KCOM Group Limited
Annual report and accounts
for the year ended 31 March 2022

Company number

2150618

Contents

Company information

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

Company number
2150618

Independent auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
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Our business at a glance

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

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

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

We are owned by Macquarie European Infrastructure Fund 6, a long-term infrastructure fund managed by Macquarie Asset Management. Macquarie Asset Management ("MAM") is the world's largest infrastructure manager, partnering with clients, governments and communities to finance, manage and develop roads, airports, ports, utilities, energy and telecommunications infrastructure.

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

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

As a result, we sold this business unit on 31 July 2021 to GCI Network Solutions Limited ("Nasstar"). This divestment has allowed us to focus on our core strategy as a regional provider of full fibre broadband and to grow our presence in both our retail and wholesale markets. In the financial statements we have classified the trade as discontinued for the four months up to the date of sale and in the comparative period. The assets and liabilities associated with the disposal group were classified as assets held for sale in the prior year and no longer exist in the current year balance sheet at the year end. KCOM has been operating under Transitional Service Agreements (TSAs) with Nasstar during the year which are now coming to an end. KCOM has legacy leases for properties, data centres and leased lines which are still in the process of the contracts being legally novated to Nasstar. Up until the point of novation, KCOM will continue to recognise a liability, reflecting the legal obligation to the vendors remains with KCOM. Following completion of the sale, the leases are treated as a sub-lease to Nasstar.

Chairman’s statement

I joined KCOM as a Non-Executive Director in May 2022 and replaced Nathan Luckey as Chairman. Nathan stepped down but will remain as a Director on the Board of KCOM. I’d like to thank Nathan for the contribution he has made as Chairman over the last two and a half years and in particular guiding KCOM through the sale of the National ICT Business, expansion of the network and transformation towards becoming a leading regional provider of broadband services.

During the year the KCOM Board and Executive Leadership Team (ELT) have continued to focus on delivering transformation initiatives to create firm foundations for the company’s long-term growth and success.

Leadership changes

During the year we made the following changes to the Board:

- Following the successful sale of the National Business, CEO Dale Raneberg decided to leave the business. Our thanks go to Dale for all his efforts during this important transitional time for the business. Tim was appointed as KCOM's Chief Executive Officer in April 2022. He joined KCOM in June 2019 as our Chief Technology Officer before becoming Managing Director of our Wholesale & Networks business in 2020.
- Sam Booth joined KCOM in July 2021 and joined the Board in October 2021. She has over 20 years’ experience in finance and business leadership roles, including extensive experience in the telecommunications and technology sector, gained through several senior roles at BT. These included CFO of its broadband brand Plusnet and Finance Director of its group functions.
- Fiona Goldsmith joined the KCOM Board as a Non-Executive Director in April 2022. She has considerable and wide-ranging business and finance experience. She is a chartered accountant whose career has spanned several executive leadership and Non-executive roles. She will Chair the Audit and Risk sub-committee of the KCOM Board of Directors.
- Richard Greenleaf, Managing Director in Macquarie Asset Management (MAM) Private Markets, stepped down from the Board in May 2022.

Strategic focus

With a strengthened leadership team in place, we have made substantial headway in implementing our strategic priorities, including expanding KCOM’s full fibre network beyond our traditional footprint of Hull, East Yorkshire and the surrounding areas. By year-end, the network had passed 28,000 additional homes in more than 20 new towns and villages, providing greater customer choice in previously under-served markets and job creation in these areas. I am pleased to share the network build remains on schedule.

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

In March 2022 the Board signed off £17 million funding to retire the copper phone line network and run a single full fibre network. KCOM will begin the two-year project in 2022. This will involve migrating 170,000 customers still on copper phone lines to the new network and upgrading around 14,000 customers that still have copper broadband services (ADSL). The project will future proof our network, reduce energy consumption and maintenance costs and provide a more robust, resilient service to our customers. As a result of the decision to retire the copper network, certain equipment that supported a hybrid of fibreoptic and copper network will no longer be utilised, leading to an impairment of the assets of £5.9 million.

Focusing on our core services

A key strategic priority for the business during the past year has been the sale and separation of KCOM’s National Business segment, which focuses on B2B connectivity and cloud services. Following an in-depth strategic review, the ELT had concluded this part of the business was better suited to an owner fully focused on the enterprise communications services market. The sale of the National Business, comprising its assets, people and customer and supply contracts, to managed services specialist Nasstar was successfully completed on 31 July 2021.

This transaction was a major milestone for the business and involved a considerable amount of effort across the company and our advisors. The sale has allowed us to focus on our core strategy as a regional provider of full fibre broadband to wholesale and retail markets. Separating KCOM’s functions from the National Business has been an ongoing key priority allowing us to continue with the realignment of our regional business.

Covid-19

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

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

Wellbeing, health and safety

To support the management and Board's focus on this critical area, the Wellbeing, Health and Safety Steering Committee has continued to promote specific wellbeing topics each month, and safety tours are conducted by members of the ELT regularly.

During the year we have begun a process of determining and relaunching company values and culture, focusing on employee wellbeing, inclusion, diversity, community involvement and customer service excellence. This will be a key part of our business transformation in the months ahead.

Risk management

We have continued to place a strong emphasis on identifying and managing cyber risks and ensuring data protection. Our Data Protection Steering Committee has continued to coordinate management of sensitive data across the company. To highlight the importance of risk management, employee participation in KCOM's annual bonus scheme is conditional on their completion of annual training on wellbeing, health and safety, cyber security and data protection.

Environmental, social and governance

During the year, KCOM participated in the GRESB Global ESG Benchmark for Real Assets where we were pleased to outperform both our peer group and the global GRESB average with a score of 86 – 14 points higher than the GRESB average. KCOM's improved 2021 GRESB score is reflective of our continued efforts to reduce our environmental footprint, including through the introduction of electric vans and cars to our fleet.

The assessment covers many aspects of ESG and work undertaken by many functions in the business and the large increase is the result of an improvement in all areas and reflects the breadth of change at KCOM.
The business has continued to launch new initiatives to improve our ESG performance and we are confident of improving our assessment again next year. Although we have made great progress reducing CO_2e emissions, we still hope to do more in the next assessment. Our switch to 100% renewable energy supply has paid dividends with a continued reduction in market-based CO_2e emissions. We have also successfully installed solar cells on the roof of our buildings at Salvesen Way which produce 18% of the electricity consumed at this location, on average.

As an organisation we have continued to leverage our ability to make positive change in the community. KCOM has a history of active involvement in its local communities which I am delighted to say has increased even further this year. Our KCOM Community Grants programme continues to go from strength-to-strength and now supports 18 local charities and community groups in Hull, East Yorkshire and North Lincolnshire each year, while our popular KCOM Kits initiative, providing team strips to local youth football clubs, has now donated more than 100 team kits across the region. Our Christmas Wishlist campaign, which supported 31 charities during December 2021, won national recognition in the Better Society Awards where it claimed the Commitment to the Local Community Award.

Strategic report – Chairman’s statement

Market review by Ofcom

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

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

Looking ahead

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

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

Our key aims for the year ahead include the continued expansion of our fibre network, the transformation of KCOM as a fibre company with a focus on the closure of the copper network and the continued digitisation of our sales and support channels to further enhance customer experience.

Johan Dennelind

Chairman

CEO's statement

This has been another busy year for KCOM as we have continued the process of transforming the business following the sale of our national operations, overcoming the challenges presented by the worldwide pandemic and refocusing our efforts on becoming a regional powerhouse of broadband connectivity.

I have been delighted to step into the Chief Executive Officer role during this time to lead the business at what is an exciting time both nationally for the industry and locally for KCOM as a company that is steeped in history and heritage but also forging a new path forward as one of the UK's most innovative Internet Service Providers (ISPs).

During my first few months as CEO I have been extremely pleased with the way that colleagues are responding to the challenges we face and working together to adopt new systems, technologies and ways of working to make the business a success.

A major part of this transformation has been the appointment of a new Executive Leadership Team which is helping to shape the business to make it fighting fit for the future and also provide more governance. I am delighted to welcome Sam Booth as Chief Financial Officer, Neil Bartholomew as the Managing Director of KCOM Retail, Kenneth Ross as Chief People Officer, Colin Sneddon as Managing Director of KCOM Wholesale and Ian Shepherdson as Chief Technology and Information Officer. Matthew Pearson continues in his role as Chief Legal and Risk Officer.

I believe this ELT has the knowledge, energy and experience to drive the continued transformation of KCOM forward based on our four value pillars of: Growing our customer base and value, Providing best in class service, Simplifying and digitising our business and Making KCOM a great place to work for all existing employees while also attracting new talent.

I am also delighted to welcome Johan Dennelind as our new Chairman of the Board to provide strategic industry and market advice to KCOM while supporting and providing direction to KCOM's Executive Leadership Team and Fiona Goldsmith, who will bring her considerable and wide-ranging business experience to the KCOM Board.

During the start of the year, we continued to operate under ongoing Covid-19 restrictions but began to open up during the second half of the year as the national Government restrictions were relaxed.

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

Our adoption of a hybrid model of office and home working has begun well with colleagues adjusting to 'the new normal' while delivering on targets and enjoying the benefits of both face-to-face and remote working. We will continue to focus on making this a success and delivering a workplace that is attractive to existing and new employees.

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

Our industry-leading adoption and promotion of our Flex social tariff, which is available to families on certain benefits struggling with the cost-of-living crisis, was also recognised by the Government with praise from then Digital Secretary Nadine Dorries.

The completion of the sale of our National information and communications technology (ICT) Business has allowed us to focus on our core business as a regional provider of full fibre broadband while successfully managing the operational interdependencies and TSAs between KCOM and Nasstar which are now coming to an end.

Our network expansion has continued apace with our full fibre broadband now reaching more than 277,000 properties across Hull, East Yorkshire and North Lincolnshire. This puts KCOM in the top five providers of Fibre To The Premises connectivity in the UK.

Since announcing our £100 million full fibre expansion programme in January 2020, we have reached a further 61,000 properties in 20 towns and villages across East Yorkshire and North Lincolnshire, including 32,000 within FY22, creating 30 full time engineering jobs and rolling out more than 1,100km of fibre cable in the process.

The success of our FTTP network expansion was recognised at the National Technology Awards this year when it was named Telecoms Project of the Year.

Strategic report – CEO's statement

We have continued to strengthen the capabilities of our Wholesale function creating an independent commercial business unit and continued our investment in our Core IP Network and self-service order portals for wholesale partners which has laid the foundations for future growth while improving the experience of existing customers. We have also begun testing on next generation XGS PON technology which will quadruple bandwidth availability and prove a huge asset going forward.

Our Wholesale business has continued to grow solidly with more than 150 reseller partners now providing services over our expanding network, a 60 per cent increase over the previous year. I'm delighted to see our Wholesale business going from strength to strength and constantly bringing onboard new partners. This shows how, by working together with resellers, everyone can benefit – from our partners accessing our world class infrastructure, to their end customers who receive great products delivered over one of the best networks in the UK.

We have made further progress on our journey towards greater environmental sustainability. Our investment in solar panels has significantly reducing electricity consumption at one of our main sites and we have reviewed our waste disposal routes to ensure that we recycle or reuse where possible.

Our commitment to making Scope 1 and Scope 2 emissions net zero by 2040, ten years ahead of the UK Government's target date, has been reinforced during the past year by joining the Oh Yes! campaign; joining with the region's major business, public sector and academic stakeholders in the scheme which aims to develop an innovative economic model to reduce carbon emissions in Hull and support a net zero future in an economically viable and sustainable way.

I'm also pleased to report that we have continued to improve our GRESB rating, the ESG benchmark for real estate and infrastructure investment, where we achieved a higher than industry average.

Internally, we have taken huge steps forward in building the right organisational culture through a broad programme driven by our People team under our new Chief People Officer Kenneth Ross.

Our commitment to increasing diversity and inclusion has been continued by our participation in Stonewall's Diversity Champion's programme, by our status as a Disability Confident employer and as a supporter of the Social Mobility Pledge and a signatory to the Armed Forces Covenant.

Our increased focus on employee health and safety and the expansion of our health and safety programme to incorporate wellbeing in all its forms has enabled us to respond well to new needs and priorities brought about by Covid-19 and subsequent hybrid working practices.

The Wellbeing, Health and Safety team have introduced new monitoring and awareness programmes across the company aimed at improving both processes and our culture. Completion of wellbeing, health and safety training is mandatory for all employees and objectives and KPIs have been included in our annual bonus scheme.

In 2022 we introduced a 'Hello Well Me' health and wellbeing month which encouraged colleagues to take part in events, workshops and initiatives to help improve their physical, mental and financial health.

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

Outside of the business our community activities have continued to play a significant role in supporting local communities, charities and people.

I'm especially proud of our community initiatives which have included helping local disadvantaged children, such as providing Christmas presents to children in some of the most deprived wards in the UK, and supporting local foodbanks and charities. Our Christmas Wishlist campaign helped more than 30 local charities during December, using our vans to deliver food packages, providing more than 100 employee volunteer hours and more than £10,000 in donations. This scheme was given national recognition this year when we were presented with a Better Society Award in the Commitment to the Local Community category.

Our Community Grant Scheme continues to be popular throughout the region while our KCOM Kits scheme has, so far, donated more than 100 full team strips to local children's football teams. KCOM employees continue to deliver careers advice and online safety events for local schools and colleges.

The company has also continued to support regional development through key groups such as the CBI and Bondholders and is actively involved in promoting local skills development through membership of the governing board of the Ron Dearing University Technical College and as a member of the Hull and East Yorkshire Local Enterprise Partnership’s Digital Skills Partnership.

Outlook

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

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

As we emerge from the restriction of activities that has been necessary during the pandemic we are prepared and optimistic for the next phase of our development, fully focused on our growth as a regional provider of full fibre broadband.

Tim Shaw

Chief Executive Officer

Performance review

Sale of the National Business
On 25 June 2021, KCOM announced the sale of its national ICT business (the "National Business") to GCI Network Solutions Limited ("Nasstar"). The sale was subsequently completed on 31 July 2021. Following the criteria in IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", management considered the requirements to treat the National Business as held for sale to be met as at the 25 March 2021. See Note 31 for information on the gain on sale of the National Business.

Consistent with last year, all income and costs in relation to the National Business are disclosed separately as discontinued operations in the Income Statement. As the sale completed prior to the year-end there are no longer any balance sheet items presented as assets and liabilities held for sale. KCOM however continues to recognise lease liabilities and corresponding receivables from Nasstar for legacy leases and associated dilapidation provisions until these legally transfer to Nasstar. See Note 2 for further information including details of a prior year restatement in relation to the leases.

Assets held for sale and liabilities directly associated are presented as held for sale and disclosed on two separate lines in the comparatives balance sheet. The cash flow statement includes the cash flows from discontinued operations, with cash flows relating to the discontinued operation disclosed in summarised form in Note 31.

Basis of preparation
Throughout the report, we may refer to alternative performance measures ("APMs") as they are deemed to be critical to understanding the financial performance of the Group. They are reconciled to statutory measures in the Glossary on page 85. As they are not defined by IFRS, they may not be directly comparable with other companies who use similar measures.

Group performance
The results for the year show revenue for continuing operations of £100.7 million, a £1.1 million increase from revenue of £99.6 million in the prior year. EBITDA for continuing operations is £39.2 million, an increase of £7.7 million compared to a restated EBITDA of £31.5* million in the prior year. Loss before tax from continuing operations is £0.3 million compared to a restated loss of £10.5* million in the year ended 31 March 2021. This is predominantly due to the flow through from EBITDA, with reduced interest charges on the intercompany loan offset by increased exceptional costs and higher amortisation.

Following the strategic decision to sell the trade and assets of our National Business segment, the sale was completed on 31 July 2021 and will allow us to focus on our core strategy as a regional provider of full fibre broadband to wholesale and retail markets. The continuing business has seen growth in our key fibre-based network products, with Consumer continuing to show significant growth in fibre revenues, and the expansion of our full fibre network has added a further 32,000 premises to our footprint.

Net debt excluding leases decreased to £142.1 million at 31 March 2022 from £151.7 million at 31 March 2021, reflecting the repayment of intercompany balances to fund external debt in the parent company.

Net debt including IFRS 16 leases reduced from a restated amount of £189.9* million at 31 March 2021 to £163.2 million at 31 March 2022, due to a reduction in the loan balance and lease liabilities.

Continuing operations

	2022 £'m	2021 £'m
Revenue		
Consumer	**66.2**	62.9
Regional Business	**25.4**	26.8
Wholesale	**8.4**	9.0
Non-core – Media and Contact Centres	**0.7**	0.9
Total revenue	**100.7**	99.6
EBITDA[1]	**39.2**	31.5*
Loss before taxation	**(0.3)**	(10.5)*

1. Alternative performance measures, used throughout the Annual report, are defined and reconciled to statutory measures in the Glossary on page 85.

* Comparatives have been restated to reclassify lease costs from discontinued to continuing operations. See note 2.

Continuing operations (continued)

Group revenue has increased by £1.1 million compared to 2021, EBITDA has increased by £7.7m and there is a loss before tax of £0.3m compared to a loss of £10.5m in 2021. Growth in Consumer revenue of £3.3 million is partly offset by a decline in Business of £1.4 million and Wholesale of £0.6 million.

Consumer revenue has increased by £3.3 million (5 per cent) due to an increase in overall customer numbers of 2,100 (1 per cent) and a higher Average Revenue Per User (ARPU) of £37.96, an increase of £1.80 (5 per cent) driven by the launch of a rationalised portfolio of products, continued migration away from ADSL and an increase in customers taking a call bolt-on. Broadband customers have increased by 3 per cent to 135,900 (31 March 2021: 132,300). Migration away from our legacy copper broadband has continued with 92.8 per cent of broadband customers on fibre, up from 89.1 per cent as at 31 March 2021, supporting our ambition to move to decommission our legacy network.

Business revenue has declined by £1.4 million (5 per cent) predominately due to two factors, the global shortage of semi-conductors impacting on our ability to fulfil project activity and the impact of the move to hybrid working with a reduction in volume of bandwidth and broadband services.

Wholesale revenue has declined by £0.6 million (7 per cent). This reflects a reduction in circuits for one large customer in addition to the loss of one significant contract. Fibre volumes have continued to increase rapidly, with revenues growing 82 per cent year-on-year.

The expansion of our full fibre network across East Yorkshire and North Lincolnshire continued during the year and as at 31 March 2022 we had passed 61,000 premises (31 March 2021: 29,000).

EBITDA improvement driven by reductions in the cost base, in part due to the recovery of costs that support TSAs and also a reduction of costs associated with running the network.

The key metrics for our continuing operations are as follows:

	2022	2021
Total Consumer customers (‘000s)	**149.1**	147.0
Total Consumer fibre broadband customers (‘000s)	**125.9**	117.8
Total Wholesale fibre broadband connections (‘000s)	**4.9**	3.0
Total fibre availability (‘000s premises passed)	**277**	229

These are considered further in the KPI section on pages 15 to 18.

Exceptional items

The Group incurred exceptional charges totalling £8.6 million in the year, compared with £1.7 million in the prior year. The current year costs predominantly relate to the impairment of assets associated with the copper network and the termination costs associated with the exit of Executive Director and the continuation of the strategic cost transformation programme leading to restructuring costs to right size and better align to our new operating model by reducing complexity, duplication, and cost.

As a result of the decision to retire the copper network and move to a full fibre network, certain equipment that supported a hybrid of fibreoptic and copper network will no longer be utilised, leading to an impairment of the assets of £5.9 million. The remaining copper assets, that will be decommissioning over the next 2 to 3 years, are supported through a value in use cash flow. Depreciation will be accelerated prospectively to depreciate the assets over the remaining economic lives.

Discontinued operations

	4 months ended 31 July 2022 £’m	Year ended 31 March 2021 £’m
Revenue	**44.7**	154.1
Profit before taxation	**4.7**	27.8*

* Comparatives have been restated to reclassify lease costs from discontinued to continuing operations. See note 2.

Discontinued operations (continued)

The sale of the National ICT Business to Nasstar was completed on 31 July 2021, for consideration of £31.4 million, which included £2.0 million of deferred consideration received on 1 August 2022. The profit before tax from discontinued operations for the four months of trading up to the date of disposal on 31 July 2022 is £4.7 million (2021: £27.8* million).

Revenue from discontinued operations for the four months declined compared to the same period in prior year by £8.3 million (16 per cent). This was due to a decline in project revenue from one significant customer, a continued slowdown in new project revenue streams and churn of a number of significant network-based customers.

Net debt and cash flow

In line with expectations, net debt excluding leases as at 31 March 2022 is lower than last year, at £142.1 million (31 March 2021: £151.7 million).

The decrease in net debt arises due to the disposal proceeds from the sale of the National ICT business. Working capital has had no significant movement in the year.

On 29 September 2020 the direct Parent Company, KCOM Holdco 3 Limited, entered into a new loan agreement. Certain statutory entities within the consolidated KCOM Group Limited accounts act as guarantors for the loan facility, see note 28 for further details.

Pensions

The Group operate two defined benefit schemes that are both closed to new members and future benefit accrual. The IAS 19 pension position at 31 March 2022 is a combined net asset of £40.5 million (31 March 2021: £32.5 million). The main drivers of the movement are due to changes in financial assumptions that have resulted in a gain on liabilities of £8.4 million, £3.1 million of employer contributions, offset by a £2.2 million loss on assets in excess of interest income.

During the year the split of the deficit repair payments as well as contributions made via the Asset-backed partnership was £2.7 million to the Main Scheme and £0.4 million to the Data Scheme.

Capital investment

Cash capital expenditure during the year was £41.2 million (2021: £40.1 million), of which, £0.2 million related to the National Business up to the date of sale. The major project in both financial years was the full fibre expansion project, expanding our fibre network into surrounding areas, with additional cost associated with the continued migration of existing customers from copper to fibre.

The Group's depreciation and amortisation charge for continued operations for the year was £18.1 million (2021: £17.3 million), excluding the depreciation of right-of-use assets under IFRS 16. Right of use asset depreciation of £5.4 million (2021: £14.6 million).

Tax

The Group's combined tax charge was £11.6 million (2021: £5.1 million), of which £8.2 million charge (2021: £1.6 million credit) related to continuing operations. The effective tax rate was 87.2 per cent (2021: 27.7 per cent).

The increase in effective tax rate is mainly driven by:

- Current tax charge of £1.9 million in relation to adjustments in respect of prior year
- Deferred tax charge of £5.2 million to reflect a change in tax rate from 19% to 25% for any deferred tax amounts expected to unwind after the year ended 31 March 2023

Our strategy

During the year there has been significant progress and change. We continue to focus on the key strategic priorities and growth programmes put in place in the previous financial year with the benefit of concentrating our efforts solely on the regional business. This year, we have adopted the following four pillars to inform our business strategy:

- Grow customers and values
- Simply and digitise our business
- Provide best in class service
- Make KCOM a great place to work

The continued transformation of our organisation over the next year will play an important role in supporting these strategic priorities following the sale of KCOM's National Business and our focus on cementing KCOM's position as a regional broadband and telecoms provider.

Transforming our operations

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

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

Our ability to provide a good online experience for all customers and the automation of internal processes is central to our growth and long-term success. Our aim is to create a seamless online ordering, customer service and support journey and during the year we have invested in several systems that are key to transforming the experience of both customers and employees.

We have successfully reduced and simplified our product offering to make best use of our systems investments, increase simplification and increase efficiency.

Work continued to restructure our Retail and Wholesale business areas to further independence and strengthen capability.

In 2022 we commenced a two-year programme to retire our copper network and move all customers to a full fibre service. This includes upgrading around 14,000 customers that still use our copper network for broadband services (ADSL) and migrating 170,000 customers that still have copper phone lines. This will provide a better service for customers, reduce the cost and complexity in our business and save a significant amount of electricity consumption.

Refocusing on our core offering

During the year we completed the sale of our National Business segment with a successful separation of our national and regional operations. This was an important milestone for KCOM that has allowed us to focus on growing our presence as a regional provider of full fibre broadband in both retail and wholesale markets.

Realigning our business

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

Expanding our regional network

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

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

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

Developing our wholesale capabilities

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

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

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

Key performance indicators

Financial key performance indicators (KPIs)

Revenue from continuing operations

2022: £100.7m 2021: £99.6m 2020: £99.2m	This statutory measure reflects the total amount the Group recognises from the sale of goods and services net of applicable sales, taxes and discounts. Revenue is a key measure of the Group's growth and progression. The target is growth across all three channels, Consumer, Regional Business and Wholesale, predominately from increased fibre sales and a simpler, focused Regional Business product portfolio. Revenue has increased year-on-year driven by our Consumer customer numbers, this is in part offset by a decline in Regional Business and Wholesale revenues.

EBITDA[1] from continuing operations

2022: £39.2m 2021: £31.5m* 2020: £30.0m	Earnings before exceptional items, interest, tax, depreciation and amortisation. EBITDA is the key profit indicator used by the Group to track and assess performance. Group EBITDA has increased year-on-year driven by growth in our Consumer area and a focused programme of reduction in our overall cost base.

1. Alternative performance measures, used throughout the Annual report, are defined and reconciled to statutory measures in the Glossary on page 85.

Loss before tax from continuing operations

2022: £(0.3m) 2021: £(10.5)m* 2020: £(14.3m)	This statutory measure reflects the profitability of the continuing business before corporation tax. The Directors believe profit before tax is an important metric as it is a statutory measure of profitability, directly comparable with other companies. In the year ended 31 March 2022 loss before tax has decreased from £10.5 million in 2021 to a loss of £0.3m in 2022. The improvement is predominately driven by a reduction in the depreciation of ROU assets that are now sub-leased following the sale of the National ICT Business. The increase in exceptional costs from £1.7 million to £8.6 million relates to restructuring costs driven by post National Business disposal efficiencies and the impairment of certain assets that are now redundant following the plan to retire the copper network and move to full fibre. Depreciation and Amortisation charges, including IFRS 16 ROU lease asset depreciation is £8.3 million lower than 2021, this is driven by the sub-lease of ROU assets on a finance lease basis to Nasstar following the sale of the National ICT Business. Net finance costs have decreased from £8.6 million to £7.4 million in the year ended 31 March 2022. This is primarily due to a reduction in the loan balance with the parent company, leading to lower interest costs.

* Comparatives have been restated to reclassify lease costs from discontinued to continuing operations. See note 2.

Cash capex[1]

2022: £41.0m 2021: £40.1m 2020: £27.2m	This reflects the amount of cash that has been paid out of the business in the year in relation to capital expenditure projects. It is important that we monitor and control our level of capex to manage the impact on the Group's performance (profit before tax) alongside our net debt. We also need to ensure that we invest appropriately to generate a strong return on investment and drive business performance. Cash capex has continued at similar levels to 2021 due to the continuation of our full fibre network expansion. During the year, we passed an additional 28,000 premises in both our existing footprint and FFE areas.

1. Alternative performance measures, used throughout the Annual report, are defined and reconciled to statutory measures in the Glossary on page 85.

Strategic report – Key performance indicators

Non-financial key performance indicators (KPIs)

CO_2e emissions

2022: 1.1[1]* 2021: 2.6[1]* 2020: 10.6* [1] Using market-based calculations * Thousands of tonnes	This is the number of tonnes of CO_2e produced from direct emissions sources operated or controlled by KCOM, and indirect emissions resulting from purchased electricity. We believe all businesses have a responsibility to minimise any negative impact they have on the environment and consequently we make decisions with environmental sustainability in mind. Our carbon emissions from combustion of fuel and operation of facilities have risen in the year by 9.2 per cent due to consumption in standby systems used for generation of electricity. Slight growth in size of the commercial fleet may also have contribute to this increase. We continue to purchase electricity via a 'Business 100% Renewable' tariff, backed by Ofgem's Renewable Energy Guarantees of Origin (REGO) certificate across our sites. Our CO_2e emissions from electricity consumption has decreased by 12.5 per cent on the prior year's emissions when calculated using location-based emissions based on the UK grid-average emissions factor provided by the UK government. Further detail is included in our Sustainability section on pages 22 to 30. Our target is to continue to reduce emissions year-on-year with a commitment to achieving net zero Scope 1 and Scope 2 emissions by 2040.

Total premises passed

2022: 277,000 2021: 249,000* 2020: 203,000 * *Restated*	This is the cumulative number of premises that have been 'passed' by our full fibre deployment and are now able to take services over fibre rather than copper lines. This includes FTTP but excludes FTTC and ADSL services. A core element of our strategy for growth involves expanding our full fibre broadband, which provides a higher quality of service to our customers than broadband delivered over copper cables and will allow us to transform our underlying network in Hull and East Yorkshire as copper lines and the associated infrastructure can be retired. The first phase of our network expansion programme, to extend our full fibre network beyond our existing footprint into further towns and villages in East Yorkshire and North Lincolnshire, is on track. Technical planning work is underway for further build. As at the end of March 2022, we have passed 61,000 properties in our new expansion areas (March 2021: 33,000 properties) which are able to take services.

Consumer and Regional Business total consumer customers

2022: 149,100 2021: 147,000 2020: 141,100	This is the total number of consumer customers in the Consumer segment that take either, or both, a voice and broadband service. This is considered an important KPI, and a strategic priority, as increasing the number of consumer customers across both our existing network and expansion areas is one of the key drivers of increasing revenue and profitability. Consumer customer numbers have increased over the last three years and as we expand into new areas with our full fibre broadband, we expect further growth.

Strategic report – Key performance indicators

Consumer and Regional Business total consumer customers connected to fibre

2022: 125,900 2021: 117,800 2020: 102,600	This is the total number of consumer customers in the Consumer segment that take a fibre broadband service from us. The majority are fibre to the premises with a small minority of fibre to the cabinet. This KPI supports our ambition to transition customers from ADSL products on our copper network to fibre products on our fibre network, which offer better speeds for customers and higher ARPUs. It will also allow us to focus on enhancing the fibre network and planning the decommissioning of the copper network over time. The total number of customers taking a fibre product has increased year-on-year over the three-year period. We expect this number to continue to grow as customers taking ADSL transition to faster, more reliable fibre packages and as we expand our full fibre network. Our target is to move all broadband customers to fibre products.

Total Wholesale fibre broadband connections (New KPI)

2022: 4,929 2021: 3,040 2020: 1,458	This is the total number of connections that take a fibre broadband service sold via our Wholesale channel. This is a KPI as it supports our ambition to maximise utilisation of both our existing full fibre network and across our expansion areas, driving revenue growth from recurring broadband rentals. Our target is to increase the number of wholesale fibre customers.

Days' Sales Outstanding (DSO)

2022: 14 2021: 13* 2020: 28* ** Restated to exclude the National Business*	DSO is calculated on the countback method based on underlying ledgers. DSO is a measure of how quickly cash is received after an invoice is raised. Unlike the payment of trade creditors which is largely within our control, managing the receipt of cash from debtors requires significant effort on the part of the business. The varied nature of revenue streams within the Group means this is an aggregated figure which will not individually apply to each of our market segments. DSO as at 31 March 2022 has remained consistent with 2021 and is driven by a focus on debt management even with increased customer volumes. Whilst we do not set a specific quantified target for DSO, and fluctuation occurs during the year because of business cycles, we expect year end DSO to be relatively stable year-on-year.

Managing risk in our business

As with all businesses, we are affected by several risks and uncertainties. The tables on pages 19 to 21 show the principal risks and uncertainties, some of which are beyond our control, that could have a material adverse effect on the business and have been identified through our risk management framework. This list is not exhaustive and there may be risks and uncertainties of which we are currently unaware, or which are believed to be immaterial, that could have an adverse effect on the business.

Risks reported in the prior year

Wellbeing, health and safety

Why is it important?

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

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

Change in level of risk

The inherent level of risk has remained the same as the previous year

What are we doing to mitigate the risk?

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

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

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

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

Accuracy, security and confidentiality of customer data

Why is it important?

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

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

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

Change in level of risk

The risk is increasing as the volume and nature of cyber-attacks continues to grow and evolve, which threatens the security of data and the operation of critical processes within our business.
External events and the growing risk of cyber as a part of modern national conflicts have changed the nature of attacks to include nation state operations.

What are we doing to mitigate the risk?

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

Our Risk, Compliance and Information Security programme focuses on risk-based priorities to deliver the appropriate controls to protect our data. During the year we have implemented enhanced remote access controls to our IT infrastructure. We keep up to date on emerging cyber risks through involvement in industry information sharing forums and liaison with government agencies.

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

Strategic report – Managing risk in our business

Security and resilience of our networks and IT systems

Why is it important?

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

Change in level of risk

The level of risk remains unchanged from the prior year.

What are we doing to mitigate the risk?

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

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

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

Regulatory obligations

Why is it important?

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

Change in level of risk

The level of risk remains the same.

What are we doing to mitigate the risk?

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

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

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.

Change in level of risk

The level of risk remains unchanged from the prior year.

What are we doing to mitigate the risk?

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

The impact of Covid-19 on our operations

Why is it important?

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

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

There is a risk that either colleague health or customer service will be adversely affected if a balanced approach is not taken.

The impact of the pandemic on our supply chain and the global shortage of semiconductors had led to increasingly protracted lead times to procure electronic devices such as routers.

Change in level of risk

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

What are we doing to mitigate the risk?

We have followed government guidelines in responding to the pandemic, with the majority of employees working from home. Our engineers have been provided with appropriate PPE and calls have been screened to identify risks prior to appointments. Customer and employee feedback on our Covid-19 approach has been positive. To reduce the risk of transmission of covid in our offices we have upgraded our ventilation systems.

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

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

Sustainability

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

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

Our sustainability strategy is underpinned by three objectives:

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

Responsibility for our sustainability strategy and activities lies with our Chief People Officer, who is a member of our Executive Leadership Team. Our Sustainability Working Group coordinate initiatives around the sustainability strategy and during 2022 have been developing our business net zero plan.

During the year we participated in the GRESB Global ESG Benchmark for Real Assets, which assesses and benchmarks the ESG performance of real estate and infrastructure assets receiving a score of 86. As well as providing standardised and validated data to investors, the assessment allows us to identify opportunities to improve the sustainability of our business.

Community

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

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

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

Playing our part in the local business community

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

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

We are also back to partner with Tech Week Humber 2022, a week-long festival of events connecting enterprise and education in all things Tech.

In the months leading up to Christmas, we continued to support local businesses by hosting an online marketplace where they could promote their products and services to a local audience.

Supporting the region's young people

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

We have been able to support careers events with various schools and colleges, some with particular focus on Women in Manufacturing and Engineering. We have also been able to provide several schools with a good insight in to how we connect homes and businesses with our full fibre broadband service.

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

Charity and community support

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

Our community grants programme provided 18 grants of up to £1,000 each year to charities, community groups, sports clubs and schools in the region. We also made donations to local foodbanks at that time to support their efforts in responding to peaks in demand caused by increased financial hardship.

We have continued our partnership with Hull City AFC as a platform to expand the range of community-focused activities we support through the club including the continuation of our successful KCOM Kits initiative, which has now provided more than a 100 full team kits for local youth football teams.

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

Also in December, our Christmas Wishlist charity campaign helped 31 community groups and charities across our region, supporting local foodbanks, children's charities and various other charities through both financial help, gift donations and more than 100 hours of KCOM employee volunteering time.

The success of this campaign, and our wider community engagement, was recognised this year at the national Better Society Awards 2022 when KCOM won the Commitment to the Local Community Award.

People

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

Employee wellbeing

Supporting our employee wellbeing continues to be important to us. The group Wellbeing, Health and Safety team provide operational support for our work with the Board sub-committee on wellbeing, health and safety, which meets bi-monthly to monitor performance and progress. Our wellbeing programme provides support and information covering a wide range of topics including physical, mental social, financial and workplace wellbeing. These are all promoted through our monthly wellbeing, health and safety newsletter. We have introduced a wellbeing day for all employees which can be taken at any time through the year to be used in whichever way employees feel will support their wellbeing.

Throughout the Covid-19 pandemic we have continued our support for employees in a variety of ways:

- Employees able to work from home were provided with the tools to set up a workstation in their home;
- Customer-facing engineers were provided with PPE to protect them and our customers from infection;
- We provided lateral flow testing kits to all engineers to reduce the potential for transmission of the virus;
- Covid-secure working environments were created in our offices for those unable to work from home;
- Regular updates on government guidance have been provided and employees encouraged to get their vaccination;
- We encouraged employees to keep connected with each other and physically active through our online wellbeing site;
- We provided a range of webinars covering topics such as health and mental wellbeing;
- We asked employees their views and preferences regarding future ways of working to inform our plans for returning to our offices post-pandemic;
- Offering all employees a financial coaching session; and
- Offering all employees access to health benefits which include remote GP appointments, mental health support and a remote health check.

Employee wellbeing (continued)

During the year we continued to focus on raising awareness of mental health issues and offering support for employees experiencing poor mental health. We trained an additional 18 mental health first aiders to ensure we have one mental health first aider for every 40 employees. We have also held webinars for managers to understand how they can support employees with mental health issues and to help them understand the role of our mental health first aiders.

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

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

Our ELT has participated in several safety tours where they have been able to see what arrangements are in place for our employees and to talk to them about what works well and where there might be opportunities to make improvements. To support our return to our offices we have invested in fresh air ventilation to reduce the potential for transmission of airborne viruses, and we have reconfigured our workspaces to support hybrid working.

Employee engagement

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

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

We conducted a number of surveys through the year to hear opinions about future ways of working as we moved towards hybrid working for some roles. This was in addition to our annual engagement survey which gives employees the opportunity to express their opinions about what it means to work at KCOM.

Recruitment, selection and onboarding

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

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

Learning and development

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

- Supported our customer experience teams in the launch of their mindset and behavioural framework to allow our advisors to give a great experience when interacting with customers. We then followed up with delivering training sessions to support the new system for how our teams interact with customers;
- Ran two cohorts of Inspire our leadership development programme;
- Supported the business in facilitating Future of Work focus groups to ensure that our return to the office was focused on what employees wanted;
- Ran regular sessions to new employees to welcome them to KCOM;
- Ran a one-year reflection event for our apprentices to review progress and to celebrate success; and
- Ran bite sized workshops around the Performance development and management, focusing on goal setting, development planning, performance reviews and talent identification and calibration meetings.

Reward and recognition

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

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

Our peer-to-peer recognition platform, through which our people can acknowledge and reward the efforts and contribution of their colleagues through a thankyou message or by nominating them to receive a shopping voucher, continues to be well-used. During the year our employees gave a total of 1,721 acknowledgments to colleagues.

Diversity and inclusion

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

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

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

As of 31 March 2022, the gender diversity of the business was as set out below:

	Male	Female	Female %
Board Directors	5	1	16.7%
Executive Leadership Team (ELT)*	5	1	16.7%
Other employees	512	235	31.5%

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

Our gender pay gap report for the year, based on the snapshot date of 5 April 2022, showed a mean pay gap of 22.4 percent and a median pay gap of 29.0 percent.

Our pay gap is driven principally by the ratio of male to female employees within certain specific functional areas of our business, such as the traditionally male-dominated technical and engineering workstreams.

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

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

Human rights

We respect fundamental human rights consistent with the United Nations Universal Declaration of Human Rights and we ensure that all our internal policies are consistent with this. We do not have any current human rights issues.

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.

Our industry-leading adoption and promotion of our Flex social tariff, which is available to families on certain benefits struggling with the cost-of-living crisis, was also recognised by the Government with praise from then Digital Secretary Nadine Dorries for its affordability and our adoption of Open banking technology to make it more accessible.

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

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

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

Recognising the growth in online gaming among children and young people we continue to play our part in Safer Internet Day every year. In 2022 we delivered workshops and a competition in local schools where we raised awareness of respect and relationships online. The winners of the competition got to showcase their creativity at Hull City's stadium as part of our Community Partnership.

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.

Relationships with suppliers

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

We expect suppliers to sign up to our Supplier and Partner Code of Conduct and we work closely with key suppliers to ensure we understand their approach to sustainability and the way in which their business operates. We also carry out regular credit checks on all suppliers. Going forward, the business intends to embed a preference for using local suppliers and partners within procurement processes in order to support local businesses and communities.

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

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

Environment

We recognise our business has a responsibility to minimise its impact on the environment and consequently we make decisions with environmental sustainability in mind. We're committed to reducing our carbon footprint, developing plans to cut Scope 1 and 2 greenhouse gas emissions to net zero by 2040. To help us achieve this, we've partnered with the University of Hull to develop our carbon reduction plan and to carry out a Scope 3 mapping exercise designed to assess greenhouse gas emissions embedded in our value chain. This exercise will allow us to work more closely with our suppliers on ways to reduce our scope 3 emissions.

As in previous years, most of our greenhouse gas emissions resulted from the electricity we consume in our offices, data centres and various network sites. For reporting Scope 2 emissions associated with purchased electricity we have chosen to report both location-based and market-based figures. A location-based method reflects the average emissions intensity of grids on which energy consumption occurs (using mostly grid-average emission factor data). A market-based method reflects emissions from electricity that companies have purposefully chosen and reflects our decision to purchase electricity via a 100% renewable tariff, (backed by Ofgem REGO (Renewable Energy Guarantees of Origin) certificates. During the year 76 per cent of our Scope 1&2 location-based CO_2e emissions resulted from our electricity usage.

Each year we seek to reduce our emissions wherever possible through various energy-saving schemes. During the year we have installed solar panels at our Salvesen Way stores and offices which generate around 18 per cent of the consumed electricity at the site. We have a small fleet of electric vehicles for use by employees undertaking short journeys around our Hull and East Yorkshire estate.

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 98 per cent of our waste is recycled, with the actual tonnage of waste that has gone to landfill remaining consistent under 1 ton. The current amount of our waste going to landfill should be representative of levels in future years.

In accordance with the Streamlined Energy Carbon Reporting requirements, we are disclosing our environmental impact both in terms of CO_2e tonnage and energy consumed in kWh. However, the commentary below refers to CO_2e tonnage as this is considered the key internal metric for measuring performance. Items marked A denote that the metric has been subject to independent limited assurance under ISAE 3000 and ISAE 3410. The limited assurance report and our reporting criteria used to prepare these metrics can be found on our website: https://www.kcom.com/responsibility/corporate-governance/reporting/.

Emissions in tonnes of CO_2e and GWh

The table below sets out our annual emissions in tonnes of CO_2e and GWh by Scope:

	FY 21/22		FY 20/21 - Restated*	
	Energy GWh	CO_2e Tonnes	Energy GWh	CO_2e Tonnes
Scope 1[a] (direct emissions)				
Gas consumption	0.25	47	0.26	49
Oil consumption	1.02	247	0.76	188
Fugitive emissions – refrigerants		159		102
Company owned vehicle emissions[b]	2.12	488	2.08	479
Total Scope 1	**3.39**	**941**	**3.1**	**818**
Scope 2[c] (electricity)				
Total consumption (LB[d])	14.19	3,012	16.22	3,443
Renewable consumption (MB[e])	14.19	-	16.22	-
Total Scopes 1 & 2 (LB)	**17.58**	**3,953**	**19.32**	**4,261**
Total Scopes 1 & 2 (MB)	**17.58**	**941**	**19.32**	**818**
Intensity ratio Scopes 1 & 2 tonnes CO_2e per '000 revenue[f]		**0.0392**		**0.0439**
% change from previous year (Scope 1 & 2 MB tCO_2e)		**+15%**		**-**
Scope 3[g] (indirect emissions)				
Waste		3		1
Commercial travel[h]		166		97
Scope 3 emissions CO_2e tonnes		**169**		**98**
Total scope 1, 2 & 3 (LB)		**4,122**		**4,359**
Total scope 1, 2 & 3 (MB)		**1,110**		**916**

[a] **Scope 1:** direct emissions from our own operations- gas and oil consumption, fugitive refrigerant emissions, company-owned vehicle emissions.

[b] Company owned vehicle emissions converted from litres fuel. Not inclusive of electric vehicles

[c] **Scope 2:** indirect emissions from the generation of purchased electricity.

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

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

[f] Inclusive of location-based methodology for consumption of electricity only.

[g] **Scope 3:** other indirect emissions occurring from the generation of purchased electricity at leased assets, waste, and employee travel.
- employee vehicles - converted from mileage.
- air travel – converted from travel distance.
- rail, bus, taxi – converted from quantity of journeys/average journey distance.

CO_2e emissions have been calculated using the UK government conversion factors for company reporting of greenhouse gas emissions.

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

FY21/22 figures are exclusive of emissions produced during activities associated with business areas included in the divestiture.

*Restated 20/21 figures have been recalculated to produce revised figures exclusive of emissions associated with business areas included in the divestiture, the intention being to enable a like for like comparison between both years which is reflective of the current organisational structure.

Strategic report – Sustainability

Performance against targets

Area	Actual	Target for the year under review	Target met?	Future target for 2022/2023
Total CO_2e (MB)	1,110 Tonnes CO_2e	To reduce 2020/21 levels	No	To reduce 2021/2022 levels
Waste sent to landfill	0.77 Tonnes	To reduce 2020/21 levels of waste to landfill	Yes	To reduce current levels of waste to landfill
Energy efficiency in transport	654 Tonnes CO2e	To reduce 2020/2021 levels	No	To reduce 2021/2022 levels

An increase in Total CO_2e (MB) can largely be attributed to the replenishment of refrigerants used during the operation and maintenance of air conditioning equipment. Business travel journeys and the resultant emissions are believed to have increased on the prior year, which were below average was due to travel restrictions during the COVID-19 pandemic.

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 page 28.
Information on our employees is also shown in our Sustainability report on pages 23 to 26 and as part of Other disclosures on page 39.
Information on social matters is shown in the community section of our Sustainability report on pages 22 to 23.
Our respect for human rights is set out in the People section on page 26.
Our approach to anti-corruption and anti-bribery matters is set out in Other disclosures on page 39.
Our business at a glance is described on page 3.
Our principal risks, and how we manage them, are described on pages 19 to 21.
Other non-financial key performance indicators are shown on pages 17 to 18.

Section 172 statement

A statement in accordance with the matters set out in section 172 of the Companies Act 2006 has been included in the Directors report on page 38.

Signed on behalf of the board

Samantha Booth

Samantha Booth

Chief Financial Officer

22 November 2022

Board of Directors

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

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

Samantha Rosemary Jane Booth

Sam joined KCOM in July 2021 and joined the Board at the end of September 2021. She has over 20 years’ experience in finance and business leadership roles, including extensive experience in the telecommunications and technology sector, gained through several senior roles at BT. These included CFO of its broadband brand Plusnet and Finance Director of its group functions.

Johan Dennelind

Johan joined the KCOM Board as a Non-Executive Director in May 2022. He replaces Nathan Luckey who will step down as Chair but remain as a Director on the Board of KCOM. Johan brings with him significant experience in the telecoms industry and has led several telecommunication businesses, including the Telia Company as the President and CEO between 2013 and 2019. Telia Company is a listed multinational telecommunications company and mobile network operator operating across Sweden, Denmark, Estonia, Finland, Latvia, Lithuania, and Norway. Johan’s focus will be to provide strategic industry and market advice to KCOM while supporting and providing direction to KCOM’s Executive Leadership Team.

John Bernard Fitzgerald

John joined the KCOM Board as a Non-Executive Director in October 2019. He is a senior advisor to MAM. Over half of John’s 30-year career in the global ports infrastructure and services sector has been spent on the Humber, where he established and led the largest and most successful port complex in the UK as Director of Associated British Ports (ABP) Humber Ports. During his tenure in this role, and as a senior member of the ABP Board, John was instrumental in securing major inward investments and establishing the region as a major UK hub for renewable energy. John also has significant regional business and community leadership experience gained while serving as Chairman of CBI Yorkshire and the Humber and as a Board member of Humber LEP.

Fiona Goldsmith

Fiona joined the KCOM Board as a Non-Executive Director in April 2022. She has considerable and wide-ranging business and finance experience. She is a chartered accountant whose career has spanned several executive leadership and Non-executive roles. She will Chair the Audit and Risk sub-committee of the KCOM Board of Directors. Fiona’s latest executive role was as Finance Director at Land Securities Trillium, the UK’s largest commercial property development company. During her tenure as Finance Director the business launched a £1bn infrastructure fund. More recently, she has supported companies with her extensive finance, audit and risk experience acting as Non-Executive Director and Chair of Audit Committee at public listed UK firms MJ Gleeson Plc and Safestyle UK Plc.

Directors’ report – Board of Directors

Nathan Andrew Luckey

Nathan joined the KCOM Board in October 2019. He is a Senior Managing Director in Macquarie Asset Management (MAM) Private Markets, and leads MAM’s Digital Infrastructure team in Europe. Nathan holds a number of non-executive directorship roles for companies within MAM’s investment portfolio including TDC, INEA and Open Fiber. Nathan is a qualified Mechanical Engineer, with expertise across the telecommunications, media, transportation and utilities sectors.

Jaap Postma

Jaap joined the KCOM board as a Non-Executive Director in January 2020. Jaap brings with him a wealth of experience including more than twenty years working in the telecoms, digital and media sector, latterly as the CEO of Danish TV, broadband and telephony group Nuuday and as a member of the TDC Executive Committee, also in Denmark. Prior to this, Jaap fulfilled several roles at Dutch telecoms company KPN including EVP Consumer Market Division, VP Carrier Services and Wholesale and General Manager Network Operations. Jaap graduated in economics from Rijksuniversiteit Groningen in 1998.

Tim Shaw

Tim was appointed as KCOM's Chief Executive Officer in April 2022. He joined KCOM in June 2019 as our Chief Technology Officer before becoming Managing Director of our Wholesale & Networks business in 2020. He has extensive experience in leading network and IT-related transformation and delivering the technology strategies for large organisations across a range of different customer segments. He has held a number of senior roles across BT and was VP of Engineering at Loot Financial Services.

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

Read more – Corporate Governance on pages 33 to 36.

Corporate governance

Oversight by Macquarie Asset Management (MAM).

The Company forms part of the assets managed by MAM. Nathan Luckey is the manager at MAM with responsibility for oversight of the Company. He is also a statutory Director.

Composition of the Board

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

- Nathan Luckey has a contract of employment with MAM and has been appointed to the Board at the request of MAM. He is a Non-Executive Director;
- Johan Dennelind, John Fitzgerald, Fiona Goldsmith and Jaap Postma are independent Non-Executive Directors. Johan is Chair of the Board, John Fitzgerald is Chair of the Wellbeing, Health and Safety Committee, Fiona Goldsmith is Chair of the Audit and Risk Committee and Jaap Postma is the chair of the Remuneration Committee;
- Tim Shaw is an Executive Director and is the Company's Chief Executive Officer; and
- Samantha Booth is an Executive Director and is the Chief Financial Officer.

Company Secretary

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

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

Appointment and replacement of Directors

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

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

Board Committees

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

Subsequent to the year end two additional board committees were set up as follows;

- The Audit and Risk Committee, chaired by Fiona Goldsmith. The Board has delegated responsibility to the committee for overseeing the effectiveness of the Group's internal control function and risk management framework.
- The Remuneration Committee, chaired by Jaap Postma. The Board has delegated responsibility to the committee for making recommendations on the remuneration of the Group's executive leadership team and overseeing the Group's remuneration strategy more generally.

Directors’ report – Corporate governance

How the Board operates

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

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

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

Board meetings are normally held at KCOM’s Head Office throughout the year and the Board seeks to regularly meet both formally and informally with senior management from across the business to gain further insight into day-to-day operations and the key risks and opportunities facing each part of the business.

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

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

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

Executive Leadership Team

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

Read more information about our Executive Leadership Team on our website
https://www.kcom.com/about-us/leadership-and-governance/

Powers of the Directors

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

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

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

Directors' report – Corporate governance

Statement of Directors' responsibilities in respect of the financial statements
The directors are responsible for preparing the Director's Report and the financial statements in accordance with applicable law and regulation. Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have prepared the group and parent company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of the profit or loss of the group and parent company for that period.

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

- Select suitable accounting policies and then apply them consistently;
- State whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- Make judgements and accounting estimates that are reasonable and prudent; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the
- group and the Parent Company will continue in business.

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

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

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

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

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

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

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

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

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

Our risk management framework

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

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

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

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

Risk management responsibilities

The Board

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

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

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

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

Executive Leadership Team

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

Financial risk management

Each business area produces an annual budget which is reviewed by senior management and ultimately approved by the Board. A longer-term plan is also in place which is updated annually and approved by the Board to enable it to have a clear longer-term view of financial projections.

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

The principal risks and uncertainties facing the business are set out on pages 19 to 21 of the Strategic report.

Controls around consolidation

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

Stakeholder engagement

Stakeholders	Stakeholders' key interests	Ways we have engaged
Colleagues		
Our most important asset is our people. Our focus is on attracting, engaging, developing and retaining talented individuals, providing opportunities for career-long learning and development and providing safe workplaces within an inclusive culture that values diversity.	• Business strategy and plans • Health, safety and wellbeing • Reward and recognition • Learning and development opportunities • Diversity and inclusion	• Senior management monthly updates colleagues • Board member safety walks and participation in wellbeing training • Employee engagement surveys • Employee business improvement ideas programme • Monthly wellbeing calls within teams focusing on physical, mental and financial health • Employee wellbeing month focused on physical, mental and financial health
Customers		
Understanding our customers' needs and behaviours allows us to deliver relevant products and services, retain and attract customers and identify opportunities for growth.	• Availability and reliability of services • Value for money • Protection from harms related to the services we provide (such as online threats)	• Net Promoter Score (NPS) surveys • Senior management interaction with key business customers • Senior management involvement in resolution of customer complaints • Cancelling of CPI+ price rise for 2022 • Make social tariff more accessible and affordable
Community and local government		
KCOM has been at the heart of the Hull and East Yorkshire community since 1904 and we are committed to playing our part in making it a better place to live, work and invest.	• Creation of jobs and wealth within the region's economy • Contribution to improving the lives of local residents	• Meetings between Board members / senior management and local civic and business leaders • Community investment programme focused on connecting communities, delivering digital skills and boosting business success • Series of community initiatives and sponsorships
Suppliers		
We rely on the high standards of our carefully selected suppliers to deliver reliable services that meet customer needs.	• Long-term relationships • Fair payment terms • Responsible and ethical business practices	• Senior management meetings with key suppliers • Informing suppliers of changes to the business in advance
Regulators and government		
Our main regulatory relationship is with Ofcom.	• Protection of consumers, particularly those who are vulnerable • Promotion of competition • Encouraging investment and innovation • Supporting investment in critical digital infrastructure	• Meetings between Board members / senior management and Ofcom • Engagement with DCMS about the Government's gigabit-capable connectivity ambitions

Read more – Sustainability on pages 22 to 30.

Read more – KPIs on pages 15 to 18.

Section 172

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

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

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

Information about key stakeholder groups, their interests and how KCOM engages with them and takes their views and concerns into account is shown on page 37.

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

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

As a result, the Directors are able to comply with their legal duty under section 172 of the Companies Act 2006. For information about how the Board operates and the way it reaches decisions, including matters discussed during the year, see pages 33 to 36.

Read more – Stakeholder engagement on page 37.

Other disclosures

Disclosure of all relevant information to auditors

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

Directors

The names of the Directors who served during the year are on pages 31 and 32.

Indemnification of Directors

The Company has a qualifying third-party indemnity provision in force for each Director who served during the year and at the date of approval of the financial statements against potential liabilities incurred in connection with any claim brought against him or her, to the fullest extent permitted by the Companies Act 2006. The indemnity deed also obliges KCOM to maintain Directors' and Officers' insurance throughout the directorship and for six years after an individual ceases to be a Director.

Employees

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

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

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

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

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

Anti-corruption and anti-bribery

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

Acquisition of own shares

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

Shares held by trusts

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

Allotted shares

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

Directors' report – Other disclosures

Dividend

The Group did not declare or pay any dividends during the year (2021: Nil).

Subsequent events

On 10 May 2022 KCOM Group and GCI Network Solutions Limited finalised and signed a settlement agreement in relation to the true up of working capital relating to the sale of the trade and assets of the National Business, which completed on 31 July 2021. The impact was a net payment from KCOM of £0.8 million. This is deducted from the sales proceeds in Note 31.

On 8 June 2022 the Group's associate, Smartintegrator Technology Limited, in which the Company indirectly holds 50.1% of the ordinary shares, was placed into liquidation. As part of a wider group statutory structure simplification, 6 other wholly owned subsidiary entities (Kingston Network Holdings Ltd; Kingston Information Services Limited; Eclipse Networking Limited; Eclipse Internet Limited; Kingston Communications (Hull) Limited; and Smart 421 Limited) were also placed into liquidation on that date. See Note 14 for further details.

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

Strategic report

Pursuant to Section 414c(11) of the Companies Act 2006 the Strategic report on pages 3 to 30 contains disclosures in relation to environmental matters, the Company's employees, social issues and gender diversity.

Proposal to re-appoint the external auditors

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

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

Signed on behalf of the board

Samantha Booth

Samantha Booth

Chief Financial Officer

22 November 2022

Independent auditors’ report

to the members of KCOM Group Limited

Report on the audit of the financial statements

Opinion

In our opinion, KCOM Group Limited’s group financial statements and parent company financial statements (the “financial statements”):

- give a true and fair view of the state of the group’s and of the parent company’s affairs as at 31 March 2022 and of the group’s profit and the group’s and parent company’s cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and accounts (the “Annual Report”), which comprise: Consolidated and parent company balance sheets as at 31 March 2022; the Consolidated income statement and the Consolidated statement of comprehensive income, the Consolidated and Parent company statements of changes in equity and the Consolidated and parent company cash flow statements for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”) and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors’ responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

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

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

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

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 March 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors’ responsibilities for the audit of the financial statements

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

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

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

- Enquiring with management to understand relevant laws and regulations applicable to the company and their assessment of fraud related risks;
- Identifying and testing journal entries using a risk based targeting approach for unexpected account combinations and users;
- Testing accounting estimates that we deemed to present a risk of material misstatement including assessing the data, methods and assumptions applied by management in the development of each estimate; and
- Reviewing correspondence with Ofcom to assess compliance with relevant regulations.

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Andy Ward

Andy Ward (Senior Statutory Auditor)

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

23 November 2022

Consolidated income statement

for the year ended 31 March 2022

	Note	2022 £'000	Restated* 2021 £'000
Continuing operations			
Revenue	4	**100,741**	99,562
Other income	5	**226**	—
Operating expenses	5	**(93,842)**	(101,551)
Operating profit/(loss)		**7,125**	(1,989)
Finance income	9	**931**	1,069
Finance costs	9	**(8,309)**	(9,614)
Share of profit of associate	14	—	13
Loss before taxation from continuing operations		**(253)**	(10,521)
Taxation	10	**(8,157)**	1,573
Loss for the year from continuing operations attributable to owners of the Parent		**(8,410)**	(8,948)
Discontinued operations			
Profit from discontinued operations attributable to owners of the Parent	31	**10,111**	22,286
Profit for the year attributable to owners of the Parent		**1,701**	13,338

** 2021 has been restated to remove the depreciation of right of use assets and interest on lease liabilities from discontinued operations to continuing operations, see Note 2 for further information. This has been presented consistently in 2022.*

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 loss for the Parent Company for the year was £0.1m (2021: £Nil).

Consolidated statement of comprehensive income

for the year ended 31 March 2022

	Note	2022 £'000	Restated* 2021 £'000
Profit for the year		**1,701**	13,338
Other comprehensive income/(expense)			
Items that will not be reclassified to profit or loss:			
Remeasurements of retirement benefit obligations	30	**5,275**	(29,712)
Tax on items that will not be reclassified	26	**(1,002)**	5,645
Total items that will not be reclassified to profit or loss		**4,273**	(24,067)
Total comprehensive income/(expense) for the year attributable to owners of the Parent		**5,974**	(10,729)
Total comprehensive income/(expense) for the year attributable to owners of the Parent arises from:			
Continuing operations		**(4,137)**	(33,015)
Discontinued operations		**10,111**	22,286
Total comprehensive income/(expense) for the year attributable to owners of the Parent		**5,974**	(10,729)

The Notes on pages 49 to 84 are an integral part of these consolidated financial statements.

Consolidated and parent company balance sheets

as at 31 March 2022

		Consolidated		Parent Company	
			Restated*		
	Note	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000
Assets					
Non-current assets					
Other intangible assets	11	**33,405**	30,325	**—**	—
Property, plant and equipment	12	**154,901**	141,053	**—**	—
Right-of-use assets	13	**2,370**	37,029	**—**	—
Finance lease receivable	24	**10,490**	—	**—**	—
Investments	14	**81**	81	**494,461**	494,461
Retirement benefit asset	30	**40,543**	32,514	**—**	—
Deferred tax assets	26	**4,150**	1,865	**—**	—
Contract costs	15	**492**	695	**—**	—
		246,432	243,562	**494,461**	494,461
Current assets					
Inventories	16	**5,753**	3,357	**—**	—
Contract assets	17	**1,412**	1,168	**—**	—
Trade and other receivables	18	**22,379**	15,455	**—**	—
Finance lease receivable	24	**7,290**	—	**—**	—
Cash and cash equivalents	22	**9,551**	8,320	**—**	—
		46,385	28,300	**—**	—
Assets classified as held for sale	31	**—**	49,546	**—**	—
		46,385	77,846	**—**	—
Total assets		**292,817**	321,408	**494,461**	494,461
Liabilities					
Current liabilities					
Trade and other payables	19	**(27,873)**	(14,743)	**(545)**	(450)
Contract liabilities	20	**(8,443)**	(7,711)	**—**	—
Finance Leases	23	**(8,759)**	(11,682)	**—**	—
Provisions for other liabilities and charges	25	**(303)**	(350)	**—**	—
		(45,378)	(34,486)	**(545)**	—
Liabilities directly associated with assets classified as held for sale	31	**—**	(36,016)	**—**	—
		(45,378)	(70,502)	**(545)**	—
Non-current liabilities					
Deferred tax liabilities	26	**(24,761)**	(14,746)	**—**	—
Lease liabilities	23	**(12,344)**	(26,517)	**—**	—
Loans from related parties	21	**(151,664)**	(160,029)	**—**	—
Provisions for other liabilities and charges	25	**(3,682)**	(600)	**—**	—
		(192,451)	(201,892)	**(545)**	(450)
Total liabilities		**(237,829)**	(272,394)	**(545)**	(450)
Net assets		**54,988**	49,014	**493,916**	494,011
Equity					
Capital and reserves attributable to owners of the Parent					
Share capital	27	**52,022**	52,022	**52,022**	52,022
Share premium account		**353,231**	353,231	**353,231**	353,231
(Accumulated losses)/retained earnings[1]		**(350,265)**	(356,239)	**88,663**	88,758
Total equity		**54,988**	49,014	**493,916**	494,011

1. Included within consolidated accumulated losses/retained earnings is a profit after tax of £1.7 million (2021: £13.3 million) for the Group and loss after tax of £0.1 million (2021: £Nil million) for the Parent Company.

** 2021 has been restated to remove right of use assets and lease liabilities from the assets and liabilities relating to the National Business disposal Group, see Note 2 for further information.*

The Notes on pages 49 to 84 are an integral part of these consolidated financial statements.

The financial statements on pages 44 to 84 were approved by the Board of Directors and authorised for issue on 22 November 2022. They were signed on its behalf by:

Samantha Booth

Chief Financial Officer

22 November 2022

KCOM Group Limited

Registered number: 2150618

Consolidated statement of changes in equity

for the year ended 31 March 2022

	Share capital £'000	Share premium account £'000	Accumulated losses £'000	Total equity £'000
At 1 April 2020	52,022	353,231	(345,510)	59,743
Profit for the year	—	—	13,338	13,338
Other comprehensive expense	—	—	(24,067)	(24,067)
Total comprehensive expense for the year ended 31 March 2021	—	—	(10,729)	(10,729)
At 31 March 2021	**52,022**	**353,231**	**(356,239)**	**49,014**
Profit for the year	—	—	1,701	1,701
Other comprehensive income	—	—	4,273	4,273
Total comprehensive income for the year ended 31 March 2022	—	—	5,974	5,974
At 31 March 2022	**52,022**	**353,231**	**(350,265)**	**54,988**

The Notes on pages 49 to 84 are an integral part of these consolidated financial statements.

Parent company statement of changes in equity
for the year ended 31 March 2022

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Total equity £'000
At 1 April 2020	52,022	353,231	88,758	494,011
Result for the year	—	—	—	—
Total comprehensive expense for the year ended 31 March 2021	—	—	—	—
At 31 March 2021	**52,022**	**353,231**	**88,758**	**494,011**
Loss for the year	—	—	(95)	(95)
Total comprehensive expense for the year ended 31 March 2022	—	—	(95)	(95)
At 31 March 2022	**52,022**	**353,231**	**88,663**	**493,916**

The Notes on pages 49 to 84 are an integral part of these consolidated financial statements.

Consolidated and parent company cash flow statements

for the year ended 31 March 2022

		Consolidated		Parent Company	
	Note	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000
Cash flows from operating activities					
Operating profit/(loss) including discontinued operations	31	**20,659**	26,989	**(95)**	—
Adjustments for:					
– depreciation and amortisation	11,12	**18,122**	23,181	**—**	—
– right of use asset depreciation	13	**5,431**	14,571	**—**	—
– (increase)/decrease in working capital		**(753)**	3,864	**95**	—
– loss on disposal of other intangible assets	5	**11**	67	**—**	—
– loss on disposal of property, plant and equipment	5	**11**	10	**—**	—
– (profit)/loss on disposal of leases	5	**(361)**	431	**—**	—
– profit on disposal of National business trade and net assets	31	**(8,820)**	—	**—**	—
– property, plant and equipment impairment	7	**5,915**			
– non-employee-related pension charges	30	**1,002**	937	**—**	—
Payments made to defined benefit pension schemes	30	**(3,102)**	(23,330)	**—**	—
Tax received		**274**	—	**—**	—
Net cash generated from operations		**38,389**	46,720	**—**	—
Cash flows from investing activities					
Purchase of property, plant and equipment	12	**(32,054)**	(31,295)	**—**	—
Purchase of other intangible assets	11	**(9,184)**	(8,842)	**—**	—
Proceeds from sale of National business consumer base, net of transaction costs	31	**1,192**	—	**—**	—
Proceeds from license of IP addresses to third parties	5, 20	**1,644**	—	**—**	—
Proceeds from sale of National business trade and net assets, net of transaction costs	31	**22,929**	—	**—**	—
Net cash used in investing activities		**(15,473)**	(40,137)	**—**	—
Cash flows from financing activities					
Interest paid		**(8,174)**	(5,416)	**—**	—
Interest received		**277**	—	**—**	—
Capital element of finance lease repayments	23	**(10,784)**	(15,152)	**—**	—
Capital element of finance lease payments received	24	**5,496**	—	**—**	—
Drawdown of loans from related parties	21	**40,000**	—	**—**	—
Payment of loan issue costs		**—**	(182)	**—**	—
Prior year loans from related parties		**—**	24,475	**—**	—
Repayment of loans from related parties	21	**(48,500)**	(17,114)	**—**	—
Net cash used in financing activities		**(21,685)**	(13,389)	**—**	—
Increase/(decrease) in cash and cash equivalents		**1,231**	(6,806)	**—**	—
Cash and cash equivalents at the beginning of the year		**8,320**	15,126	**—**	—
Cash and cash equivalents at the end of the year	22	**9,551**	8,320	**—**	—

The Notes on pages 49 to 84 are an integral part of these consolidated financial statements.

Notes to the financial statements
for the year ended 31 March 2022

01 General information
KCOM Group Limited is a private company limited by shares and is incorporated and domiciled in England in the United Kingdom. The address of the registered office is 37 Carr Lane, Hull HU1 3RE. The nature of the Group's operations is described within the Strategic report on pages 3 to 30.

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

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

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

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

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

Management has produced forecasts for the Group that have been sensitised to reflect reasonably plausible downside scenarios from current economic conditions, including Brexit, the war in Ukraine, the impact of Covid-19 and the cost-of-living crisis which continue to create uncertainty in the market. These have been reviewed by the Group directors and demonstrate the Group is forecast to generate profits and cash and that the Group has sufficient cash reserves and headroom on its banking facility covenants to enable the Group to meet its obligations as they fall due for a period of at least 12 months from the date of signing of these financial statements.

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

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

Initial application of new accounting standards, interpretations and amendments
The following amendments to standards published by the International Accounting Standards Board (IASB) were effective for the first time for the financial year beginning 1 April 2021:

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

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

Notes to the financial statements

for the year ended 31 March 2022

02 Accounting policies (continued)

New accounting standards, amendments and interpretations effective for annual periods beginning after 1 April 2022

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

Standards and amendments	Description	Date of mandatory application: annual periods beginning
Amendments to IFRS 3	References to the Conceptual Framework	1 April 2022
Amendments to IAS 16	Property, Plant and Equipment—Proceeds before Intended Use	1 April 2022
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 April 2022
Annual Improvements to IFRS Standards 2018-2020 Cycle	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture	1 April 2022
IFRS 17	Insurance Contracts	1 April 2023
Amendments to IAS 8	Definition of Accounting Estimates	1 April 2023
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 April 2023
Amendments to IAS 1 and IFRS 2	Disclosure of Accounting Policies	1 April 2023
IFRS 10 and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Postponed
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	Deferred from 1 April 2022

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

Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The consolidated financial statements include the financial statements of the Company and its undertakings made up to 31 March 2022. 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 2022. The results of new partnership undertakings are included from the dates of acquisition using the purchase method of consolidation. Where a company has ceased to be a partnership undertaking during the year, its results are included to the date of cessation.

Assets held for sale and discontinued operations

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

02 Accounting policies (continued)

Assets held for sale and discontinued operations (continued)

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations which has been disposed of or is classified as held for sale. Consistent with last year, all income and costs in relation to the National Business segment are disclosed separately as discontinued operations in the Group income Statement. As the sale completed prior to the year-end there are no longer any balance sheet items relating to the National Business, with assets held for sale and liabilities directly associated presented as held for sale and disclosed on two separate lines in the prior year comparatives. The cash flow statement includes the cash flows from discontinued operations, with cash flows relating to the discontinued operation disclosed in summarised form in Note 31.

In 2021, prior to finalisation and completion of the sale of the National Business, certain leases were classified as part of discontinued operations in the Income Statement and as part of assets and liabilities held for sale in the Balance Sheet. This has been restated in the current year to reflect that, until the point at which a vendor novates to the buyer, KCOM is still the legally obligating party and should therefore reflect these in the results from continuing operations and not part of the disposal group. Post-sale, the leases are treated as a sub-lease until the point at which the vendor is transferred to the buyer and KCOM is legally released from the obligation under the contract.

Prior year restatement

In 2021 KCOM presented the results of the National Business as a discontinued operation. At the time of preparing and signing the 2021 accounts certain leases, within the scope of IFRS 16, were recorded as part of discontinued operations as they were identified as vendors and contracts that would novate to Nasstar. However, until the point at which the vendor has novated for the respective leases, these are legally a KCOM liability and therefore cannot form part of a discontinued operation or assets/liabilities held for sale. Leases have therefore been restated in 2021 to be included in continuing operations and have been presented consistently in 2022.

Discontinued Operations

	Original 2021 £'000	Restated 2021 £'000	Movement £'000
Income statement			
Operating profit	13,853	27,786	13,933
Finance costs	(854)	—	854
Tax charge	(3,658)	(6,466)	(2,808)
Profit for the year from discontinued operations	9,341	21,320	11,979
Balance sheet			
Right of use assets	36,703	—	(36,703)
Lease liabilities	(36,585)	—	36,585
Cashflow			
Net cash generated	20,309	35,078	14,769

Continuing Operations

	Original 2021 £'000	Restated 2021 £'000	Movement £'000
Income statement			
Operating profit/ (loss)	11,944	(1,989)	(13,933)
Finance costs	(8,760)	(9,614)	(854)
Tax (charge)/credit	(1,235)	1,573	2,808
Profit/(loss) for the year from continuing operations attributable to owners of the Parent	3,031	(8,948)	(11,979)
Balance sheet			
Right of use assets	326	37,029	36,703
Lease liabilities	(1,614)	(38,199)	(36,585)

The impact on the income statement was to increase discontinued operating profit and decrease continued operating profit to a loss by £13.9 million relating to depreciation of right of use assets. Finance costs have been restated to move costs relating to interest expense of lease liabilities of £0.9 million from discontinued operations to continuing operations. Overall, profit from discontinued operations after tax in the prior year has increased by a net of £12.0 million and decreased profit after tax for continuing operations by £12.0 million.

The impact on the balance sheet was to reclassify £36.7 million of right of use assets, £11.1 million of current lease liabilities and £25.5 million of non-current lease liabilities from assets and liabilities held for sale respectively back into right of use assets and lease liabilities in the balance sheet.

There is no impact on the overall cash flow statement as this was presented combined for continuing and discontinued operations. The cash flow for discontinued operations presented in Note 31 has been updated to reflect the restatement, resulting in an increase in net cash generated by discontinued operations of £14.8 million.

02 Accounting policies (continued)

Revenue recognition

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

Standalone service offerings

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

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

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

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" phases which represents the management of the IT platforms created during the "installation" phase.

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

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

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

Contract modifications

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

Variable consideration

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

Notes to the financial statements

for the year ended 31 March 2022

02 Accounting policies (continued)

Exceptional items

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

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

Intangible assets

Development costs

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

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

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

Customer and supplier relationships

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

Technology and brand

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

Software

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

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

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

Assets under construction (AUC)

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

Amortisation

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

The estimated useful lives are as follows:

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

02 Accounting policies (continued)

Property, plant and equipment

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

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

Freehold land is not depreciated.

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

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

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

Fixed asset investments

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

Impairment of non-financial assets

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

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

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

Contract costs

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

Costs of obtaining a contract

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

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

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

Costs to fulfil a contract

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

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

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

02 Accounting policies (continued)

Inventories

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

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

Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are initially recognised at the amount of consideration that is unconditional. We do not have any material significant financing components. The Group holds trade receivables with the objective of collecting the contractual cash flows, and so it measures them subsequently at amortised cost using the effective interest method.

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

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

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

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

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

Contract assets

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

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

Contract assets represent the right to receive consideration for goods and services transferred to date, but in contrast to trade receivables, these are conditional on providing further services or goods under the same contract. Examples include:

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

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

Cash and cash equivalents

Cash and cash equivalents include cash in hand, short-term deposits and other short-term, highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown in current liabilities on the balance sheet unless a right of offset exists. See Note 28 for details of the restricted cash held which is not available to the Group for general use.

Trade payables

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

Notes to the financial statements
for the year ended 31 March 2022

02 Accounting policies (continued)

Contract liabilities

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

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 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.

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.

02 Accounting policies (continued)

Leasing

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the financial statements

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02 Accounting policies (continued)

Lessor accounting – sub-leases

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

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

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

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

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

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

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

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

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

Lessor accounting – operating leases (IP addresses)

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

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

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

Bank borrowings and issue costs

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

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

Pensions

Defined contribution

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

Notes to the financial statements

for the year ended 31 March 2022

02 Accounting policies (continued)

Pensions (continued)

Defined benefit

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

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

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

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.

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

Area	Critical accounting judgements	Key sources of estimation uncertainty
Post-employment benefits (Continuing operations)		
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	Several estimates contribute to the year end valuation including discount rates, inflation and rate of increase to pensions in payment. Changes to these estimates could result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Sensitivity analysis is provided in Note 30.
Valuation of investments in subsidiary undertakings (Parent Company) (Continuing operations)		
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.
Leases (Continuing operations)		
Lease accounting requires determination of the lease term, which is defined as the non-cancellable period of the lease adjusted for the impact of any reasonably certain extension, termination and purchase options. The lease term and the discount rate are key determinants of the size of the lease liability and right-of-use asset recognised where the Group acts as lessee.	Determining the lease term requires judgement to evaluate whether the lessee is reasonably certain to exercise any options available. The Directors also apply judgement in determining the appropriate incremental borrowing rate that reflects the risks specific to leases.	The Directors do not consider there to be any estimates made which could have a significant risk resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.
Significant contracts (Discontinued operations)		
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 disposal of the National Business, to which these contracts related, 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.

Notes to the financial statements
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04 Revenue

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

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

The results for the year ended 31 March 2022 and for the year ended 31 March 2021, excluding amounts relating to discontinued operations, disaggregated by customer type are as follows:

Consolidated	**2022 £'000**	2021 £'000
Consumer	**66,208**	62,858
Regional Business	**25,384**	26,802
Wholesale	**8,353**	9,002
Other	**796**	900
Total from continuing operations	**100,741**	99,562
Derived from:		
External customers	**100,140**	97,648
Inter-Group from discontinued operations	**601**	1,914
Total from continuing operations	**100,741**	99,562

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

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

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

Consolidated	**2022 £'000**	2021 £'000
Sale of goods	**3,410**	3,782
Provision of services	**97,331**	95,780
Group total	**100,741**	99,562

05 Other income and operating expenses

Other income incurred in the year included the following:

Consolidated	**2022 £'000**	2021 £'000
Other income – license of IP addresses	**226**	—

Other income relates to rentals received from the lease of IP addresses. These are classified as an operating lease from a lessor perspective.

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

Consolidated	Note	**2022 £'000**	Restated* 2021 £'000
Staff costs		**38,469**	39,944
Restructuring costs relating to employees	7,8	**2,645**	1,610
Total staff costs	8	**41,114**	41,554
Own work capitalised	11,12	**(8,616)**	(7,963)
Other external charges		**31,507**	35,375
Auditors' remuneration	6	**345**	240
Amortisation of intangible assets	11	**6,736**	5,862
Depreciation of property, plant and equipment	12	**11,386**	11,427
Depreciation of right-of use assets	13	**5,431**	14,571
Non-employee related restructuring costs	7	**—**	61
Impairment loss on trade receivables and contract assets	28	**363**	347
Profit on disposal of leases	13	**(361)**	—
Property, plant and equipment impairment	7	**5,915**	—
Loss on disposal of other intangibles	11	**11**	67
Loss on disposal of property, plant and equipment	12	**11**	10
Total		**93,842**	101,551

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

Notes to the financial statements

for the year ended 31 March 2022

05 Other income and operating expenses (continued)

**2021 has been restated, see Note 2 for further information.*

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

Consolidated	Note	2022 £'000	Restated* 2021 £'000
Operating profit/(loss) from continuing operations analysed as:			
EBITDA before exceptional items		**39,238**	31,542
Exceptional items	7	**(8,560)**	(1,671)
Depreciation of property, plant and equipment	12	**(11,386)**	(11,427)
Amortisation of intangible assets	11	**(6,736)**	(5,862)
Depreciation of right of use assets	13	**(5,431)**	(14,571)
Operating profit/(loss) from continuing operations		**7,125**	(1,989)

06 Auditors' remuneration

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

Consolidated	2022 £'000	2021 £'000
Fees payable to the Company's auditors for the audit of the Company's annual financial statements and the consolidated financial statements	**94**	110
Fees payable to the Company's auditors and their associates for other services:		
– the audit of the Company's subsidiaries	**337**	399
– audit-related assurance services[1]	**45**	29
– other non-audit services[2]	**24**	10
Total	**500**	548
Attributable to:		
– continuing operations	**345**	240
– discontinuing operations	**155**	308
Total	**500**	548

1. Relates to regulatory audit.
2. CO_2e reporting assurance

07 Exceptional items

Consolidated	2022 £'000	2021 £'000
Restructuring costs	**2,645**	1,671
Property, plant and equipment impairment	**5,915**	—
Total charge to the income statement – continuing operations	**8,560**	1,671

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

In the year ended 31 March 2022, exceptional restructuring costs of £2.6 million were incurred (2021: £1.7 million). Management scrutinises all restructuring costs on a line by line basis to determine whether they meet the exceptional criteria. During the year, these were incurred in the following two main areas:

- Organisation design change costs of £0.9 million (2021: £1.5 million) across all areas of the business following the application of cost saving measures introduced by the 'Fit for growth project' in the prior year. These costs predominantly relate to redundancy and associated exit costs for employees to reduce the size and complexity of our workforce and better align to our new operating model.
- £1.7 million (2021: £0.2 million) of costs have been incurred for termination costs associated with the exit of Executive Directors. These are treated as exceptional in line with our Group accounting policy.

As a result of the decision to retire the copper network, certain equipment that supported a hybrid of fibreoptic and copper network will no longer be utilised, leading to an impairment of the assets of £5.9 million.

The combined effect of exceptional items is a credit of £Nil (2021: £0.3 million) in respect of current tax and a credit of £1.8 million (2021: £Nil) in respect of deferred tax.

Cash flow impact of exceptional items was an outflow of £1.9 million (2021: £4.7 million). The impact on working capital of exceptional items was a £0.6 million inflow (2021: £Nil).

Notes to the financial statements
for the year ended 31 March 2022

08 Employees and remuneration

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

	Number of employees	
	2022	2021
Consumer & Regional Business	**281**	229
Central	**510**	564
Continued operations	**791**	793
Discontinued operations	**458**	509
Total	**1,249**	1,302

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

The average number of employees presented in 2022 for discontinued operations is for the 4 months to the date of sale of the National Business on 31 July 2021. The number presented for continued operations is the average over 12 months.

The costs incurred in respect of these employees were:

		2022			2021		
Consolidated	Note	**Continuing operations £'000**	**Discontinued operations £'000**	**Total £'000**	Continuing operations £'000	Discontinued operations £'000	Total £'000
Wages and salaries		**32,597**	**11,134**	**43,731**	34,010	28,138	62,148
Social security costs		**2,962**	**804**	**3,766**	3,032	2,770	5,802
Other pension costs	30	**2,910**	**466**	**3,376**	2,902	1,556	4,458
Restructuring costs relating to employees	7,8	**2,645**	**41**	**2,686**	1,610	1,307	2,917
Total		**41,114**	**12,445**	**53,559**	41,554	33,771	75,325
Less own work capitalised	11,12	**(8,616)**	**—**	**(8,616)**	(7,963)	(470)	(8,433)
Charged to the income statement		**32,498**	**12,445**	**44,943**	33,591	33,301	66,892

All of the Group's employees were employed by KCOM Group Limited during the year ended 31 March 2022. No employee costs are borne by the Parent Company.

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

Remuneration of Directors

Consolidated	Note	**2022 £'000**	2021 £'000
Remuneration		**849**	534
Company contributions paid to money purchase pensions schemes		**104**	85
Compensation for loss of office	7	**1,742**	160
Total		**2,695**	779

Consolidated	**2022 No.**	2021 No.
Members of money purchase pension schemes	**2**	1

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

Consolidated	Note	**2022 £'000**	2021 £'000
Remuneration		**575**	434
Company contributions paid to money purchase pensions schemes		**82**	82
Compensation for loss of office	7	**1,742**	—
Total		**2,399**	516

Notes to the financial statements
for the year ended 31 March 2022

09 Finance income and costs

Consolidated	Note	**2022 £'000**	Restated* 2021 £'000
Finance income:			
Retirement benefit obligations	30	**654**	1,069
Interest received on finance sub-leases	24	**277**	—
Total finance income		**931**	1,069
Finance costs:			
Bank loans, overdrafts and other loans		**—**	(59)
Interest charged on loans from related parties	21	**(7,703)**	(8,469)
Interest on lease liabilities	23	**(606)**	(904)
		(8,309)	(9,432)
Amortisation of loan arrangement fees		**—**	(182)
Total finance costs		**(8,309)**	(9,614)
Net finance costs		**(7,378)**	(8,545)

**2021 has been restated, see Note 2 for further information.*

10 Taxation

Analysis of tax charge in the year

The charge based on the profit for the year comprises:

Consolidated	Note	**2022 £'000**	Restated* 2021 £'000
UK corporation tax:			
– current tax on profit for the year		**—**	—
– adjustment in respect of prior years		**1,883**	—
Total current tax		**1,883**	—
UK deferred tax:			
Origination and reversal of temporary differences in respect of:			
– profit for the year		**3,360**	1,966
– change in rate		**5,247**	2
– adjustment in respect of prior years		**—**	365
– charge in respect of retirement benefit obligation		**1,090**	2,786
Total deferred tax	26	**9,697**	5,119
Total taxation charge for the year		**11,580**	5,119
Income tax charge attributable to:			
Profit/(loss) from continuing operations		**8,157**	(1,573)
Profit from discontinued operations		**3,423**	6,692
Total taxation charge for the year		**11,580**	5,119

Factors affecting tax charge for the year

Consolidated	**2022 £'000**	2021 £'000
Profit before taxation	**13,281**	18,457
Profit before taxation at the standard rate of corporation tax in the UK of 19% (2021: 19%)	**2,523**	3,507
Effects of:		
– expenses not deductible for tax purposes	**1,927**	1,245
– adjustment is respect of prior years	**1,883**	365
– change in rate reflected in the deferred tax asset	**5,247**	2
Total taxation charge for the year	**11,580**	5,119

**2021 has been restated, see Note 2 for further information.*

Factors affecting the current and future tax charges

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

Notes to the financial statements
for the year ended 31 March 2022

11 Other intangible assets

Consolidated	Note	Development costs[1] £'000	Software £'000	Customer and supplier relationships £'000	Technology and brand £'000	Assets under construction £'000	Total £'000
Cost							
At 1 April 2020		39,450	67,130	49,257	6,294	2,673	164,804
Additions		278	597	—	—	3,257	4,132
Own work capitalised	8	2,443	135	—	—	1,988	4,566
Disposals		(89)	(11)	—	—	—	(100)
Transfers		948	622			(1,932)	(362)
Transfer to assets held for sale		(3,905)	(6,332)	—	—	(344)	(10,581)
At 31 March 2021		39,125	62,141	49,257	6,294	5,642	162,459
Additions		40	1,542	—	—	2,292	3,874
Own work capitalised	8	2,791	260	—	—	2,257	5,308
Disposals		—	(13)	—	—	—	(13)
Transfers		1,865	2,029	—	—	(2,934)	960
Transfer to assets held for sale	31	(525)	(17,746)	—	—	(51)	(18,322)
At 31 March 2022		**43,296**	**48,213**	**49,257**	**6,294**	**7,206**	**154,266**
Accumulated amortisation							
At 1 April 2020		29,272	45,951	49,257	6,294	—	130,774
Charge for the year	5	3,141	5,354	—	—	—	8,495
Disposals		(29)	(4)	—	—	—	(33)
Transfers to assets held for sale		(2,747)	(4,355)	—	—	—	(7,102)
At 31 March 2021		29,637	46,946	49,257	6,294	—	132,134
Charge for the year	5	2,087	4,649	—	—	—	6,736
Disposals		—	(3)	—	—	—	(3)
Transfer to assets held for sale	31	(329)	(17,677)	—	—	—	(18,006)
At 31 March 2022		**31,395**	**33,915**	**49,257**	**6,294**	**—**	**120,861**
Carrying amount							
At 31 March 2022		**11,901**	**14,298**	**—**	**—**	**7,206**	**33,405**
At 31 March 2021		9,488	15,195	—	—	5,642	30,325
At 31 March 2020		10,178	21,179	—	—	2,673	34,030

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

£6.7 million (2021: £5.9 million) of the amortisation charge for the year and £5.3 million (2021: £4.1 million) of own work capitalised relates to continuing operations.

As at 31 March 2021 certain assets were identified and categorised as part of the assets held for sale in relation to the National Business. During the process to finalise the sale up to the completion date, additional assets were identified and transferred to assets held for sale, which show as transfers during the year ended 31 March 2022. On a net book value basis, an additional £0.3 million was transferred. Amortisation of all Assets held for sale was ceased at 31 March 2021, being the date at which the criteria were met under IFRS 5.

Notes to the financial statements

for the year ended 31 March 2022

12 Property, plant and equipment

Consolidated	Note	Land and buildings £'000	Exchange equipment £'000	External plant £'000	Vehicles, other apparatus and equipment £'000	Assets Under construction £'000	Total £'000
Cost							
At 1 April 2020		14,530	113,908	196,904	62,646	12,327	400,315
Additions		—	48	7,935	2,074	17,882	27,939
Own work capitalised	8	—	—	1,857	55	1,955	3,867
Disposals		—	—	(4)	(8)	—	(12)
Transfers		—	41	2,401	1,034	(3,114)	362
Transfer to assets held for sale	31	(1,107)	(5,173)	(5,272)	(8,748)	(2,157)	(22,457)
At 31 March 2021		13,423	108,824	203,821	57,053	26,893	410,014
Additions		—	—	12,098	1,093	16,016	29,207
Own work capitalised	8	—	—	966	—	2,342	3,308
Disposals		—	—	—	(18)	—	(18)
Impairment	5	—	—	—		(5,915)	(5,915)
Transfers		—	—	14,415	1,582	(16,957)	(960)
Transfer to assets held for sale	31	—	—	310	(8,612)	(265)	(8,567)
At 31 March 2022		**13,423**	**108,824**	**231,610**	**51,098**	**22,114**	**427,069**
Accumulated depreciation							
At 1 April 2020		11,897	82,337	121,633	50,213	—	266,080
Charge for the year	5	353	3,223	6,833	4,277	—	14,686
Disposals		—	—	—	(2)	—	(2)
Transfer to assets held for sale		(1,037)	(2,523)	(2,868)	(5,375)	—	(11,803)
At 31 March 2021		11,213	83,037	125,598	49,113	—	268,961
Charge for the year	5	276	2,462	6,847	1,801	—	11,386
Disposals		—	—	—	(7)	—	(7)
Transfer to assets held for sale	31	—	—	416	(8,588)	—	(8,172)
At 31 March 2022		**11,489**	**85,499**	**132,861**	**42,319**	**—**	**272,168**
Net book value							
At 31 March 2022		**1,934**	**23,325**	**98,749**	**8,779**	**22,114**	**154,901**
At 31 March 2021		2,210	25,787	78,223	7,940	26,893	141,053
At 31 March 2020		2,633	31,571	75,271	12,433	12,327	134,235

£11.4 million (2021: £11.4 million) of the depreciation charge for the year and £3.3 million (2021: £3.9 million) of own work capitalised relates to continuing operations.

As at 31 March 2021 certain assets were identified and categorised as part of the assets held for sale in relation to the National Business. During the process to finalise the sale up to the completion date, additional assets were identified and transferred to assets held for sale, which show as transfers during the year ended 31 March 2022. On a net book value basis, an additional £0.4 million was transferred. Depreciation of all Assets held for sale was ceased at 31 March 2021, being the date at which the criteria were met under IFRS 5.

As a result of the decision to retire the copper network, certain equipment that supported a hybrid of fibreoptic and copper network will no longer be utilised, leading to an impairment of the assets of £5.9 million. The remaining copper assets, that will be decommissioning over the next 2 to 3 years, are supported through a value in use cash flow. Depreciation will be accelerated prospectively to depreciate the assets over the remaining economic lives.

Notes to the financial statements
for the year ended 31 March 2022

13 Right-of-use assets

Consolidated	Land and buildings £'000	Exchange equipment £'000	External plant £'000	Vehicles, other apparatus and equipment £'000	Total £'000
Carrying amount					
At 1 April 2020	10,973	13,172	36,953	1,098	62,196
Additions	—	—	6,078	18	6,096
Modifications	268	—	7	19	294
Disposals	(695)	(168)	(5,497)	(449)	(6,809)
At 31 March 2021 (Restated*)	**10,546**	**13,004**	**37,541**	**686**	**61,777**
Additions	—	—	2,071	1,096	3,167
Modifications	268	—	(49)	96	315
Disposals	(8,668)	(13,004)	(37,014)	(304)	(58,990)
At 31 March 2022	**2,146**	—	**2,549**	**1,574**	**6,269**
Accumulated depreciation					
At 1 April 2020	4,132	2,661	9,330	432	16,555
Charge for the year	1,546	2,629	9,950	446	14,571
Disposals	(672)	(168)	(5,089)	(449)	(6,378)
At 31 March 2021 (Restated*)	**5,006**	**5,122**	**14,191**	**429**	**24,748**
Charge for the year	463	855	3,649	464	5,431
Disposals	(3,381)	(5,977)	(16,622)	(300)	(26,280)
At 31 March 2022	**2,088**	—	**1,218**	**593**	**3,899**
Net book value					
At 31 March 2022	**58**	—	**1,331**	**981**	**2,370**
At 31 March 2021 (Restated*)	5,540	7,882	23,350	257	37,029
At 31 March 2020	6,841	10,511	27,623	666	45,641

**2021 has been restated, see Note 2 for further information.*

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

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

£20.2 million (2021: £Nil) included in disposals is due to the Group entering into finance sub-lease arrangements on these leases and therefore derecognising the right-of-use assets.

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

Consolidated	**2022 £'000**	Restated* 2021 £'000
Short-term leases	**6,922**	6,302
Low-value asset leases	**435**	499
Total	**7,357**	6,801

**2021 has been restated, see Note 2 for further information.*

14 Investments

Consolidated	Shares in associate £'000
Cost	
At 1 April 2020	68
Share of net profit for the year	13
Dividends received from associate	—
At 31 March 2021	81
Share of net profit for the year	—
At 31 March 2022	**81**
Amounts written off	
31 March 2021 and 31 March 2022	**—**
Net book value	
At 31 March 2022	**81**
At 31 March 2021	81
At 31 March 2020	68

Notes to the financial statements
for the year ended 31 March 2022

14 Investments (continued)

Parent Company	Shares in subsidiary undertakings £'000
Cost	
At 1 April 2020, 31 March 2021 and 31 March 2022	**494,511**
Amounts written off	
At 1 April 2020, 31 March 2021 and 31 March 2022	**50**
Net book value	
At 1 April **2020, 31 March 2021 and 31 March 2022**	**494,461**

Subsidiary undertakings and associates (as at 31 March 2022)

Name of company	Place of business/ country of incorporation	Holding	Proportion held	Nature of business
KCH (Holdings) Limited	England and Wales[1]	Ordinary shares	100%	Intermediate holding company
Network Holdco 3 BV*	Netherlands[2]	Ordinary shares	100%	Dormant (liquidated in March 2022)
Smart 421 Technology Group Limited*	England and Wales[1]	Ordinary shares	100%	Dormant holding company
Kingston Network Holdings Limited*	England and Wales[1]	Ordinary shares	100%	Placed into liquidation June 2022
Kingston Service Holdings Limited*	England and Wales[1]	Ordinary shares	100%	Dormant holding company
KCOM International Limited*	England and Wales[1]	Ordinary shares	100%	Dormant
KCOM (General Partner) Limited*	Scotland[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%	Placed into liquidation June 2022
KCOM Holdings Limited*	England and Wales[1]	Ordinary shares	100%	Design and delivery of communication and integration services
Eclipse Networking Limited*	England and Wales[1]	Ordinary shares	100%	Placed into liquidation June 2022
Eclipse Internet Limited*	England and Wales[1]	Ordinary shares	100%	Placed into liquidation June 2022
Kingston Communications (Hull) Limited*	England and Wales[1]	Ordinary shares	100%	Placed into liquidation June 2022
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%	Placed into liquidation June 2022
Smart421 Solutions Inc*	USA[5]	Ordinary shares	100%	Dormant
Smartintegrator Technology Limited*	England and Wales[1]	Ordinary shares	50%	Placed into liquidation June 2022

* Indicates indirect shareholding.
1. 37 Carr Lane, Hull HU1 3RE.
2. 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. On 8 June 2022, Smartintegrator Technology Limited, was placed into liquidation.

15 Contract costs

Consolidated	**2022 £'000**	2021 £'000
Contract costs	**492**	695

The costs of obtaining a contract are comprised of sales commissions paid to employees. The costs of fulfilling a contract relate primarily to set-up activities that are not deemed to represent a performance obligation or in circumstances where it has been determined that there is no enforceable right to payment during the project phase and thus revenue cannot be recognised until project completion. The asset is amortised on a straight-line basis over the term of the specific contract it relates to, consistent with the pattern of recognition of the associated revenue. Capitalised contract costs of £0.3 million (2021: £0.4 million) relating to continuing operations were amortised and included in operating expenses.

Notes to the financial statements
for the year ended 31 March 2022

16 Inventories

Consolidated	2022 £'000	2021 £'000
Raw materials and consumables	**5,575**	3,357
Equipment for resale	**178**	—
Total	**5,753**	3,357

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

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

Inventories recognised as an expense during the year ended 31 March 2022 amounted to £0.5 million (2021: £0.6 million). These were included in operating expenses.

17 Contract assets

Consolidated	2022 £'000	2021 £'000
Contract assets	**1,412**	1,168

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

18 Trade and other receivables

Consolidated	2022 £'000	2021 £'000
Trade receivables (net)	**5,321**	3,019
Amounts due from related parties	**540**	334
Other receivables	**11,068**	4,060
Prepayments	**4,741**	7,066
Unbilled receivables (net)	**709**	976
Total	**22,379**	15,455

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

All of the Group's receivables are due within one year in both the year ended 31 March 2022 and the year ended 31 March 2021. An allowance has been made for estimated irrecoverable amounts from the sale of goods and services of £0.7 million (2021: £0.7 million). Note 28 provides further disclosures regarding the allowance for irrecoverable amounts and the credit risk of the Group's trade receivables.

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

19 Trade and other payables

	Consolidated		Parent Company	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Current				
Trade payables	**10,103**	6,632	**—**	—
Other taxes and social security costs	**4,587**	1,150	**—**	—
Other payables	**2,120**	127	**—**	—
Accruals	**11,063**	6,837	**—**	—
Total	**27,873**	14,745	**—**	—
Non-current				
Amounts due to subsidiary undertakings	**—**	—	**545**	450
Total	**—**	—	**545**	450

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

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

Notes to the financial statements
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20 Contract liabilities

Consolidated	2022 £'000	2021 £'000
Contract liabilities	**8,443**	7,711

During the year revenue of £4.6 million has been recognised in relation to the contract liability at the beginning of the period which relates to continuing operations.

Included within contract liabilities is £1.4 million relating to rentals received from the lease of IP addresses. These are classified as an operating lease from a lessor perspective. Rental income of £0.2 million has been recognised by the Group in the year.

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

Consolidated	2022 £'000	2021 £'000
Loans from related parties		
Beginning of year	**160,029**	148,661
Loans advanced	**40,000**	24,475
Interest charged	**7,703**	8,469
Loan repayment	**(48,500)**	(17,114)
Interest paid	**(7,568)**	(4,462)
End of year	**151,664**	160,029

On 26 October 2020, KCOM Holdco 3 Limited entered into a new Intercompany Loan Agreement with KCH (Holdings) Limited to provide a loan of up to £165.0 million on an uncommitted basis for a period of five years from the date of the first advance, attracting interest at a fixed rate of 5.5%. During the year £56.1 million (2021: £21.6 million) of combined principal and interest was repaid on the loan.

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

Consolidated	Note	2022 £'000	Restated* 2021 £'000
Cash and cash equivalents		**9,551**	8,320
Loan from related parties	21	**(151,664)**	(160,029)
Total net debt excluding lease liabilities		**(142,113)**	(151,709)
Lease liabilities (IFRS 16 definition)	23	**(21,103)**	(38,199)
Total net debt		**(163,216)**	(189,908)

**2021 has been restated, see Note 2 for further information.*

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

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

	Other assets	Liabilities from financing activities			
Consolidated	Cash/bank overdraft £'000	Lease liabilities due within 1 year £'000	Lease liabilities due after 1 year £'000	Loans from related parties £'000	Total £'000
Net debt at 1 April 2020	15,126	(14,086)	(32,875)	(148,661)	(180,496)
Cash flows	(6,806)	14,249	—	(2,899)	(4,544)
Other non-cash movements	—	(11,845)	6,358	(8,469)	(13,956)
Net debt at 31 March 2021	8,320	(11,682)	(26,517)	(160,029)	(189,908)
Cash flows	1,231	10,179	—	16,068	27,478
Other non-cash movements	—	(7,256)	14,173	(7,703)	(786)
Net debt at 31 March 2022	**9,551**	**(8,759)**	**(12,344)**	**(151,664)**	**(163,216)**

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23 Finance lease liability

Consolidated	2022 £'000	Restated* 2021 £'000
Lease liabilities:		
Minimum lease payments:		
– within 12 months	**9,120**	13,427
– in 1 to 5 years	**12,394**	27,020
– after 5 years	**357**	354
	21,871	40,801
Future finance charges	**(768)**	(2,602)
Present value of finance lease liabilities	**21,103**	38,199
The present value of finance lease liabilities is as follows:		
– within 12 months	**8,759**	11,682
– in 1 to 5 years	**12,344**	26,166
– after 5 years	—	351
Total	**21,103**	38,199

**2021 has been restated, see Note 2 for further information.*

An interest expense of 0.6 million (2021: £0.9 million) was recognised in the year in relation to lease liabilities.

The total cash outflow for leases during the year was £19.7 million (2021: £22.4 million) including £7.4 million (2021: £6.8 million) relating to short-term and low-value asset leases which have not been included in the finance lease liability.

24 Finance lease receivable

Consolidated	2022 £'000	2021 £'000
Finance lease receivables:		
Undiscounted lease payments to be received:		
– within 12 months	**7,604**	—
– in 1 to 5 years	**10,523**	—
– after 5 years	**333**	—
Total undiscounted lease receivable	**18,460**	—
Future finance income	**(680)**	—
Net investment in the lease	**17,780**	—
The present value of finance lease receivables is as follows:		
– within 12 months	**7,290**	—
– in 1 to 5 years	**10,164**	—
– after 5 years	**326**	—
Total	**17,780**	—

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

Interest income of £0.3 million (2021: £Nil) was recognised in the year in relation to finance lease receivables.

25 Provisions for other liabilities and charges

Consolidated	Dilapidations £'000	Onerous Contracts £'000	Restructuring £'000	Total £'000
At 1 April 2021	60	890	—	950
Established in the year	3,257	88	—	3,345
Utilised in the year	(20)	(290)	—	(310)
At 31 March 2022	**3,297**	**688**	**—**	**3,985**
Total provisions for other liabilities and charges 2022				
Included in current liabilities	—	303	—	303
Included in non-current liabilities	3,297	385	—	3,682
At 31 March 2022	**3,297**	**688**	**—**	**3,985**
Total provisions for other liabilities and charges 2021				
Included in current liabilities	60	290	—	350
Included in non-current liabilities	—	600	—	600
At 31 March 2021	60	**890**	—	**950**

25 Provisions for other liabilities and charges (continued)

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

Provision has been made for the estimated fair value of unavoidable incremental contract costs on unoccupied buildings. It is expected that these payments will arise over the next 2.5 years. This cost excludes the lease rental payments that are included as a lease liability under IFRS 16.

26 Deferred taxation assets and liabilities

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

	Assets		Liabilities		Net	
Consolidated	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000
Property, plant and equipment	—	—	**(11,878)**	(6,862)	**(11,878)**	(6,862)
Tax losses	**4,150**	1,865	—	—	**4,150**	1,865
Other timing differences	—	—	**—**	(10)	**—**	(10)
Retirement benefit obligation	—	—	**(8,857)**	(4,506)	**(8,857)**	(4,506)
Asset-backed partnership	—	—	**(4,026)**	(3,368)	**(4,026)**	(3,368)
Total	**4,150**	1,865	**(24,761)**	(14,746)	**(20,611)**	(12,881)

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

Consolidated	Note	Property, plant and equipment £'000	Tax losses £'000	Other timing differences £'000	Retirement benefit obligation £'000	Intangible assets arising on acquisition £'000	Asset-backed partnerships £'000	Total £'000
At 1 April 2020		**(5,565)**	**2,092**	**(20)**	**(7,365)**	**3,719**	**(3,639)**	**(10,778)**
(Charged)/credited to the income statement	10	(1,871)	(228)	10	(2,786)	(516)	272	(5,119)
Credited directly to equity and other comprehensive income		—	—	—	5,645	—	—	5,645
Re-classified as assets held for sale	31	—	—	—	—	(3,203)	—	(3,203)
Re-classified as liabilities directly associated with assets held for sale	31	574	—	—	—	—	—	574
At 31 March 2021		**(6,862)**	**1,865**	**(10)**	**(4,506)**	**—**	**(3,368)**	**(12,881)**
(Charged)/credited to the income statement	10	(4,780)	2,285	10	(3,349)	(3,205)	(658)	(9,697)
Charged directly to equity and other comprehensive income		—	—	—	(1,002)	—	—	(1,002)
Re-classified as assets held for sale	31	—	—	—	—	3,205	—	3,205
Re-classified as liabilities directly associated with assets held for sale	31	(236)	—	—	—	—	—	(236)
At 31 March 2022		**(11,878)**	**4,150**	—	**(8,857)**	—	**(4,026)**	**(20,611)**

There are £Nil deferred tax assets in the Parent Company (2021: £Nil).

Deferred tax assets include an amount of £1.9 million of tax losses carried forward from the previous financial year. A further £2.8 million of tax losses relating to continued operations have been credited to the income statement in the current financial year. The total tax losses have been generated due to: significant one-off costs in previous years relating to pension deficit repair funding and restructuring of the business; disposal of the National ICT Business; and high capital allowances due to the high levels of investment in the Network and other infrastructure.

The tax loss was reduced by a tax charge to the income statement of £0.5 million relating to discontinued operations, resulting in an overall credit of £2.3 million to deferred tax losses brought forward.

Management have confirmed that the deferred tax assets will be recoverable using the estimated future taxable income based on approved forecasts for the Group. The Group is expected to generate taxable income from the year ended 31 March 2025 onwards. The losses are expected to be utilised over the next 5 years.

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

	Not recognised	
	2022 £'000	2021 £'000
Losses	**380**	289

26 Deferred taxation assets and liabilities (continued)

Deferred tax assets of £4.1 million (2021: £1.9 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 £0.4 million (2021: £0.3 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.

27 Share Capital

	2022 £'000	2021 £'000
Allotted, called up and fully paid		
520,222,530 (2021: 520,222,530) ordinary shares of 10 pence each	**52,022**	52,022

During the financial year, the Company did not purchase any of its own shares (2021: Nil).

28 Financial instruments and risk management

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

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

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

Liquidity risk

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

On 27 May 2020, KCOM entered into an agreement with Lloyds Bank to provide a £12.0 million revolving credit facility to fund working capital requirements and a further £18.0 million facility available to fund capital expenditure. This was not drawn down.

On 29 September 2020 the direct parent company, KCOM Holdco 3 Limited, entered into a new external loan agreement. The agreement comprises of four facilities totalling total available funds of £475.0 million with a maturity date in 4 years on 28 September 2025. Certain statutory entities within the consolidated KCOM Group Limited accounts act as guarantors for the loan facility.

As at 31 March 2022, the Group has £9.6 million of available cash which is considered sufficient funding to meet our working capital requirements.

The net debt position of £189.9 million at the beginning of the financial year including lease liabilities has decreased during the year to £163.2 million. The Group experienced a cash inflow of £1.2 million for the year (2021: cash outflow £6.8 million).

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

Consolidated	Less than one year £'000	One to three years £'000	Over three years £'000
At 31 March 2021 (restated*)			
Loans from related parties	—	—	160,029
Trade and other payables	13,593	—	—
Finance leases	13,427	27,020	354
Total	27,020	27,020	160,383
At 31 March 2022			
Loans from related parties	**—**	**—**	**151,664**
Trade and other payables	**23,291**	**—**	**—**
Lease liabilities	**9,120**	**12,394**	**357**
Total	**32,411**	**12,394**	**152,021**

**2021 has been restated, see Note 2 for further information.*

Notes to the financial statements

for the year ended 31 March 2022

28 Financial instruments and risk management (continued)

Liquidity risk (continued)

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

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Rental contracts typically have a fixed term ranging from 12 months for assets such as fibres and cables up to 25 years for some network properties. Once the fixed term is complete, leases enter a rolling period which can be terminated by both parties upon giving notice of 12 months or less. Generally, there are no specific extension options included in the contracts.

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

Foreign currency risk

Cash flow exposure

The Group's only foreign currency risk arises due to the purchase of equipment in US Dollars. The prevailing rate is priced into sale prices, therefore the risk is between the timing of purchase and the settlement of the invoices. Given the values involved and therefore risk, we do not actively hedge this position.

The Group also has some Euro cash flows but these are not material on a net basis and are not hedged.

Net asset exposure

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

Market risk

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

Credit risk

Risk management

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

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

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

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

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

Impairment of financial assets

The group has three types of financial assets that are subject to the expected credit loss model:

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

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

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

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

Notes to the financial statements

for the year ended 31 March 2022

28 Financial instruments and risk management (continued)

Credit risk (continued)

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

On that basis, the loss allowance as at 31 March 2022 and 31 March 2021 was determined as follows for both trade receivables and contract assets:

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

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

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

Consolidated	**Trade receivables £'000**	**Unbilled receivables £'000**	**Contract assets £'000**	**Total £'000**
At 1 April 2021	(634)	(22)	(8)	(664)
Written off in the year	(403)	—	—	(403)
Amounts released in the year	362	2	(1)	363
At 31 March 2022	**(675)**	**(20)**	**(9)**	**(704)**

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

Financial assets

The Group had financial assets of £28.6 million at the year end (2021: £17.9 million), of which £9.6 million (2021: £8.3 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 2022 and 31 March 2021 was:

Consolidated	**2022 £'000**	2021 £'000
Currency		
Sterling	**9,430**	7,441
US Dollar	**12**	802
Euro	**109**	77
Total	**9,551**	8,320

Foreign currency cash balances are held on a short-term basis to fund cash flow requirements in these currencies. All trade receivable balances bear no interest and are held in Sterling with the exception of a combined equivalent amount of £0.0 million (2021: £0.0 million) held in Euros and US Dollars.

At the year-end £1.3 million (2021: £1.3 million) of cash collateral was held by Barclays in respect of a bank guarantee given under Ofcom's "Funds for Liabilities" regulations. The £1.3 million guarantee is included within the above table is classified as 'restricted cash' and is not available for general use.

Financial liabilities

The currency and interest rate risk profile of KCOM Group's financial borrowings at 31 March 2022 and 31 March 2021 was:

	2022			2021		
Consolidated	**Floating £'000**	**Fixed £'000**	**Total £'000**	Floating £'000	Fixed £'000	Total £'000
Sterling	**—**	**151,664**	**151,664**	—	160,029	160,029

Undrawn committed borrowing facilities at the year-end were £Nil (2021: £Nil).

Interest on amounts owed to related parties is based on a fixed rate of 5.5%. All trade payable balances bear no interest and are held in Sterling with the exception of an equivalent of £0.4 million (2021: £0.9 million) which is held in US Dollars.

28 Financial instruments and risk management (continued)

Capital risk management

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

Consistent with others in the industry, the Group monitors capital on the basis of its gearing ratio. This ratio is calculated as net debt divided by total capital. For the definition and reconciliation of net debt to the closest equivalent IFRS measure see the definitions on page 85.

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	2022 £'000	2021 £'000
Net debt	**163,216**	189,908
Total equity	**54,988**	49,014
Total capital	**218,204**	238,922

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

29 Financial commitments

Authorised future capital expenditure and financial investment for continuing operations in the year ended 31 March 2022 and for both continuing and discontinuing operations in the year ended 31 March 2021 amounted to:

Consolidated	2022 £'000	2021 £'000
Property, plant and equipment	**8,362**	11,664
Intangible assets	**801**	1,271
Total	**9,163**	12,935

30 Retirement benefit asset – Consolidated

Defined benefit schemes

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

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

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

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

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

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30 Retirement benefit asset – Consolidated (continued)

Funding

The pension schemes are subject to a full actuarial valuation every three years using assumptions agreed between the Trustees and the Group. The purpose of this valuation is to design funding plans to ensure that the pension schemes have sufficient funds available to meet future benefit payments. The most recent valuations were carried out by independent professionally qualified actuaries as at 1 April 2019 and resulted in a funding deficit at this date of £4.2 million (1 April 2016: £25.4 million deficit) for the main scheme and a deficit of £4.0 million (1 April 2016: £9.4 million deficit) for the data scheme.

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

Contributions agreed as part of these plans were as follows:

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

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

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

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

Considering deficit repair payments and contributions via the asset-backed partnership the expected total contributions for the year ended 31 March 2023 are £2.7 million (main scheme) and £0.4 million (data scheme) (2022: £2.6 million (main scheme) and £0.4 million (data scheme)).

Asset-backed partnership

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

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

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

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

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

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

Risk

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

30 Retirement benefit asset – Consolidated (continued)

Risk (continued)

Specific risks include:

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

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

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

Balance sheet amounts

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

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

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

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

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

Surplus positions of £34.2 million on the Main scheme and £6.3 million on the data scheme have been recognised. This is recognised on the basis that, in line with the scheme rules, any excess funds are recoverable upon winding up of the scheme. This is consistent for both the schemes and supports the application that there are no additional liabilities from minimum funding requirements under IFRIC 14.

	Main Scheme			Data Scheme			Combined Schemes		
Consolidated	Present value of obligation £'000	Fair value of plan assets £'000	Total £'000	Present value of obligation £'000	Fair value of plan assets £'000	Total £'000	Present value of obligation £'000	Fair value of plan assets £'000	Total £'000
At 1 April 2020	**194,834**	**(230,591)**	**(35,757)**	**39,664**	**(42,671)**	**(3,007)**	**234,498**	**(273,262)**	**(38,764)**
Administrative expenses	—	734	734	—	203	203	—	937	937
Interest expense/(income)	4,274	(5,220)	(946)	869	(992)	(123)	5,143	(6,212)	(1,069)
Total amount recognised in profit or loss	**4,274**	**(4,486)**	**(212)**	**869**	**(789)**	**80**	**5,143**	**(5,275)**	**(132)**
Remeasurements:									
(Return)/loss on plan assets, excluding amounts included in interest	—	(5,541)	(5,541)	—	1,596	1,596	—	(3,945)	(3,945)
Losses from change in financial assumptions	31,182	—	31,182	3,143	—	3,143	34,325	—	34,325
Losses/(gains) arising from changes in demographic assumptions	1	—	1	(669)	—	(669)	(668)	—	(668)
Total amount recognised in other comprehensive income	**31,183**	**(5,541)**	**25,642**	**2,474**	**1,596**	**4,070**	**33,657**	**(3,945)**	**29,712**
Employer contributions:									
Contributions via asset-backed partnership	—	(2,567)	(2,567)	—	(351)	(351)	—	(2,918)	(2,918)
Deficit repair payments	—	(14,417)	(14,417)	—	(5,995)	(5,995)	—	(20,412)	(20,412)
Benefit payments	(10,125)	10,125	—	(1,646)	1,646	—	(11,771)	11,771	—
At 31 March 2021	**220,166**	**(247,477)**	**(27,311)**	**41,361**	**(46,564)**	**(5,203)**	**261,527**	**(294,041)**	**(32,514)**

Notes to the financial statements

for the year ended 31 March 2022

30 Retirement benefit asset – Consolidated (continued)

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

Significant estimates: IAS 19 assumptions and sensitivity

The significant IAS 19 assumptions were as follows:

	2022 Main scheme	**2022 Data scheme**	2021 Main scheme	2021 Data scheme
RPI inflation	**3.75%**	**3.75%**	3.30%	3.30%
CPI inflation	**3.25%**	**3.25%**	2.65%	2.65%
Rate of increase to pensions in payment	**3.00%**	**3.93%**	2.48%	3.83%
Discount rate for scheme liabilities	**2.65%**	**2.65%**	1.95%	1.95%

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:

	2022 Main scheme	**2022 Data scheme**	2021 Main scheme	2021 Data scheme
Retiring at the end of the reporting year:				
Male	**22**	**23**	22	23
Female	**23**	**25**	23	25
Retiring 20 years after the end of the reporting year:				
Male	**23**	**23**	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 **2022 Main scheme £'000**	Increase in assumption **2022 Data scheme £'000**	Increase in assumption 2021 Main scheme £'000	Increase in assumption 2021 Data scheme £'000	Decrease in assumption **2022 Main scheme £'000**	Decrease in assumption **2022 Data scheme £'000**	Decrease in assumption 2021 Main scheme £'000	Decrease in assumption 2021 Data scheme £'000
Sensitivity to 0.1% change to:								
Discount rate	**(1.5%)**	**(1.5%)**	(1.6%)	(1.6%)	**1.5%**	**1.5%**	1.6%	1.6%
RPI Inflation	**1.4%**	**0.6%**	1.4%	0.4%	**(1.3%)**	**(0.4%)**	(1.5%)	(0.4%)
Sensitivity to 1 year change in life expectancy	**(3.9%)**	**(4.0%)**	3.9%	4.2%	**3.9%**	**4.0%**	(3.9%)	(4.2%)

30 Retirement benefit asset – Consolidated (continued)

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

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

Balance sheet amounts

The major categories of plan assets are as follows:

	2022				2021			
Consolidated	**Main scheme £'000**	**Data scheme £'000**	**Total £'000**	**%**	Main scheme £'000	Data scheme £'000	Total £'000	%
Leveraged gilts	—	**4,509**	**4,509**	**2%**	6,104	6,669	12,773	4%
Leveraged index linked gilts	**37,370**	**3,203**	**40,573**	**14%**	46,561	1,616	48,177	16%
Inflation swap fund	**11,629**	**804**	**12,433**	**4%**	12,675	2,594	15,269	5%
Liability matching funds (unquoted)	**48,999**	**8,516**	**57,515**	**20%**	65,340	10,879	76,219	25%
Diversified growth fund (unquoted)	**—**	**3,618**	**3,618**	**1%**	132,438	30,955	163,393	56%
Hedge funds (unquoted)	**17,112**	—	**17,112**	**6%**	16,475	—	16,475	6%
Hedge funds (quoted)	**164,807**	**29,311**	**194,118**	**67%**	—	—	—	0%
Cash and cash equivalents (unquoted)	**6,936**	**803**	**7,739**	**3%**	4,603	127	4,730	2%
Cash and cash equivalents (quoted)	**7,307**	**2,313**	**9,620**	**3%**	32,660	563	37,954	13%
Total	**245,161**	**44,561**	**289,722**	**100%**	247,477	46,564	294,041	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

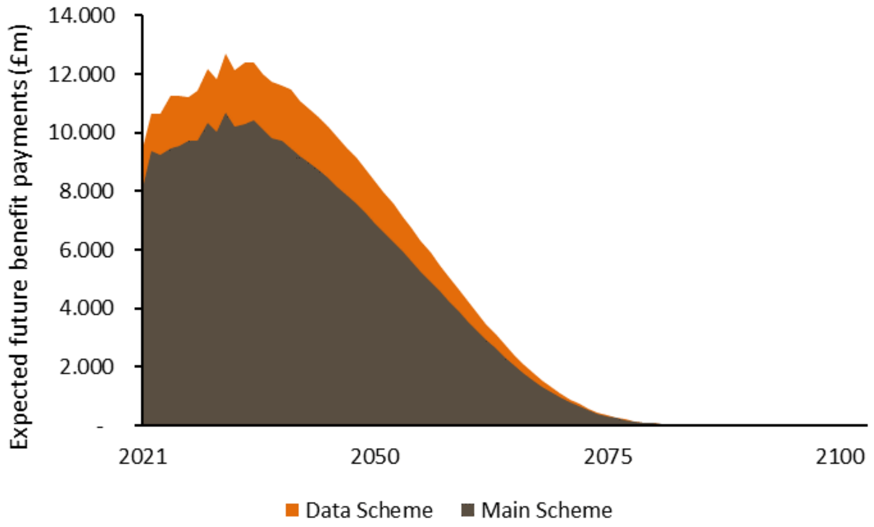
The schemes employ diversified growth funds to reduce volatility in the Schemes' asset values (compared to traditional equity investments), whilst maintaining an appropriate level of return. These funds typically invest in a range of public and private market assets, including equities, bonds, commodities,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

30 Retirement benefit asset – Consolidated (continued)

Future benefit payments

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



Parent Company

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

The Parent Company provides a guarantee to both defined benefit schemes, whereby if KCH (Holdings) Limited is unable to meet its obligations to the schemes, such obligations would be met by the Parent Company. No liability has been recognised in respect of the guarantee at 31 March 2022 (2021: £Nil).

Defined contribution schemes

The Group operates defined contribution schemes, which are open to all eligible employees. Contributions charged to the income statement in respect of defined contribution schemes amounted to £1.9 million (2021: £1.9 million) for continuing operations.

31 Discontinued operations and assets

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

On 31 March 2021, the Group finalised the sale of the National Business consumer base for £1.2 million. On the 31 July 2021 KCOM Group Limited completed the sale of the trade and net assets of the National ICT business (predominantly the previously disclosed National Business segment) to GCI Network Solutions Limited ("Nasstar") for consideration of £31.4 million. The consideration was comprised of £29.4 million upfront cash and £2.0 million of deferred consideration payable 12 months after the completion date. Financial information relating to the discontinued operation for the period to the date of disposal is set out below.

Financial performance

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

	2022 £'000	Restated* 2021 £'000
Revenue	**44,658**	154,126
Operating expenses	**(39,944)**	(126,340)
Operating profit	**4,714**	27,786
Finance costs	**—**	—
Profit before taxation from discontinued operations	**4,714**	27,786
Taxation	**(1,240)**	(6,466)
Profit for the year from discontinued operations	**3,474**	21,320
Gain on sale of discontinued operations	**6,637**	966
Profit for the year from discontinued operations	**10,111**	22,286

** 2021 has been restated to remove the depreciation of right of use assets and interest on lease liabilities from discontinued operations to continuing operations, see Note 2 for further information. This has been presented consistently in 2022.*

Notes to the financial statements
for the year ended 31 March 2022

31 Discontinued operations and assets (continued)

Cash flow information

	2022 £'000	Restated* 2021 £'000
Net cash generated from operating activities	**513**	36,984
Net cash generated/(used in) from investing activities	**22,930**	(1,906)
Net increase in cash generated by discontinued operations	**23,443**	35,078

Sale of National Business consumer base

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

Sale of National Business trade and net assets

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

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

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

Notes to the financial statements
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31 Discontinued operations and assets (continued)

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

The following assets and liabilities were reclassified as held for sale in relation to discontinued operations as at 31 March 2021. The disposal group is stated at fair value less costs to sell.

	Restated* 2021 £'000
Assets classified as held for sale	
Other intangible assets	3,479
Property, plant and equipment	10,654
Contract costs	2,856
Inventories	198
Trade and other receivables	27,536
Contract assets	1,620
Deferred tax assets	3,203
Total assets of disposal group held for sale	49,546
Liabilities directly associated with assets classified as held for sale	
Trade and other payables	23,764
Contract liabilities	8,551
Provisions for other liabilities and charges	3,127
Deferred tax liabilities	574
Total liabilities of disposal group held for sale	36,016

** 2021 has been restated to remove right of use assets and lease liabilities from the assets and liabilities relating to the National Business disposal Group, see Note 2 for further information.*

32 Cash flow information

Reconciliation of operating profit/(loss):

Consolidated	Note	**2022 £'000**	Restated* 2021 £'000
Operating profit/(loss) from:			
Continuing operations		**7,125**	(1,989)
Discontinued operations		**4,714**	27,786
		11,839	25,797
Gain on sale of National Business trade and net assets before taxation	31	**8,820**	—
Gain on sale of National Business consumer base before taxation	31	—	1,192
Operating profit		**20,659**	26,989

** 2021 has been restated to remove the depreciation of right of use assets and interest on lease liabilities from discontinued operations to continuing operations, see Note 2 for further information.*

33 Other commitments and contingent liabilities

Contingent liabilities existed at 31 March 2022 and at 31 March 2021 in respect of guarantees given by the Parent Company on behalf of subsidiary undertakings. None of these guarantees are considered material in the context of the net assets of the Group.

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

The agreement is comprised of four facilities totalling total available funds of £475.0 million with a maturity date in 4 years.

At 31 March 2022 a combined amount of £360.0 million was drawn down under the agreement, with the remaining being available to draw down upon request over the duration of the loans.

Notes to the financial statements
for the year ended 31 March 2022

34 Related party transactions

Remuneration of key management personnel

Consolidated	2022 £'000	2021 £'000
Remuneration	**1,013**	742
Company contributions paid to money purchase pensions schemes	**124**	113
Compensation for loss of office	**1,742**	160
Total	**2,879**	1,015

Consolidated	2022 No.	2021 No.
Members of money purchase pension schemes	**3**	3

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

Intra-Group transactions

Amounts payable by the Company to subsidiaries totalled £0.5 million as at 31 March 2022 (2021: £0.5 million).

Amounts receivable from KCOM Holdco 1 Limited (the ultimate UK parent company), KCOM Holdco 2 Limited and KCOM Holdco 3 Limited (the immediate parent undertaking) totalled £0.5 million (2021: £0.3 million). See Note 18 for further details.

Amounts payable by the Group to KCOM Holdco 3 Limited, the immediate parent undertaking as at 31 March 2022 totalled £151.7 million (2021: £160.0 million). See Note 21 for further details.

35 Ultimate controlling party

The immediate parent undertaking is KCOM Holdco 3 Limited.

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

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

36 Subsequent events

On 10 May 2022 KCOM Group and GCI Network Solutions Limited finalised and signed a settlement agreement in relation to the true up of working capital relating to the sale of the trade and assets of the National Business, which completed on 31 July 2021. The impact was a net payment from KCOM of £0.8 million. This is deducted from the sales proceeds in Note 31.

On 8 June 2022 the Group's associate, Smartintegrator Technology Limited, in which the Company indirectly holds 50.1% of the ordinary shares, was placed into liquidation. As part of a wider group statutory structure simplification, 6 other subsidiary entities in which the Company indirectly holds 100% (Kingston Network Holdings Ltd; Kingston Information Services Limited; Eclipse Networking Limited; Eclipse Internet Limited; Kingston Communications (Hull) Limited; and Smart 421 Limited) were also placed into liquidation on that date. See Note 14 for further details.

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

Glossary – Unaudited

Alternative Performance Measures ("APMs")

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

Measure	Closest equivalent IFRS measure	Definition and purpose	Reconciliation to closest equivalent IFRS measure
Profit/(loss) measures (continued operations only)			
EBITDA before exceptional items ('EBITDA')	Profit/(loss) before tax	EBITDA before exceptional items is the key measure used by management to monitor the underlying performance of the Group. EBITDA before exceptional items is also reported to the Board, is incorporated in banking covenants and is an important measure for setting remuneration. EBITDA before exceptional items is important to the users of the accounts as it assists with comparing performance from previous periods. The items classified as exceptional items are described in Note 7. EBITDA before exceptional items is defined as "profit/(loss) before tax" before share of profit before associates, finance costs, amortisation, depreciation and exceptional items.	Loss before tax as quoted in the consolidated income statement (£0.3 million), add back finance income and finance costs (net £7.4 million cost) as quoted on the consolidated income statement, add back depreciation and amortisation (£18.1 million) and depreciation of ROU assets (£5.4 million) as quoted on the consolidated cash flow statement, add back exceptional charge (£8.6 million) as quoted in Note 7.
Cash flows and net debt measures			
Net debt before leases	Cash and cash equivalents, bank overdrafts, bank loans and loans from related parties	Net debt before leases is important as it allows management to assess available funds by calculating how much headroom there is within the Group's borrowing facilities. It is used in the monitoring, reporting and planning of cash flows. Net debt before leases is cash and cash equivalents, bank overdrafts, bank loans and loans from related parties. It excludes the impact of lease liabilities.	A reconciliation of this measure is provided in Note 22 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 (£15.5 million), add back proceeds from sale of property, plant and equipment (£Nil), proceeds from sale of national business trade and net assets (£22.9 million), proceeds from sale of national business consumer base (£1.2 million), and proceeds from license of IP addresses to third parties (£1.6 million).