. Without the effect of these contracts, EBITDA has declined. Trading within the Group's Enterprise segment remains challenging and the Directors now have lower future growth expectations for this segment.

As a result of this lower growth trajectory and a refocus of the Group's strategy towards core connectivity, we have impaired the full Enterprise goodwill balance which has resulted in a non-cash exceptional charge of £19.1 million recognised in the second half of the year.

Revenue in the Group's National Network Services segment has continued to fall, again as communicated previously. This decline reflects continued churn and a performance well below the underlying market for its services. This performance led to the Directors' decision to impair the carrying value of goodwill for this segment in the first half of the year, resulting in a non-cash exceptional charge of £32.2 million.

The total non-cash goodwill impairments during the year across both the Enterprise and National Network Services segments was £51.4 million.

Remaining exceptional costs of £4.6 million relate to restructuring costs of £3.8 million and £0.8 million relating to the non-cash accounting impact of a guaranteed minimum pension equalisation adjustment in respect of the Group's defined benefit pension liabilities.

Net debt increased from £62.6 million at 31 March 2018 to £107.2 million at 31 March 2019, largely as a result of permanent one-off working capital outflows in the first half of the year as previously communicated and the continued investment in the Hull & East Yorkshire infrastructure.

Strategic report – Performance review

Segmental analysis

The KCOM Group PLC Board makes decisions and manages the business in line with the segmental analysis set out below. This information is presented before exceptional items to provide a better understanding of underlying performance. A reconciliation of the Group's pre-exceptional results is set out in Note 4.

Hull & East Yorkshire

	IFRS 15/ IFRS 9	**Proforma (unaudited) IAS 11/ IAS 18/IAS 39**	IAS 11/IAS 18/IAS 39
	2019 £'m	**2019 £'m**	2018 £'m
Revenue			
Consumer	**60.1**	**59.9**	58.5
Business	**29.6**	**29.9**	30.5
Wholesale	**9.7**	**9.7**	10.8
Non-core – Media and Contact Centres	**1.7**	**1.7**	4.4
Total revenue	**101.1**	**101.2**	104.2
Gross margin	**79.1**	**80.7**	85.4
EBITDA	**59.5**	**61.2**	65.7

Compared to the prior year, reported total revenue has reduced by £3.1 million and EBITDA by £6.2 million. The impact of IFRS 15 and IFRS 9 is a reduction in revenue of £0.1 million and in EBITDA of £1.7 million. This is principally due to the change in accounting for routers under IFRS 15 with router sales now recognised at the beginning of a customer contract and the cost recognised as a cost of sale rather than an asset which is depreciated over the life of the contract.

Adjusting for the impact of changes in accounting standards, revenue has declined by £3.0 million over the prior year and EBITDA has reduced by £4.5 million. The majority of the revenue decline relates to non-core activities and reflects the exit of the Contact Centres business. Broadly flat core revenue reflects growth in Consumer offset by decline in both Business and Wholesale.

On a comparable basis, Consumer revenue has increased by 2% compared to the prior year and our fibre rollout continues to deliver new broadband customers. The proportion of customers within this broadband base taking a fibre service has increased to 71% at 31 March 2019 (31 March 2018: 54%), supporting a 2% increase in ARPU in the last 12 months.

Business revenue on a like for like basis has declined by 2%. This reflects a reduction in project activity when compared to the prior year. The Business channel has however seen continued growth in its fibre base with a further 1,000 business sites connected in the year, supported by take-up in the SMB market through utilisation of the government funded voucher scheme.

The success of our award-winning, ultrafast full fibre offering continues. We passed a further 31,000 premises in the year and our deployment has now passed all 195,000 premises on our existing network that we are able to pass at this time.

Strategic report – Performance review

The key metrics for our Hull & East Yorkshire segment are as follows:

	2019	2018
Total Consumer customers ('000s of voice lines)	**139.9**	138.7
Total Consumer broadband customers (fibre and copper – '000s)	**121.0**	118.3
Total Consumer fibre broadband customers ('000s)	**85.5**	63.5
Total Business fibre broadband sites ('000s)	**5.9**	4.9
Consumer Average Revenue Per User (ARPU) per month (£)	**£35.93**	£35.17
Total fibre availability ('000s premises passed)	**195**	164
Availability delivered during the year ('000s premises passed)	**31**	27

As anticipated and signalled previously, our non-core Media and Contact Centres revenue has declined following the closure of our outsourced Contact Centre on 31 March 2018, after expiry of its largest customer contract.

Pro-forma EBITDA has reduced by £4.5 million year on year, which is mainly explained by the £4.4 million multi-year rebate on network infrastructure hereditament (rateable value) received in the prior year. EBITDA growth from more consumer customers and higher ARPU has been re-invested in various customer experience initiatives, designed to improve our customer satisfaction metrics.

Enterprise

	IFRS 15/ IFRS 9 2019 £'m	**Proforma (unaudited) IAS 11/ IAS 18/ IAS 39 2019 £'m**	IAS 11/ IAS 18/ IAS 39 2018 £'m
Revenue			
Projects	**29.6**	**34.7**	30.1
Managed Service	**43.5**	**42.5**	45.2
Network	**12.5**	**12.5**	13.0
Total revenue	**85.6**	**89.7**	88.3
Gross margin	**30.2**	**29.8**	29.9
EBITDA	**5.9**	**6.0**	5.1

Enterprise performance in the year has been disappointing due to lower than anticipated order intake, as previously communicated. Reported revenue has reduced by £2.7 million and EBITDA has increased by £0.8 million compared to the prior year. The impact of IFRS 15 and IFRS 9 is a reduction in revenue of £4.1 million and decrease in EBITDA of £0.1 million. This is principally due to the revenue classification of certain customer contracts as "agent" rather than "principal" under the new standard. Adjusting for the impact of the new accounting standards, revenue has increased by £1.4 million (2%) and EBITDA has improved by £0.9 million (18%).

Despite the relatively flat revenue position, EBITDA has improved in the year due to £5.3 million of losses on complex software contracts in the prior year. Without the effect of these contracts, comparable EBITDA has declined year on year by £4.4 million, reflecting the underlying gross margin decline.

National Network Services

	IFRS 15/ IFRS 9 2019 £'m	Proforma (unaudited) IAS 11/ IAS 18/ IAS 39 2019 £'m	IAS 11/ IAS 18/ IAS 39 2018 £'m
Revenue			
Connectivity	**62.3**	**62.3**	68.1
Voice	**23.6**	**23.6**	30.5
Hosting	**6.8**	**6.8**	7.3
Managed Service and Other	**5.3**	**5.2**	7.3
Total revenue	**98.0**	**97.9**	113.2
Gross margin	**22.7**	**23.1**	32.0
EBITDA	**3.0**	**3.0**	9.0

Reported revenue has reduced by £15.2 million and EBITDA by £6.0 million. The impact of IFRS 15 and IFRS 9 is an increase in revenue of £0.1 million and is EBITDA neutral.

Adjusting for the impact of the new accounting standards, revenue has declined by £15.3 million and EBITDA by £6.0 million. This decline is in line with the revised expectations set at the half year. Revenue decline has been seen across all product categories which reflects churn, both in terms of customers leaving and declining use of traditional voice platforms. Voice revenues also continue to be impacted by the industry-wide change in the mix of call traffic (for example the movement to 03 numbers). The EBITDA decline is a consequence of churn with a decreasing contribution towards fixed network operating costs and continued gross margin pressure.

In the year we have focused on a specific public sector opportunity relating to the delivery of the Health and Social Care Network. We have been named preferred supplier on four aggregated procurements and have subsequently signed up a number of individual customers under framework agreements. The delivery of services to these customers commenced in the final quarter of the year ended 31 March 2019, with minimal impact in the year under review.

Central

Central costs include PLC and corporate costs, where allocation to the underlying segments would not improve understanding of those segments. These costs include share-based payments and pensions, along with the residual Group cost of finance, HR, risk, legal and communications, once appropriate recharges have been made to the three business segments.

Central costs have decreased from £11.5 million to £11.3 million.

EBITDA reconciliation

EBITDA before exceptional items is the key measure used by management and the Directors to monitor the underlying performance of the Group. EBITDA before exceptional items is defined as "profit before tax" before share of profit of associates, finance costs, amortisation, depreciation and exceptional items. A reconciliation of EBITDA to its closest statutory measure (profit before tax) is set out in Note 4. The items classified as exceptional items are described below.

Exceptional items

The Group incurred exceptional charges totalling £56.0 million in the year. This comprises:

- a non-cash impairment of National Network Services goodwill of £32.2 million and Enterprise goodwill of £19.1 million;
- a non-cash plan amendment to the Group's pension scheme liabilities of £0.8 million to account for legislative changes relating to guaranteed minimum pension equalisation; and
- restructuring costs of £3.8 million.

The goodwill impairment reflects the disappointing performance of National Network Services and the continued low levels of order intake in Enterprise.

Management scrutinises all restructuring costs on a line by line basis to determine whether they meet the criteria of being exceptional. During the year restructuring costs were incurred in relation to four main areas:

- termination and recruitment costs associated with Executive Directors (£1.3 million);
- transformation of project delivery (£0.4 million);
- transformation of central functions (£0.8 million); and
- costs associated with a strategic business review (£1.3 million).

The treatment of the termination and recruitment costs associated with Executive Directors is in line with the Group's accounting policy. The transformation costs are a completion of activity which had begun in the prior year in addition to the commencement of a fundamental re-organisation of the Group's product and propositions teams. The strategic business review costs mainly relate to third party consultant costs incurred performing the review. The outputs of this review are expected to be further reviewed and refined as part of a post-acquisition completion business review with implementation resulting in a number of operating model transformation initiatives which will lead to a reduction in organisation complexity, duplication and costs. Additional exceptional costs are expected to be incurred in the next financial year to support the realisation of these cost savings.

Net debt and cash flow

As expected, net debt at 31 March 2019 is higher than the prior year, at £107.2 million (31 March 2018: £62.6 million), representing a net debt to EBITDA ratio of 1.9 times. Undrawn committed borrowing facilities at 31 March 2019 were £65.0 million (31 March 2018: £105.0 million).

The anticipated increase in net debt compared to the prior year end position arises as a result of a working capital outflow and continued investment in our fibre deployment. The working capital outflow mainly relates to permanent differences arising in the first half of the year principally relating to:

- the successful insource of a managed service arrangement with a key partner, delivering overall cost benefit but with a one-off, in-year working capital outflow; and
- unwind of certain deferred revenue balances.

Underlying working capital continues to be well controlled. Both Days' Sales Outstanding and Days' Purchases Outstanding are consistent with the prior year end on an underlying basis. Alternative performance measures, used throughout the Annual Report, are defined and reconciled to statutory measures in the Glossary on page 118.

Dividend

At the half year, the Group declared and paid an interim dividend of 1.00 pence per share (2018: 2.00 pence per share). As the acquisition of KCOM by MEIF 6 Fibre is due to complete in early August, the Board did not declare a final dividend for the year ending 31 March 2019 (2018 : 4.00 pence per share). Consequently, the full year dividend is 1.00 pence per share (2018 : 6.00 pence per share).

Pensions

The IAS 19 pension position at 31 March 2019 is a combined net asset of £3.5 million (31 March 2018: £7.5 million liability). The movement from 31 March 2018 arises as a result of a £12.0 million increase in the fair value of the schemes' assets offset by a £1.0 million increase in the net present value of the schemes' liabilities. The increase in the value of assets reflects employer contributions into the schemes' and an increase in the expected return of the schemes' assets.

The increase in the value of the schemes' liabilities is mainly due to a plan amendment to the Group's pension scheme liabilities of £0.8 million to account for legislative changes relating to guaranteed minimum pension equalisation. On 26 October, the High Court handed down a judgement involving the Lloyds Banking Group's defined benefit pension schemes. The judgement concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgement arise in relation to many other defined benefit pension schemes.

The agreed level of deficit repair payments across both schemes for the current year is £7.0 million (rising in line with Consumer Price Index until the year ending 31 March 2020 for the Data scheme and 31 March 2022 for the Main scheme). In addition, the Group makes pre-agreed payments to its pension schemes through the asset backed partnership. The full year payment for the current year is £2.8 million (2018: £2.7 million). Our most recent actuarial review date was 31 March 2019. The review is ongoing and the outputs, including valuation and agreed recovery plan will be finalised before 30 June 2020.

Capital investment

Cash capital expenditure during the year was £37.5 million or £38.4 million when adjusted for the impact of IFRS 15 (2018: £43.9 million). The major project in the year was the continued deployment of fibre and the transformation of the network in our Hull & East Yorkshire segment.

The Group's depreciation and amortisation charge for the year was £29.9 million or £31.9 million before the impact of IFRS 15 (2018: £32.6 million). The charge was lower on an IFRS 15 basis as routers are no longer capitalised and depreciated but directly expensed as a cost of sale.

Tax

The Group's tax charge was £2.3 million (2018: £6.6 million). The effective tax rate was -7%, which is different to the prevailing rate of corporation tax of 19% principally due to the tax impact of the goodwill impairment.

Anna Bielby

Chief Financial Officer

31 July 2019

Our strategy

Our value creation is underpinned by four strategic pillars:

Customers and Partners

We understand and anticipate the needs of our customers and align our products, services and solutions to meet those needs, leveraging our market-leading partnerships to create a unique and differentiated brand experience.

Priorities for 2018/19

We aimed to:

- Continue to develop our range of services that leverage our investment in the fibre network in Hull & East Yorkshire;
- Launch additional cloud-based services to our regional business customers, including offerings based on our partnerships with Microsoft Azure, Cisco and Google;
- Further develop our relationships with new and existing cloud partners including Amazon Web Services (AWS), Microsoft and Google; and
- Review and improve contract management relating to our customers and partners.

We have:

- Continued to explore a range of mobility and security solutions for our regional consumer customers;
- Launched Meraki Wi-Fi for our regional business customers and continued to investigate cloud solutions that complement our connectivity portfolio;
- Retained AWS premier partner and managed service provider status, joined the AWS "Well Architected" partner program and moved up to Microsoft Gold Cloud competency status; and
- Improved governance around supplier contracts with structured data ready to migrate to a contract management system once implemented.

People

We want to provide an environment where we attract, retain, develop and enable all our people to demonstrate, grow and apply their capabilities, offering opportunities for everyone to reach their potential.

Priorities for 2018/19

We aimed to:

- Use the insight from our online feedback platform to drive continuous improvement and greater employee engagement across the business;
- Develop and implement initiatives to achieve greater gender balance across our business to encourage more women to take up leadership positions and to apply for technical and engineering roles; and
- Continue to develop our delivery community to increase our ability to fulfil complex customer projects, focusing in particular on building our project management capability and our people management skills.

We have:

- Undertaken four employee engagement surveys to capture feedback from our people and established a number of employee engagement forums to review the output and suggest improvement activities;
- Encouraged girls and young women to explore opportunities in technical disciplines through our ongoing engagement with schools and colleges including Hull's Ron Dearing University Technical College; and
- Strengthened our governance across project delivery.

Strategic report – Our strategy

Systems and processes

Our organisation and customer experience are underpinned by robust processes and systems. The ability to understand, manage and interpret the data we hold is key to developing compelling propositions and providing clear and transparent information on segmental performance.

Priorities for 2018/19

We aimed to:

- Deliver on the first year of our accelerated investment plan to simplify and upgrade our IT systems supporting our focus on customer experience and provide greater clarity around the systems dependencies of each of our segments;
- Continue the implementation to automate our ordering and fulfilment processes in Hull & East Yorkshire, making more information available to help customers;
- Begin the delivery of our new ticketing and service management capabilities, adding to our engineering mobility and scheduling, and supporting the further development of our Customer Services Operations Centre;
- Continue to extend the capabilities supporting our sales team and our large project delivery teams in Enterprise to further improve our end-to-end business processes; and
- Make further improvements to the presentation and content of account information for customers in Hull & East Yorkshire

We have:

- Progressed the implementation of an order management system for simple products in Hull & East Yorkshire, with improved network automation, customer relationship management and product catalogue functionality;
- Reviewed a number of service management systems in line with our strategy for customer service; and
- Trialled a new customer app in Hull & East Yorkshire, giving consumers easier access to usage and billing information.

Assets

Our offerings to customers are underpinned by our technology platforms. We seek to invest in consolidating and transforming them to deliver new services and reduce operating costs and complexity.

Priorities for 2018/19

We aimed to:

- Complete the deployment of full fibre broadband across our addressable market in Hull & East Yorkshire and offer a voice over fibre integration to eliminate the need for copper cables into customer premises;
- Continue to transfer resource and skills into the Customer Services Operations Centre, complemented with new systems and processes designed to improve customer service and operational efficiency;
- Continue the network transformation programme, completing: the next-generation (NG) Transmission, NG Service Creation Platform, NG Value Added Services projects, and migrating much of the voice customer base to an NG Voice platform for Hull & East Yorkshire and National Network Services;
- Continue to optimise our existing data centre estate, collaborate in building a new data centre with University of Hull and commence integration with wider operations; and
- Achieve better visibility of network costs by segment.

We have:

- Completed the rollout of full fibre across our network, with the exception of a number of premises that require access across private land or are owned by third parties, which are to be completed in 2019/20;
- Completed the transition to our Customer Service Operations Centre and started to refine processes as part of our focus on continuous improvement;
- Migrated all customers from our legacy transmission networks to our NG Transmission; and
- Commenced rationalisation of our data centre estate and migration of national customers onto our NG Service Creation Platform.

During the year, the Group undertook a strategy review and subsequently, as part of the acquisition of KCOM, MEIF 6 Fibre set out its post-acquisition intentions. Details of these are outlined in Our business at a glance on page 2.

Key performance indicators

Financial key performance indicators (KPIs)

Revenue[1]

2019: £281.6m 2018: £301.9m 2017: £331.3m	This statutory measure reflects the total amount the Group recognises from the sale of goods and services net of applicable sales, taxes and discounts. Revenue is a key measure of the Group's growth and progression. The target for this measure is a performance above market expectation. Performance in this area is below our target. Revenue has reduced for the past two years principally as a result of the challenges in our National Network Services segment. Growth in Hull & East Yorkshire consumer revenue has been offset by a reduction in business and wholesale. This KPI supports the long-term strategy of the Group.

Link to Strategy: Customer and Partners, People, Systems and Processes, Assets

1. KPIs are shown on a reported basis and therefore after the impact of new accounting standards in 2019.

EBITDA[1, 2]

2019: £57.1m 2018: £68.3m 2017: £67.6m	Earnings before exceptional items, interest, tax, depreciation and amortisation. EBITDA is the key profit indicator used by the Group to track and assess underlying performance. This is reported monthly to the Executive Leadership Team (ELT) and the Board. This profitability measure is also a key remuneration metric used for the Group bonus scheme. Further details are shown in the Remuneration report and within the definition of our Alternative Performance Measures on page 118. Group EBITDA has declined by £11.2 million year on year (this includes the impact of new accounting standards). In November, we explained to our shareholders that Group's trading performance for the full year for 2019 would be c. 5% weaker than originally expected driven by lower than expected order intake in the Group's Enterprise segment and continued customer churn in the Group's National Network Services segment. The target for this measure is a performance above market expectation. This KPI supports the long-term strategy of the Group.

Link to Strategy: Customer and Partners, People, Systems and Processes, Assets

1. KPIs are shown on a reported basis and therefore after the impact of new accounting standards in 2019.
2. Alternative performance measures, used throughout the Annual Report, are defined and reconciled to statutory measures in the Glossary on page 118.

Strategic report – Key performance indicators

(Loss)/Profit before tax

2019: (£31.6m) 2018: £34.0m 2017: £30.5m	This statutory measure reflects the profitability of the business before corporation tax. Although the Directors believe EBITDA to be the most appropriate measure for rewarding performance and linking to remuneration, profit before tax is an important metric as it is a statutory measure of profitability, directly comparable with other companies. The movement from 2018 to 2019 reflects exceptional charges of £56.0 million (compared to exceptional credits of £0.7 million in 2018) and the decline in our EBITDA (see separate KPI) offset by a reduction in depreciation and amortisation of £2.6 million. Depreciation is broadly flat year on year as increases from the completion of our fibre rollout programme are offset by changes in accounting standards. Amortisation has declined by £2.6 million as software assets on a major contract were fully written down part way through the year. The main elements of this year's exceptional charges were impairments of goodwill in our Enterprise and National Network Services segments of £19.1 million and £32.2 million respectively. In addition, we incurred £3.8 million of restructuring costs and a £0.8 million non-cash plan amendment to the Group's pension scheme liabilities to account for legislative changes relating to guaranteed minimum pension equalisation. The target for this measure is a performance above market expectation. This KPI supports the long-term strategy of the Group.

Link to Strategy: Customer and Partners, Systems and Processes, Assets

Net debt[2]

2019: £107.2m 2018: £62.6m 2017: £42.4m	Net debt is a measure of indebtedness of the business and includes cash and overdraft balances, bank borrowings and amounts owing under finance leases. For further details see Note 25. The level of net debt is important as it shows how much headroom there is with the Group's borrowing facilities and net debt to EBITDA is a key ratio used by external stakeholders. See Note 24 for more details on our loan facility. The Group has a number of obligations around pensions, capital expenditure and dividends, therefore it is important that we generate cash and manage working capital effectively in order to remain comfortably within our banking facilities (our target) and be able to support strategic investments such as the rollout of fibre in the Hull & East Yorkshire segment. This year's net debt performance has been disappointing. In November, when we explained our trading challenges to our shareholders we also indicated that net debt at 31 March 2019 would be c. 10% higher than market expectation, impacted by trading challenges alongside a permanent working capital outflow in relation to the insource of a significant managed service contract. This KPI supports both our shorter-term operational objectives and the long-term strategy of the Group.

Link to Strategy: Customer and Partners, People, Systems & Processes

2. Alternative performance measures, used throughout the Annual Report, are defined and reconciled to statutory measures in the Glossary on page 118.

Cash capex[2]

2019: £37.5m 2018: £43.9m 2017: £47.2m	This reflects the amount of cash that has been paid out of the business in the year in relation to capital expenditure projects. As was the case in the prior year, cash capex this year has been higher than our longer-term levels. This reflects the high levels of capital expenditure in the year associated with the completion of our fibre rollout programme in the Hull & East Yorkshire area. It is important that we monitor and control our level of capex in order 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 in order to generate a strong return on investment and drive business performance. The target for this measure is performance in line with market expectation. This KPI supports the long-term strategy of the Group.

Link to Strategy: Customer and Partners, Systems and Processes, Assets

2. Alternative performance measures, used throughout the Annual Report, are defined and reconciled to statutory measures in the Glossary on page 118.

Hull & East Yorkshire Average Revenue Per User (ARPU)

2019: £35.93 2018: £35.17 2017: £33.77	ARPU is calculated as Hull & East Yorkshire Consumer revenue for the year, divided by the average number of Consumer customers, divided by 12. ARPU is a key performance measure as it shows the average spend per customer per month in our Hull & East Yorkshire Consumer segment. As the number of customers in this segment is currently relatively stable, increasing ARPU is the best way to drive growth in the segment. The increase in ARPU over the past three years has been driven by the increase in the number of consumers taking our higher value fibre products as the fibre deployment has progressed rather than the traditional lower value copper-based products, and by increased broadband penetration levels. An important consideration in continuing to grow our ARPU is the risk of regulatory changes as set out in our risk section on pages 21 to 26. We target a year on year increase in ARPU. This KPI supports the long-term strategy of the Group.

Link to Strategy: Customer and Partners, Systems and Processes, Assets

Non-financial key performance indicators (KPIs)

Hull & East Yorkshire customer satisfaction

Customer satisfaction 2019: 71% 2018: 54% 2017: 51% **Customer effort** 2019: 69% 2018: 61% 2017: 44% **Fibre broadband Net Promoter Score** 2019: +5 2018: -5 2017: -10	Our Hull & East Yorkshire segment has the largest number of customers of our three segments and improving customer experience is an important part of our Hull & East Yorkshire strategy. In last year's report, we began to formally report against the three core KPIs that support our regional strategy. Every six months, we undertake online and telephone surveys with a representative sample of customers, using a specific set of scoring questions. These scores are collated to create the overall KPIs provided here. We track and report on these key metrics internally and use them to inform our action plans and determine the focus of future improvement programmes. During the year we have continued to make progress across all metrics. We have now introduced further in-depth measurement with monthly feedback surveys to measure customer experience across both the path to purchase and fault resolution processes. This feedback allows us to map performance and target improvements at every stage of a customer's journey. The output forms part of the customer services review at each monthly segment management meeting and every stage is aligned to a member of the management team who has responsibility for implementing performance improvements. These KPIs support the long-term strategy of the Group.

Link to Strategy: Customer and Partners, People, Systems and Processes

Employee engagement

2019: 6.9* 2018: 6.2	In the year ended 31 March 2018 we introduced a new engagement tool that replaced previous methods of measuring employee engagement. This new arrangement allows for regular measurement and dialogue with colleagues across the Group. Since introducing this tool, we have built a baseline of responses and results we are able to compare to industry benchmarks and set objectives for future improvements. Our employee engagement score increased from 6.2 last year to 6.9 this year. In addition, our response rate went from 69% last year to 78% this year. Whilst we are pleased with the improvement in our overall score, we recognise that the recent uncertainty the Group relating to the acquisition of KCOM means that focusing on this becomes increasingly important.
* as at November 2018	This KPI supports the long-term strategy of the Group.

Link to Strategy: Customers and Partners, People

Days' sales outstanding (DSO)

2019: 28 2018: 30 2017: 27	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 is something that requires significant effort on the part of the business. The varied nature of revenue streams within the Group means that this is an aggregated figure which will not individually apply to each of our market segments. Our DSO has remained broadly consistent across the last three years demonstrating our focus on managing our underlying working capital. While we do not set a specific quantified target for DSO, and fluctuation occurs during the year as a result of business cycles, we expect year end DSO to be relatively stable year on year. This KPI supports operational and shorter-term objectives of the Group.

Link to Strategy: Customer and Partners, People and Systems and Processes

Hull & East Yorkshire premises passed

2019: 195,000 2018: 164,000 2017: 137,000	This is the cumulative number of premises in the Hull & East Yorkshire area that have been "passed" by our fibre deployment and are now able to take services over fibre rather than copper lines. Fibre rather than copper broadband provides a higher quality of service to our customers and will allow us to transform our underlying network in Hull & East Yorkshire as traditional copper lines and the associated infrastructure can be retired. The increase in the number of premises passed brings us closer to this goal. We have now completed the rollout of fibre across our existing network, passing all properties we are able to pass and making full fibre broadband available across our network. There are c. 9,000 premises where third party permission is required (for example, to gain access to multi-dwelling units and private land that will not be able to have fibre connected immediately). This KPI supports the long-term strategy of the Group.

Link to Strategy: Customer and Partners, Systems and Processes and Assets

Impact of Health and Safety incidents (Days lost)

2019: 7 2018: 74 2017: 131	This is the number of work days that have been lost due to Health and Safety incidents. There was one reportable incident during the year (two fewer than last year) which accounted for all of the days lost. This was fully investigated, and necessary action taken to avoid reoccurrence. Our target is to have zero days per year lost as a result of Health and Safety incidents. See risks and reputational damage in the Managing risk in our business section on pages 21 to 26. This KPI supports operational or shorter-term objectives of the Group.

Link to Strategy: Customer and Partners, People and Systems and Processes

The risks to not achieving our targets for these performance metrics are set out on pages 21 to 26.

Managing risk in our business

As a business we strive to achieve the right balance between risk and reward. We believe that all businesses have to take some level of risk, but we want to make sure we do not take unnecessary risks and that we understand and manage the risks that we take. We have set our risk appetite as a business and we consider the risks that we take, both individually and as a whole, in the context of that appetite and the longer-term viability of the business.

The Board and Audit Committee spent time during the year reviewing reports on risks and controls to obtain the assurance they need that our risks are being managed appropriately. This assurance comes from a variety of sources. Further information on our risk management processes is on page 51.

As a result of this review of risks and controls, the Board can confirm that it has carried out a robust assessment of the principal risks facing the business, including those that would threaten the business model, future performance, solvency or liquidity.

Risk appetite

The Board sets the risk appetite for the business and this is reviewed periodically and updated as appropriate. Our risk appetite statement sets out the risk appetite in a number of key areas in relation to cybersecurity, accuracy and security of data, customer experience, people, service availability, technological change, health and safety and regulatory compliance.

The risk appetite statement continues to show that as a business we are moderate in our risk taking. We are however, risk averse in our approach to health and safety risk and will seek to reduce the inherent risk in this area through risk avoidance or mitigation.

Brexit

The impact of Brexit is one that we consider regularly and is discussed frequently in relation to the risk or opportunity that it may present to each of our market segments. At the current time we do not consider the impact of Brexit to be one of our principal risks, but this is something that we will keep under review.

Risk management: our principal risks and uncertainties

As with all businesses, we are affected by a number of risks and uncertainties. The tables on pages 22 to 25 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. Some of the risks reported in the prior year such as upgrading of our network equipment and flood risk, have been consolidated this year within the principal risk of security and resilience of our networks and IT systems in the current year. Improved contract governance and project management has been observed during the year, and risks relating to customer focus and staff retention specifically attributed to the Enterprise segment in the prior year are now incorporated as part of the wider Group risk profile in the current year. 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.

Strategic report – Managing risk in our business

Risks reported in the prior year

Customer service and delivery

Why is it important?

Our aim is to provide exceptional service wherever we can as this supports the creation of long-term sustainable revenue. The risk of not achieving this is the loss of customers and this is therefore a key risk for the business.

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 more regular feedback from customer satisfaction metrics. In response to customer feedback, a new range of broadband packages was launched for our Hull & East Yorkshire consumers. A specialist team has also been established that is dedicated to optimising the Wi-Fi experience in customers' homes and a more focused approach to sales and customer service has been introduced.

Change in level of risk

The level of risk remains the same.

How does this link to our strategy?

Customers and Partners
People
Systems and processes

Substitute technologies entering the consumer market

Why is it important?

Much of our business in Hull & East Yorkshire is currently based on the provision of services over a fixed-line network. If substitute technologies 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.

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 full fibre deployment is part of this aim.

We offer bundles of products and services that offer our customers value for money. We are also investing in innovative products and services which take advantage of our full fibre deployment, which provides a clear alternative to a substitute technology.

Change in level of risk

The level of risk remains unchanged from the prior year.

How does this link to our strategy?

Customers and Partners
People
Systems and processes
Assets

Strategic report – Managing risk in our business

Risks reported in the prior year

Security and resilience of our networks and IT systems

Why is it important?

We need our networks and IT systems to continue operating in order 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).

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. The Director of Risk Management is responsible for ensuring a consistent approach to security and resilience across the business and we have detailed policies and processes in place. We regularly test our resilience plans and feed back any lessons learnt from such tests into the resilience planning process, which in turn is continually reviewed and updated on an ongoing basis.

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.

Change in level of risk

The level of risk remains unchanged from the prior year.

How does this link to our strategy?

Customers and Partners
Systems and processes
Assets

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. We take our regulatory responsibilities extremely seriously and seek to ensure we are compliant in all regards.

Regulatory changes may also have an impact on commercial pricing which in turn may affect ARPU, a key performance measure.

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. We have brought additional resource into this team during the year to enable additional focus in this area. 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.

Change in level of risk

The level of risk remains the same.

How does this link to our strategy?

Customers and Partners
Systems and processes

Risks reported in the prior year

Health and safety

Why is it important?

The 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. It is important to us to mitigate health and safety risks as far as possible to try to prevent incidents from occurring.

What are we doing to mitigate the risk?

We have an in-house health and safety team with significant experience of health and safety issues specific to our industry. We have a comprehensive training programme in place which provides general training to all our people, through mandatory e-learning, and specific training to those who undertake higher risk activities, which is then followed up by on-the-job checks to ensure our engineers are practising what they have learnt. For large projects which contain increased health and safety risks, such as our fibre deployment, we have brought in external health and safety advisors to work on the project full-time to ensure we are complying with all the appropriate health and safety requirements mitigating all known risks. with all of the appropriate health and safety requirements.

Change in level of risk

The level of risk remains the same.

How does this link to our strategy?

People
Systems and processes

Accuracy, security and confidentiality of customer data

Why is it important?

The security, confidentiality and accuracy of our customer data is of paramount importance to us and to our customers.

There is an increased inherent risk from the constantly evolving nature of cyberattacks, particularly for those businesses that operate in technology sectors.

What are we doing to mitigate the risk?

We have clear and comprehensive policies in place for the management of data and run training in this area for all employees. Specific roles are in place that focus entirely on data to help ensure our ongoing compliance with the General Data Protection Regulation (GDPR).

We keep up to date on emerging cyberrisks through membership of information sharing forums. Cybersecurity is also considered as part of annual disaster recovery scenario testing.

Change in level of risk

The risk is increasing as the volume and nature of cyberattacks continues to grow and evolve, which threatens the security of data.

How does this link to our strategy?

Customers and Partners
People
Systems and processes
Assets

Strategic report – Managing risk in our business

Risk reported for the first time this year

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.

What are we doing to mitigate the risk?

Colleague feedback has been obtained from employee engagement 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 KCOM culture. We will strive to become an employer of choice and reduce the gender pay gap.

Change in level of risk

The level of risk has increased during the year due to the uncertainty of KCOM's future ownership and direction.

How does this link to our strategy?

Customers and Partners
People
Systems and processes
Assets

Viability Statement 2019

As in previous years, the Directors have assessed the prospects of the Group for a period of three years. Although certain aspects of the Group's planning cycles take into account longer timeframes than this, the Directors have determined that, given the predictability of cashflows and the banking facilities currently in place, three years is the most appropriate period for this assessment.

The Group's prospects are primarily assessed through the annual financial planning process which is led by the Executive Leadership Team with input from all relevant functions. In addition, the Board considers the Group's strategy and long-term prospects more broadly than just this annual process, particularly in relation to the assets and the investment profile of the operations in our Hull & East Yorkshire segment.

When specifically assessing the viability of the Group, various scenarios and stress tests are performed. These consider severe but plausible scenarios which are aligned to the principal risks as identified in the Group risk register. Whilst it is impossible to foresee all risks (or take into account risks which are immaterial but could turn out to be significant) mitigation activities could be performed in these scenarios, for example reducing capital expenditure and discretionary spend or making changes to dividend payments.

The Directors have also considered the acquisition of KCOM by MEIF 6 Fibre (Note 35) as a potential viability scenario. Under this scenario it is the present intention that, under the current change of control agreement, MEIF 6 Fibre will facilitate the repayment by the Group of its existing debt facilities once the acquisition of KCOM is complete. In due course, after the acquisition of KCOM has completed, it is also the present intention that MEIF 6 Fibre will consider putting in place an appropriate capital structure for the business, which is likely to include new third party debt. This is likely to result in a short-term intervening period between the settling of existing facilities and the availability of new ones. The Group is cash generative and is able to manage its cash flows to meet its liabilities as they fall due. However, access to a modest working capital facility would likely be required to manage short-term volatility and seasonality in cash flows. The Directors have discussed this with MEIF 6 Fibre who have confirmed, subject to completion of the acquisition of KCOM, their present intention to replace the existing facilities and to support any short term working capital volatility and/or seasonality with the availability of required funds prior to new debt facilities being in place, with such support lasting for a period no shorter than 12 months from the date these annual report and accounts were approved.

Based on the results of this review, and on the assumption that the group continues to have appropriate financing in place as described above, the Directors have a reasonable expectation that the Group will be able to continue in operation and meets its liabilities as they fall due over the three-year period ending 31 March 2022.

Sustainability

Our sustainability strategy covers four areas which we take into account when making key business decisions: the communities in which we operate; our people; the relationships we have with our customers and suppliers; and the environment. Responsibility for our sustainability strategy sits with our Chief Executive.

Our sustainability strategy is fully integrated and aligned with our business strategy. It is underpinned by three key objectives:

1. To use our expertise in communications technology to create a positive impact on all our stakeholders and the communities in which we operate;
2. To promote our values, both internally and in the way we do business with external stakeholders; and
3. To engage and empower our people so they can make a positive contribution to our sustainability strategy and the causes that matter to them.

Community

We aim to operate in a way that benefits local communities as well as supporting our strategic business aims. Our significant presence in Hull & East Yorkshire means we make certain business decisions with the potential impact of that community in mind. 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.

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; a Key Partner of For Entrepreneurs Only, a community interest company that helps local entrepreneurs create jobs and wealth; 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 also joint hosts of the annual Hull and Humber Tech Awards, which showcase success in the region's digital economy.

Supporting the region's young people

As a major employer and supplier of services in the region we have a stake in 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.

During the year we supported learning activities in schools and colleges across the region. We engaged with 19 primary schools, offering two education programmes: our "Simnet Challenge", an interactive session that teaches children how the internet works; and our new, day-long "KCOM Key Skills" programme, through which pupils learn about effective communication, staying safe online and spotting fake news.

We continued our partnership with Ron Dearing University Technical College, through which we provide learning support for STEM subjects (science, technology, engineering and maths). We also supported the college and 21 other secondary schools and colleges with their careers provision, participating in careers fairs and talks, mock interview sessions and employability skills days.

Charity and community support

During the year we supported over 100 community groups in Hull & East Yorkshire by donating funds, employee time and business services.

We introduced charity committees in our main offices to replace our previous national charity partnership programme to give employees the opportunity to support charities and community groups local to them. Through these committees we donated more than £30,000 during the year to regional charities including Glossop Mountain Rescue, Wakefield Hospice and Exeter Neo-Natal Unit as well as local branches of national charities such as Mind, Macmillan Cancer Care and British Heart Foundation.

We have continued our patronage of The Prince's Trust, the UK's leading youth charity, which changes young lives by offering training, personal development, business start-up support, advice and mentoring.

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.

Reward and recognition

As part of our commitment to recognising and valuing the contribution our people make to our business, during the year we adopted the real living wage as the minimum salary for employees. As well as allowing people to meet the costs of living based on independent calculations, paying real living wage rates brings the potential benefits of increased retention and differentiation in the recruitment market for apprenticeships and other entry-level roles.

We also understand the importance of recognition in boosting employee engagement, satisfaction and productivity. Following a careful review of our approach to recognition, at the start of the year we introduced a new, peer-to-peer recognition platform through which our people can acknowledge and reward the work and actions of their colleagues. The platform has been well-received: it has been used by over 500 employees to give 2,965 acknowledgements since it was launched.

We have also introduced a new, more personalised approach to recognising long service that allows us to mark service milestones in a way that is more meaningful for employees.

Employee wellbeing

Through our wellbeing programme we aim to encourage the physical and mental health and wellbeing of our people by providing information, self-help tools and support.
During the year we increased our focus on raising awareness of mental health issues and support for employees experiencing poor mental health. As part of this, 32 employees across our main sites have now been fully trained as Mental Health First Aiders so they can help guide people in distress to relevant help, have the knowledge to identify people who may be developing a mental health issue, and intervene before an issue potentially escalates. Many of our people managers have also taken part in mental health awareness training to help them identify and support team members who may be experiencing a mental health issue.

Our annual free confidential health screening sessions were attended by 463 employees across our eight main sites. These sessions help employees identify potential health problems.

Gender diversity and pay

We have clear policies in place to ensure men and women are given equal opportunities throughout their careers with us.

We're committed to providing equal opportunities and will not tolerate discrimination of any kind. We do this by making sure everyone has the same opportunities to grow and succeed.

Our people are expected to embrace a culture of diversity and to act respectfully and with consideration for others. We're always exploring how we can help every member of our team make the most of their talents through:

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

As at the end of the year the gender diversity of the Group was as set out below:

	Male	Female	Female %
Board Directors	3	2	40%
Executive Leadership Team (ELT)[1]	6	3	33%
Other employees	1043	493	32%

1. The ELT is defined as the senior leaders who have overall responsibility for key functional areas. It includes Executive Board Directors Graham Sutherland and Anna Bielby.

Our most recent gender pay gap report, based on the snapshot date of 4 April 2018, showed a mean pay gap of 30.6% and a median pay gap of 35.2%. On a like-for-like basis, we have seen little movement in our gender pay figures since the previous report, highlighting that there remains much work to be done to bring greater balance to our business.

We are committed to achieving this balance and have a series of initiatives in place to reach our goal. The Board of Directors is also focused on driving improvement in this area. Based on our assessment that the current pay gap is principally driven 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, we are placing significant focus on encouraging more diverse participation in these areas. Our efforts include participation in schools-based activities to encourage more girls and young women to consider careers in technology and engineering.

Human rights

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

In our Hull & East Yorkshire market we have continued to strive to address the barriers to digital inclusion faced by many in the community. In addition to hosting our own regular internet drop-in sessions, where customers can develop their online skills in a relaxed environment, we have continued to work with local authorities to facilitate similar events in local libraries and to train “digital champions” who can provide support in community centres to residents who wish to do more online.

We have continued to raise awareness among our customers of online safety issues. As well as giving online safety talks to children in local primary schools, through our support of leading online safety organisation Internet Matters we are able to raise awareness of online risks among parents and carers and signpost them towards the best guidance to reduce these risks.

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. During the year we have increased our efforts to ensure all our people are aware of how vulnerability can affect consumers and the support and services we offer. We have also carried out role-specific training to help colleagues in frontline roles gain a deeper understanding of vulnerability so they are able to identify and help consumers who may need extra support.

Relationships with suppliers

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

We therefore 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.

In addition, our business continuity planning activities place significant focus on ensuring that in the event that key suppliers are affected by a business disruption we are able to continue supplying services to our customers. We test our business continuity plans regularly to ensure continuous improvement.

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.kcomplc.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.

Our biggest environmental impact comes from the electricity we use in our offices, data centres and various network sites, both nationally and in the Hull & East Yorkshire region. During the year 79.1% of our CO_2e emissions came from our electricity usage.

Each year we seek to reduce our emissions wherever possible through various energy-saving schemes. In the year the CO_2e tonnes produced from our electricity usage has fallen by 2,926 tonnes (22.1%). This reflects a three per cent reduction in the number of kilowatt hours of electricity used compared to the prior year and a lower carbon factor published by the Department for Business, Energy and Industrial Strategy, which are the factors we use each year to calculate the conversion of our electricity usage and other carbon emissions into CO_2e tonnes.

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% of our waste is recycled, with the actual tonnage of waste that has gone to landfill falling significantly from 17.5 tonnes to 6.2 tonnes. This was our first full year with a new waste management supplier and consequently much more of our waste is now recycled as Refuse Derived Fuel (RDF). The amount of waste we send to landfill during the next few years is expected to be of a similar level to that of the past 12 months.

Breakdown of our emissions

Premises – electricity	79.10%
Premises – other fuel and waste	9.50%
Business travel	11.40%

Emissions in the year

The table below sets out our annual emissions in tonnes of CO_2e.

	Year ended 31 March 2019 CO_2e	**Year ended 31 March 2018[1] CO_2e**
Combustion of fuel and operation of facilities	2,725	2,934
Purchase of electricity	10,296	13,222
Total	**13,021**	**16,156**
Tonnes of CO_2e per £'000 of revenue	0.046	0.054

1. The 2018 figure has been restated to rectify an error in the purchase of electricity. This has resulted in an increase of 702 tonnes.

Our carbon emissions from combustion of fuel and operation of facilities has fallen in the year by 7% due to reduced usage of refrigerant gases.

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.

Area	Actual	Target for the year under review	Target met?	Future target for 2019/20
Total CO_2e	13,021 tonnes	Not to exceed 2017/18 levels of 16,156 tonnes	Yes	Not to exceed 2018/19 levels of 13,021 tonnes
Waste sent to landfill	6 tonnes	No target was set in 2018/19	N/A	Not to exceed 2018/19 levels of waste to landfill
Energy efficiency in transport	1,491 tonnes	Not to exceed 1,432 tonnes	No	Not to exceed 2018/19 levels of 1,491 tonnes

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 31 and 32.
- Information on our employees is also shown in our Sustainability report on pages 28 and 29 and as part of Other disclosures on page 41.
- Information on social matters is shown in the Community section of our Sustainability report on pages 27 and 28.
- Our respect for human rights is set out in the People section of our Sustainability report on page 29.
- Our approach to anti-corruption and anti-bribery matters is set out in Other disclosures on page 42.
- Our business model is described on page 6.
- Our principal risks, and how we manage them, are described on pages 22 to 25.
- Other non-financial key performance indicators are shown on pages 18 to 20.

Signed by order of the Board

Sally Jones

Company Secretary

31 July 2019

Directors' report

Board of Directors

Patrick De Smedt, Interim Non-Executive Chairman

Following the retirement of Graham Holden as Chairman on 31 December 2018, Patrick De Smedt, our Senior Independent Non-Executive Director has taken the role of interim Non-Executive Chairman.

Patrick has been a member of the Board of KCOM since January 2016, bringing significant experience in the technology sector, having held senior positions at Microsoft between 1983 and 2006. There he founded the Benelux subsidiaries of Microsoft, led the development of the Western European business, and served as chairman of Microsoft for Europe, the Middle East and Africa.

He has taken on a range of non-executive roles in his career, which have given him extensive experience on the boards of listed companies. Patrick is also a Senior Independent Director at Pagegroup plc, Non-Executive Director of Kodak Alaris Holdings Ltd and Chairman of Divitas Holdco Limited.

Board committees:

- Audit Committee Member
- Remuneration Committee Member
- Nomination Committee Chair

Graham Sutherland, Chief Executive Officer

Graham joined the Board as Chief Executive on 15 October 2018. He has a strong track record in strategic transformation and driving improved financial and operational performance. He has a wealth of experience in the communications industry and has brought a fresh perspective to the Board and leadership of the business.

Graham has held a number of senior leadership positions in the UK telecommunications services sector serving both consumer and business markets. Over the last decade he has held a number of Chief Executive roles within BT Group PLC, including BT Business and Public Sector and BT Ireland (covering consumer, business and network interests the island of Ireland). Previously he held senior roles at NTL and Bombardier.

Anna Bielby, Chief Financial Officer

Anna joined the Board as Interim Chief Financial Officer in July 2018, taking the role permanently in January 2019. She joined the Group in November 2013 and prior to her appointment to Chief Financial Officer she has held a number of senior roles within KCOM's finance teams.

Anna is a Fellow of the Institute of Chartered Accountants in England and Wales and was previously a Director at PricewaterhouseCoopers LLP.

Liz Barber, Non-Executive Director

Liz joined the KCOM Board in April 2015, bringing a breadth of financial experience to the team.

A Fellow of the Institute of Chartered Accountants in England and Wales, Liz was a partner at Ernst & Young from 2001 and its head of audit for the North of England from 2006 to 2010. She joined Kelda Group in 2010 as group director of finance, regulation and markets.

As well as her full-time role at Kelda, Liz is a non-executive member of the board for Leeds University and a member of the Prince of Wales Accounting for Sustainability Group.

Board committees:

- Audit Committee Chair
- Remuneration Committee Member
- Nomination Committee Member

Directors’ report – Board of Directors

Peter Smith, Non-Executive Director

Peter joined the KCOM Board in January 2015. He has worked for L.E.K. Consulting LLP for 32 years.

He brings to the team a broad range of experience in assisting companies across a range of sectors in setting their strategic plans and helping optimise performance.

Board committees:

- Audit Committee Member
- Remuneration Committee Chair
- Nomination Committee Member

Sally Jones, General Counsel and Company Secretary

Sally joined KCOM as General Counsel and Company Secretary in November 2018.

Prior to joining KCOM, Sally was the General Counsel and Company Secretary at Zenith Vehicle Contracts for eight years and before that was a corporate lawyer at Addleshaw Goddard and Squire Patton Boggs.

Past Directors

Jane Aikman resigned from the Board and her role as Chief Financial Officer on 30 June 2018.

Bill Halbert stepped down as Chief Executive on 14 October 2018 and resigned from the Board on 28 November 2018.

Directors’ experience/backgrounds

Finance	3
Strategy	4
Sector specific	3
PLC Board	5
Regulatory	3

Board composition

Chairman	1	20%
Independent Non-Executive Directors	2	40%
Executive Directors	2	40%

Corporate governance

Appointment and replacement of Directors

It is the policy of the Board that all Directors wishing to continue in office will stand for election or re-election each year at the AGM.

The Articles of Association allow the Board to appoint a new Director at any time; however, the Articles state that the new Director will only hold office until the next AGM, at which point he or she must stand for election or vacate the office.

Following the announcement in February 2018 that Bill Halbert would be leaving the Group, Graham Sutherland was appointed as Chief Executive in October 2018. Bill Halbert stood down from the Chief Executive role upon Graham's appointment and following an orderly handover of responsibilities, resigned from the Board at the end of November 2018 and subsequently left the business on the 14 April 2019. Further details on Graham can be found on page 33 and in the Nomination Committee report on page 44.

After five years as Chairman, Graham Holden retired as Non-Executive Chairman of the Group on 31 December 2018. Following his retirement, the Senior Non-Executive Director, Patrick De Smedt has taken on the role of Interim Non-Executive Chairman and was asked to lead the search for a new Chairman. As a result of the acquisition of KCOM, the recruitment of a permanent Chairman is on hold.

Jane Aikman left KCOM on 30 June 2018 and was succeeded by Anna Bielby who joined the Board as Interim Chief Financial Officer on 1 July 2018, having worked for the Company in a senior finance role for five years prior to that date. Following the appointment of Graham Sutherland as Chief Executive, the Committee discussed Anna's performance and contribution and were pleased to offer her the role on a permanent basis. Anna was appointed to the role on a permanent basis on 10 January 2019. Further details on Anna can be found on page 33.

Following eight years as Company Secretary, Kathy Smith left the business in August 2018 and was replaced by Sally Jones as General Counsel and Company Secretary.

Further information on Sally can be found on page 34.

The Articles of Association state that the Company may remove a Director by ordinary resolution with special notice before the expiration of their period of office. There have been no Directors removed from office during the year.

Independence

The Board reviews the independence of the Non-Executive Directors each year, taking into account their tenure, relationships and circumstances as well as considering the behaviour of each Director at Board meetings and whether or not they contribute to unbiased and independent debate. All of the Non-Executive Directors and the Non-Executive Chairman were independent upon appointment and the Board believes that the Non-Executive Directors remain wholly independent in relation to the criteria set out in Provision B.1.1 of the UK Corporate Governance Code.

Our former Non-Executive Chairman, Graham Holden, had been with the business since November 2007. At the time of his appointment as Chairman, he had been with the business for seven years as a Non-Executive Director and was therefore independent upon appointment, which complied with the requirements of the UK Corporate Governance Code. There has been considerable change on the Board in recent years and Graham provided stability and continuity throughout that period, which we believed was beneficial to the business. Therefore, despite the length of his tenure, the Board believed that it was in the best interests of the business for Graham to continue in his role to provide the leadership and continuity that the business needed at this time. Graham resigned from the Board on 31 December 2018.

Commitments of the Non-Executive Chairman

Graham Holden did not have any other significant commitments while he was our Non-Executive Chairman.

Patrick De Smedt is a Non-Executive director of Page Group Plc, Kodak Alaris Holdings Limited and Divitas Holdco Limited.

Directors' report – Corporate governance

UK Corporate Governance Code

The Board considers that it has complied with all the detailed provisions of the UK Corporate Governance Code (2016) throughout the year ended 31 March 2019.

It has done this through various means described in this report, which include setting out clear responsibilities, ensuring its effectiveness is regularly reviewed, having regular interaction with shareholders and spending time to make sure the Board understands its accountability.

The Board as a whole is committed entirely to the principle of achieving and maintaining a high standard of corporate governance. The way in which the Board has applied the main provisions of the UK Corporate Governance Code is set out in the Directors' report on pages 36 to 40, the Audit Committee report on pages 48 to 53, Remuneration Report on pages 54 to 64 and the Managing Risk in our Business and Sustainability sections within the Strategic Report on pages 21 to 32.

The UK Corporate Governance Code is available on the Financial Reporting Council's website at www.frc.org.uk.

Board Committees

The Board has established and delegated specific responsibilities to Audit, Nomination and Remuneration Committees. Each Committee reports back to the Board after each meeting to ensure that the whole Board is aware of the matters considered by the Committees.

Each Committee has its own report which sets out the membership and attendance at the Committee meetings during the year, as well as further information on the role of the Committee. The Audit Committee report can be found on pages 48 to 53, the Nomination Committee report on pages 44 to 47 and the Remuneration Committee report on pages 54 to 55.

How the Board operates

The Board has eight scheduled meetings a year, with other ad hoc meetings held as needed. During the year, the Board met 19 times. The additional meetings were to consider changes to the board structure, the acquisition of KCOM and the strategic business review. Attendance at the meetings during the year is shown in the table on page 37.

The Board agenda is set for each meeting by the Chairman with input from the Executive Directors and the Company Secretary. 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, people matters, investor relations, governance and compliance, regardless of whether or not a Board meeting is scheduled. 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 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 the day-to-day operations and the key risks and opportunities facing each part of the business.

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

There is a schedule of Matters Reserved for the Board which is reviewed and updated on a regular basis. This schedule 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 considers the role of the Company Secretary to be key in ensuring that the Group and the Board have the right governance in place and that Board processes follow best practice. The Company Secretary meets with each of the Directors individually as necessary to discuss governance-related matters. The Directors are also able to obtain independent professional advice at the Group's expense whenever necessary.

Directors' report – Corporate governance

Attendance at Board meetings

Director	Number of meetings	Out of a possible
Patrick De Smedt (Chairman)	18	19
Jane Aikman	2	4
Liz Barber	19	19
Anna Bielby	15	15
Bill Halbert	11	12
Graham Holden	13	13
Peter Smith	19	19
Graham Sutherland	12	12

Training and development

The Board receives monthly updates on governance-related matters and more formal training where appropriate. Potential training needs are discussed as part of individual performance evaluations, plus each Director is given the opportunity to flag any additional training requirements which they may have identified as part of the annual Board evaluation process.

New Directors joining the Group are given a broad and comprehensive induction to the business, consisting of site visits, meetings with key personnel and detailed information relating to each market segment and the Group as a whole, as well as any training specifically required in relation to the duties of Directors and their role on the Board.

Relations with shareholders

It is essential that we communicate effectively with our shareholders and understand their views. Our Chief Executive and Chief Financial Officer meet regularly with our institutional shareholders to discuss the strategy, performance and governance of the Company and to obtain feedback. During the year, 30 meetings have been held with shareholders. There are also general presentations following the half year and final results announcements each year. As a result of the acquisition of KCOM, no full year results presentation has been held for the year ended 31 March 2019.

The Chairman ensures that an investor relations report setting out any feedback from shareholders is provided to the Board each month and discussed at each Board meeting, so that all of our Directors are kept informed of investor views.

Any member of our Board, including our Senior Independent Director, is available to meet with our institutional shareholders if requested to do so and two such meetings have been held during the year.

We have a large number of shareholders who live in the Hull & East Yorkshire region and KCOM is very much involved in local life in the area. There is more information about our community activities in the Sustainability section on pages 27 and 28. We believe that being involved in the local community in Hull & East Yorkshire helps us to better understand our local shareholders and the issues that are important to them.

We consider our AGM to be an important means of communication between our shareholders and Directors. All of our Directors will be available at the AGM to answer questions and we would encourage our shareholders to come along to speak with them.

We use electronic voting at our AGM each year. The results of voting, including the proxy votes lodged, are shown to shareholders in the meeting and are made available after the meeting on our website.

All of our company announcements are published on our website, www.kcomplc.com, together with presentation materials and financial reports, so that all of our shareholders can keep up to date with our news.

Business model and key performance indicators

The details of our business model can be found on page 6 and our key performance indicators are on pages 15 to 20.

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, as described on page 50, the Audit Committee has recommended to the Board that PricewaterhouseCoopers LLP are re-appointed. They have provided an independent audit opinion on these accounts which can be found on pages 65 to 71.

Performance evaluation

Prior to the changes to the Board during the year, in the autumn of 2018 our annual Board evaluation was externally facilitated by Independent Audit Limited, using their online self-assessment service, Thinking Board®. Independent Audit Limited has no other connection with the Company or individual directors. Directors completed a questionnaire which focused on strategy and risk taking, leadership and accountability, how the Board works, Board culture, insight, risk management and the committees. Independent Audit Limited provided a report based on responses to this questionnaire, which was discussed in draft with the Chairman and then presented in full to the Board. The Board discussed the report and agreed actions to take forward, based on the suggestions in the report. The review highlighted that key strengths of the Board include the understanding of the Board's role, the Board culture and the dynamics of how the Board works. The key areas for focus were strategy and risk-taking and leadership and accountability. A number of actions were taken from the evaluation which were followed up by the Non-Executive Chairman and the Company Secretary.

In addition to the annual Board evaluation, the Non-Executive Chairman meets with each Board member individually on at least an annual basis to discuss their own performance and to identify any areas for development or potential training needs. The Non-Executive Directors also meet (without the Chairman) present to evaluate the performance of the Non-Executive Chairman.

Non-Executive Director meetings

The Non-Executive Directors have regular dialogue with each other concerning Board matters and the Non-Executive Chairman met with the Non-Executive Directors, without the other Directors present, at regular intervals during the year.

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 then 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.

Substantial shareholdings

As at 31 March 2019, the Company had been notified of the following interests amounting to 3% or more of the voting rights in the issued ordinary share capital of the Company.

	Number of shares with voting rights	% of total voting rights
Teleios Capital Partners GmbH	83,127,586	16.09
Invesco Asset Management	50,951,435	9.86
Aberforth Partners LLP	33,031,147	6.39
M&G Investment Management Ltd	23,313,404	4.51
Miton Asset Management Ltd	18,965,467	3.67
Majedie Asset Management Ltd	17,006,505	3.29

Since the year end, there has been material movement in the shareholder register.

As at market close on 30 July 2019, the Company had been notified of the following interests amounting to 3% or more of the voting rights in the issued ordinary share capital of the Company.

	Number of shares with voting rights	% of total voting rights
MEIF 6 Fibre Limited	130,375,321	25.24
Teleios Capital Partners GmbH	61,031,554	11.81
M&G Investment Management Ltd	23,313,404	4.51
Tavira Securities	20,202,534	3.91
Vanguard Group	19,808,814	3.83
Miton Asset Mgt	18,965,467	3.67

Directors' report – Corporate governance

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). 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 the Company and of the profit or loss of the Group for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the EU have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements and the Directors' Remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. The Directors are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Group's website, www.kcomplc.com. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' statement pursuant to the Disclosure and Transparency Rules

Each of the Directors as at 31 March 2019 whose names and functions are listed on pages 33 and 34 confirm that, to the best of their knowledge:

- The Group and the Company financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group and Company respectively; and
- The Strategic report and Directors' report contained in the Annual Report include a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that they face.

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. In reaching this conclusion, the Board has considered the different types of shareholders that the Group has, the reports and presentations that the Board has received during the year and the reports submitted to the Audit Committee during the year by both the internal and external auditors and combined this with the Board's collective knowledge of the business, gained through both formal and informal meetings and personal interactions across the Group at all levels. Further information on the reports submitted to the Audit Committee can be found in the Audit Committee report on pages 48 to 53.

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

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. The impact of the acquisition of KCOM on the going concern basis of preparation has been considered within the Viability statement on page 26.

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. Further information on our risk appetite can be found on page 21.

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 is aligned with guidance from the Financial Reporting Council to provide us with a single picture of the threats and uncertainties we face.

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.

In order to do this, the Board has regular meetings with members of senior management and receives regular reports from each business area, the internal auditors and the external auditors on the effectiveness of the systems of internal control and risk management. The Board is satisfied that the systems are embedded within the day-to-day activities of the business and cover all material controls, including financial, operational and compliance controls, and that the business continues to be compliant with the provisions of the UK Corporate Governance Code relating to internal control.

Executive Leadership Team

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.

Audit Committee

The responsibilities of the Audit Committee in relation to risk management are set out in the Audit Committee report on page 53.

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.

We also prepare a monthly rolling forecast; performance against budget and the forecast is monitored at monthly ELT meetings and reviewed by the Board each month. Further information about the financial risk management policies in place, and, in particular, the way in which credit risk, liquidity risk, interest rate risk and foreign currency risk are managed, is in Note 30 to the financial statements.

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.

The principal risks and uncertainties facing the business are set out on pages 21 to 26 of the Strategic report.

Other disclosures

General information

General information is provided in Note 1 to the financial statements.

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 in order 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 and biographical details of the Directors who served during the year are on pages 33 and 34. Further information regarding the Directors can be found on pages 54 to 64 in the Remuneration Report.

Indemnification of Directors

The Company has indemnified each Director who served during the year 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.

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.

We have an employee forum made up of employees from across the business and they support and increase wider engagement with our strategy.

Our intranet is integrated with Yammer, which is a social media tool open to everyone in the business to post messages, share content and provide comments and feedback to others across the business. We have a weekly round-up email which keeps everyone informed of activities and developments across the Group, and a monthly newsletter called "Leadingedge" which is sent to all people managers for them to share with their teams, which contains updates including training requirements and useful information.

During the financial year, we encouraged our employees to become shareholders by offering a Share Incentive Plan (SIP) as we believe this is an opportunity to encourage greater employee engagement.

Share capital

The Company has a single class of share capital which is divided into ordinary shares of 10 pence.

Directors' report – Other disclosures

Rights and obligations attaching to shares

In a general meeting of the Company voting is as follows:

- on a show of hands, every member present in person shall have one vote;
- on a show of hands, every proxy present who has been duly appointed by one or more members shall have one vote; and
- on a poll, every member who is present in person or by proxy shall have one vote for every share of which he or she is the holder.

A member is not entitled to vote in respect of any share in the capital of the Company held by him or her if there are sums payable to the Company in respect of such share which remain unpaid.

All dividends are paid proportionately to the amounts paid up on the shares and are paid to those members whose names are on the share register at the date at which the dividend is declared, or at such other date as determined by the Directors or by an ordinary resolution of the Company.

If the Company is wound up, the liquidator, with the sanction of a special resolution of the Company or any other sanction required by law, may divide the whole or any part of the assets of the Company among the shareholders and may determine how the division of the assets will be carried out.

Transfer of shares

All transfers of uncertificated shares must be made in accordance with, and be subject to, the Uncertificated Securities Regulations 2001 as amended by the Uncertificated Securities (Amendment) Regulations 2013 and in accordance with any arrangements made by the Board.

All transfers of certificated shares must be in writing in a form which has been approved by the Directors; this is known as "the Instrument of Transfer". The Instrument of Transfer must be signed by, or on behalf of, the transferor and the transferor will remain as the holder of the share until the name of the transferee is entered into the share register.

The Directors may refuse to register the transfer of any share which is not fully paid or which is in favour of more than four persons jointly. The Directors may also refuse to recognise an Instrument of Transfer if it is not lodged at the Company's registered office or at any other place which the Directors have determined.

If the Directors refuse to register a transfer they will send to the transferee a notice of the refusal and the Instrument of Transfer within two months of the date on which the transfer was lodged with the Company.

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 which must be followed before any gifts or hospitality are offered or accepted and a panel which has to 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.

The Company funds the Kingston Communications All Employee Share Trusts (EST) to meet its obligations under the Company's Share Incentive Plan. During the year the EST purchased 703,135 (2018: 624,959) shares on the London Stock Exchange with a nominal value of £70,319 (2018: £62,496), for which the Company provided funding of £450,000 (2018: £450,000). The purchased shares represent 0.1% of the called-up share capital and are held in trust until they vest; therefore the purchase of these shares does not reduce the share capital in issue.

The total number of shares held in trust, which have not vested unconditionally to employees' participation share schemes, is:

	000s of shares
As at 1 April 2018	5,310
As at 31 March 2019	5,230

Further details around the purchase of shares in the year are set out in Note 29 to the financial statements.

Directors' report – Other disclosures

Shares held by trusts

No shares are held by the trustees of the Kingston Communications 2000 EST or the KCOM Group PLC Employee Benefit Trust 2007 in relation to the KCOM Group PLC Long Term Incentive Plan 2007 in relation to the Long Term Incentive Plan.

The trustees of the Kingston Communications All Employee Share Plan seek participant directions prior to voting any shares held.

Significant agreements – change of control

The following significant agreements contain provisions entitling the counterparties to exercise termination or other rights in the event of a change of control of the Company:

- Under our £180.0 million multi-currency revolving facility agreement dated 30 September 2016, the Company must notify Lloyds Bank PLC, the Agent of the agreement, within seven days of becoming aware of a change of control of the Company. Any bank or financial institution named within the facility agreement may then notify the Agent within seven days that they wish to cancel their commitments. The Agent must then give at least 21 days' notice to the Company of this and all outstanding amounts due to that bank or financial institution will become immediately due and payable. For these purposes, a "change of control" occurs if any person or group of persons acting in concert gains control of the Company; and
- The Company's share schemes, details of which are contained in the Remuneration report on pages 60 and 61, contain provisions which take effect in the event of a change of control, as a result of which options and awards may vest and become exercisable. The provisions do not entitle participants to a greater interest in the shares of the Company than that created by the initial grant or award under the relevant scheme.

The Company does not have any agreements with any Director or employee that would provide compensation for loss of office or employment resulting from a takeover.

Strategic report

The Strategic Report is set out on pages 1 to 32 and the Directors' Report is set out on pages 33 to 64. The Strategic Report and the Directors' Report together constitute the management report as required under Rule 4.1.8R of the Disclosure Guidance and Transparency Rules.

Pursuant to Section 414c of the Companies Act 2006 the Strategic report on pages 1 to 32 contains disclosures in relation to future developments, dividends and the disclosure of the Greenhouse Gas emissions for which the Company is responsible outside of the normal statutory redundancy.

Annual General Meeting (AGM)

Under the Companies Act, the Company must hold its AGM prior to 30 September 2019. If the acquisition of KCOM is completed and the Group de-lists from the London Stock Exchange in early August 2019 as anticipated, this AGM will not take place.

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

Signed by order of the Board

Sally Jones

Company Secretary

31 July 2019

Nomination Committee report

Director	Appointed to the Committee	Number of meetings	Out of possible
Graham Holden – Chairman (until 31 December 2018)	November 2007	5	5
Patrick De Smedt – Chairman (from 1 January 2019)	January 2016	5	5
Liz Barber	April 2015	5	5
Peter Smith	January 2015	5	5

Dear Shareholder

On behalf of the Nomination Committee and the Board, I am pleased to present the Nomination Committee report for the year ended 31 March 2019.

The role of the Nomination Committee is to continually review the structure, size and composition of the Board and ensure that the balance of skills, knowledge and experience of the Board meets the requirements of the business, for both the current challenges and opportunities and the skills and expertise that are expected to be needed in the future.

This year has seen an unprecedented level of change within the business. During the year, the Company has welcomed a new Chief Financial Officer, Chief Executive Officer, Company Secretary and Interim Chairman.

Chief Executive Officer Appointment

We announced in February 2018 that we were undertaking a market search for a new Chief Executive Officer. Selecting and appointing such a critical role is one of the most important responsibilities of the Nomination Committee.

The Committee selected Lygon Group, as external independent advisors, to lead the search. They have no other connection with the Company or individual Directors. The Committee met a number of high-quality candidates throughout the process and, after a number of interviews and external references, appointed Graham Sutherland to the Board in October 2018. Graham has a strong track record in strategic transformation and driving improved financial and operational performance. Further details on Graham can be found on page 33. As part of his appointment a base salary of £410,000 was agreed by members of the Remuneration Committee.

Bill Halbert stood down from the Chief Executive role upon Graham's appointment and following an orderly hand over of responsibilities, resigned from the Board at the end of November 2018. Bill subsequently left the business on 14 April 2019.

Chief Financial Officer Appointment

Jane Aikman left KCOM on 30 June 2018 and was succeeded by Anna Bielby who joined the Board as Interim Chief Financial Officer on 1 July 2018. Following the appointment of Graham Sutherland as Chief Executive, the Committee discussed Anna's performance and contribution and were pleased to offer her the role on a permanent basis. Anna was appointed to the role on a permanent basis on 10 January 2019. As part of her appointment a base salary of £240,000 was agreed by members of the Remuneration Committee. Further details about Anna can be found on page 33.

Chairman Appointment

After five years as Chairman, Graham Holden decided to step down as the Chairman of KCOM with effect from 31 December 2018. Graham had previously informed the Board that he would no longer be independent under the UK Corporate Governance Code as he had been a member of the KCOM Board since 2007. We would like to thank him for his contribution and leadership.

As Senior Non-Executive Director, Patrick De Smedt was asked to lead the search for a new Chairman and agreed to take on the role on an interim basis. As a result of the acquisition of KCOM as outlined in Note 35, to the financial statements the recruitment of a permanent Chairman has been paused.

Company Secretary

Following eight years as Company Secretary, Kathy Smith left the business in August 2018 and was replaced by Sally Jones in November 2018 as General Counsel and Company Secretary.

Further information about Sally can be found on page 34.

Developing talent

In addition to reviewing the composition of the Board, the Nomination Committee believes that it has a key role to play in developing talent in the organisation, to identify and promote those who are potential future leaders. This includes ensuring that there are equal opportunities for development for both men and women.

Our gender pay gap report indicated that we have a number of traditionally male-dominated areas in our business where the ratio of male to female employees is not what we would want it to be. The Nomination Committee has requested that the Board has clear oversight of the initiatives being put in place across the business to encourage greater female participation in these fields, as well as the initiatives to encourage women to move through the various leadership levels of our organisation, through additional support and the removal of any obstacles that may exist.

The full text of our gender pay gap report can be found on our website at www.kcomplc.com.

Any feedback on the performance of the Nomination Committee is always welcome and this can be directed to me through our Company Secretary, Sally Jones, who can be contacted at sally.jones@kcom.com.

Patrick De Smedt

Chairman, Nomination Committee

31 July 2019

Directors' report – Nomination Committee report

Board Appointments policy and diversity

We have a Board Appointments policy which sets out the procedure that will be followed in the event of a Board vacancy, along with our approach to diversity on the Board.

The key principle set out in the policy is that the Board will always seek to appoint on merit. The Board fully recognises the importance of the benefits of diversity of all types, including gender, professional and ethnic diversity, and will always aim to develop the diversity of the Board in order to promote a range of perspectives in the boardroom, while remaining true to the key principle of appointing on merit. We also have an equality policy that applies across the Group to ensure we provide equality and fairness for all in our employment, and do not discriminate on any grounds. The policy sets out the responsibilities for all, the principles of equality and how these are applied to our employment practices.

The Board Appointments policy also states that the Nomination Committee will only use advisory firms that have signed up to the Executive Search Firms' Voluntary Code of Conduct, addressing gender diversity and best practice; that female applicants are given the same consideration and opportunity as male applicants; and that gender diversity is considered specifically when drawing up a list of potential candidates.

In addition, through the Board Appointments policy, the Board has committed to:

- continue to seek to identify and develop the talented individuals in the business, regardless of gender;
- review regularly the proportion of women at each level in the organisation to ensure that equal opportunities are being presented to individuals at every level; and
- always ensure that there is a confidential way in which concerns can be raised without fear of repercussion if anyone, regardless of gender, has a concern about the opportunities available to them.

We are proud to note that whilst the percentage of females in the organisation is 32% of our total number of employees, the percentage of females in our ELT was at 33% as at the year end, which is reflective of the equal opportunities that we provide across the organisation. We also have two female Directors on the Board and a female Company Secretary who participates fully in our Board and other meetings.

When Board vacancies arise, the Nomination Committee is responsible for preparing a description of the role and capabilities required for a particular appointment and then identifying and nominating candidates for the approval of the Board. In order to identify suitable candidates, the Committee uses open advertising or the services of external advisors to facilitate the search, where appropriate.

Balance of Executive and Non-Executive Directors (as at 31 March 2019)

Executive Directors	2	40%
Non-Executive Directors	3	60%

Balance of male and female Directors (as at 31 March 2019)

Male Directors	3	60%
Female Directors	2	40%

Directors' report – Nomination Committee report

Succession planning

The Committee is also responsible for considering succession planning for the Board and for key senior management across the business, although this is a matter also considered by the full Board.

For Board succession planning, the Committee works to the principle of continuity elsewhere on the Board, where possible, when planned changes take place at a senior level. The Committee has considered both short-term emergency succession planning and longer-term succession planning in the year.

Other Committee responsibilities

The Nomination Committee reviews annually the time required from each of the Directors to perform their roles effectively. Following this review, the Committee is satisfied that each of the Directors has committed sufficient time during the year to fulfil their duties as Directors of the Company.

The Committee reviews the re-appointment of all of the Directors standing for re-election at the AGM, giving regard to their performance and ability to continue to contribute to the requirements of the Board. The performance of Directors with more than six years' service is given particular attention, including a review of their independence, where applicable. The Nomination Committee then makes recommendations to the Board on whether each Director should be put forward for re-election.

The Committee's Terms of Reference are in line with the recommendations in the UK Corporate Governance Code and the Institute of Chartered Secretaries and Administrators' (ICSA) Guidance on Terms of Reference for Nomination Committees. Copies of the Terms of Reference are available from the Company Secretary and are on our website, www.kcomplc.com.

Audit Committee report

Director	Appointed to the Committee	Number of meetings	Out of possible
Liz Barber – Chairman	April 2015	4	4
Patrick De Smedt	January 2016	4	4
Peter Smith	January 2015	4	4

Dear Shareholder

On behalf of the Audit Committee and the Board, I am pleased to present the Audit Committee report for the year ended 31 March 2019.

The Audit Committee is a sub-committee of the Board and our role is to review all aspects of the financial reporting of the business and of internal control. As a Committee we seek to represent the interests of our shareholders in relation to the integrity of information and the effectiveness of the audit processes in place.

Committee meetings

As per the previous year, four Audit Committee meetings were held in the year ended 31 March 2019.

Internal and external audit

The Committee is responsible for overseeing the relationships with the internal and external auditors. Our external auditor, PricewaterhouseCoopers LLP, has been our auditor for 13 years. In the year ended 31 March 2017, we held a comprehensive, competitive tender process at which PricewaterhouseCoopers LLP was re-appointed, but with a revised audit team who were new to the business. We have monitored the relationship with PricewaterhouseCoopers LLP throughout the year and I have met with the audit team separately from the management team on several occasions.

KPMG has continued to provide the Group with internal audit services during the year. Its audit plan is compiled from reviewing the key risks in the business, meeting with senior management and from its experience and knowledge of key risk areas in other similar businesses. Its audits this year have ranged from a detailed review of sales and marketing activities in our Hull & East Yorkshire and Enterprise segments to a review of cybersecurity to identify any potential vulnerabilities. KPMG has brought in subject-matter experts as and when relevant to input to the audit scope and the actual audit work performed. We have received reports at each meeting on the adequacy of the controls in the audited areas and the progress in resolving the audit issues raised. I have had meetings with the internal auditor, away from the management of the business, several times during the year, to discuss the audit issues raised and the plan for future audits.

Financial Reporting Council (FRC) review

During the year the Financial Reporting Council (FRC) performed a thematic review of the reporting relating to pension disclosures and the strategic report for the year ended 31 March 2018. It should be noted that the FRC review only covered specific disclosures and considered compliance with reporting requirements rather than verifying the information provided as correct in all material respects. The FRC completed its review of the specific disclosures with no queries that it wished to raise, which was seen as a positive outcome by the Committee.

Significant issues relating to the financial statements

At each meeting there is a paper prepared by the Finance team on the significant accounting judgements made and the potential significant issues arising in the financial statements. This is reviewed and discussed in detail at each meeting and the external auditor is asked for their input. The significant issues discussed in the year have remained consistent with previous years and the Committee has been satisfied that the issues have been effectively managed throughout the year.

Feedback

The views of our shareholders are extremely important to us and any feedback on the work of the Audit Committee would be very welcome. Feedback can be given via our Company Secretary, Sally Jones, who can be contacted at sally.jones@kcom.com.

Liz Barber

Chairman, Audit Committee

31 July 2019

Directors' report – Audit Committee report

Composition

For the year under review, the Audit Committee has consisted of three Non-Executive Directors.

The table on page 48 shows the membership and attendance at Committee meetings during the year.

The Committee is chaired by Liz Barber, who is a Fellow of the Institute of Chartered Accountants in England and Wales and who currently works as Group Director of Finance, Regulation and Markets at Kelda Group, having previously been the Head of Audit for the North of England at Ernst & Young. Given her current and previous roles, the Board considers that she has the relevant recent financial experience necessary to fulfil the role of Chairman of the Audit Committee.

Committee meetings are also attended by the Executive Directors, the Finance Director for Group Finance Services, the Company Secretary, the Head of Risk Governance and representatives from the internal and external auditors. The external auditor also meets with individual members of the Audit Committee during the year, without the other attendees present. Representatives from the internal and external auditors also met separately with the Chairman of the Audit Committee without the other attendees present.

Meetings

There were four meetings held in the year : in May, September, November and March. An overview of the key points considered at each meeting is shown below:

May 2018

- The risk appetite statement was reviewed and approved.
- The draft longer-term viability statement was reviewed and approved for inclusion in the Annual Report for the year ended 31 March 2018.
- The year-end numbers were reviewed, and the key accounting judgements made were discussed, with input from the external auditor.
- The external auditor gave an update on their year-end audit work. Controls findings were deferred until the September 2018 meeting as there were no matters requiring immediate attention.
- The non-audit fees for the year ended 31 March 2018 were reviewed and deemed satisfactory by the Committee.
- There was an update on the internal audit work performed since the previous meeting.
- The Committee reviewed all of the declarations that the Board would be expected to make in the year end accounts and noted these.

September 2018

- An overview of the key accounting judgements for the interim results was presented and discussed, with input from the external auditor on their planned interim work. It was highlighted that the interim results would be the first results reported after the introduction of IFRS 15.
- The external auditor provided an update on their audit work around the maturity of general IT controls.
- The proposed external audit fee for the year ended 31 March 2019 was agreed and the external audit plan was discussed.
- There was an update on the internal audit work performed since the previous meeting.
- Two policy documents were reviewed and approved by the Committee.

November 2018

- The half year numbers and key accounting judgements (in particular the accounting for goodwill) were discussed, with input from the external auditor.
- There was an update on the internal audit work performed since the previous meeting.

March 2019

- It was requested that the declarations required from the Committee and the Board at the year-end be circulated to ensure all members were aware of the requirements.
- The key accounting judgements in relation to the year end numbers were reviewed and discussed, with input from the external auditor.
- An update of the work in relation to IFRS 16 was provided.
- The external auditor set out their approach for the year end.
- There was an update on the internal audit work performed since the previous meeting and the internal audit plan for the following financial year was discussed and priority areas agreed.
- The audit plan for the 2019 regulatory financial statements was discussed and agreed.

Each year the Audit Committee is also responsible for:

- reviewing the financial statements of the Group and the clarity of the disclosures made, although the ultimate responsibility for reviewing and approving the Annual Report and financial statements remains with the Board;
- reviewing the effectiveness and independence of any whistleblowing investigations undertaken because of such concerns being raised;
- reviewing the procedures in place for the detection of fraud and the prevention of bribery across the business; and
- overseeing the relationship with the external auditor.

The Committee's Terms of Reference are in line with the recommendations in the UK Corporate Governance Code and the ICSA Guidance on Terms of Reference for Audit Committees. Copies of the Terms of Reference are available from the Company Secretary and are on our website at www.kcomplc.com.

External audit

The Audit Committee is responsible for overseeing the relationship with the external auditor to ensure that the external auditor continues to be independent, objective and effective in their work.

PricewaterhouseCoopers LLP was appointed as auditor in 2006 and the Committee undertook a competitive tender process, in accordance with the requirements of the Statutory Audit Services Order, in the year ended 31 March 2017. The outcome of this was that PricewaterhouseCoopers LLP was re-appointed as the external auditor as it was deemed to be the firm that best matched the criteria set out by the Committee.

There are no contractual obligations in place which would restrict the choice of external auditor by the Committee.

The Audit Committee reviews the effectiveness of the external audit process throughout the year through meetings and by reviewing the reports provided by the external audit team. The Committee has concluded that the external audit process was effective during the year and is satisfied that the scope of the audit is appropriate and that significant judgements have been robustly challenged.

Policy on non-audit work

We have a policy in relation to the engagement of External Auditors which is regularly reviewed and updated to reflect the latest legislation as appropriate. This policy covers the selection of firms to perform non-audit work. It specifically excludes the auditor from providing specific services, such as certain tax services, any services that play a part in the management or decision-making of KCOM, book-keeping and preparing accounting records or financial statements, payroll services, the design and implementation of certain internal control or risk management procedures, valuation services, certain legal or human resources services, internal audit services and certain services linked to the financing, capital structure and investment strategy of KCOM. All other non-audit work is assessed separately and is awarded to the firm considered best suited to perform the work. Any such work must be agreed in advance by the Audit Committee Chair and work with a fee greater than 20% of the annual audit fee must be approved by the Audit Committee before the external auditor may be appointed.

During the year, the fee for the external audit of the Group and its subsidiaries, along with other services pursuant to legislation, was £293,000 (2018: £266,000). In addition to this, the external auditor provided other assurance services in relation to the Group's regulatory financial statements, controls assurance over our data centres and assurance work in enclosing the Company and subsidiaries distributable reserves to the value of £130,000 (2018: £70,000). In these areas the auditor was considered the most appropriate firm to perform the work.

Directors' report – Audit Committee report

Risk management and internal control

The Audit Committee reviews the Group's internal controls and risk management systems through the work performed by the internal and external auditors and reports to the Board on the effectiveness of such systems. The Committee is satisfied that any audit issues raised by either the internal or external auditors are being adequately followed up and closed on a timely basis.

Internal audit

KPMG continues to perform the Group's internal audit work. The Committee believes that outsourcing the work of internal audit enables a broader scope and provides access to subject matter experts, which would not be possible with a solely in-house team.

The annual audit plan is created by looking at the risks across the business and prioritising audits accordingly, focusing specifically on the areas where the Board would most like assurance in relation to the controls in place. The audit plan is brought to the Audit Committee at the beginning of the financial year and then updated for each meeting as appropriate.

The internal auditor reports to the Audit Committee at each meeting on the adequacy and effectiveness of the financial, operational and compliance controls that have been tested across the Group. The Audit Committee is responsible for monitoring and reviewing the effectiveness of the internal audit work and does this through reviewing the internal audit reports presented to the Committee and through the Chairman of the Audit Committee meeting separately with the internal auditor outside of the Committee.

The Committee also reviews the adequacy of management responses to the audit issues raised and monitors the closure of issues on a timely basis through a regular report from the internal auditor.

The internal and external audit teams work closely together to ensure that all key risk areas are covered as appropriate and that the work performed by one team feeds into the work of the other.

During the year, the work performed by KPMG included a detailed review of cybersecurity, reviews of sales and marketing processes in place for the Enterprise and Hull & East Yorkshire segments, a compliance project in relation to GDPR, the controls in relation to accrued income and a project to assess sources of assurance in the areas of health and safety, regulatory compliance and project delivery.

Significant issues relating to the financial statements

The specific issues considered by the Audit Committee in the year under review, in relation to the financial statements, are shown in the table overleaf. The Committee was satisfied that all the issues considered were being effectively managed. More details on our critical accounting judgements and the key sources of estimation in relation to these are included in Note 3 to the financial statements.

Nature of the issue	How the Committee was satisfied with the treatment adopted by management	Any changes arising from discussion by the Committee
Valuation of goodwill		
Testing goodwill for potential impairment is complex and requires a number of management judgements and estimates to be applied.	Goodwill impairment calculations compare the value in use of the Group's Cash Generating Units ("CGUs") with their carrying values. Value in use calculations are based upon the Board approved budgets with judgements made over discount rates and future growth assumptions. The preparation and assumption is made in the goodwill impairment calculations were consistent with previous years and were reviewed by the Committee, along with the judgements and estimates made. It was discussed at the Committee and concluded at the half year that there was a full impairment of the goodwill allocated to the National Network Services CGU. As at the year end, it was concluded that there was an impairment of the full value of goodwill allocated to the Enterprise CGU.	The Committee reviewed the calculations in detail and challenged the judgements and estimates. No changes were made as the Committee concluded that it agreed with the treatment adopted by management.
Pension accounting assumptions		
Pension accounting is complex and there are several judgements and estimates that must be made, which can have a significant impact on the valuation of scheme assets and liabilities. If either of the schemes are in a net asset position, the appropriateness of the recognition of that asset needs to be considered. This is a recurring matter.	The Committee reviewed the actuarial assumptions used in the valuation of the liabilities, compared them with those used by other companies, considered the views of the external auditors and found them to be reasonable. The Committee reviewed the assumptions behind the recognition of the net surplus for the main scheme and found them to be appropriate to allow the recognition of an asset in line with the scheme rules and accounting standards.	The assumptions were reviewed and challenged by the Committee. No changes were made as the Committee concluded that it agreed with the treatment adopted by management.
Significant contracts		
The Group has a number of significant customer contracts. These usually involve some judgement in relation to the timing of revenue and cost recognition. This is a recurring matter.	A number of significant customer contracts have continued or have been entered into during the year. Judgements made in relation to the larger contracts have been reviewed by the Committee in the year.	The Committee challenged some of the assumptions made and requested detailed information on some specific contracts from key members of staff directly involved in the contracts. The information provided satisfied the Committee that the policies applied, and the assumptions made, were appropriate and had been consistently followed.

Nature of the issue	How the Committee was satisfied with the treatment adopted by management	Any changes arising from discussion by the Committee
Valuation of investments in subsidiary undertakings (Parent Company)		
The Parent Company has significant investments in its subsidiary undertakings. Testing investments for potential impairment is complex and requires a number of management judgements and estimates to be applied. This is a recurring matter.	The assessment of the carrying value of the investment compares the value in use against the carrying value of the investments. A discounted cash flow analysis is prepared, based upon the Board approved budgets with judgements made over discount rates and future growth assumptions. A "fair value less costs to sell" basis was also considered. Both methods were reviewed by the Committee, along with the judgements and estimates made. These were discussed in detail and it was concluded that there was no impairment of the investment in subsidiary undertakings at the year end, reflecting the recommended offer for the Group.	The Committee reviewed the calculations in detail and challenged the judgements and estimates. The conclusion was that no changes were required.
Going concern and viability statement		
Adopting the going concern basis of preparation and assessment of the Group's longer-term viability includes judgements relating to forecast future cash flows and the financial impact of certain viability risk scenarios to those forecasts. This is a recurring matter. In the current year, consideration was also required to the likely availability of sufficient cash resources over the assessment period, due to the change of control provision within the Group's banking facilities which arises on completion of the acquisition of KCOM by MEIF 6 Fibre (as disclosed in Note 35).	A viability assessment was prepared, based upon the Board approved budgets with various risk scenarios and stress tests performed. These considered severe but plausible scenarios which are aligned to the principal risks as identified in the Group risk register. Details of the Group's existing debt facilities and the proposed financing intentions of MEIF 6 Fibre, subject to completion of the acquisition of KCOM, were set out within this assessment. The assumption and judgements within this assessment and the Group's viability on the basis of both existing banking facilities and intended new facilities were reviewed and considered by the Committee.	The Committee reviewed the assessment in detail and challenged the judgements and estimates. The conclusion was that no changes were required.

Remuneration report

Annual statement from the Chairman of the Remuneration Committee

Dear Shareholder

On behalf of the Remuneration Committee and the Board, I am pleased to present the Directors' Remuneration report for the year ended 31 March 2019.

Our current three year Remuneration policy was approved by our shareholders at our AGM in 2017 and we are not proposing any changes to the current policy.

Directors' Remuneration policy

KCOM's forward looking policy for Executive Directors and Non-Executive Directors was approved at the AGM held on 21 July 2017. The full policy can be found on pages 60 to 65 of the 2017/18 annual report and accounts which is available on the Group's website at www.kcomplc.com. The Executive Directors' Remuneration policy was designed to be aligned with the remuneration philosophy and principles that underpin remuneration for the wider Group.

The continued relevance of our Remuneration policy is something that we keep under regular review, taking into account the developments within the business, any relevant external changes and whether or not it continues to incentivise the behaviour and objectives that you, our shareholders, want from our Directors.

The Directors have a duty to promote the long-term success of the Company and we want to make sure that the Remuneration policy aligns with that duty. We believe that the policy remains fit for purpose and will reward fairly for good performance, allow greater rewards for extraordinary performance but not provide any additional rewards if performance is below expectations.

Performance and decisions in the financial year

Our financial performance this year has been challenging. In November, we explained to our shareholders that the Group's trading performance for the full year for 2019 would be c. 5% weaker than originally expected driven by lower than expected order intake in the Group's Enterprise segment and continued customer churn in the Group's National Network Services segment.

Pay review

The Committee had already agreed that Bill Halbert would not receive an increase to his basic salary on 1 July 2018 as a process was underway to recruit a new Chief Executive. Over the financial year, an average pay increase of 2.01% was awarded across the business.

Annual bonus

As a result of our trading performance in the year, our EBTIDA target was not met resulting in no bonus across the Group.

Long Term Incentive Plan (LTIP) awards

The LTIP awards granted in December 2015 had a performance period which ended on 30 November 2018. Further information on the performance of this plan can be found on page 60.

Board changes

We were very pleased to welcome Graham Sutherland as Chief Executive on 15 October 2018. The remuneration offered to Graham is in line with our policies and reflects the experience he brings to the role. Graham was awarded an LTIP equivalent to 200% of salary. Further information on his total remuneration can be found on page 58.

Jane Aikman, Chief Financial Officer, left the business on 30 June 2018 and Anna Bielby, then Finance Director of Group Services, stepped up, on an interim basis, into the role of Chief Financial Officer from 1 July 2018. Anna became our permanent Chief Financial Officer on 10 January 2019. During the year, Anna was awarded an LTIP equivalent to 150% of salary. Anna received an LTIP award in July 2018 in line with the level she would have received in her role as Finance Director, which was 30% of base salary. Following Annas permanent appointment as Chief Financial Officer in January 2019, a further award equivalent to 120% of base salary was made to Anna in order to bring her in line with the policy to award an equivalent to a total of 150% of base salary. Further information on her total remuneration can be found on page 58 of this report and is consistent with our existing Remuneration policy.

Further information on the amounts paid to Jane Aikman are on page 58.

No LTIP award was made to Bill Halbert in the reporting year given the announcement made in February 2018 regarding the managed succession for the Chief Executive role.

Feedback

We want to understand the views of our shareholders, including those in relation to remuneration. Any feedback would therefore be very welcome and may be directed to me via our Company Secretary, Sally Jones, who can be contacted at sally.jones@kcom.com.

Peter Smith

Chairman, Remuneration Committee

31 July 2019

Directors' Remuneration report for the year ended 31 March 2019

The year ended 31 March 2019 was one of change for the Group with the appointment of a new Chief Executive Officer, Chief Financial Officer and Company Secretary, in addition to a change in Non-Executive Chairman.

At the annual general meeting (AGM) in July 2017, our Directors' Remuneration policy was approved by shareholders. The directors were remunerated in accordance with that policy in the year ended 31 March 2019 and the details of that remuneration are set out in this report.

Remuneration Committee

	Appointed to the Committee	Number of meetings attended	Out of possible
Peter Smith	January 2015	4	4
Liz Barber	April 2015	4	4
Patrick De Smedt	January 2016	4	4
Graham Holden – member until 31 December 2018	November 2007	2	2

The membership and attendance at Committee meetings during the year is shown in the table above. These meetings are also attended by the HR Director and the Company Secretary, although neither are present when their own reward is discussed.

The Remuneration Committee is a sub-committee of the Board and has four scheduled meetings a year. Additional meetings are held as and when required. No additional meetings were required in the year.

The specific matters considered by the Committee at each of the meetings are shown in the table below.

Meeting	Matter considered
May 2018	• The 2018/19 bonus scheme was discussed but further information was requested before this scheme could be approved. The bonus scheme for 2018/19 was subsequently approved at the July Board meeting. • A number of follow up actions on year one Gender Pay were discussed and an action plan approved. • Agreement was reached on the reward arrangements for the interim CFO. • The Committee agreed that due to the impending departure of the CEO, he would not receive a pay review nor be included in the 2018 LTIP.
November 2018	• Gender Pay remained a constant agenda item and an update was provided on progress so far. It was also agreed that year two numbers would be available for review at the March 2019 meeting. • The Company's approach to bonus policy was discussed and it was agreed that a paper setting out the new policy for 2019/20 would be available at the March 2019 meeting. • New Bridge Street produced a discussion document on Corporate Governance Developments and trends in Executive Remuneration to ensure the Board was updated on best practice and to benchmark current policy arrangements against these. • The Chairman updated the Committee on the LTIP arrangements for the newly appointed CEO and shared feedback received from shareholders. The Committee agreed that the CEO should be appropriately incentivised and that once outside of the closed period, papers should be issued immediately.

Directors’ report – Remuneration report

Meeting	Matter considered
January 2019	• The Committee discussed the arrangements for the CEO’s LTIP and agreed that a change was needed to the performance conditions and that papers should be re-issued. • Discussions held, and agreement reached, on the reward arrangements for the permanent CFO appointment.
March 2019	• Year two Gender Pay numbers and associated communications were agreed and approved. • A new and revised bonus scheme for all employees was discussed and approved ready for 2019/20. • Further discussions were held on UK Corporate Governance Code and implications for KCOM. • KCOM’s approach to managing mental health was discussed and an action plan agreed for the coming year.

During the year under review, the Committee received advice on all aspects of Senior Executive and Non-Executive Director remuneration from independent remuneration consultants New Bridge Street, a trading name of Aon Hewitt Limited, an Aon plc company, which was appointed by the Committee in August 2011 following a comprehensive tender process. New Bridge Street is a signatory to the Remuneration Consultants Group Code of Conduct and any advice received is governed by that Code. The fee paid to New Bridge Street during the year for this advice was £12,510 which is charged as a fixed annual fee for recurring work, with separate fees agreed as appropriate for additional ad hoc work.

The Committee has reviewed the way in which New Bridge Street operates and its relationship with the business and remains satisfied that the advice it receives is independent and objective. Aon Hewitt also provides actuarial and investment consultancy advice to the trustees of the two KCOM defined benefit pension schemes, which the Committee considers does not result in a conflict of interest.

In accordance with its Terms of Reference, the Committee is responsible for:

- determining and agreeing the Remuneration policy for the Executive Directors and selected senior managers across the business;
- having regard to remuneration trends across the business and remuneration in other companies when setting Remuneration policy, as well as to environmental, social and governance matters when appropriate;
- selecting, appointing and setting the Terms of Reference for any remuneration consultants who advise the Committee;
- approving the design of, and determining targets for, any performance-related pay schemes operated by the business and approving the total annual payments made under such schemes;
- reviewing the design of all share incentive plans for approval by the Board and shareholders and determining each year whether awards will be made and, if so, the overall amount of such awards, the individual awards and the performance targets to be used;
- determining the policy for, and scope of, pension arrangements for each Executive Director and selected senior managers; and
- ensuring that contractual terms on termination, and any payments made, are fair to the individual and the business, that failure is not rewarded and that the duty to mitigate loss is fully recognised.

The Committee’s Terms of Reference are in line with the recommendations in the UK Corporate Governance Code and the Institute of Chartered Secretaries and Administrators’ Guidance on Terms of Reference for Remuneration Committees. Copies of the Terms of Reference are available from the Company Secretary or on our website, www.kcomplc.com.

Directors' report – Remuneration report

Shareholder views

At our AGM in 2018 a shareholder vote was taken on the Directors' Remuneration report, excluding the Remuneration policy, and a separate vote on the Remuneration policy. The outcome of the votes is shown below:

Directors' Remuneration report (excluding the Remuneration policy)

Votes for	389,370,753	99.52%
Votes against	1,864,280	0.48%
Votes withheld	107,406	

Remuneration arrangements for Executive Directors

This part of the Directors' Remuneration report sets out the amounts we have paid to Directors for the year ended 31 March 2019, with prior year figures also shown.

Single total figure table (audited)

Executive Directors

	Current Directors				Previous Directors					
	Graham Sutherland From 15 October 2018		Anna Bielby Appointed 1 July 2018		Bill Halbert Resigned as a Director on 29 November		Jane Aikman Left the business 30 June 2018		Total	
	FY/18-19	FY/17-18	FY/18-19	FY/17-18	FY/18-19	FY/17-18	FY/18-19	FY/17-18	FY/18-19	FY/17-18
Fixed pay										
Base salary	**190**	-	**180**	-	**270**	405	**72**	290	**712**	695
Taxable benefits	**7**	-	**10**	-	**11**	16	**3**	15	**31**	31
Retirement benefits	**38**	-	**36**	-	**44**	66	**14**	76	**132**	142
Sub-total	**235**	-	**226**	-	**325**	487	**89**	381	**875**	868
Variable pay	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Annual bonus	**-**	-	**-**	-	**-**	225	**-**	162	**-**	387
Long-term incentives	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Sub-total	**-**	-	**-**	-	**-**	225	**-**	162	**-**	387
Compensation for loss of office	**-**	-	**-**	-	**-**	-	**366**	-	**366**	-
Sub-total	**-**	-	**-**	-	**-**	-	**366**	-	**366**	-
Total	**235**	-	**226**	-	**325**	712	**455**	543	**1241**	1255

Payments to Graham Sutherland, Anna Bielby, Bill Halbert and Jane Aikman relate to part periods as outlined in the table headings. Bill Halbert stepped down as Chief Executive Officer on 14 October 2018 and resigned as an Executive Director on 29 November 2018 but remained an employee until 14 April 2019.

Further details on Executive Directors' remuneration for the year ending 31 March 2019

Base salary and taxable benefits

There have been no changes in the base salaries of Graham Sutherland or Anna Bielby since their appointments. The CEO receives a car allowance of £16,000 per annum and the CFO receives a car allowance of £14,000 per annum.

Bill Halbert continued to receive his base salary, taxable benefits and employment benefits until his employment ended on 14 April 2019.

Jane Aikman continued to receive her base salary, taxable benefits and employment benefits until her employment ended on 30 June 2018.

Retirement benefits – "Total pension entitlements (audited)"

Graham Sutherland had £38,000 paid into his Defined Contribution pension scheme for the period from his appointment to 31 March 2019.

Anna Bielby elected to receive her pension entitlement as cash and received £36,000 for the period from 1 July 2018 to 31 March 2019.

Bill Halbert elected to receive his pension entitlement in cash. This amounted to £65,905 during the year.

Jane Aikman elected to receive part of her pension entitlement in cash. Jane's pension entitlement was £14,500, of which £12,000 was paid into the fund and £2,500 paid as cash.

None of the Directors have any prospective entitlement to defined benefits or cash balance benefits in respect of qualifying services.

Payments for loss of office (audited)

Following Jane Aikman's departure on 30 June 2018 Jane Aikman received a lump sum payment in lieu of her notice period of 12 months in accordance with her contractual entitlement, calculated as the sum of her base salary of £290,000, and the value of benefits of £18,456 and retirement benefits of £58,000. Jane was granted awards under the KCOM LTIP in January 2017 and July 2017. The performance periods for these awards end in January 2020 and July 2020 respectively. As a good leaver, Jane will be entitled to receive any shares that vest under the LTIP, pro-rated in June 2019 in line with her 12 month notice period. The actual amount of shares will therefore be calculated on each vesting date, in so far as performance conditions are met at that time. Full details will be disclosed in the Directors' Remuneration report in 2020 and 2021. Further details of the operation of the LTIP can be found on pages 60 to 61.

Payments to past Directors (audited)

Following the appointment of Graham Sutherland as Chief Executive Officer in October 2018, it was agreed with Bill Halbert that his six month notice period would begin on 15 October 2018 and he would leave the business on 14 April 2019. Bill resigned from the Board on 29 November 2018. Bill received full pay and benefits to the date he left the business.

Outside appointments

Neither Graham Sutherland nor Anna Bielby have any outside appointments. Jane Aikman was Non-Executive Director of Morgan Advanced Materials plc and was entitled to retain fees earned.

Annual bonus

As in previous years the Committee elected to use pre-exceptional EBITDA as its key measure for determining bonus. The pre-exceptional EBITDA achieved in the year 2018/19 was £57.1 million, which resulted in no bonus across the Group.

Why EBITDA?

EBITDA was chosen as the financial performance target for the annual bonus because this is a key performance measure used across our industry and one which is closely watched by our investors. Any significant movement in EBITDA has always led to a corresponding movement in our share price and therefore it is extremely important for our investors that the Executive Directors are incentivised to achieve an EBITDA above market expectation each year. EBITDA is also one of the KPIs that we monitor throughout the year. More detail on our KPIs is on page 15.

Long-term incentives

The current long-term incentive scheme, the LTIP, was approved by shareholders on 19 July 2012. The scheme authorises the Remuneration Committee to grant £Nil-cost share options to the Executive Directors and selected senior managers each year.

LTIP awards are usually made in July of each year. Due to the ongoing deal activity, no LTIP awards are being issued in July 2019.

The scheme has a three-year performance period and measures TSR over the performance period, relative to the Total Shareholder return (TSR) performance of companies within a comparator group. The comparator group comprises the companies that were within the FTSE 250 (excluding investment trusts) at the start of the performance period. The TSR performance for the period must rank at least median to the comparator group for there to be any vesting of the LTIP awards. Performance at median results in 25% of the awards vesting, with performance between median and upper quartile resulting in a vesting of awards on a straight-line basis with 100% vesting at upper quartile performance.

In addition, regardless of TSR performance, no awards vest unless the Remuneration Committee is satisfied that the financial and non-financial performance of KCOM over the performance period warrants the level of vesting set out in the vesting schedule. The Committee will consider KCOM's share price progression and dividend policy as part of this decision process.

On the exercise of an award, participants also receive an amount in cash equal to the dividends that were declared during the period from grant to exercise, but only in respect of the shares that vest.

The TSR performance is calculated as the percentage change in return index from the start to the end of the performance period. The return index is calculated by considering movements in share price together with dividends reinvested on the ex-dividend date. The base return index is averaged over each weekday in the three-month period immediately preceding the start of the performance period and the end return index is averaged over each weekday in the three months prior to the end of the performance period.

Why TSR?

Our main objective is to create sustainable shareholder value. TSR measures the Total Shareholder Return from share price movements and dividends over a period of time. By measuring TSR relative to other businesses, we can see whether an investment in KCOM has yielded value for our shareholders in comparison to the same investment in another business. This therefore exactly aligns the objectives of the Executive Directors to those of our shareholders. The three-year performance period means that the Executive Directors need to be focused on the medium to long-term if they want to maximise their benefit from the LTIP.

Awards made under the LTIP (audited)

Awards of £Nil-cost options were made to Graham Sutherland in November 2018 which were equivalent to 200% salary.

Under the rules, the number of shares would be calculated by dividing 200% of salary by the prevailing share price at the time the award is granted. However recent voting guidance issued by the Institutional Shareholder Services in relation to the calculation of the number of shares where there had been a major fall in the share price advocated the use of the higher share price before the fall. Having taken advice from New Bridge Street and our lawyers on this point, and following a lengthy debate about approach, the Committee was inclined to follow the LTIP rules and continue to use the prevailing (lower) share price however the CEO indicated a strong preference that the closing share price on 12 October (the last dealing day before he joined the business) be used, being the higher price. Following further debate, the Committee accepted this decision even though the result was that the new CEO received fewer shares which cut across the Committee desire to incentivise management.

The Committee then considered the performance condition applicable to Graham's award. It was unanimously agreed that in order provide appropriate retention, motivation to Graham and to provide good alignment with shareholders, that the base price from which performance should be measured be the prevailing share price at the time of the award (c.60 pence). This decision was fully supported by one of the Company's key institutional shareholders. It was agreed that the LTIP would be awarded once the Interim results had been released and the close period had ended.

In line with the LTIP rules, awards of £Nil-cost options were made to Anna Bielby in July 2018 equivalent to 30% of salary. Following Anna's permanent appointment as Chief Financial Officer in January 2019, a further award equivalent to 120% of base salary was made to Anna in order to bring her in line with the policy to award an equivalent to a total of 150% of base salary.

2015 LTIP

The Remuneration Committee received confirmation from New Bridge Street in December 2018 that the 2015 LTIP had vested at 30.58%. In addition to the TSR calculation, the Committee must be satisfied that the performance of the business over this period warrants any vesting of shares. In light of the fact that the relevant three year performance period for this award had seen a reforecast, reduced dividend policy and a significant reduction in share price from the start of this plan to the end, the Committee felt it was appropriate to exercise the discretion available to it under the LTIP Rules to reduce the vesting to zero for all participants.

Directors' interests in shares as at 31 March 2019 (audited)

	Shares owned outright	Nil-cost share options subject to performance conditions[1]	Actual share ownership as a percentage of salary on 31 March 2019[2]	Required share ownership as a percentage of salary	Requirement met?
Executive Directors					
Graham Sutherland	250,000	872,340	42.9%	200%	No[3]
Anna Bielby	16,657	508,622	4.9%	100%	No[3]
Non-Executive Directors					
Patrick De Smedt	—	—	—	—	—
Liz Barber	—	—	—	—	—
Peter Smith	50,000	—	—	—	—

1. These are awards made under the LTIP, further details of which can be found on page 60 and 61.
2. Calculated using the closing mid-market price of KCOM Group PLC shares on 31 March 2019 and only those shares owned outright by the Executive Director and their connected persons.
3. There is no fixed timescale set out in the Remuneration policy by which newly appointed Executive Directors should have met the shareholding requirement. The target will be met, at least in part, through a requirement to retain shares vesting in the LTIP scheme for two years, on a net of tax basis.

The table above sets out the interests of all the Directors as at 31 March 2019 (as listed on pages 33 and 34) and their connected persons in KCOM's shares. There has been no change in Directors' Interests post the year end, except for Anna Bielby who makes monthly share purchases through the Company's Share Incentive Plan.

Service contracts and letters of appointment

	Date of Board appointment	Date of current service contract or letter of appointment	Notice period (months)
Executive Directors			
Graham Sutherland	15 October 2018	9 October 2018	12
Anna Bielby	1 July 2018	10 January 2019	6

Relative Group performance

The graph below shows, for the financial year ended 31 March 2019 and for each of the previous nine financial years, the TSR on a holding of KCOM's ordinary shares compared with a hypothetical holding of shares in the FTSE Fixed Line All-Share and the FTSE 250. These indices have been chosen as appropriate comparators because they reflect the performance of other companies most similar to KCOM in terms of product and service offering and market capital.

Remuneration of the Chief Executive

	Graham Sutherland	Bill Halbert									
	5 Oct-31 Mar 15 Oct –31 Mar FY2019 £'000	**1 Apr-14 Oct FY2019 £'000**	FY2018 £'000	FY2017 £'000	FY2016 £'000	FY2015 £'000	FY2014 £'000	FY2013 £'000	FY2012 £'000	FY2011 £'000	FY2010 £'000
Total remuneration	**235**	**261**	712	862	578	476	495	4,791	522	476	523
Annual bonus paid against maximum opportunity	—	—	56%	—	25%	—	7%	—	10%	—	40%
Long-term incentive vesting against maximum opportunity[1]	—	—	—	62.09%	—	N/A	N/A	69.34%	N/A	N/A	N/A

1. There was no long-term incentive scheme scheduled to vest based on performance ending in any of the financial years other than the years ended 31 March 2013 and from 31 March 2016 onwards.

Graham Sutherland became Chief Executive on 15 October 2018 on a salary of £410,000. This is a 1.48% increase on previous Chief Executive base pay.

The table below sets out the increase in the remuneration of the Chief Executive from the prior year in comparison to the average percentage change in respect of KCOM employees as a whole:

	Graham Sutherland	Average per employee[1]
Percentage change in the year to 31 March 2019		
Base salary	1.48%	2.01%
Benefits	0.00%	0.00%
Annual bonus	100%	100%

1. The average per employee has been calculated on a per head basis using all of the employees in the business who have remained with the business throughout the year, excluding the Executive Directors and a few specific employees known to have received an increase purely because of a change in role. This group has been selected to enable as close to a like-for-like comparison as possible with the Chief Executive.

Relative spend on pay

The table below sets out the relative spend on pay for KCOM as a whole in comparison to distributions to shareholders:

	2019 £'000	2018 £'000	Percentage change
Total remuneration cost for all employees[1]	**82,316**	81,450	1.06
Dividend payments to shareholders	**25,830**	30,996	(16.67)

1. The total remuneration cost for all employees is taken from Note 8 to the financial statements on page 96 and includes wages and salaries, social security costs, other pension costs and share scheme costs.

Single total figure table (audited)

Non-Executive Directors

	Current directors						Former director			
	Patrick De Smedt (i)		Peter Smith		Liz Barber		Graham Holden (ii)		Total	
	FY2019 £'000	FY2018 £'000	FY2019 £'000	FY2018 £'000	FY2019 £'000	FY2018 £'000	FY2019 £'000	FY2018 £'000	FY2019 £'000	FY2018 £'000
Fees	**74**	54	**52**	50	**52**	50	**97**	128	**275**	282
Total	**74**	54	**52**	50	**52**	50	**97**	128	**275**	282

(i) Patrick appointed Chairman on 1 January 2019 and received the Chairman's fee from the same date.

(ii) Graham Holden retired from the Board on 31 December 2018.

Service contracts and letters of appointment

	Date of Board appointment	Date of current service contract or letter of appointment	Notice period (months)
Non-Executive Directors			
Patrick De Smedt	28 January 2016	12 January 2016	3
Liz Barber	7 April 2015	30 March 2015	3
Peter Smith	5 January 2015	26 December 2014	3

Graham Holden was a Non-Executive Director from the date of his Board appointment until 1 April 2014, when he was appointed as Non-Executive Chairman. Graham Holden ceased to be a Director and the Chairman on 31 December 2018.

Other remuneration matters

Directors' Remuneration policy

KCOM's forward looking policy for Executive Directors and Non-Executive Directors was approved at the AGM held on 21 July 2017. The full policy can be found on pages 60 to 65 of the 2017/18 Annual report and accounts. The Executive Directors' Remuneration policy was designed to be aligned with the remuneration philosophy and principles that underpin remuneration for the wider Group.

MEIF 6 Fibre has not entered into, and has not had discussions on proposals to enter into, any form of incentivisation arrangements with members of the management team. Following the acquisition of KCOM, MEIF 6 Fibre has announced its intention to develop incentive arrangements for certain members of the KCOM management team.

Signed by order of the Board

Sally Jones

Company Secretary

31 July 2019

Independent auditors' report
to the members of KCOM Group PLC

Report on the audit of the financial statements

Opinion
In our opinion, KCOM Group PLC's Group financial statements and Parent Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2019 and of the Group's loss and the Group's and the Parent Company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

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 2019; the consolidated income statement and consolidated statement of comprehensive income, the consolidated and parent company cash flow statements, and the consolidated and parent company statements of changes in shareholders' equity for the year then ended; and the Notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

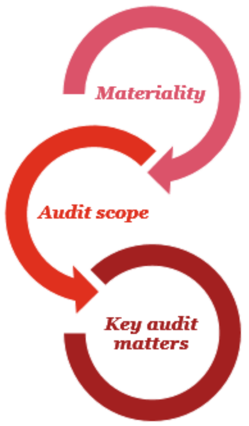
Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe 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, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

Other than those disclosed in Note 6 to the financial statements, we have provided no non-audit services to the Group or the Parent Company in the period from 1 April 2018 to 31 March 2019.

Our audit approach
Overview



- Overall Group materiality: £1.2 million (2018: £1.7 million), based on 5% of profit before tax and exceptional items.
- Overall parent company materiality: £0.7 million (2018: £1.5 million), based on 1% of total assets, limited to less than group materiality.

- We conducted audit work over the three financially significant components.
- All work has been performed by the Group engagement team. Collectively the scope of our work covered 100% of revenue, 100% of profit before tax and 98% of total assets.

- Impairment of goodwill (Group).
- Significant contracts (Group).
- Valuation of Defined Benefit pension scheme liabilities (Group).
- Valuation of investments in subsidiary undertakings (Parent Company).
- Acquisition of shares and delisting (Parent Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud
Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Listing rules, Pension legislation, UK tax regulation and certain aspects of telecommunications regulation under Ofcom, 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 preparation of 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 inappropriate journal entries to increase revenue or reduce expenditure and management bias in accounting estimates. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- Discussions with management, internal audit and the group's legal advisors and review of correspondence;
- Reviewing key correspondence with Ofcom in relation to compliance with telecommunication regulations;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to impairment of goodwill and assessing the carrying value of investments as well as the estimates used in the contract revenue accounting; and
- Identifying and testing journal entries, in particular any journals posted by senior management and unusual account combinations.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. 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.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	***How our audit addressed the key audit matter***
Impairment of goodwill (Group) As at 31 March 2019 the group has goodwill amounting to £nil (2018: £51.4 million). At 31 March 2018 the goodwill was allocated to two Cash Generating Units ("CGU"s), National Network Services and Enterprise, for £32.2 million and £19.1 million respectively. During the year management undertook their annual impairment reviews and a £51.4 million impairment charge has been recognised in the current year. This is the write-off in full of the National Network Services and Enterprise goodwill balances. We focused on this area because the determination of whether goodwill is impaired involves subjective judgements and estimates about the future results and cash flows of the business. On an annual basis, management calculate the amount of headroom between the value in use of the Group's CGUs and their carrying value to determine whether there is a potential impairment of the goodwill relating to those CGUs. The value in use of the CGU is dependent on a number of key assumptions which include: >Forecast cash flows for the next three years; >A long-term (terminal) growth rate applied beyond the end of the three year budget period; and >A discount rate applied to the model. See the accounting policies section within the financial statements for disclosures of the related accounting policies, judgements and estimates and Note 14 for detailed goodwill disclosures.	We understood and evaluated managements budgeting and forecasting process. We obtained the Group impairment analyses and tested the mathematical accuracy of the model and the reasonableness of key assumptions. This included budgeted EBITDA and cash flow growth and the selection of discount rates and long-term growth rates. We compared the long-term growth rates in the Group's forecasts to external economic forecasts. We challenged management to provide support to corroborate the trading assumptions within the Board approved budgets, including sales pipeline information, support for capital expenditure and considered the accuracy of previous forecasts. We challenged the discount rate by engaging our valuation specialists to assess the cost of capital for the group and comparable organisations. As a result of the impairment being booked in the year we have challenged management to bridge the trading assumptions from the prior year to the current year budgets and forecasts and considered the supporting evidence for the changes in assumptions and assessed these in relation to the current trading performance. We performed our own independent sensitivity calculations to quantify the potential upside before an impairment would not be recognised in individual CGUs. We determined that a movement in the key assumptions sufficient enough for there not to be an impairment in Enterprise or National Network Services was unlikely and that an impairment was appropriate in both CGUs. We considered the impact of the takeover offers that were announced subsequent to the year end and information that has been released to the public, along with Board's strategic review to assess for any contradictory information, in the context of fair value less cost to sell. There was no evidence identified from this work that contradicted management's conclusions.

Key audit matter	***How our audit addressed the key audit matter***
Significant contracts (Group) The Enterprise segment in particular enters into arrangements with customers which can involve multiple performance obligations. Judgement is required in identifying the separate performance obligations and allocating the revenue across the identified performance obligations. The contracts that have the biggest impact are fixed price contracts and in particular those that remain in progress at the balance sheet date. Total Enterprise revenues amounted to £85.6 million in the year, of which £7.4 million related to fixed price contracts. Where the costs to deliver a separate performance obligation exceed the anticipated revenues a provision for losses on this deliverable is required based on when the performance obligation(s) will be satisfied. The accounting for these arrangements, as a result, requires judgement and relies upon an estimate of the costs to deliver the remaining services. See the accounting policies section within the financial statements for disclosure of the related accounting policies, judgements and estimates.	Our testing focused on the larger revenue generating contracts in the year and on contract assets at the year-end where management have used judgement to recognise revenue earned up to the balance sheet date. For the sample of sales contracts tested we checked that the fair value allocation of revenue between performance obligations were in line with the terms of the sales contract and Group accounting policies and the completeness of management's identification of fixed price arrangements. In particular we considered the appropriateness of the margins anticipated at each stage of the contract. For revenue accrued, or deferred, as contract assets and/or contract liabilities at the year-end we tested the percentage completion to appropriate supporting project documentation. For loss making contracts: We gained an understanding of and evaluated management's forecast costs to complete; We obtained corroborative explanations in support of the estimated remaining costs and assessed management's history of forecasting costs to complete; We performed testing over revenue billed to date and over the costs incurred, including whether such costs had been allocated to the correct contract. Where a provision for forecast cost overruns on a contract element was required, we challenged management on the calculation of the provision and considered the extent of progress on these arrangements post year end; and We assessed whether all loss making contracts had been identified. From our work we were satisfied that revenue recognised from significant contracts was materially appropriate and in line with the Group's accounting policy.
Valuation of Defined Benefit pension scheme liabilities (Group) We focused on the valuation of the Group's defined benefit pension scheme liabilities because of the level of judgement required in determining the actuarial assumptions that underpin the year end liability valuation. The size of the scheme liabilities are significant at £262.8 million. There is also a Guaranteed Minimum Pension ("GMP") equalisation impact in the current year of £0.8 million, where management have considered scheme membership and benefit assumptions to assess the impact of recent rulings. See the accounting policies section within the financial statements for disclosure of the related accounting policies, judgements and estimates and Note 32 for detailed pension disclosures.	We obtained the IAS 19 valuation report produced by the Group's actuary based on the assumptions set by the Directors. We used our own actuarial experts to assess the judgemental assumptions used within the report to form the valuation of the pension schemes' liabilities, such as discount rate, inflation and mortality rates, and reviewed the accounting approach to ensure continued compliance with IAS 19. Management's experts have also assessed the impact of GMP equalisation based on the specific membership and rules. Our experts have assessed the assumptions used by management at the scheme level. We have no exceptions to report as a result of this testing.
Valuation of investments in subsidiary undertakings (Parent company) The parent company has investments in subsidiary undertakings of £494 million. The risk we have focused on is that investments could be overstated and an impairment charge may be required due to certain indicators being present at the balance sheet date. This was determined to be a key audit matter as, at the year end, the market capitalisation of £359 million was materially less than the investment carrying value. Management have performed an impairment assessment on a value in use ("VIU") basis using discounted cash flows which includes a number of key assumptions: >Forecast cash flows for the next three years;	We understood and evaluated management's budgeting and forecasting process. We obtained management's assessment of a potential impairment and tested the reasonableness of key assumptions, including budgeted EBITDA and cash flow growth and the selection of discount rates and long-term growth rates. We challenged the discount rate by engaging our valuation specialists to assess the cost of capital for the group and comparable organisations. We ensured that the key assumptions identified were consistent with other audit procedures undertaken. We considered the external offers received and whether they were consistent with a fair value less cost to sell basis, including whether there were significant differences to value in use basis.

Key audit matter	*How our audit addressed the key audit matter*
>A long-term (terminal) growth rate applied beyond the end of the three year budget period; and >A discount rate applied to the model. Subsequent to the year end the Board of directors received offers for the whole group in excess of the carrying value of the investments. Management considered all evidence available in respect of the VIU basis and the offers received in their conclusions in respect of whether there was an impairment charge to recognise.	Based on the work performed and evidence obtained we have no exceptions to report.
Acquisition of shares and delisting (Parent company) Subsequent to the year end the Company received a series of offers for the Group culminating in an offer of 120.3p per share from MEIF 6 Fibre Limited, a wholly owned subsidiary of Macquarie European Infrastructure Fund 6 SCSP (MEIF 6 Fibre), that was recommended by the Board to be accepted by the shareholders. On 26 July 2019 the shareholders voted to accept the offer which will be executed under a scheme of arrangement. Court approval for the scheme was obtained on 30 July 2019, with completion expected in early August 2019. Management have considered the impact of the proposed acquisition and offers during the preparation of the financial statements and in particular the following areas: >The assessment of going concern; >The impairment of goodwill; and >The valuation of investments in subsidiary undertakings. Given the inherent uncertainties throughout the process management have assessed going concern in both a stand-alone scenario and, also, assuming that the acquisition completes during the going concern assessment period. Management have made disclosures throughout the Annual report, in particular on pages 26, 39 and 53, and in Note 35.	Our consideration in respect of the impairment of goodwill and the valuation of investments in subsidiary undertakings is set out in the key audit matters above. In respect of going concern: We understood and evaluated management's assessment of going concern on a standalone basis, assessing management's stress tests, potential mitigating actions against these stress tests and if they were reasonably possible, in relation to the Group's existing facilities and covenants. We understood from management: the potential impact of the acquisition on the Group's existing financing; their understanding of the acquirer's plans if the transaction completed and considered the potential impacts from a going concern perspective. We considered public information in relation to the acquiror and the financing requirements in relation to the size of the deal as a whole. We requested the Directors obtain from MEIF 6 Fibre a letter confirming their intentions, which was received. We assessed whether the proposed plans from the acquirer were consistent with management's plans and forecasts in order to conclude that the company would continue as a going concern. We evaluated the disclosures within the Annual Report in relation to going concern in light of the facts and circumstances. Based on the work performed and the evidence obtained we have no exceptions to report. Our conclusions on going concern are set out below.

How we tailored the audit scope
We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Parent Company, the accounting processes and controls, and the industry in which they operate.

There are three financially significant components; KCOM Group PLC, KCH (Holdings) Limited and KCOM Holdings Limited. The majority of trade and associated assets are held within one statutory entity, KCOM Holdings Limited. The vast majority of the Group's revenue and the majority of profit before tax and exceptional items was derived from these components. All work has been performed by the Group audit team as the accounting has been performed by the same finance team for all components.

Materiality
The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Independent auditors' report
to the members of KCOM Group PLC

	Group financial statements	*Parent company financial statements*
Overall materiality	£1.2 million (2018: £1.7 million).	£0.7 million (2018: £1.5 million).
How we determined it	5% of profit before tax and exceptional items.	1% of total assets, limited to less than group materiality.
Rationale for benchmark applied	We believe that profit before tax and exceptional items is a primary measure used by the shareholders in assessing the performance of the Group. Profit before tax is a generally accepted auditing benchmark. Exceptional items have been excluded from our materiality calculation to ensure that a consistent underlying measure has been used.	Total assets have been deemed an appropriate benchmark due to the parent company being a holding company, this has been limited to less than Group's materiality.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £0.7 million and £1.1 million. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.1 million (Group audit) (2018: £0.1 million) and £0.1 million (Parent company audit) (2018: £0.1 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern
In accordance with ISAs (UK) we report as follows:

Reporting obligation	*Outcome*
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the parent company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and parent company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

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

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Independent auditors' report
to the members of KCOM Group PLC

Strategic Report and Directors' Report In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. *(CA06)* In light of the knowledge and understanding of the group and parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. *(CA06)*
The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group We have nothing material to add or draw attention to regarding: • The directors' confirmation on page 21 of the Annual Report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity. • The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated. • The directors' explanation on page 26 of the Annual Report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions. We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the group and statement in relation to the longer-term viability of the group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the group and parent company and their environment obtained in the course of the audit. *(Listing Rules)*
Other Code Provisions We have nothing to report in respect of our responsibility to report when: • The statement given by the directors, on page 39, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's and parent company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and parent company obtained in the course of performing our audit. • The section of the Annual Report on pages 52 and 53 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee. • The directors' statement relating to the parent company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.
Directors' Remuneration In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. *(CA06)*

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements
As explained more fully in the Directors' responsibilities statement set out on page 39, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of this report
This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or

assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the members on 6 September 2006 to audit the financial statements for the year ended 31 March 2007 and subsequent financial periods. The period of total uninterrupted engagement is 13 years, covering the years ended 31 March 2007 to 31 March 2019.

Stuart Newman (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
31 July 2019

Consolidated income statement

for the year ended 31 March 2019

	Notes	2019 £'000	2018 £'000
Revenue	4	**281,637**	301,898
Operating expenses	5	**(310,459)**	(265,462)
Operating (loss)/profit		**(28,822)**	36,436
Finance costs	9	**(2,837)**	(2,399)
Share of profit of associate	17	**16**	12
(Loss)/profit before taxation	4	**(31,643)**	34,049
Taxation	10	**(2,260)**	(6,571)
(Loss)/profit for the year attributable to owners of the Parent		**(33,903)**	27,478

Operating (loss)/profit analysed as:			
EBITDA before exceptional items	4	**57,062**	68,270
Exceptional credits	7	**—**	2,361
Impairment of goodwill	7	**(51,372)**	—
Other exceptional charges	7	**(4,588)**	(1,638)
Depreciation of property, plant and equipment	16	**(16,913)**	(16,906)
Amortisation of intangible assets	15	**(13,011)**	(15,651)

Earnings per share			
Basic	12	**(6.63p)**	5.38p
Diluted	12	**(6.63p)**	5.33p

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 £26,275,000 (2018: £31,446,000).

Consolidated statement of comprehensive income

for the year ended 31 March 2019

	Notes	2019 £'000	2018 £'000
(Loss)/profit for the year		**(33,903)**	27,478
Other comprehensive income/(expense)			
Items that will not be reclassified to profit or loss:			
Remeasurements of retirement benefit obligations	32	**2,901**	4,203
Tax on items that will not be reclassified	28	**(493)**	(715)
Total items that will not be reclassified to profit or loss		**2,408**	3,488
Total comprehensive (expense)/income for the year attributable to owners of the Parent		**(31,495)**	30,966

The Notes on pages 77 to 117 are an integral part of these consolidated financial statements.

Balance sheets
as at 31 March 2019

	Notes	Consolidated 2019 £'000	Consolidated 2018 £'000	Parent Company 2019 £'000	Parent Company 2018 £'000
Assets					
Non-current assets					
Goodwill	14	**—**	51,372	**—**	—
Other intangible assets	15	**32,051**	36,816	**—**	—
Property, plant and equipment	16	**132,548**	122,928	**—**	—
Investments	17	**62**	46	**494,461**	494,461
Retirement benefit asset	32	**5,924**	—	**—**	—
Deferred tax assets	28	**4,539**	4,376	**—**	—
Contract costs	18	**5,313**	—	**—**	—
		180,437	215,538	**494,461**	494,461
Current assets					
Inventories	19	**3,080**	3,713	**—**	—
Contract assets	20	**2,903**	—	**—**	—
Trade and other receivables	21	**55,257**	53,568	**—**	5
Cash and cash equivalents	25	**7,347**	13,223	**—**	—
		68,587	70,504	**—**	5
Total assets		**249,024**	286,042	**494,461**	494,466
Liabilities					
Current liabilities					
Trade and other payables	22	**(56,233)**	(87,281)	**—**	—
Contract liabilities	23	**(18,264)**	—	**—**	—
Finance leases	26	**(418)**	(1,722)	**—**	—
Provisions for other liabilities and charges	27	**(182)**	(471)	**—**	—
		(75,097)	(89,474)	**—**	—
Non-current liabilities					
Trade and other payables	22	—	—	**(450)**	(450)
Bank loans	24	**(114,129)**	(73,821)	**—**	—
Retirement benefit obligation	32	**(2,378)**	(7,507)	**—**	—
Deferred tax liabilities	28	**(9,109)**	(8,016)	**—**	—
Finance leases	26	**—**	(285)	**—**	—
Provisions for other liabilities and charges	27	**(3,160)**	(5,746)	**—**	—
		(128,776)	(95,375)	**(450)**	(450)
Total liabilities		**(203,873)**	(184,849)	**(450)**	(450)
Net assets		**45,151**	101,193	**494,011**	494,016
Equity					
Capital and reserves attributable to owners of the Parent					
Share capital	29	**51,660**	51,660	**51,660**	51,660
Share premium account		**353,231**	353,231	**353,231**	353,231
(Accumulated losses)/retained earnings[1]		**(359,740)**	(303,698)	**89,120**	89,125
Total equity		**45,151**	101,193	**494,011**	494,016

1. Included within consolidated (accumulated losses)/retained earnings is loss after tax of £33.9 million (2018: profit after tax of £27.5 million) for the Group and profit after tax of £26.3 million (2018: £31.4 million) for the Parent Company.

The Notes on pages 77 to 117 are an integral part of these consolidated financial statements.

The financial statements on pages 72 to 117 were approved by the Board of Directors and authorised for issue on 31 July 2019.

They were signed on its behalf by:

Graham Sutherland
Chief Executive
31 July 2019

Anna Bielby
Chief Financial Officer

KCOM Group PLC
Registered number: 2150618

Consolidated statement of changes in shareholders' equity
for the year ended 31 March 2019

	Notes	Share capital £'000	Share premium account £'000	Accumulated losses £'000	Total equity £'000
At 1 April 2017		51,660	353,231	(305,003)	99,888
Profit for the year		—	—	27,478	27,478
Other comprehensive income		—	—	3,488	3,488
Total comprehensive income for the year ended 31 March 2018		—	—	30,966	30,966
Purchase of ordinary shares	29	—	—	(450)	(450)
Employee share schemes	8	—	—	1,785	1,785
Dividends	11	—	—	(30,996)	(30,996)
Transactions with owners		—	—	(29,661)	(29,661)
At 31 March 2018		51,660	353,231	(303,698)	101,193
Changes in accounting standards	2	—	—	345	345
At 1 April 2018		51,660	353,231	(303,353)	101,538
Loss for the year		—	—	(33,903)	(33,903)
Other comprehensive income		—	—	2,408	2,408
Total comprehensive expense for the year ended 31 March 2019		**—**	**—**	**(31,495)**	**(31,495)**
Purchase of ordinary shares	29	—	—	(450)	(450)
Employee share schemes	8	—	—	1,381	1,381
Deferred tax credit relating to share schemes	28	—	—	7	7
Dividends	11	—	—	(25,830)	(25,830)
Transactions with owners		—	—	(24,892)	(24,892)
At 31 March 2019		**51,660**	**353,231**	**(359,740)**	**45,151**

The Notes on pages 77 to 117 are an integral part of these consolidated financial statements.

Parent Company statement of changes in shareholders' equity

for the year ended 31 March 2019

	Notes	Share capital £'000	Share premium account £'000	Retained earnings £'000	Total equity £'000
At 1 April 2017		51,660	353,231	89,125	494,016
Profit for the year		—	—	31,446	31,446
Total comprehensive income for the year ended 31 March 2018		—	—	31,446	31,446
Purchase of ordinary shares	29	—	—	(450)	(450)
Dividends	11	—	—	(30,996)	(30,996)
Transactions with owners		—	—	(31,446)	(31,446)
At 31 March 2018		51,660	353,231	89,125	494,016
Profit for the year		—	—	26,275	26,275
Total comprehensive income for the year ended 31 March 2019		**—**	**—**	**26,275**	**26,275**
Purchase of ordinary shares	29	—	—	(450)	(450)
Dividends	11	—	—	(25,830)	(25,830)
Transactions with owners		—	—	(26,280)	(26,280)
At 31 March 2019		**51,660**	**353,231**	**89,120**	**494,011**

The Notes on pages 77 to 117 are an integral part of these consolidated financial statements.

Cash flow statements

for the year ended 31 March 2019

		Consolidated		Parent Company	
	Notes	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000
Cash flows from operating activities					
Operating (loss)/profit		**(28,822)**	36,436	**(5)**	—
Adjustments for:					
– depreciation and amortisation	15,16	**29,924**	32,557	**—**	—
– impairment of goodwill	14	**51,372**	—	**—**	—
– (increase)/decrease in working capital		**(24,057)**	(4,197)	**5**	—
– loss/(profit) on sale of property, plant and equipment	5	**17**	(15)	**—**	—
– non-employee-related pension charges	32	**1,534**	1,100	**—**	—
– share-based payment charge	13	**1,381**	1,785	**—**	—
Payments made to defined benefit pension schemes	32	**(9,762)**	(9,470)	**—**	—
Tax paid		**(1,852)**	(3,698)	**—**	—
Net cash generated from operations		**19,735**	54,498	**—**	—
Cash flows from investing activities					
Purchase of property, plant and equipment		**(27,540)**	(34,139)	**—**	—
Purchase/generation of intangible assets		**(8,309)**	(7,697)	**—**	—
Proceeds from sale of property, plant and equipment		**451**	517	**—**	—
Dividends received		**—**	—	**26,280**	31,446
Net cash (used in)/generated from investing activities		**(35,398)**	(41,319)	**26,280**	31,446
Cash flows from financing activities					
Dividends paid	11	**(25,830)**	(30,996)	**(25,830)**	(30,996)
Interest paid		**(2,315)**	(1,601)	**—**	—
Capital element of finance lease repayments	25	**(1,618)**	(2,099)	**—**	—
Repayment of bank loans	25	**(10,000)**	(20,000)	**—**	—
Drawdown of bank loans	25	**50,000**	45,000	**—**	—
Purchase of ordinary shares	29	**(450)**	(450)	**(450)**	(450)
Net cash generated from/(used in) financing activities		**9,787**	(10,146)	**(26,280)**	(31,446)
(Decrease)/increase in cash and cash equivalents		**(5,876)**	3,033	**—**	—
Cash and cash equivalents at the beginning of the year		**13,223**	10,190	**—**	—
Cash and cash equivalents at the end of the year	25	**7,347**	13,223	**—**	—

The Notes on pages 77 to 117 are an integral part of these consolidated financial statements.

Notes to the financial statements

for the year ended 31 March 2019

01 General information

KCOM Group PLC is a public limited company, limited by shares, which is listed on the London Stock Exchange and 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 1 to 32.

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 accounting

The consolidated and Parent Company financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRS Interpretations Committee and the Companies Act 2006 applicable to companies reporting under 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, in conformity with IFRS, 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.

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 2018:

- IFRS 9 "Financial Instruments"
- IFRS 15 "Revenue from Contracts with Customers"
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration"
- Amendments to the following standards:
    - IAS 40 "Transfers of Investment Property"
    - IFRS 2 "Classification and Measurement of Share-based Payment Transactions"
    - IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"
    - Clarifications to IFRS 15 "Revenue from Contracts with Customers"
    - Improvements to IFRSs (2014 – 2016)

The above new and amended standards do not have a material effect on the Group except as described below:

IFRS 9

In July 2014, the IASB issued IFRS 9 "Financial Instruments", which replaces IAS 39 "Financial Instruments – Recognition and Measurement". Application of the standard is mandatory for annual periods beginning on or after 1 January 2018. Transition to IFRS 9 for the Group took place on 1 April 2018 and in accordance with the transitional provisions of IFRS 9, comparative figures have not been restated. The Group has also adopted the consequential amendments to IFRS 7 "Financial Instruments: Disclosures" which have been applied to current year disclosures but have not generally been applied to comparatives.

IFRS 9 introduces three key changes when compared to IAS 39 relating to: the classification and measurement of financial assets and financial liabilities; impairment of financial assets; and general hedge accounting.

Upon adoption of IFRS 9, no change in the classification of financial assets has arisen because, at the date of transition, all financial assets of the Group were held at amortised cost under IAS 39 and continue to be held at amortised cost under IFRS 9. There has also been no change in the classification of financial liabilities since the classification and measurement requirements of IAS 39 have been largely retained under IFRS 9.

The financial asset impairment requirements of IFRS 9 introduce a forward-looking expected credit loss model which results in earlier recognition of credit losses than the incurred loss model under IAS 39. The Group has adopted the simplified approach to provide for losses on receivables and contract assets resulting from transactions within the scope of IFRS 15. Receivables and contract assets have been grouped based on shared credit risk characteristics and days past due and a provision rate matrix derived from historical information has been applied to estimate the expected credit losses.

Adoption of the expected credit loss model has not had a significant impact on the financial statements of the Group. The loss allowances for trade receivables and contract assets as at 31 March 2018 reconcile to the opening loss allowances on 1 April 2018 as follows:

	Trade receivables £'000	Unbilled receivables £'000	Contract assets £'000	Total £'000
At 31 March 2018 (calculated under IAS 39)	1,308	—	—	1,308
Change in accounting policy	(303)	53	17	(233)
Opening loss allowance as at 1 April 2018 (calculated under IFRS 9)	1,005	53	17	1,075

Cash and cash equivalents are also subject to the impairment requirements of IFRS 9 but the identified impairment loss was immaterial.

The hedge accounting requirements of IFRS 9 have also been simplified and are more closely aligned to an entity's risk management strategy. The Group does not currently hedge account, however IFRS 9 introduces a new hedge accounting model which is optional to apply and is closer aligned to commercial activities, therefore it may be applied in the future if deemed appropriate.

IFRS 15

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers" which replaces IAS 11 "Construction Contracts" and IAS 18 "Revenue". Application of the standard is mandatory for annual periods beginning on or after 1 January 2018 and requires the Group to use a five step approach to allocate the revenue earned from contracts to individual performance obligations on a relative stand-alone basis.

The Group has elected to apply the practical expedient whereby the promised amount of consideration is not adjusted for a significant financing component, if at contract inception, the period between the Group satisfying a performance obligation and the customer paying for it, is expected to be one year or less.

Transition to IFRS 15 for the Group took place on 1 April 2018 and in accordance with the transition provisions of the standard we have adopted IFRS 15 using the modified retrospective transition method. Consequently, the prior period comparatives have not been restated, and the full cumulative impact of applying this standard retrospectively had been reflected in an adjustment to equity at the date of transition. The following adjustments were made to amounts recognised on the balance sheet at the date of initial application:

	As at 31 Mar 2018 IAS11/ IAS18 IAS 39[1] £'000	IFRS 15 Reclassi-fication £'000	IFRS 15 Remeasure-ments £'000	IFRS 9 Remeasure-ments £'000	As at 1 Apr 2018 IFRS 15 IFRS 9 £'000
Assets					
Non-current assets					
Goodwill	51,372	—	—	—	51,372
Other intangible assets	36,816	—	—	—	36,816
Property, plant and equipment (i)	122,928	—	(1,495)	—	121,433
Investments	46	—	—	—	46
Deferred tax assets (vii)	4,376	—	406	—	4,782
Contract costs (ii) (iii) (iv) (v) (vi)	—	—	5,204	—	5,204
	215,538	—	4,115	—	219,653
Current assets					
Inventories	3,713	—	—	—	3,713
Contract assets (i) (iv) (v) (viii)	—	2,147	915	(17)	3,045
Trade and other receivables (ii) (vi) (viii)	53,568	(2,147)	(215)	250	51,456
Cash and cash equivalents	13,223	—	—	—	13,223
	70,504	—	700	233	71,437
Total assets	286,042	—	4,815	233	291,090
Liabilities					
Current liabilities					
Trade and other payables (viii)	(87,281)	17,446	—	—	(69,835)
Contract liabilities (ii) (iv) (v) (vi) (viii)	—	(17,446)	(4,274)	—	(21,720)
Finance leases	(1,722)	—	—	—	(1,722)
Provisions for other liabilities and charges	(471)	—	—	—	(471)
	(89,474)	—	(4,274)	—	(93,748)
Non-current liabilities					
Bank loans	(73,821)	—	—	—	(73,821)
Retirement benefit obligations	(7,507)	—	—	—	(7,507)
Deferred tax liabilities (vii)	(8,016)	—	(429)	—	(8,445)
Finance leases	(285)	—	—	—	(285)
Provisions for other liabilities and changes	(5,746)	—	—	—	(5,746)
	(95,375)	—	(429)	—	(95,804)
Total liabilities	(184,849)	—	(4,703)	—	(189,552)
Net assets	101,193	—	112	233	101,538
Equity					
Capital and reserves, attributable to owners of the Parent					
Share capital	51,660	—	—	—	51,660
Share premium account	353,231	—	—	—	353,231
Accumulated losses	(303,698)	—	112	233	(303,353)
Total equity	101,193	—	112	233	101,538

1. The amounts stated in this column are as reported and therefore before the adjustments for the adoption of IFRS 9 or IFRS 15.

(i) Routers

Prior to transition, routers were capitalised and the expense recognised as depreciation over the term of the contract. Under IFRS 15 we will treat routers as a discrete sale and performance obligation, and as a result these assets will no longer be capitalised and the cost will be recognised as an operating expense at the point control passes to the customer. Therefore transition to IFRS 15 resulted in the de-recognition of routers previously capitalised (£1.5 million) and the creation of a contract asset arising from the earlier revenue recognition for the sale of routers which were previously accounted for as part of a bundle (£2.0 million).

(ii) Connection fees

Under IFRS 15, connection fees are included in the transaction price and allocated to the performance obligations identified in the contract resulting in later recognition of revenue. Due to the timing of connection fee payments from customers a contract liability balance of £2.2 million has arisen upon transition to IFRS 15 and unbilled receivables has decreased by £0.1 million. Costs of £0.9 million associated with these connection activities have been capitalised on the balance sheet as costs of fulfilling a contract and will be amortised over the term of the contract on a systematic basis in line with the recognition of revenue.

(iii) Costs of obtaining a contract

IFRS 15 requires an asset to be recognised for the incremental costs incurred in obtaining a contract which is then amortised over the period that the goods or services are transferred to the customer. Therefore upon transition an asset of £1.8 million was recognised relating to deferred customer acquisition costs (e.g. sales commissions). Under previous accounting treatment, these would have been expensed as incurred and thus application of IFRS 15 results in later recognition of selling expenses spread over the contract lifetime.

(iv) Multi-element contracts

IFRS 15 introduces a clear link between the value provided to a customer and the timing of revenue recognition. A small number of contracts have been identified within the Enterprise segment for which we have previously recognised revenue relating to professional services rendered during the “project phase” of the contract, but under IFRS 15 it has been determined that in these specific instances, the “project phase” did not represent a separate performance obligation. Therefore, depending on timing of customer payments, for each contract identified there has either been a reduction in contract assets (cumulative impact £0.7 million) or the creation of a contract liability balance (cumulative impact £0.5 million) upon transition to IFRS 15. In a similar manner to the costs associated with connection activities detailed above, professional services costs incurred during the “project phase” of £0.9 million have been capitalised on the balance sheet as costs of fulfilling a contract. Revenue is being recognised and the fulfilment assets are being amortised on a straight-line basis over the “managed service” phase of the contracts.

(v) Enforceable right to payment

Generally, the “installation phase” in Enterprise contracts does represent a performance obligation and results in the creation of an asset with no alternative use to the Group. Therefore, provided we have an enforceable right to payment, under IFRS 15 we recognise revenue over time using a percentage cost to complete methodology similar to the accounting treatment previously used. In limited circumstances, where we do not have an enforceable right to payment during the “installation phase”, a difference in accounting treatment arises. IFRS 15 dictates that if we do not have an enforceable right to payment for performance completed to date then revenue should not be recognised over the ”installation phase”, but instead at the point in time that control of the asset transfers to the customer resulting in later recognition of revenue. Upon transition to IFRS 15, this has resulted in a decrease in contract assets of £0.4 million, an increase in contract liabilities of £0.1 million and the creation of contract fulfilment assets of £0.5 million.

(vi) Licences

The Group frequently enters into multi-element contracts with customers which may include the provision of third party licences. Under previous accounting the revenue associated with the licences was recognised at the point in time that the licences were provided to the customer. Under IFRS 15 we recognise that, for the supply of some licences, we have an ongoing obligation to the customer with respect to these licences as part of the managed service provided and thus we will recognise revenue associated with the licence over the shorter of the contract term and the licence term. Upon transition to IFRS 15 this has resulted in a contract liability of £1.5 million, reduction in unbilled receivables of £0.1 million and an asset relating to the cost of fulfilling the contracts of £1.1 million.

(vii) Deferred tax

Due to the changes in the pattern and timing of revenue and cost recognition under IFRS 15, and remeasurements resulting in revenue and costs moving between past and future periods, the principles of IAS 12 give rise to a movement in the deferred tax asset and liability due to temporary timing differences. In addition, a permanent difference arises from the de-recognition of routers as capital assets. The net impact is negligible.

(viii) Presentation of contract assets and contract liabilities

The Group has voluntarily changed the presentation of certain amounts in the consolidated balance sheet to reflect the terminology of IFRS 15:

- contract assets of £2.1 million in relation to incomplete projects where we do not have an unconditional right to consideration have been reclassified upon transition from trade and other receivables; and
- contract liabilities of £17.4 million which were previously presented as deferred income within trade and other payables are now being presented separately on the balance sheet.

Comparative figures for the items of the financial statements affected by the first-time adoption of IFRS 15 and IFRS 9

The following tables present the consolidated income statement and the consolidated balance sheet as at 31 March 2019 in accordance with IFRS 15 and IFRS 9 as well as the previous accounting treatment in accordance with IAS 11/IAS 18, IAS 39 and related interpretations along with an explanation of the movements in balances:

Notes to the financial statements

for the year ended 31 March 2019

Consolidated income statement

	2019 as reported IFRS 15 IFRS 9 £'000	2019 under IAS11/IAS18 IAS 39 £'000	Change £'000
Revenue	**281,637**	285,891	(4,254)
Operating expenses	**(310,459)**	(314,842)	4,383
Operating loss	**(28,822)**	(28,951)	129
Finance costs	**(2,837)**	(2,837)	—
Share of profit of associates	**16**	16	—
Loss before tax	**(31,643)**	(31,772)	129
Tax	**(2,260)**	(2,537)	277
Loss for the period attributable to owners of the Parent	**(33,903)**	(34,309)	406
Operating loss analysed as:			
EBITDA before exceptional items	**57,062**	58,932	(1,870)
Impairment of goodwill	**(51,372)**	(51,372)	—
Other exceptional charges	**(4,588)**	(4,588)	—
Depreciation of property, plant and equipment	**(16,913)**	(18,912)	1,999
Amortisation of intangible assets	**(13,011)**	(13,011)	—
Operating loss	**(28,822)**	(28,951)	129

Without the effect of IFRS 15, revenue would have amounted to £285.9 million, £4.3 million higher than reported. The most significant item contributing to this is the recognition of agency relationships. The guidance in IFRS 15, for the distinction between an agent and a principal, is based on the concept of "control" which differs to the previously applied notion of transfer of "risks and rewards". This has resulted in a reduction of revenue of £4.3 million within the Enterprise segment due to sales previously recognised on a gross basis now being recognised net of costs under IFRS 15 as "agency" revenue. The impact of this item is £Nil at operating loss, EBITDA and loss before tax.

Application of IFRS 15 and IFRS 9 has also resulted in a decrease in EBITDA of £1.9 million, largely attributable to the change in accounting treatment for routers. Under previous accounting treatment, routers were capitalised and the expense recognised as depreciation over the term of the contract. Under IFRS 15 we treat routers as a discrete sale and performance obligation, and as a result these assets will no longer be capitalised and the cost will be recognised as an operating expense at the point control passes to the customer. The reclassification of costs and the change in timing of revenue recognition mainly impacts our Hull & East Yorkshire segment resulting in a reduction of segmental EBITDA of £1.4 million. The overall impact on Group EBITDA is £1.7 million, but the impact at operating loss and loss before tax is not significant due to a reduction in depreciation of £2.0 million.

The impact of these factors is summarised below:

	Revenue £'000	EBITDA £'000	Loss before tax £'000
Year ended 31 March 2019 under IAS11/IAS18 and IAS 39	285,891	58,932	(31,772)
Agency relationships	(4,329)	—	—
Routers	196	(1,742)	257
Other	(121)	(128)	(128)
Year ended 31 March 2019 as reported under IFRS 15 and IFRS 9	**281,637**	**57,062**	**(31,643)**

The other category relates to the cumulative impact of the following factors described in Note 2:

- connection fees;
- costs of obtaining a contract;
- multi-element contracts licences; and
- application of the forward-looking expected credit loss model under IFRS 9.

Consolidated balance sheet

	2019 as reported IFRS 15 IFRS 9 £'000	2019 under IAS11/IAS18 IAS 39 £'000	Change £'000
Assets			
Non-current assets			
Goodwill	**—**	—	—
Other intangible assets	**32,051**	32,051	—
Property, plant and equipment	**132,548**	133,983	(1,435)
Investments	**62**	62	—
Retirement benefit asset	**5,924**	5,924	—
Deferred tax assets	**4,539**	4,539	—
Contract costs	**5,313**	—	5,313
	180,437	176,559	3,878
Current assets			
Inventories	**3,080**	3,080	—
Contract assets	**2,903**	—	2,903
Trade and other receivables	**55,257**	57,004	(1,747)
Cash and cash equivalents	**7,347**	7,347	—
	68,587	67,431	1,156
Total assets	**249,024**	243,990	5,034
Liabilities			
Current liabilities			
Trade and other payables	**(56,233)**	(69,960)	13,727
Contract liabilities	**(18,264)**	—	(18,264)
Finance leases	**(418)**	(418)	—
Provisions for other liabilities and charges	**(182)**	(182)	—
	(75,097)	(70,560)	(4,537)
Non-current liabilities			
Bank loans	**(114,129)**	(114,129)	—
Retirement benefit obligation	**(2,378)**	(2,378)	—
Deferred tax liabilities	**(9,109)**	(9,363)	254
Provisions for other liabilities and changes	**(3,160)**	(3,160)	—
	(128,776)	(129,030)	254
Total liabilities	**(203,873)**	(199,590)	(4,283)
Net assets	**45,151**	44,400	751
Equity			
Capital and reserves, attributable to owners of the Parent			
Share capital	**51,660**	51,660	—
Share premium account	**353,231**	353,231	—
Accumulated losses	**(359,740)**	(360,491)	751
Total equity	**45,151**	44,400	751

Upon application of IFRS 15, non-current assets have increased by £3.9 million in part due to the first time recognition of contract costs i.e. costs of obtaining and costs of fulfilling contracts of £5.3 million. Previous accounting treatment would have resulted in earlier cost recognition with these costs generally being recognised as incurred. This impact is offset by the derecognition of routers from property, plant and equipment of £1.4 million because under IFRS 15 these are being treated as a discrete sale and performance obligation satisfied at the point in time when the router is delivered to the customer.

Current assets are £1.2 million higher under IFRS 15 due to the recognition of a contract asset for the sale of routers of £2.2 million. This is offset by a reduction in contract assets and unbilled receivables of £0.7 million arising from the de-recognition of revenue for specific contracts where the project phase has not been identified as a performance obligation under IFRS 15 or it has been determined that there is no enforceable right to payment during the "installation phase" and thus revenue cannot be recognised until project completion (£0.2 million). This is also offset by the release of unbilled receivables (£0.1 million) in relation to connection activities which we have concluded do not represent a performance obligation.

Current liabilities have increased by £4.5 million due to the deferral of connection revenue of £2.3 million, the deferral of licence revenue of £1.8 million and the deferral of "project phase" revenue of £0.6 million; offset by the deferral of "installation phase" costs of £0.2 million. Non-current liabilities have decreased by £0.3 million due to the permanent deferred tax adjustment of relating to the derecognition of routers as capital assets.

Notes to the financial statements

for the year ended 31 March 2019

Due to the change in terminology of IFRS 15 and IFRS 9, there has also been a reclassification of certain balances:

- £1.4 million from trade and other receivables to contract assets; and
- £13.5 million from trade and other payables to contract liabilities.

New accounting standards, amendments and interpretations effective for annual periods beginning after 1 April 2019

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	Expected impact on consolidated financial statements
Improvements to IFRS 2015-2018	Minor changes to IFRS 3 “Business combinations”, IFRS 11 “Joint arrangements”, IAS 12 “Income taxes” and IAS 23 “Borrowing costs”	1 April 2019	No significant impact expected
Amendments to IAS 19	Amendments regarding plan amendment, curtailment or settlement	1 April 2019	No significant impact expected
Amendments to IAS 28	Clarifying how companies account for long-term interests in an associate or joint venture to which the equity method is not applied using IFRS 9	1 April 2019	No significant impact expected
IFRS 9	Prepayment features with negative compensation	1 April 2019	No significant impact expected
IFRS 16	Leases	1 April 2019	See below for expected impact
IFRS 17	Insurance contracts	1 April 2021	No significant impact expected
IFRIC 23	Uncertainty of income tax treatments	1 April 2019	No significant impact expected

Of these new standards, interpretations and amendments, only IFRS 16 is expected to have a material impact on the Group’s financial statements:

IFRS 16

In January 2016, IFRS 16 “Leases” was issued for periods starting on or after 1 January 2019. Transition to IFRS 16 for the Group will take place on 1 April 2019 and therefore the results presented for the 2019/20 financial year will comply with IFRS 16 and the Annual report and accounts 2019/20 will be the first Annual Report presented in accordance with IFRS 16.

Financial impact

IFRS 16 replaces IAS 17 “Leases” and applies a control model for the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset that we control. IFRS 16 primarily changes lease accounting for lessees. Lessor accounting under IFRS 16 is similar to IAS 17, however for lessees the distinction between a finance lease and an operating lease no longer exists. Subject to the practical expedients described below, at the commencement date, a lessee will recognise a non-current asset representing the right to use the leased item and a financial obligation for the future lease payments. Subsequently, lease costs will be recognised in the form of depreciation of the right-of-use asset and interest on the lease liability.

Overall, there is no impact on the lifetime cost or cash flows associated with leased assets. However, application of IFRS 16 will have a material effect on the Group’s consolidated financial statements. Based on management’s current estimate the Group expects transition to the new standard to result in the following impacts:

- increase in total assets and total liabilities of between £35.0 million and £45.0 million as a result of bringing operating lease commitments on balance sheet, but negligible impact on retained earnings due to the transition options selected;
- increase in total liabilities will have a corresponding impact on net debt;
- depreciation and interest expense will replace current operating lease expense, resulting in an increase in EBITDA; and
- net cash flows used in operating activities will decrease with an equivalent increase in net cash used in financing activities due to the reclassification of the repayment portion of lease payments from operating activities to financing activities.

Transition

IFRS 16 allows for two transition methods, namely the full retrospective approach and the modified retrospective approach with any cumulative effect from initial application recognised as an adjustment to the opening balance of retained earnings at the date of initial application. The Group will adopt the modified retrospective approach and prior year comparatives will not be restated; instead the Group will provide additional disclosures in the Annual report and accounts 2019/20 to ensure comparability.

It is possible to elect to apply certain practical expedients to facilitate the application of the new standard. With the objective of reducing the complexity of applying IFRS 16. The Group has evaluated these practical expedients and options, and intends to use the following:

- use of hindsight to determine the lease term if the contract contains options to extend or terminate upon transition;
- provisions for onerous leases will be used to approximate the impairment of right-of-use assets at the date of initial application;
- initial direct costs will be excluded from the measurement of the right-of-use asset at the date of initial application;
- a single discount rate will be applied to a portfolio of leases with reasonably similar characteristics such as lease term, class of underlying asset, currency and economic environment;
- low value and short-term leases will continue to be treated as operating leases. However, we do not intend on applying the practical expedient which allows leases which have less than 12 months remaining at the date of initial application to remain off balance sheet as we believe this could reduce future comparability; and
- leases for intangible assets will be accounted for under IAS 38 rather than under IFRS 16.

Upon transition to IFRS 16, payment obligations from existing operating leases will be discounted using the relevant incremental borrowing rate and recognised as a lease liability. The right-of use assets will be recognised as of 1 April 2019 as the amount of the lease liability, adjusted for the provision for onerous leases recognised under IAS 37 in Note 27 as an estimate of impairment. Therefore, at 1 April 2019, the right-of-use assets will be carried at a significantly lower amount than the corresponding lease liability, however based on management's current estimate we expect a negligible impact on net assets as the provision for onerous leases will be removed.

IFRS 16 project

As part of our IFRS 16 project, we have defined the scope of application of this standard by analysing our leases identified under IAS 17 and our service contracts to determine whether these contracts contain a lease component. We have provisionally agreed our accounting policy under IFRS 16 and estimated the transitional adjustment. As at 31 March 2019 we are in the process of determining the impact on tax, finalising our inventory of leases, designing new processes and controls to allow for accurate reporting under IFRS 16, and a longer-term IT solution is under review.

Overall, the financial impact and transition adjustments detailed above are indicative based on our assessments undertaken to date. The actual impact of adopting IFRS 16 at 1 April 2019 may change due to the estimations required in the calculations and the high number of contracts affected. The new accounting policies are also subject to change until the Group presents its first financial statements which include the initial date of application.

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 2019. 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 2019. 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.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the KCOM Group PLC Board of Directors.

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.

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" phased 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 presented whenever significant expenses are incurred or income is received as a result of events considered to be outside the normal course of business, where the unusual nature and expected frequency merits separate presentation to assist comparisons with previous periods. Items which are always classified as exceptional are:

- regulatory matters;
- onerous property leases;
- impairment of goodwill; and
- recruitment and termination costs associated with Executive Directors.

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

Goodwill

Goodwill represents amounts arising on acquisition of subsidiary undertakings and is the difference between the cost of the acquisition and the fair value of the net identifiable assets at the date of acquisition.

Goodwill is stated at cost less any accumulated impairment losses and is tested annually or more frequently if events or changes in circumstances indicate potential impairment. Impairment losses on goodwill are not reversed.

Goodwill is allocated to cash generating units (CGUs) for the purpose of impairment testing. The allocation is made to those CGUs that are expected to benefit from the business combination in which the goodwill arose. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

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 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.

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	10 years
External plant	10 to 40 years
Vehicles, other apparatus and equipment	1 to 10 years

Freehold land is not depreciated.

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

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.

Assets held under finance leases are depreciated over the shorter of the expected useful lives and the lease term.

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 are 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.

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 priced 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 includes 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.

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.

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.

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 and hire purchase commitments

Leases where the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet at their fair value or, if lower, the present value of the future minimum lease payments and are depreciated over their useful economic lives. The capital elements of future obligations under finance leases and hire purchase contracts are included as liabilities in the balance sheet. The interest elements of the rental obligations are charged to the income statement over the periods of the leases and hire purchase contracts. The finance charge is allocated to each period during the lease so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the lease term.

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. 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.

Employee share schemes and share-based payments

The Group has applied the requirements of IFRS 2. The Group issues equity-settled share-based payments to certain employees.

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

The fair value of equity-settled share-based payments is measured at the date of grant and charged to the income statement over the period during which performance or service conditions are required to be met, or immediately where no performance or service criteria exist. The fair value of equity-settled share-based payments granted is 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 is used to apply a discount for the lack of marketability of the options. The amount recognised as an expense is 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 operates a Share Incentive Plan (SIP) under which employees have the option to purchase shares in the Company each month and offers employees free matching and partnership shares on a sliding scale of between 1:3 to 2:1. The Group recognises 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.

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.

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
Valuation of goodwill An annual impairment review is performed to assess the carrying value of goodwill. Determining whether goodwill is impaired requires the carrying value to be compared to the value in use and/or the recoverable amount. This is derived from the part of the business, or CGU, to which the goodwill has been allocated. The value in use is calculated using the present value of future cash flows expected to arise from the CGU, by applying an appropriate discount rate to the timing and amount of cash flows.	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 individual CGU. The Directors also apply judgement in determining the budgeted cash flows and a long-term, terminal growth rate. The Directors also apply judgement in the consideration of alternative valuation methodologies, namely, fair value less cost to sell.	In order to calculate the value in use, the Directors are required to estimate the amount and timing of cash flows applicable to the CGU, based on current Board approved budgets and forecasts and extrapolated for an appropriate period taking into account growth rate and expected changes to selling prices and operating costs.
Post-employment benefits 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.	Accounting for defined benefit pension schemes requires judgement over areas such as: • setting appropriate criteria to derive assumptions such as discount rates; and • the recognition of pension scheme surplus under IFRIC 14.	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 32.
Significant contracts 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”. 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. 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.	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. For performance obligations satisfied over time, the Directors are required to make judgements in determining the total costs to complete.	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. 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.
Valuation of investments in subsidiary undertakings (Parent Company) The carrying value of investments held in subsidiary undertakings has to be assessed for impairment at the balance sheet date. 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. 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.	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. The Directors also apply judgement in determining the budgeted cash flows and a long-term, terminal growth rate. The Directors also apply judgement in the consideration of alternative valuation methodologies, namely, fair value less cost to sell.	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.

In addition to the above, in the current year there was judgement with regards to the going concern basis of preparation due to the change of control provision within the Group’s banking facilities which arises on completion of the acquisition of KCOM by MEIF 6 Fibre (as disclosed in Note 35). Full details of the judgements involved and the Directors considerations are set out in the viability statement on page 26.

04 Segmental analysis

The Group's operating and reportable segments are based on the reports reviewed by the KCOM Group PLC Board which are used to make strategic decisions. The chief operating decision-maker of the Group is the KCOM Group PLC Board.

For the year ended 31 March 2019, the Board considered four segments in assessing the performance of the Group and making decisions in relation to the allocation of resources. These four segments are:

- Hull & East Yorkshire – providing communication and internet-based services to consumer and business customers within the region;
- Enterprise – providing consulting, design, implementation and managed services related to the collaborative systems and cloud markets;
- National Network Services – providing network connectivity and related services to business customers nationally; and
- Central – holding the PLC costs and corporate costs, where allocation to the underlying segments would not improve understanding of these segments. These include costs associated with our defined benefit pension obligations and share schemes, alongside the residual cost of finance, HR, risk, legal and communications once appropriate recharges have been made to the go-to-market segments.

Segmental information has been prepared on a basis consistent with the prior financial year. The segment information provided to the KCOM Group PLC Board for the reportable segments, for the year ended 31 March 2019 and for the year ended 31 March 2018, is as follows:

		Revenue		EBITDA	
Consolidated	Notes	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000
Before exceptional items					
Hull & East Yorkshire		**101,054**	104,216	**59,519**	65,660
Enterprise		**85,590**	88,285	**5,854**	5,115
National Network Services		**97,976**	113,212	**2,980**	9,021
Central		**(2,983)**	(3,815)	**(11,291)**	(11,526)
Total before exceptional items		**281,637**	301,898	**57,062**	68,270
Exceptional items					
Hull & East Yorkshire		**—**	—	**(52)**	(357)
Enterprise		**—**	—	**(20,128)**	(591)
National Network Services		**—**	—	**(32,654)**	2,059
Central		**—**	—	**(3,126)**	(388)
Total	7	**—**	—	**(55,960)**	723
Total after exceptional items		**281,637**	301,898	**1,102**	68,993

A reconciliation of EBITDA post-exceptional items to profit before tax is provided as follows:

Consolidated	Notes	**2019 £'000**	2018 £'000
EBITDA post-exceptional items		**1,102**	68,993
Depreciation	16	**(16,913)**	(16,906)
Amortisation	15	**(13,011)**	(15,651)
Finance costs	9	**(2,837)**	(2,399)
Share of profit of associate	17	**16**	12
(Loss)/profit before tax		**(31,643)**	34,049

The table below shows revenue disaggregated by segment and nature:

Consolidated	2019 £'000	2018 £'000
Revenue		
Hull & East Yorkshire:		
Consumer	**60,103**	58,415
Business	**29,573**	30,531
Wholesale	**9,665**	10,828
Media	**1,531**	1,912
Contact Centres	**182**	2,530
Total Hull & East Yorkshire	**101,054**	104,216
Enterprise:		
Projects	**29,605**	30,065
Managed Service	**43,454**	45,224
Network	**12,531**	12,996
Total Enterprise	**85,590**	88,285
National Network Services:		
Connectivity	**62,327**	68,102
Voice	**23,599**	30,497
Hosting	**6,804**	7,331
Managed Service	**4,073**	5,055
Other	**1,173**	2,227
Total National Network Services	**97,976**	113,212
Central	**(2,983)**	(3,815)
Group total	**281,637**	301,898

Disclosure of segmental assets and liabilities has not been presented. This is in accordance with IFRS 8 as this information is not provided regularly to the KCOM Group PLC Board.

The split of total revenue between external customers and inter-segment revenue is as follows:

Consolidated	2019 £'000	2018 £'000
Revenue from external customers		
Hull & East Yorkshire	**98,065**	100,375
Enterprise	**85,590**	88,285
National Network Services	**97,976**	113,212
Central	**6**	26
Total	**281,637**	301,898
Inter-segment revenue		
Hull & East Yorkshire	**2,989**	3,841
Central	**(2,989)**	(3,841)
Total	**—**	—
Group total	**281,637**	301,898

Inter-segment sales are charged at prevailing market prices.

None of the revenue, operating profit or net operating assets arising outside the United Kingdom are material to the Group. In the current year, revenue of £29.1 million (2018: £33.3 million) from transactions with one customer within the Enterprise segment 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	2019 £'000	2018 £'000
Sale of goods	**4,864**	6,559
Provision of services	**276,773**	295,339
Group total	**281,637**	301,898

Notes to the financial statements

for the year ended 31 March 2019

05 Operating expenses

Consolidated	Notes	2019 £'000	2018 £'000
Staff costs[1]		**83,214**	82,180
Restructuring costs relating to employees	7,8	**2,672**	1,638
Total staff costs	8	**85,886**	83,818
Own work capitalised	8	**(7,514)**	(7,168)
Other external charges		**120,489**	130,250
Operating lease rentals		**28,735**	27,121
Auditors' remuneration	6	**423**	336
Depreciation of property, plant and equipment	16	**16,913**	16,906
Amortisation of intangible assets	15	**13,011**	15,651
Impairment of goodwill	14	**51,372**	—
Non-employee-related restructuring costs	7	**1,127**	—
Loss/(profit) on disposal of property, plant and equipment		**17**	(15)
Hereditament rate rebate		**—**	(4,377)
Losses on fixed price contracts		**—**	5,301
Regulatory matters	7	**—**	(2,361)
Total		**310,459**	265,462

1. Included within staff costs are redundancy costs of £0.9 million (2018: £0.7 million) which are not related to restructuring activities.

Other external charges mainly relate to costs from key partners, such as BT Wholesale. These external charges include managed service and maintenance contract costs along with product costs (for example, ethernet and broadband).

06 Auditors' remuneration

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

Consolidated	2019 £'000	2018 £'000
Fees payable to the Company's auditors for the audit of the Company's annual financial statements and the consolidated financial statements	**47**	48
Fees payable to the Company's auditors and their associates for other services:		
– the audit of the Company's subsidiaries	**175**	178
– audit-related assurance services[2]	**71**	40
– other non-audit services	**130**	70
Total	**423**	336

2. Relates to half year review and regulatory audit.

07 Exceptional items

Consolidated	Notes	2019 £'000	2018 £'000
Regulatory matters		**—**	(2,361)
Credited to income statement		**—**	(2,361)
Impairment of goodwill	14	**51,372**	—
Restructuring costs		**3,799**	1,638
GMP equalisation		**789**	—
Charged to income statement		**55,960**	1,638
Net charge/(credit) to income statement		**55,960**	(723)

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

In accordance with IAS 36, the Group's goodwill balances are tested annually for impairment. In the year all of the Group's goodwill of £51.4 million has been impaired. This is a non-cash item and is treated as exceptional in line with our accounting policy. See Note 14 for further details.

During the year exceptional restructuring costs of £3.8 million were incurred (year ending 31 March 2018: £1.6 million). Management scrutinises all restructuring costs on a line by line basis to determine whether they meet the exceptional criteria. During the period restructuring costs were incurred in relation to four main areas:

- Termination and recruitment costs associated with Executive Directors (£1.3 million). In line with the Group's accounting policy these costs are classified as exceptional.
- Transformation of project delivery capability (£0.4 million). The Group has undertaken a discrete project designed to improve and de-risk our delivery of complex customer contracts. The transformation will enable us to deliver in-flight and future contracts more profitably and help avoid a reoccurrence of the losses on specific contracts incurred in prior years. Costs were also incurred in relation to this project in the prior year. We now consider this project to be complete.
- Transformation of central functions (£0.8 million). The Group has completed the process of centralisation of the technical and customer support teams into centres of excellence designed to provide an improved customer experience, which commenced in the prior year. The Group has also completed a structural re-organisation of its Product and Propositions teams to help design and create new offerings for the go-to-market segments.
- The strategic business review costs (£1.3 million) mainly relate to third party consultant costs incurred performing the review. The outputs of this review are expected to be further reviewed and refined as part of a post acquisition business review with implementation resulting in a number of operating model transformation initiatives which will lead to a reduction in organisation complexity, duplication and costs. Additional exceptional costs are expected to be incurred in the next financial year to support the realisation of these cost savings.

On 26 October the High Court handed down a judgement involving the Lloyds Banking Group's defined benefit pension schemes. The judgement concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgement arise in relation to many other defined benefit pension schemes. During the year, the Group recognised an exceptional charge of £0.8 million as a result of the crystallisation of additional liabilities in the Group's defined benefit pension schemes.

In the prior year, the Group recorded an exceptional credit of £2.4 million relating to regulatory matters. The credit resulted from an industry wide settlement which arose as a result of a breach in BT Openreach's contractual and regulatory obligations relating to compensation for misapplying "Deemed Consent".

The combined effect of these items is a credit of £0.9 million (2018: charge of £0.1 million) in respect of current tax and £1.6 million (2018: £Nil) in respect of deferred tax.

Cash flow impact of exceptional items was an outflow of £3.4 million (2018: £1.1 million). The impact on working capital of exceptional items was an inflow of £0.1 million (2018: outflow of £1.8 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	
	2019	2018
Hull & East Yorkshire	**161**	316
Enterprise	**95**	87
National Network Services	**42**	31
Central	**1,230**	1,118
Total	**1,528**	1,552

Disclosed within the Central segment are employees who work in central functions (e.g. 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	Notes	**2019 £'000**	2018 £'000
Wages and salaries[1]		**69,618**	69,485
Social security costs		**6,975**	6,804
Other pension costs	32	**5,240**	4,106
Share scheme costs	13	**1,381**	1,785
Restructuring costs relating to employees	7	**2,672**	1,638
Total		**85,886**	83,818
Less own work capitalised	15,16	**(7,514)**	(7,168)
Charged to the income statement		**78,372**	76,650

1. Included within wages and salaries are redundancy costs of £0.9 million (2018: £0.7 million) which are not related to restructuring activities.

All of the Group's employees are employed by the Parent Company with the exception of 1 (2018: 115) employees employed by KCOM Contact Centres Limited. No employee costs are borne by the Parent Company.

Disclosures required by the Companies Act 2006 on Directors' remuneration, including salaries, performance-related bonuses, pension contributions and pension entitlements, including disclosure in respect of the highest paid Director, are included in the tables on pages 58 to 63 within the Remuneration report and form part of these financial statements.

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

09 Finance costs

Consolidated	Notes	2019 £'000	2018 £'000
Bank loans, overdrafts and other loans		**2,383**	1,583
Retirement benefit obligations	32	**76**	389
Finance lease and hire purchase contracts		**29**	69
		2,488	2,041
Amortisation of loan arrangement fees		**308**	234
Provision: unwind of discount	27	**41**	124
Total		**2,837**	2,399

10 Taxation

Analysis of tax charge in the year

The charge based on the profit for the year comprises:

Consolidated	Notes	2019 £'000	2018 £'000
UK corporation tax:			
– current tax on profits for the year		**1,925**	3,865
– adjustment in respect of prior years		**(86)**	(558)
Total current tax		**1,839**	3,307
UK deferred tax:			
Origination and reversal of timing differences in respect of:			
– (loss)/profit for the year		**(462)**	1,740
– change in rate		**(90)**	(309)
– adjustment in respect of prior years		**(340)**	540
– charge in respect of retirement benefit obligation		**1,313**	1,293
Total deferred tax	28	**421**	3,264
Total taxation charge for the year		**2,260**	6,571

Factors affecting tax charge for the year

Consolidated	2019 £'000	2018 £'000
(Loss)/profit before taxation	**(31,643)**	34,049
(Loss)/profit before taxation at the standard rate of corporation tax in the UK of 19% (2018: 19%)	**(6,012)**	6,469
Effects of:		
– expenses not deductible for tax purposes	**8,788**	429
– adjustment is respect of prior years	**(426)**	(18)
– change in rate reflected in the deferred tax asset	**(90)**	(309)
Total taxation charge for the year	**2,260**	6,571

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. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

11 Dividends

	2019 £'000	2018 £'000
Amounts recognised as distributions to equity holders in the financial year:		
– final dividend for the year ended 31 March 2017 of 4.00 pence per share	**—**	20,664
– interim dividend for the year ended 31 March 2018 of 2.00 pence per share	**—**	10,332
– final dividend for the year ended 31 March 2018 of 4.00 pence per share	**20,664**	—
– interim dividend for the year ended 31 March 2019 of 1.00 pence per share	**5,166**	—
Total	**25,830**	30,996

No final dividend was declared for the year ended 31 March 2019, see Note 35, to the financial statements for further details.

12 Earnings per share

The calculation of basic and diluted earnings per share is based on the following numbers of shares and earnings:

Consolidated	2019 Number	2018 Number
Weighted average number of shares		
For basic earnings per share	**511,531,719**	511,133,847
Share options in issue	**4,787,062**	4,730,273
For diluted earnings per share	**516,318,781**	515,864,120

Consolidated	Notes	2019 £'000	2018 £'000
Earnings			
(Loss)/profit attributable to owners of the Parent		**(33,903)**	27,478
Adjustments			
Exceptional items	7	**55,960**	(723)
Tax on exceptional items		**(2,446)**	137
Adjusted profit attributable to owners of the Parent		**19,611**	26,892

Consolidated	2019 Pence	2018 Pence
Earnings per share		
Basic	**(6.63)**	5.38
Diluted	**(6.63)**	5.33
Adjusted basic	**3.83**	5.26
Adjusted diluted	**3.80**	5.21

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Company and held in trust.

Adjusted basic earnings per share is calculated by adjusting the profit attributable to equity holders of the Company for the exceptional items net of taxation and dividing this adjusted figure by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held in trust.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive ordinary shares. The dilutive potential ordinary shares are in the form of share options. A calculation has been done to determine the number of shares that would have been issued assuming the exercise of the share options.

Adjusted diluted earnings per share is calculated by adjusting the profit attributable to equity holders of the Company for the exceptional items net of taxation and dividing this adjusted figure by the weighted average number of shares outstanding assuming conversion of all dilutive ordinary shares.

13 Share-based payments

The Group had two share-based payment schemes (2018: two) in existence during the year ended 31 March 2019. The Group recognised a total charge of £1,381,000 (2018: £1,785,000) in the year relating to equity-settled share-based payment transactions.

Share Incentive Plan (SIP)

The SIP is open to all employees. Under the SIP scheme, employees enter into an agreement to purchase shares in the Company each month. For each share purchased by an employee the Company awards matching shares on a sliding scale of between 1:3 to 2:1. The matching shares are 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 are entitled to receive dividends which are used to buy additional shares.

Matching shares are 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 was £621,000 (2018: £662,000). The number of matching shares granted by the Company during the year was 703,185 (2018: 624,959). The cash transferred by the Company in order to purchase these shares was £450,000 (2018: £450,000).

Long-Term Incentive Plan (LTIP)

The LTIP is 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 vest dependent on TSR performance over a three year performance period relative to the TSR performance of each company within a comparator group. For Executive Directors only, the awards granted in the current year are subject to a two year holding period after the vesting date. For further information on the grants and the performance conditions, see the Remuneration report on pages 54 to 64.

	Number	Weighted average exercise price (pence)
Outstanding at the beginning of the year	4,730,273	Nil
Granted during the year	2,276,879	Nil
Lapsed during the year	(2,220,090)	Nil
Outstanding at the end of the year	**4,787,062**	**Nil**

Share options outstanding at the year end have the following expiry dates and exercise prices:

Grant date	Expiry date	Exercise price	**Share options at 31 March 2019**	Share options at 31 March 2018
16 December 2015	15 December 2018	Nil	**—**	1,524,936
8 July 2016	7 July 2019	Nil	**880,377**	953,968
17 January 2017	16 January 2020	Nil	**405,049**	487,394
7 July 2017	6 July 2020	Nil	**1,230,976**	1,735,167
18 December 2017	17 December 2020	Nil	**28,808**	28,808
11 July 2018	10 July 2021	Nil	**920,649**	—
30 November 2018	29 November 2021	Nil	**916,709**	—
15 February 2019	14 February 2022	Nil	**404,494**	—
Total			**4,787,062**	4,730,273
Weighted average contractual life of options outstanding at period end			**1.64 years**	1.51 years

For options granted in the year, the fair value per option granted and the assumptions used in the calculation of the value are as follows:

	Award 1 without holding period	Award 2 without holding period	Award 2 with 2 year holding period	Award 3 with 2 year holding period
Grant date	11 July 2018	30 November 2018	30 November 2018	15 February 2019
Share price at grant date (pence per share)	95.7p	59.5p	59.5p	70.8p
Number of employees	17	1	1	1
Shares under conditional award	955,676	44,369	872,340	404,494
Vesting period (years)	3	3	3	3
Holding period (years)	—	—	2	2
Expected volatility	24.57%	34.22%	38.07%	38.07%
Risk free rate	0.79%	0.76%	0.93%	0.93%
Dividend yield	Nil	Nil	Nil	Nil
Fair value per option at grant date (pence per share)	57.4p	21.3p	19.5p	19.5p
Valuation model	Stochastic	Stochastic	Chaffe[1] / Finnerty	Chaffe[1] / Finnerty

1. Chaffe protective put method has been applied to determine the fair value of the options with the two year holding period. This method determines a discount for the lack of marketability of the options.

The expense recognised in the year in relation to the LTIP scheme was £760,000 (2018: £1,123,000).

14 Goodwill

Consolidated	Total £'000
Cost	
At 1 April 2017, 31 March 2018 and 31 March 2019	**85,272**
Provisions for impairment	
At 1 April 2017 and 31 March 2018	33,900
Charge for the period	51,372
At 31 March 2019	**85,272**
Net book value	
At 31 March 2019	**—**
At 31 March 2018	51,372
At 1 April 2017	51,372

Goodwill acquired in a business combination is allocated at the date of acquisition to the cash generating unit (CGU) that is expected to benefit from that business combination.

CGUs represent the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other groups of assets. As in previous years, KCOM's CGUs are based on customer type and geographic service location.

Goodwill is tested annually for impairment, or more frequently if there are indications that goodwill may be impaired. The key assumptions for the value in use calculation relate to forecast cash flows, discount rate and growth rate. The Directors estimated the discount rate using a pre-tax rate that reflects current market assessments of the time value of money and the level of risk. The growth rate reflects the long-term growth rate prospects for the UK economy. The estimates used within the value in use calculation takes into account historical experience and the Board's estimate of future events.

The discount rate and growth rate (in perpetuity) used for value in use calculations are as follows:

	2019	2018
Discount rate (pre-tax) Enterprise %	**9.6**	12.0
Discount rate (pre-tax) National Network Services %	**8.2**	9.4
Growth rate (in perpetuity) %	**2.0**	2.0

The discount rate was a pre-tax measure based on the rate of 10-year UK Government bonds, being the relevant market and in the same currency as the cash flows, adjusted for a risk premium to reflect both the increased risk of investing in equities generally and the systematic risk of KCOM and the relevant CGU.

Three years of cash flows were included in the discounted cash flow models. A long-term growth rate into perpetuity has been determined as the lower of the nominal gross domestic product (GDP) rate for the UK and the long-term compound annual EBITDA growth rate estimated by management.

Budgeted EBITDA was based on expectations of future outcomes taking into account past experience and our anticipation of future growth. The cash flow forecast was prepared by using the latest Board approved operating budget. The forecast covers a three-year period and an appropriate extrapolation of cash flows beyond this point into perpetuity based on the above assumptions.

Revenue in the Group's National Network Services segment has continued to fall. This decline reflects continued churn and a performance well below the underlying market for its services. This performance led to the Directors' decision to impair the full carrying value of goodwill of £32.2 million for this CGU, in the first half of the year. There has been no change to this assessment at the year end.

An impairment charge of the full value of the goodwill allocated to the Enterprise CGU, of £19.1 million, has also been recorded. At the half year, the carrying value of KCOM's Enterprise CGU goodwill balance was supported by the Group's medium/ long-term cashflow forecasts. In the second half of the year, and as part of the Group's strategic review, the Group's cashflow forecasts were updated to reflect a reduction in Enterprise's growth expectations due to the long term cashflows expected from major customers and change in the Group's national focus towards core connectivity. As a result of these updated cashflow forecasts the Group's Enterprise CGU goodwill balance has been fully impaired.

Management also considered the carrying value of goodwill in the context of the acquisition of KCOM detailed in Note 35, including whether on a fair value less cost to sell basis this would impact the impairment decision. This did not change the conclusion that there is a full impairment of both the Enterprise and National Network Services goodwill.

Following both impairments, the Group reassessed the depreciation policies of its property, plant and equipment in both CGUs and estimated that their useful lives would not be affected following this decision. No class of asset other than goodwill was impaired. The combined impairment charge of £51.4 million has been treated as an exceptional item in line with the Group accounting policies.

Following the Group's impairment charge, the carrying amount of goodwill is £Nil (31 March 2018: £51.4 million):

CGUs	**2019 £'000**	2018 £'000
Enterprise	**—**	19,125
National Network Services	**—**	32,247
Total	**—**	51,372

15 Other intangible assets

Consolidated	Notes	Development costs[1] £'000	Software £'000	Customer and supplier relationships £'000	Technology and brand £'000	Total £'000
Cost						
At 1 April 2017		30,228	56,645	49,257	6,294	142,424
Additions		510	2,280	—	—	2,790
Own work capitalised	8	3,856	124	—	—	3,980
Disposals		(27)	(266)	—	—	(293)
Transfers		132	138	—	—	270
At 31 March 2018		34,699	58,921	49,257	6,294	149,171
Additions		591	3,006	—	—	3,597
Own work capitalised	8	4,599	289	—	—	4,888
Disposals		(543)	(2,487)	—	—	(3,030)
Transfers		(1,561)	1,548	—	—	(13)
At 31 March 2019		**37,785**	**61,277**	**49,257**	**6,294**	**154,613**
Accumulated amortisation						
At 1 April 2017		16,890	24,274	49,257	6,294	96,715
Charge for the year		4,652	10,999	—	—	15,651
Disposals		(1)	(10)	—	—	(11)
At 31 March 2018		21,541	35,263	49,257	6,294	112,355
Charge for the year		4,690	8,321	—	—	13,011
Disposals		(523)	(2,281)	—	—	(2,804)
At 31 March 2019		**25,708**	**41,303**	**49,257**	**6,294**	**122,562**
Carrying amount						
At 31 March 2019		**12,077**	**19,974**	**—**	**—**	**32,051**
At 31 March 2018		13,158	23,658	—	—	36,816
At 1 April 2017		13,338	32,371	—	—	45,709

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

16 Property, plant and equipment

Consolidated	Notes	Land and buildings £'000	Exchange equipment £'000	External plant £'000	Vehicles, other apparatus and equipment £'000	Total £'000
Cost						
At 1 April 2017		14,530	99,764	162,557	57,767	334,618
Additions		—	7,785	15,262	7,766	30,813
Own work capitalised	8	—	402	2,714	72	3,188
Disposals		—	—	(40)	(243)	(283)
Transfers		—	1,150	(1,380)	(40)	(270)
At 31 March 2018		14,530	109,101	179,113	65,322	368,066
Change in accounting policy	2	—	—	—	(8,047)	(8,047)
At 1 April 2018		14,530	109,101	179,113	57,275	360,019
Additions		—	8,227	10,834	6,570	25,631
Own work capitalised	8	—	679	1,868	79	2,626
Disposals		—	(909)	(93)	(3,919)	(4,921)
Transfers		—	2,102	(2,584)	495	13
At 31 March 2019		**14,530**	**119,200**	**189,138**	**60,500**	**383,368**
Accumulated depreciation						
At 1 April 2017		10,838	74,052	103,395	40,010	228,295
Charge for the year		353	2,571	5,420	8,562	16,906
Disposals		—	—	—	(63)	(63)
At 31 March 2018		11,191	76,623	108,815	48,509	245,138
Change in accounting policy	2	—	—	—	(6,552)	(6,552)
At 1 April 2018		11,191	76,623	108,815	41,957	238,586
Charge for the year		353	3,116	6,233	7,211	16,913
Disposals		—	(901)	(2)	(3,776)	(4,679)
At 31 March 2019		**11,544**	**78,838**	**115,046**	**45,392**	**250,820**
Net book value						
At 31 March 2019		**2,986**	**40,362**	**74,092**	**15,108**	**132,548**
At 31 March 2018		3,339	32,478	70,298	16,813	122,928
At 1 April 2017		3,692	25,712	59,162	17,757	106,323

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

17 Investments

Consolidated	Shares in associate £'000
Cost	
At 1 April 2017	45
Share of net profit for the year	12
Dividends received from associate	(11)
At 31 March 2018	46
Share of net profit for the year	16
At 31 March 2019	**62**
Amounts written off	
At 1 April 2017, 31 March 2018 and 31 March 2019	**—**
Net book value	
At 31 March 2019	**62**
At 31 March 2018	46
At 1 April 2017	45

Parent Company	Shares in subsidiary undertakings £'000
Cost	
At 1 April 2017, 31 March 2018 and 31 March 2019	**494,511**
Amounts written off	
At 1 April 2017, 31 March 2018 and 31 March 2019	**50**
Net book value	
At 1 April 2017, 31 March 2018 and 31 March 2019	**494,461**

Subsidiary undertakings (as at 31 March 2019)

Name of company	Place of registration	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.

18 Contract costs

Upon transition to IFRS 15, remeasurement effects totalling £5.2 million were recognised directly in equity as of 1 April 2018 in relation to the initial recognition of capitalised contract costs. Under IFRS 15, these costs would have resulted in the later recognition of selling expenses in earlier reporting periods. The carrying amount had increased to £5.3 million as of 31 March 2019. For further information on the new accounting standards, please refer to Note 2.

Consolidated	**2019 £'000**	2018 £'000
Costs of obtaining a contract	**1,909**	—
Costs of fulfilling a contract	**3,404**	—
Total	**5,313**	—

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. In the current financial year, capitalised contract costs of £3.8 million were amortised and included in operating expenses.

19 Inventories

Consolidated	**2019 £'000**	2018 £'000
Raw materials and consumables	**2,607**	3,326
Equipment for resale	**473**	387
Total	**3,080**	3,713

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

20 Contract assets

Upon transition to IFRS 15 and IFRS 9, contract assets of £3.0 million were initially recognised as a result of remeasurement effects totalling £0.9 million recognised directly in equity on 1 April 2018 and the reclassification of £2.1 million of balances from trade and other receivables. For further information on the new accounting standards, refer to Note 2.

The carrying amount has decreased to £2.9 million as of 31 March 2019.

For more information on allowances for contract assets, please refer to Note 30.

21 Trade and other receivables

	Consolidated		Parent Company	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Trade receivables (net)	**23,302**	21,836	**—**	—
Other receivables	**3,183**	2,175	**—**	—
Prepayments	**18,877**	17,604	**—**	5
Accrued income	**—**	11,953	**—**	—
Unbilled receivables (net)	**9,895**	—	**—**	—
Total	**55,257**	53,568	**—**	5

Upon adoption of IFRS 15, the Group has changed the presentation of accrued income to reflect the terminology of IFRS 15. In the current year, accrued income is effectively been split between unbilled receivables presented above and contract assets which are presented separately on the consolidated balance sheet. Refer to note 2 for further details.

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 2019 and 2018. An allowance has been made for estimated irrecoverable amounts from the sale of goods and services of £706,000 (2018: £1,308,000). Note 30 provides further disclosures regarding the allowance for irrecoverable amounts and the credit risk of the Group's trade receivables.

22 Trade and other payables

	Consolidated		Parent Company	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Current				
Trade payables	**28,226**	38,005	**—**	—
Other taxes and social security costs	**7,213**	4,874	**—**	—
Other payables	**1,898**	2,521	**—**	—
Accruals	**18,896**	24,435	**—**	—
Deferred income	**—**	17,446	**—**	—
Total	**56,233**	87,281	**—**	—
Non-current				
Amounts due to subsidiary undertakings	**—**	—	**450**	450
Total	**—**	—	**450**	450

Upon adoption of IFRS 15, the Group has changed the presentation of deferred income to reflect the terminology of IFRS 15. In the current year, deferred income has been presented separately as contract liabilities on the consolidated balance sheet. Refer to Note 2 for further details.

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.

23 Contract liabilities

Upon transition to IFRS 15, contract liabilities of £21.7 million were initially recognised on the 1 April 2018 due to the reclassification and remeasurement of balances. For further information on the new accounting standards, please refer to Note 2.

During the year revenue of £18.4 million has been recognised in relation to the contract liability at the beginning of the period. The carrying amount has decreased by £3.4 million to £18.3 million as of 31 March 2019.

24 Bank loans

Consolidated	**2019 £'000**	2018 £'000
Bank borrowings		
Amount falling due:		
– between two and five years	**115,000**	75,000
	115,000	75,000
Loan issue costs	**(871)**	(1,179)
	114,129	73,821

The loan facility was secured by guarantees given by all material subsidiaries of KCOM Group PLC in favour of the lending banks.

The bank borrowings are fully repayable in December 2021 and attract an interest rate of LIBOR plus a margin dependent on specific covenants.

The terms of the loan facility state that upon a change in control of the Group, the outstanding loan amount potentially becomes repayable. Further details regarding the change in control of the Group are detailed in Note 35.

Notes to the financial statements

for the year ended 31 March 2019

25 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	Notes	**2019 £'000**	2018 £'000
Cash and cash equivalents		**7,347**	13,223
Borrowings	24	**(114,129)**	(73,821)
Finance leases	26	**(418)**	(2,007)
Total net debt		**(107,200)**	(62,605)

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.

	Other assets	Liabilities from financing activities			
Consolidated	Cash/bank overdraft £'000	Finance leases due within 1 year £'000	Finance leases due after 1 year £'000	Bank loans £'000	Total £'000
Net debt at 1 April 2017	10,190	(1,942)	(2,094)	(48,587)	(42,433)
Cash flows	3,033	2,099	—	(25,000)	(19,868)
Other non-cash movements	—	(1,879)	1,809	(234)	(304)
Net debt at 1 April 2018	13,223	(1,722)	(285)	(73,821)	(62,605)
Cash flows	(5,876)	1,618	—	(40,000)	(44,258)
Other non-cash movements	—	(314)	285	(308)	(337)
Net debt at 31 March 2019	**7,347**	**(418)**	**—**	**(114,129)**	**(107,200)**

26 Finance leases

Consolidated	**2019 £'000**	2018 £'000
Finance lease liabilities:		
Minimum lease payments:		
– within 12 months	**418**	1,722
– in 1 to 5 years	**—**	314
	418	2,036
Future finance charges	**—**	(29)
Present value of finance lease liabilities	**418**	2,007
The present value of finance lease liabilities is as follows:		
– within 12 months	**418**	1,722
– in 1 to 5 years	**—**	285
Total	**418**	2,007

27 Provisions for other liabilities and charges

Consolidated	Dilapidations £'000	Onerous leases £'000	Restructuring £'000	Total £'000
At 1 April 2018	3,954	2,157	106	6,217
Released in the year	(309)	—	(56)	(365)
Unwind of discount	—	41	—	41
Utilised in the year	(340)	(2,161)	(50)	(2,551)
At 31 March 2019	**3,305**	**37**	**—**	**3,342**
Total provisions for other liabilities and charges 2019				
Included in current liabilities	150	32	—	182
Included in non-current liabilities	3,155	5	—	3,160
At 31 March 2019	**3,305**	**37**	**—**	**3,342**
Total provisions for other liabilities and charges 2018				
Included in current liabilities	—	365	106	471
Included in non-current liabilities	3,954	1,792	—	5,746
At 31 March 2018	3,954	2,157	106	6,217

Provision has been made for the estimated fair value of unavoidable lease payments on unoccupied buildings. It is expected that these payments will arise over the next one to two years.

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.

The restructuring provision as at 31 March 2018 related to redundancy costs associated with the closure of our outsourced Contact Centres. As at 31 March 2019, these redundancy costs have been fully settled.

28 Deferred taxation assets and liabilities

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

	Assets		Liabilities		Net	
Consolidated	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000
Property, plant and equipment	**—**	—	**(4,617)**	(4,320)	**(4,617)**	(4,320)
Other timing differences	**346**	423	**—**	—	**346**	423
Retirement benefit obligation	**404**	1,276	**(1,007)**	—	**(603)**	1,276
Intangible assets on acquisition	**3,789**	2,677	**—**	—	**3,789**	2,677
Asset-backed partnership	**—**	—	**(3,485)**	(3,696)	**(3,485)**	(3,696)
	4,539	4,376	**(9,109)**	(8,016)	**(4,570)**	(3,640)

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

Consolidated	Notes	Property, plant and equipment £'000	Other timing differences £'000	Retirement benefit obligation £'000	Intangible assets arising on acquisition £'000	Asset-backed partnerships £'000	Total £'000
At 1 April 2017		(3,602)	438	3,347	4,051	(3,896)	338
(Charged)/credited to the income statement	10	(1,630)	(15)	(1,357)	(462)	200	(3,264)
Charged directly to equity and other comprehensive income		—	—	(715)	—	—	(715)
Transfer		912	—	—	(912)	—	—
At 31 March 2018		(4,320)	423	1,276	2,677	(3,696)	(3,640)
Change in accounting standard		254	(277)	—	—	—	(23)
At 1 April 2018		(4,066)	146	1,276	2,677	(3,696)	(3,663)
(Charged)/credited to the income statement	10	(551)	193	(1,386)	1,112	211	(421)
Credited/(charged) directly to equity and other comprehensive income		—	7	(493)	—	—	(486)
At 31 March 2019		**(4,617)**	**346**	**(603)**	**3,789**	**(3,485)**	**(4,570)**

There are £Nil deferred tax assets in the Parent Company (2018: £Nil).

The analysis of deferred tax assets is as follows:

Consolidated	**2019 £'000**	2018 £'000
Deferred tax assets to be recovered after more than 12 months	**481**	1,270
Deferred tax assets to be recovered within 12 months	**4,058**	3,106
	4,539	4,376

The analysis of deferred tax liabilities is as follows:

Consolidated	**2019 £'000**	2018 £'000
Deferred tax liabilities to be recovered after more than 12 months	**(8,868)**	(7,788)
Deferred tax liabilities to be recovered within 12 months	**(241)**	(228)
	(9,109)	(8,016)

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

	Not recognised	
	2019 £'000	2018 £'000
Losses	**580**	580

Deferred tax assets of £4.5 million (2018: £4.4 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 £0.6 million (2018: £0.6 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.

29 Called-up share capital

	2019 £'000	2018 £'000
Allotted, called up and fully paid		
516,603,910 (2018: 516,603,910) ordinary shares of 10 pence each	**51,660**	51,660

During the financial year, the Company did not purchase any of its own shares (2018: Nil); however, the Company funds Employee Share Trusts to meet its obligations under the Company's share schemes. During the year the Trusts purchased 703,135 (2018: 624,959) of the Company's ordinary shares through purchases on the London Stock Exchange for a total cash consideration of £450,000 (2018: £450,000) 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 £450,000 (2018: £450,000) has been deducted from retained earnings.

As of 31 March 2019, the total number of ordinary shares held by the Trusts to meet the Company's obligations under the share schemes was 5,230,194 (2018: 5,309,601).

30 Financial instruments and risk management

The Group's principal financial instruments during the year comprised bank loans, cash on short-term deposits, finance leases 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, with flexibility and headroom to make minor acquisitions for cash if the opportunity should arise.

The Group's bank facilities comprise a multi-currency revolving credit facility of £180.0 million, provided by a group of four core relationship banks. The facility matures in December 2021. The Group considers that this facility will provide sufficient funding to meet the organic and inorganic investment needs of the business. In addition, short-term flexibility of funding is available under the £8.0 million overdraft facility in Pounds Sterling and $2.0 million overdraft facility in US Dollars provided by the Group's clearing bankers.

The net debt position of £62.6 million at the beginning of the financial year has increased during the year to £107.2 million. The Group experienced a negative cash outflow of £5.9 million for the year (2018: positive cash inflow £3.0 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 2018			
Borrowings	1,665	3,330	76,249
Trade and other payables	64,960	—	—
Finance leases	1,722	285	—
Total	68,347	3,615	76,249
At 31 March 2019			
Borrowings	**2,839**	**119,967**	**—**
Trade and other payables	**49,020**	**—**	**—**
Finance leases	**418**	**—**	**—**
Total	**52,277**	**119,967**	**—**

Foreign currency risk

Cash flow exposure

The Group's only major foreign currency risk arises due to the purchase of equipment invoiced in US Dollars. Whenever possible the Group resells this equipment in US Dollars. The remaining exposure is managed principally through the use of forward foreign exchange contracts in order to minimise the impact of fluctuations in exchange rates on future cash flows and gross margin.

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 trading described above results in a balance sheet exposure since debtor days are longer than creditor days. It is the Group's policy not to hedge this exposure.

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. At the year end all the institutions holding the Group's financial assets were rated A-/A- or higher by Standard and Poor's.

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.

On that basis, the loss allowance as at 31 March 2019 and 1 April 2018 (on adoption of IFRS 9) was determined as follows for both trade receivables and contract assets:

	Days past due					
At 31 March 2019	Current	1–30	31-60	61-120	120+	Total
Weighted average expected loss rate	**0.7%**	**2.5%**	**3.8%**	**13.7%**	**42.7%**	**2.2%**
Gross carrying amount of trade receivables	**17,803**	**2,628**	**1,809**	**1,005**	**763**	**24,008**
Gross carrying amount of unbilled receivables	**9,965**	**—**	**—**	**—**	**—**	**9,965**
Gross carrying amount of contract assets	**2,933**	**—**	**—**	**—**	**—**	**2,933**
Loss allowance	**(209)**	**(64)**	**(69)**	**(138)**	**(326)**	**(806)**

	Days past due					
At 1 April 2018	Current	1–30	31-60	61-120	120+	Total
Weighted average expected loss rate	0.6%	3.1%	6.3%	8.7%	46.3%	3.0%
Gross carrying amount of trade receivables	16,309	3,209	925	1,283	1,418	23,144
Gross carrying amount of unbilled receivables	9,951	—	—	—	—	9,951
Gross carrying amount of contract assets	3,062	—	—	—	—	3,062
Loss allowance	(150)	(100)	(58)	(111)	(656)	(1,075)

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

Consolidated	Notes	Trade receivables £'000	Unbilled receivables £'000	Contract assets £'000	Total £'000
At 31 March 2018		(1,308)	—	—	(1,308)
Change in accounting policy	2	303	(53)	(17)	233
At 1 April 2018		(1,005)	(53)	(17)	(1,075)
Written off in the year		1,268	—	—	1,268
Amounts provided for in the year		(969)	(17)	(13)	(999)
At 31 March 2019		**(706)**	**(70)**	**(30)**	**(806)**

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

Financial assets

The Group had net financial assets of £46.6 million at the year end (2018: £49.2 million), of which £7.3 million (2018: £13.2 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 2019 and 31 March 2018 was:

Consolidated	**2019 £'000**	2018 £'000
Currency		
Sterling	**5,984**	11,314
US Dollar	**1,261**	1,677
Euro	**102**	232
Total	**7,347**	13,223

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 £0.1 million held in Euros and US Dollars.

At the year end £1.3 million (2018: £1.3 million) of cash collateral was held by Barclays in respect of a bank guarantee given under Ofcom's "Funds for Liabilities" regulations.

Financial liabilities

The currency and interest rate risk profile of the Group's financial borrowings at 31 March 2019 and 31 March 2018 was:

	2019			2018		
Consolidated	**Floating £'000**	**Fixed £'000**	**Total £'000**	Floating £'000	Fixed £'000	Total £'000
Sterling	**115,000**	**—**	**115,000**	75,000	—	75,000

Undrawn committed borrowing facilities at the year end were £65.0 million (2018: £105.0 million).

Interest on amounts drawn under the committed borrowing facility is based on the relevant LIBOR plus margin. All trade payable balances bear no interest and are held in Sterling with the exception of an equivalent of £1.5 million which is held in US Dollars. There is no currency risk associated with these balances.

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 Glossary on page 118.

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	2019 £’000	2018 £’000
Net debt	**107,200**	62,605
Total equity	**45,151**	101,193
Total capital	**152,351**	163,798

Under the Group’s £180.0 million revolving credit facility the Group is required to comply annually with certain financial and non-financial covenants. The Group is 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 year and at the year end. The Board monitors both covenant compliance and net debt performance on a regular basis.

31 Financial commitments

Authorised future capital expenditure and financial investment amounted to:

Consolidated	2019 £’000	2018 £’000
Property, plant and equipment	**2,768**	5,767
Intangible assets	**1,835**	2,210
Total	**4,603**	7,977

The Group as lessee

The future aggregate minimum lease rental commitments under non-cancellable operating leases were as follows:

Consolidated	2019 £’000	2018 £’000
– within 12 months	**16,545**	15,630
– in 1 to 5 years	**23,594**	30,218
– after 5 years	**4,114**	6,452
Total	**44,253**	52,300

None of the Group’s lease arrangements include any contingent rent payments and there are no renewal or purchase options or escalation clauses. There are also no restrictions imposed by the Group’s lease arrangements.

32 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 – including investment decisions and contribution schedules – lies jointly with the Group and the Trustees. The Trustees must be composed of representatives of the Group and scheme participants in accordance with each scheme’s individual Rules.

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 31 March 2016 and resulted in a funding deficit of £25.4 million (31 March 2013: £46.3 million) for the main scheme and £9.4 million (31 March 2013: £12.9 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 6 years (main scheme) and 4 years (data schemes).

Contributions agreed as part of these plans were as follows:

- Main scheme deficit repair payments from 1 April 2016 to 30 April 2022 of £4.5 million per annum to be paid in equal monthly instalments, increasing in line with CPI inflation from 1 April 2019.
- Data scheme deficit repair payments from 1 April 2016 to 30 April 2020 of £2.2 million per annum to be paid in equal monthly instalments, increasing in line with CPI inflation from 1 April 2019.

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 2020 are £7.3 million (main scheme) and £2.7 million (data scheme) (2019: £7.1 million (main scheme) and £2.7 million (data scheme)).

The full actuarial valuation as at 31 March 2019 is currently being undertaken but has not yet been finalised. This may impact the future deficit repayment payments made by the Group to the pension schemes.

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 & 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 & 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.

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.

Consideration is given each year as to whether pensions should be included specifically in the risk register and within our reported risks on pages 22 to 25.

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 in the future, has no bearing on cash requirements to the schemes and the Company remains legally obliged to pay contributions to the schemes.

A surplus position of £5.9 million has been recognised on the Main scheme. 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.

Consolidated	Main scheme Present value of obligation £'000	Main scheme Fair value of plan assets £'000	Main scheme Total £'000	Data scheme Present value of obligation £'000	Data scheme Fair value of plan assets £'000	Data scheme Total £'000	Combined schemes Present value of obligation £'000	Combined schemes Fair value of plan assets £'000	Combined schemes Total £'000
At 31 March 2017	**229,723**	**(217,033)**	**12,690**	**41,506**	**(34,505)**	**7,001**	**271,229**	**(251,538)**	**19,691**
Administrative expenses	—	711	711	—	389	389	—	1,100	1,100
Interest expense/(income)	5,607	(5,366)	241	1,018	(870)	148	6,625	(6,236)	389
Total amount recognised in profit or loss	**5,607**	**(4,655)**	**952**	**1,018**	**(481)**	**537**	**6,625**	**(5,136)**	**1,489**
Remeasurements									
Return on plan assets, excluding amounts included in interest	—	(965)	(965)	—	251	251	—	(714)	(714)
Gains from change in financial assumptions	(1,687)	—	(1,687)	(147)	—	(147)	(1,834)	—	(1,834)
Gain arising from changes in demographic assumptions	(1,377)	—	(1,377)	(278)	—	(278)	(1,655)	—	(1,655)
Total amount recognised in other comprehensive income	**(3,064)**	**(965)**	**(4,029)**	**(425)**	**251**	**(174)**	**(3,489)**	**(714)**	**(4,203)**
Employer contributions:									
Contributions via asset-backed partnership	—	(2,398)	(2,398)	—	(328)	(328)	—	(2,726)	(2,726)
Deficit repair payments	—	(4,496)	(4,496)	—	(2,248)	(2,248)	—	(6,744)	(6,744)
Benefit payments	(10,984)	10,984	—	(1,597)	1,597	—	(12,581)	12,581	—
At 31 March 2018	**221,282**	**(218,563)**	**2,719**	**40,502**	**(35,714)**	**4,788**	**261,784**	**(254,277)**	**7,507**

Consolidated	Main Scheme Present value of obligation £'000	Main Scheme Fair value of plan assets £'000	Main Scheme Total £'000	Data Scheme Present value of obligation £'000	Data Scheme Fair value of plan assets £'000	Data Scheme Total £'000	Combined Schemes Present value of obligation £'000	Combined Schemes Fair value of plan assets £'000	Combined Schemes Total £'000
At 31 March 2018	**221,282**	**(218,563)**	**2,719**	**40,502**	**(35,714)**	**4,788**	**261,784**	**(254,277)**	**7,507**
Past service cost	213	—	213	576	—	576	789	—	789
Administrative expenses	—	586	586	—	159	159	—	745	745
Interest expense/(income)	5,407	(5,420)	(13)	989	(900)	89	6,396	(6,320)	76
Total amount recognised in profit or loss	**5,620**	**(4,834)**	**786**	**1,565**	**(741)**	**824**	**7,185**	**(5,575)**	**1,610**
Remeasurements									
Return on plan assets, excluding amounts included in interest	—	(7,464)	(7,464)	—	(1,175)	(1,175)	—	(8,639)	(8,639)
Loss from change in financial assumptions	9,468	—	9,468	1,494	—	1,494	10,962	—	10,962
Gains arising from changes in demographic assumptions	(4,321)	—	(4,321)	(903)	—	(903)	(5,224)	—	(5,224)
Total amount recognised in other comprehensive income	**5,147**	**(7,464)**	**(2,317)**	**591**	**(1,175)**	**(584)**	**5,738**	**(8,639)**	**(2,901)**
Employer contributions:									
Contributions via asset-backed partnership	—	(2,456)	(2,456)	—	(336)	(336)	—	(2,792)	(2,792)
Deficit repair payments	—	(4,656)	(4,656)	—	(2,314)	(2,314)	—	(6,970)	(6,970)
Benefit payments	(10,080)	10,080	—	(1,877)	1,877	—	(11,957)	11,957	—
At 31 March 2019	**221,969**	**(227,893)**	**(5,924)**	**40,781**	**(38,403)**	**2,378**	**262,750**	**(266,296)**	**(3,546)**

Significant estimates: IAS 19 assumptions and sensitivity

The significant IAS 19 assumptions were as follows:

	2019		2018	
	Main scheme	**Data scheme**	Main scheme	Data scheme
RPI inflation	**3.20%**	**3.20%**	3.10%	3.10%
CPI inflation	**2.20%**	**2.20%**	2.10%	2.10%
Rate of increase to pensions in payment	**2.02%**	**3.79%**	1.93%	3.78%
Discount rate for scheme liabilities	**2.35%**	**2.35%**	2.50%	2.50%

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:

	2019		2018	
	Main scheme	**Data scheme**	Main scheme	Data scheme
Retiring at the end of the reporting year:				
- Male	**21**	**22**	22	23
- Female	**23**	**24**	23	25
Retiring 20 years after the end of the reporting year:				
- Male	**23**	**24**	23	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			
	2019		2018		2019		2018	
	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	**(1.7%)**	**(1.7%)**	(1.7%)	(1.7%)	**1.8%**	**2.0%**	1.8%	2.0%
RPI Inflation	**1.6%**	**0.7%**	1.6%	1.0%	**(1.6%)**	**(0.5%)**	(1.6%)	(0.7%)
Sensitivity to 1 year change in life expectancy	**3.2%**	**3.4%**	3.0%	3.5%	**(3.2%)**	**(3.4%)**	(3.0%)	(3.5%)

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:

	2019				2018			
Consolidated	**Main scheme £'000**	**Data scheme £'000**	**Total £'000**	**%**	Main scheme £'000	Data scheme £'000	Total £'000	%
Index linked gilts	**—**	**—**	**—**	**0%**	8,340	—	8,340	3%
Leveraged gilts	**18,429**	**6,482**	**24,911**	**9%**	—	—	—	0%
Leveraged index linked gilts	**59,841**	**3,275**	**63,116**	**24%**	49,958	13,407	63,365	25%
Inflation swap fund	**—**	**—**	**—**	**0%**	10,958	—	10,958	5%
Liability matching funds (unquoted)	**78,270**	**9,757**	**88,027**	**33%**	69,256	13,407	82,663	33%
Equities (quoted)	**—**	**—**	**—**	**0%**	31,064	6,811	37,875	15%
Property (unquoted)	**—**	**—**	**—**	**0%**	—	1,135	1,135	0%
Diversified growth fund (unquoted)	**115,932**	**22,010**	**137,942**	**52%**	42,547	5,607	48,154	19%
Corporate bonds (quoted)	**—**	**—**	**—**	**0%**	55,861	8,053	63,914	25%
Hedge funds (unquoted)	**15,317**	**—**	**15,317**	**6%**	15,257	—	15,257	6%
Cash and other (quoted)	**18,374**	**6,636**	**25,010**	**9%**	4,578	701	5,279	2%
Total	**227,893**	**38,403**	**266,296**	**100%**	218,563	35,714	254,277	100%

Liability Matching Funds

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

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

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

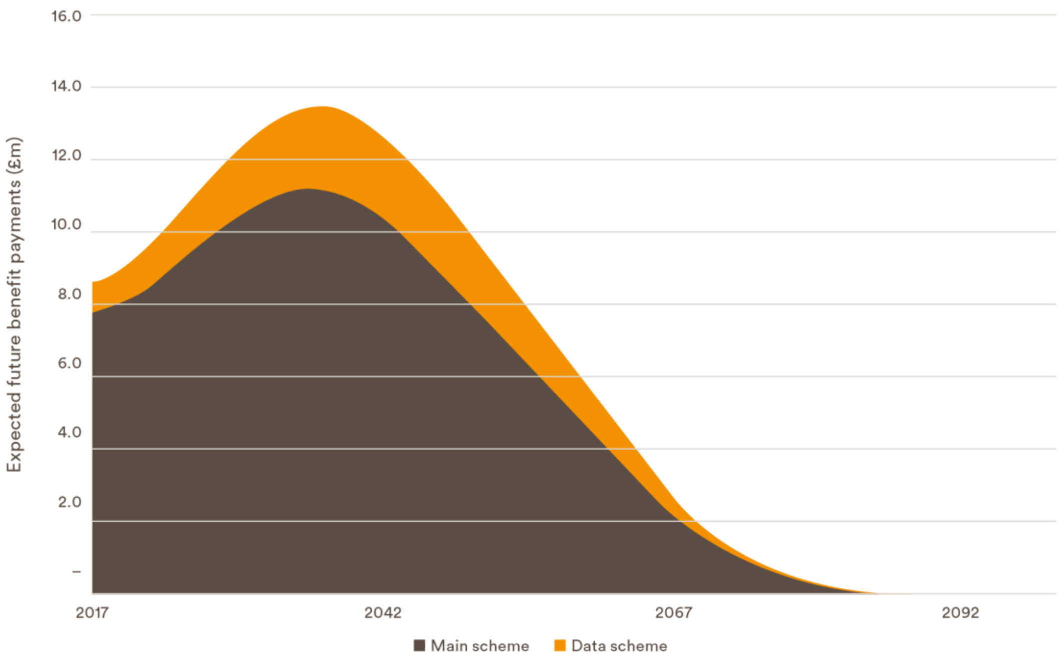
Diversified Growth Funds

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

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

Future benefit payments

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 2016:



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 2019 (2018: £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 £3.7 million (2018: £3.0 million).

33 Other commitments and contingent liabilities

Contingent liabilities existed at 31 March 2019 and at 31 March 2018 in respect of guarantees given by the Parent Company on behalf of subsidiary undertakings, together with contingencies arising in the normal course of the Group's business in respect of overdraft facilities. None of these guarantees are considered material in the context of the net assets of the Group.

Notes to the financial statements

for the year ended 31 March 2019

34 Related party transactions

Remuneration of key management personnel

The remuneration of the Directors who are the key management personnel of KCOM Group PLC, is provided in the audited part of the Directors' Remuneration report on pages 58 to 63 and forms part of these financial statements.

Intra-Group transactions

Amounts payable by the Company to subsidiaries totalled £0.5 million (2018: £0.5 million) as at 31 March 2019.

35 Subsequent events

Acquisition of KCOM Group PLC

On 24 April 2019, Humber Bidco Limited, a wholly-owned indirect subsidiary of Universities Superannuation Scheme Limited, announced a recommended cash offer for the entire issued and to be issued ordinary share capital of KCOM for 97.0 pence per share. On 3 June 2019, MEIF 6 Fibre 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), announced a recommended cash offer for the entire issued and to be issued ordinary share capital of KCOM for 108.0 pence per share. Both offers were to be effected by way of a Scheme of Arrangement.

As a result of there being a competitive situation, and in order to provide an orderly framework, the Takeover Panel ruled that the auction procedure set out in Appendix 8 of the Takeover Code would apply. The auction process ended on 12 July 2019 after which the KCOM board recommended unanimously the revised MEIF 6 Fibre offer of 120.3 pence per share.

The reconvened Court Meeting and General Meeting relating to the MEIF 6 Fibre offer took place on 26 July 2019 at which 99.48% and 99.52% respectively of shares voted were in favour of the Scheme. The Company obtained Court approval for the Scheme on 30 July 2019, which will see the Scheme become effective and the shares will be de-listed in early August 2019. An announcement will be made following the conclusion of this process.

Significant agreements – change of control

The following significant agreements contain provisions entitling the counterparties to exercise termination or other rights in the event of a change of control of the Company:

- Under our £180.0 million multi-currency revolving facility agreement dated 30 September 2016, the Company must notify Lloyds Bank PLC, the Agent of the agreement, within seven days of becoming aware of a change of control of the Company. Any bank or financial institution named within the facility agreement may then notify the Agent within seven days that they wish to cancel their commitments. The Agent must then give at least 21 days' notice to the Company of this and all outstanding amounts due to that bank or financial institution will become immediately due and payable. For these purposes, a "change of control" occurs if any person or group of persons acting in concert gains control of the Company. At 31 March 2019, the Group had borrowings or £115.0 million.
- The Company's share schemes, details of which are contained in the Remuneration report on pages 54 to 64, contain provisions which take effect in the event of a change of control, as a result of which options and awards may vest and become exercisable. The provisions do not entitle participants to a greater interest in the shares of the Company than that created by the initial grant or award under the relevant scheme. At 31 March 2019, the Group had 4,787,062 share options outstanding.

Dividend

At the half year, the Group declared and paid an interim dividend of 1.00 pence per share (2018: 2.00 pence per share). As the acquisition of KCOM by MEIF 6 Fibre is due to complete in early August 2019, the Board did not declare a final dividend for the year ending 31 March 2019 (2018 : 4.00 pence per share). Consequently the full year dividend is 1.00 pence per share (2018 : 6.00 pence per share).

Glossary

Alternative Performance Measures

In response to the Guidelines on Alternative Performance Measures (APMs) issued by the European Securities and Markets Authority (ESMA), we have provided additional information on the APMs used by the Group. 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 measures			
EBITDA before exceptional items ('EBITDA')	Profit 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 before tax" before share of profit before associates, finance costs, amortisation, depreciation and exceptional items.	Loss before tax as quoted in the consolidated income statement (£31.6 million), add back finance costs (£2.8 million) 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 (£29.9 million) as quoted on the consolidated cash flow statement, add back exceptional charge (£56.0 million) as quoted in Note 7.
Adjusted basic earnings per share	Basic earnings per share	This provides additional information regarding earnings per share attributable to the underlying activities of the business. Basic earnings per share based upon profit after tax adjusted for the impact of exceptional items.	A reconciliation of this measure is provided in Note 12 of the financial statements.
Adjusted diluted earnings per share	Diluted earnings per share	This provides additional information regarding diluted earnings per share attributable to the underlying activities of the business. Diluted earnings per share based upon profit after tax adjusted for the impact of exceptional items.	A reconciliation of this measure is provided in Note 12 of the financial statements.
Cash flows and net debt measures			
Net debt	Cash and cash equivalents, bank overdrafts, finance leases (current and non-current) and bank loans	Net debt 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, and for the purpose of monitoring compliance with the terms of the Group's facilities. Net debt to EBITDA is a key ratio used by external stakeholders. Net debt is cash and cash equivalents, bank overdrafts, finance leases (current and non-current) and bank loans.	A reconciliation of this measure is provided in Note 25 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 (£35.4 million) add back proceeds from sale of property, plant and equipment (£0.5 million) plus capital element of finance lease repayments (£1.6 million).
Underlying working capital movement	No direct equivalent	This measure is used by management as it provides a more appropriate reflection of the working capital movement by excluding certain movements relating to exceptional items. Underlying working capital movement is working capital movement less working capital movement due to exceptional items.	Increase in working capital quoted in consolidated cash flow statement (£24.1 million) less increase due to exceptional items quoted in Note 7 (£0.1 million).

Five year summary of consolidated figures

As at 31 March 2019

	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000
Income statement (total operations)					
Revenue	**281,637**	301,898	331,303	349,222	347,984
EBITDA before exceptional items	**57,062**	68,270	67,645	74,937	74,304
Group operating profit before exceptional items	**27,138**	35,713	40,737	50,898	57,193
Profit after taxation before exceptional items[1]	**22,057**	26,755	32,743	30,248	47,332
(Loss)/profit after taxation (reported)	**(33,903)**	27,478	24,762	71,134	12,544
Balance sheet					
Non-current assets	**180,437**	215,538	211,285	198,006	236,678
Current assets (excluding cash)	**61,240**	57,281	71,481	66,918	81,353
Current liabilities (excluding finance leases and overdrafts)	**(74,679)**	(87,752)	(111,294)	(132,443)	(118,754)
Net (debt)/funds (including finance leases)	**(107,200)**	(62,605)	(42,433)	7,412	(99,348)
Provisions and other non-current liabilities (excluding finance leases and bank loans)	**(14,647)**	(21,269)	(29,151)	(23,626)	(36,050)
Total equity	**45,151**	101,193	99,888	116,267	63,879
Movement in debt					
Net cash flow from:					
– operating activities	**19,735**	54,498	28,571	80,373	50,779
– capital expenditure	**(35,849)**	(41,836)	(44,195)	(28,426)	(32,022)
– interest	**(2,315)**	(1,601)	(1,257)	(2,794)	(5,574)
– equity dividends paid	**(25,830)**	(30,996)	(30,686)	(28,672)	(26,057)
– other	**(336)**	(237)	(2,278)	86,279	(11,498)
(Increase)/decrease in net debt	**(44,595)**	(20,172)	(49,845)	106,760	(24,372)
Ratios and other key information					
Average number of employees	**1,528**	1,552	1,712	1,706	1,776
EBITDA before exceptional items to revenue (%)	**20.3**	22.6	20.4	21.5	21.4
Group operating profit before exceptional items to revenue (%)	**9.6**	11.8	12.3	14.6	16.4
Basic earnings per share (pence)	**(6.63)**	5.38	4.85	13.96	2.47
Dividend per share relating to the financial year (pence)	**1.00**	6.00	6.00	5.91	5.37

1. Including the tax impact of exceptional items.

Shareholder information

Analysis of ordinary shareholders
(at 31 March 2019 by category)

	Number of holders	Number of shares	% of total shares
Private shareholders	48,444	46,708,324	9.04
Deceased accounts	717	461,315	0.09
Investment trusts	6	113,108	0.02
Nominee companies	754	366,115,174	70.87
Limited companies	60	265,656	0.05
Bank & bank nominees	12	87,542,075	16.95
Other institutions	15	15,398,258	2.98
Total	**50,008**	**516,603,910**	**100.00**

Annual General Meeting 2019
This year's AGM will be held at KCOM Stadium, Hull HU3 6HU, on Friday 27 September 2019. The meeting will start at 1pm and registration will be open from 12pm.

If the acquisition of KCOM is completed and the Group de-lists from the London Stock Exchange in early August 2019 as anticipated, this AGM will not take place.

Information relating to beneficial owners of shares with "information rights"
Please note that beneficial owners of shares who have been nominated by the registered holder of those shares to receive information rights under Section 146 of the Companies Act 2006 are required to direct all communications to the registered holder of their shares rather than to the Group's registrar, Link Asset Services, or to KCOM Group PLC directly.

Boiler room scams
'Boiler rooms' are high pressure sales firms, often based overseas, that target investors by illegally offering them non-tradable, overpriced or even non-existent shares. Boiler rooms usually target existing shareholders by legally obtaining a company's share register. This is a publicly available document, so it is relatively easy for someone to access your name and address. They then look to other sources of information, such as directory enquiry services, to obtain your phone number.

If you are contacted:

- Make sure you get the correct name of the person and organisation and make a record of any other information they give you, such as their telephone number, address or web address;
- If you receive telephone calls, emails or letters purporting to be from KCOM or from companies endorsed by us and you are unsure if they are legitimate, please contact our shareholder helpline for clarification on 01482 602711;
- Check the caller is properly authorised by the Financial Conduct Authority (FCA) before getting involved by visiting www.fca.org.uk/register/;
- If the caller persists, hang up; and
- Report the matter to the FCA.

Details of any share dealing facilities that KCOM endorses will be included in company mailings.

Company information

Registered office

KCOM Group PLC

37 Carr Lane
Hull HU1 3RE

Registered in England and Wales

Company number

2150618

Advisors

Independent auditors

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors
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Registrar

Link Asset Services

The Registry
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Beckenham
Kent BR3 4TU

Email: shareholder.enquiries@linkgroup.co.uk
Tel: 0371 664 0300 (If calling from outside the United Kingdom call +44 371 664 0300) (Calls are charged at the standard geographical rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate; lines are open between 9.00am–5.30pm Monday–Friday excluding public bank holidays in England and Wales)
Website: www.kcom-shares.com

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