

KCOM

KCOM Group PLC

**Regulatory Financial Statements
for the year ended 31 March 2017**

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Directors' Statement of Responsibility

The board of directors of KCOM Group PLC have responsibility for setting out the basis of preparation of the Financial Statements, confirming compliance with its responsibilities under the Conditions as conferred in "The regulatory financial reporting obligations on BT and Kingston Communications: Final statement and notification dated 22 July 2004."

Each financial statement :

- 1 includes
 - A regulatory financial review
 - A current cost profit and loss account
 - A statement of current cost mean capital employed
 - A network activity statement (if applicable)
- 2 is prepared in accordance with the Description of Cost Accounting Systems (the "DOCAS") dated 25th July 2017
- 3 is reconciled with the Annual Report and Accounts of KCOM Group PLC and that reconciliation is demonstrated and explained

The directors confirm that the Financial Statements for the year ended 31 March 2017 have been prepared in accordance with the requirements of the relevant conditions.



J Aikman
Chief Financial Officer
25 July 2017

Independent Auditors' report to the Office of Communications ("Ofcom", referred to as the "Regulator") and KCOM Group PLC

Report on the Regulatory Accounts

Our opinion

In our opinion, KCOM Group PLC's Regulatory Accounts (the "Regulatory Accounts"):

- have been properly prepared in accordance with the Description of Cost Accounting System ("the DOCAS") dated 25 July 2017 and the accounting policies set out on pages 47 to 49, and
- have been properly prepared in accordance with "The regulatory financial reporting obligations on BT and Kingston Communications" published by Ofcom on 22 July 2004 ("the Obligations") and subsequent amendments.

Basis of preparation

Informing our opinion on the Regulatory Accounts, which is not modified, we draw attention to note 2 which describes the basis of preparation of the Regulatory Accounts. The Regulatory Accounts are separate from the statutory financial statements of the Company and have not been prepared under the basis of International Financial Reporting Standards as adopted by the European Union ("IFRSs"). Financial information other than that prepared on the basis of IFRSs does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

What we have audited

KCOM Group PLC's Regulatory Accounts comprise:

- the statement of current cost mean capital employed for each market as at 31 March 2017;
- the current cost profit and loss account for each market for the year then ended; and
- the accounting policies and the related notes.

The markets covered by this opinion include the following Kingston Wholesale Markets:

- Analogue Exchange Line Services in the Hull Area;
- ISDN 2 Exchange Line Services in the Hull Area;
- ISDN 30 Exchange Line Services in the Hull Area;
- Call Origination on Fixed Public Narrowband Networks in the Hull Area;
- Asymmetric Broadband Origination in the Hull Area;
- Provision of Traditional Interface Symmetric Broadband Origination with a Bandwidth Capacity up to and including 8 Mb/s within the Hull Area;
- Provision of Traditional Interface Symmetric Broadband Origination with a Bandwidth Capacity Above 8 Mb/s and up to and including 45 Mb/s within the Hull Area;
- Provision of Traditional Interface Symmetric Broadband Origination with a Bandwidth Capacity Above 45 Mb/s and up to and including 155 Mb/s within the Hull Area; and
- Provision of Alternative Interface Symmetric Broadband Origination at all Bandwidths within the Hull Area.

The financial reporting framework that has been applied in their preparation comprises the basis of preparation set out in the DOCAS and accounting policies set out in note 2 to the Regulatory Accounts.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Obligations, we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit;
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us;
- the Regulatory Accounts are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Responsibilities for the Regulatory Accounts and the audit
Our responsibilities and those of the directors and the Regulator

As explained more fully in the Statement of Directors' Responsibilities set out on page 3, the directors are responsible for the preparation of the Regulatory Accounts and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the Regulatory Accounts in accordance with International Standards on Auditing (UK & Ireland) ("ISAs (UK&I)"), except as stated in the 'What an audit of Regulatory Accounts involves' section below, and having regard to the guidance contained in 'ICAEW Technical Release Tech 02/16 AAF 'Reporting to Regulators on Regulatory Accounts'' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report is made, on terms that have been agreed, solely to the Company and the Regulator in order to meet the requirements set out in the Obligations. Our audit work has been undertaken so that we might state to the Company and the Regulator those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under the Obligations to procure such a report and (b) to facilitate the carrying out by the Regulator of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and (where the Regulator has signed a Written Notice) the Regulator, for our audit work, for this report or for the opinions we have formed.

What an audit of Regulatory Accounts involves

We conducted our audit in accordance with ISAs (UK&I). An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounts sufficient to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies set out in the DOCAS and in note 2 to the Regulatory Accounts have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the Regulatory Accounts.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the Regulatory Accounts.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both. However we have not performed any additional tests of the transactions and balances which are recorded in the general ledgers and other accounting records beyond those already performed for the purpose of the audits of the Statutory Financial Statements.

In addition, we read all the financial and non-financial information in the Regulatory Financial Statements to identify material inconsistencies with the audited Regulatory Accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

However, we have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by the Obligations and set out in the DOCAS. Where the Obligations do not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory Accounts are consistent with the DOCAS. Furthermore, as the nature, form and content of Regulatory Accounts are determined by the Regulator, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under Auditing Standards.

Other matters

The nature, form and content of Regulatory Accounts are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly we make no such assessment.

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2017 on which we reported on 9 June 2017, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors, Hull

31 July 2017

Rounding of Presented Numbers

These statements incorporate numbers to decimal places which, when presented as whole digits within these statements, may not cast precisely to the totals. In consequence the % variances refer to the underlying figure in £ and may differ from calculations performed using the visible integers.

Kingston Wholesale Markets Consolidation Statement

Consolidated Total - For all Wholesale Markets where cost accounting and/or accounting separation obligations apply

CURRENT COST PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2017

	£k 2017	% per line item/total	£k 2016	% per line item/total	% Change Year on Year
Turnover					
Internal Sales	28,627	92%	30,357	94%	-6%
External Sales	2,599	8%	1,783	6%	46%
Total Turnover	31,227	100%	32,140	100%	-3%
Operating costs					
Operating costs of Wholesale Market					
- Maintenance	10,965	66%	11,910	62%	-8%
- Provision & Installation	31	0%	34	0%	-8%
- Outpayments	63	0%	62	0%	3%
- Depreciation	4,722	28%	6,171	32%	-23%
- Other Costs	812	5%	1,092	6%	-26%
Sub total operating expenditure	16,595	100%	19,269	100%	-14%
CCA adjustments:					
Holding gain	(378)		(193)		96%
Supplementary depreciation	3,003		1,583		90%
Total operating costs	19,220		20,660		-7%
Return	12,007		11,481		5%
RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER					
for the year ended 31 March 2017					
	2017		2016		%
	%		%		%
Return on mean capital employed	13%		13%		0%
Return on turnover	38%		36%		3%

Kingston Wholesale Markets Consolidation Statement

Consolidated Total - For all Wholesale Markets where cost accounting and/or accounting separation obligations apply

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2017

	£k 2017	£k 2016	% Change
Fixed assets			
Tangible fixed assets			
- Land & Buildings	4,140	3,928	5%
- Duct	47,524	43,771	9%
- Transmission Equipment	36,154	33,570	8%
- Exchange Equipment	3,063	3,456	-11%
- Other	804	1,050	-23%
Total fixed assets	91,684	85,775	7%
Current assets			
Stocks	2,712	2,303	18%
Debtors			
- internal	2,933	3,110	-6%
- external	223	124	80%
Total current assets	5,868	5,536	6%
Creditors: amounts falling due within one year			
Other creditors			
- internal	(1,524)	(1,770)	-14%
Total creditors: amounts falling due within one year	(1,524)	(1,770)	-14%
Net current assets	4,344	3,766	15%
Total assets less current liabilities	96,028	89,541	7%
Closing capital employed	96,028	89,541	7%

Kingston Fixed narrowband wholesale exchange line, call origination, conveyance and transit markets

CURRENT COST PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2017

	£k 2017	% per line item/total	£k 2016	% per line item/total	% Change Year on Year
Turnover					
Internal Sales	24,004	95%	24,195	94%	-1%
External Sales	1,312	5%	1,468	6%	-11%
Total Turnover	25,316	100%	25,662	100%	-1%
Operating costs					
Operating costs of Wholesale Market					
- Maintenance	7,011	63%	7,871	58%	-11%
- Provision & Installation	31	0%	34	0%	-8%
- Outpayments	63	1%	62	0%	3%
- Depreciation	3,251	29%	4,638	34%	-30%
- Other Costs	767	7%	1,033	8%	-26%
Sub total operating expenditure	11,124	100%	13,637	100%	-18%
CCA adjustments:					
Holding gain	(235)		(590)		-60%
Supplementary depreciation	3,322		1,980		68%
Total operating costs	14,212		15,027		-5%
Return	11,105		10,635		4%
RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER for the year ended 31 March 2017	2017		2016		
	%		%		%
Return on mean capital employed	13%		13%		0%
Return on turnover	44%		41%		2%

Kingston Fixed narrowband wholesale exchange line, call origination, conveyance and transit markets

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2017

	£k 2017	£k 2016	% Change
Fixed assets			
Tangible fixed assets			
- Land & Buildings	3,651	3,457	6%
- Duct	45,222	41,318	9%
- Transmission Equipment	34,859	32,588	7%
- Exchange Equipment	1,700	1,655	3%
- Other	129	204	-37%
Total fixed assets	85,561	79,222	8%
Current assets			
Stocks	2,132	1,862	15%
Debtors			
- internal	2,459	2,479	-1%
- external	115	124	-7%
Total current assets	4,707	4,465	5%
Creditors: amounts falling due within one year			
Other creditors			
- internal	(1,022)	(1,253)	-18%
Total creditors: amounts falling due within one year	(1,022)	(1,253)	-18%
Net current assets	3,685	3,212	15%
Total assets less current liabilities	89,246	82,434	8%
Closing capital employed	89,246	82,434	8%

Regulatory Financial Review

Kingston Wholesale Market : Analogue Exchange Line Services in the Hull Area

The analogue exchange line services market provides analogue lines to residential and business consumers within the Hull regulatory area. Line numbers declined a further 2% over 2016/17 in continuation of the trend to substitution by alternative communications including IP and mobile.

Number of Lines or Circuits

2011/12		2012/13		2013/14		2014/15		2015/16		2016/17
178,031	0%	178,496	-2%	175,690	-2%	171,994	-1%	169,783	-2%	165,938

Whilst the total number of lines has declined, KCOM has continued to maintain its access and transmission technology. This infrastructure also supports the construction of the FTTP network which currently operates in parallel with traditional infrastructure in those areas in which it has been rolled out and which, on completion, will facilitate a wide range of new services. Internal sales, driven by the return on the mean capital employed, has declined 1% to £22.2m (2015/16 : £22.4m).

External wholesale revenue of £0.6m (2015/16 : £0.7m) reflects a 4% decline in the contribution from customers reselling these access services within the Hull area. Reseller analogue line take-up is reflecting the overall direction of the analogue exchange line market wherein voice communication options are increasingly diverse.

Operating costs have remained stable year on year :

HCA maintenance costs reduced £0.8m (12%) year on year, reflecting overall network savings achieved in the year. Total depreciation charge (depreciation plus supplementary depreciation) has remained consistent year on year. Other costs have declined £0.2m (-27%).

FY17 witnessed major incremental investment in FTTP, a data service, and this together with historic spend has been assigned to the Retail Residual Market.

Overall unit costs per line have increased by 2% to £138 p.a.

Kingston Wholesale Market : Analogue Exchange Line Services in the Hull Area

CURRENT COST PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2017

	£k 2017	% per line item/total	£k 2016	% per line item/total	% Change Year on Year
Turnover					
Internal Sales	22,191	97%	22,394	97%	-1%
External Sales	637	3%	664	3%	-4%
Total Turnover	22,828	100%	23,058	100%	-1%
Operating costs					
Operating costs of Wholesale Market					
- Maintenance	6,009	64%	6,803	58%	-12%
- Provision & Installation	10	0%	10	0%	-2%
- Outpayments	63	1%	61	1%	3%
- Depreciation	2,693	29%	3,906	34%	-31%
- Other Costs	634	7%	868	7%	-27%
Sub total operating expenditure	9,409	100%	11,650	100%	-19%
CCA adjustments:					
Holding gain	(217)		(527)		-59%
Supplementary depreciation	3,241		1,961		65%
Total operating costs	12,433		13,083		-5%
Return	10,395		9,974		4%

RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER

for the year ended 31 March 2017

	2017 %	2016 %	%
Return on mean capital employed	13%	13%	0%
Return on turnover	46%	43%	2%

Kingston Wholesale Market : Analogue Exchange Line Services in the Hull Area

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2017

	£k 2017	£k 2016	% Change
Fixed assets			
Tangible fixed assets			
- Land & Buildings	1,733	1,661	4%
- Duct	43,714	39,942	9%
- Transmission Equipment	34,136	31,858	7%
- Exchange Equipment	435	755	-42%
- Other	44	77	-43%
Total fixed assets	80,063	74,292	8%
Current assets			
Stocks	1,992	1,729	15%
Debtors			
- internal	2,274	2,294	-1%
- external	65	68	-4%
Total current assets	4,331	4,092	6%
Creditors: amounts falling due within one year			
Other creditors			
- internal	(864)	(1,070)	-19%
Total creditors: amounts falling due within one year	(864)	(1,070)	-19%
Net current assets	3,467	3,021	15%
Total assets less current liabilities	83,529	77,314	8%
Closing capital employed	83,529	77,314	8%

Kingston Statement of Costs on a Current Cost Basis

Network Activity Statement
for the year ended 31 March 2017

Analogue Exchange Lines

Fully Allocated Cost	HCA operating cost	Supplementary Depreciation	Holding gain and other CCA adjustments	Total CCA operating costs	CCA mean capital employed	Applicable rate of return on capital %	Capital costs	Total of operating costs and capital costs relating to current year	Volume (No. of Lines)	Average costs per min/unit on a current cost basis relating to current year
Components										
Exchange concentrator	894	24	58	976	1,715	13%	223	1,199	165,938	£7.22
Exchange-exchange transmission length	174	71	1	246	1,661	13%	216	462	165,938	£2.78
PPP for narrowband call services	634	-	-	634	-	13%	-	634	165,938	£3.82
Local Loop Infrastructure	7,708	3,146	(276)	10,578	77,045	13%	10,016	20,594	165,938	£124.10
Totals	9,409	3,241	(217)	12,433	80,421		10,455	22,888		£137.93
Network Activity Statement for year ended 31st March 2016										
Prior year Exchange concentrator	939	4	(30)	913	1,958	13%	255	1,168	169,783	£6.88
Prior year Exchange-exchange transmission length	215	39	(10)	244	1,451	13%	189	433	169,783	£2.55
PPP for narrowband call services	868	-	-	868	-	13%	-	868	169,783	£5.11
Local Loop Infrastructure	9,628	1,917	(487)	11,058	73,299	13%	9,529	20,587	169,783	£121.25
Totals	11,650	1,961	(527)	13,083	76,709		9,972	23,056		£135.79

Regulatory Financial Review

Kingston Wholesale Market : ISDN 2 Exchange Line Services in the Hull Area

The ISDN2 market provides ISDN2 lines predominantly to businesses within the Hull regulatory area.

ISDN 2 circuits continued their decline in 2016/17 and now exhibit a compound annual decline of 13% over the past six years. These are legacy circuits and are being superseded by FTTP/C high bandwidth connectivity, with take-up of the latter, in conjunction with client lifecycle decisions on termination of legacy applications such as PBX, to drive increasing substitution over time.

Number of Lines or Circuits

2011/12		2012/13		2013/14		2014/15		2015/16		2016/17
3,795	-8%	3,481	-13%	3,012	-19%	2,438	-15%	2,077	-11%	1,852

Overall revenue has declined 15% year on year with declines in both internal revenue and sales to resellers. With limited functionality relative to newer technologies this market is dependant upon inertia for ongoing sales.

Operating costs have declined by 19% year on year.

Unit costs have declined 5% over 2015/16 to £193 p.a. due to the material reduction in ISDN 2 operating costs.

Kingston Wholesale Market : ISDN 2 Exchange Line Services in the Hull Area

CURRENT COST PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2017

	£k 2017	% per line item/total	£k 2016	% per line item/total	% Change Year on Year
Turnover					
Internal Sales	149	42%	192	46%	-22%
External Sales	208	58%	228	54%	-9%
Total Turnover	356	100%	420	100%	-15%
Operating costs					
Operating costs of Wholesale Market					
- Maintenance	108	57%	135	52%	-20%
- Provision & Installation	2	1%	2	1%	-2%
- Depreciation	64	34%	100	38%	-36%
- Other Costs	15	8%	22	9%	-32%
Sub total operating expenditure	189	100%	259	100%	-27%
CCA adjustments:					
Holding gain	(0)		(7)		-95%
Supplementary depreciation	37		26		44%
Total operating costs	225		278		-19%
Return	131		142		-8%

RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER

for the year ended 31 March 2017

	2017 %	2016 %	%
Return on mean capital employed	13%	13%	0%
Return on turnover	37%	34%	3%

Kingston Wholesale Market : ISDN2 Exchange Line Services in the Hull Area

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2017

	£k 2017	£k 2016	% Change
Fixed assets			
Tangible fixed assets			
- Land & Buildings	64	65	-1%
- Duct	488	489	0%
- Transmission Equipment	381	390	-2%
- Exchange Equipment	5	9	-47%
- Other	8	11	-24%
Total fixed assets	946	964	-2%
Current assets			
Stocks	39	38	4%
Debtors			
- internal	15	20	-22%
- external	21	23	-9%
Total current assets	76	81	-6%
Creditors: amounts falling due within one year			
Other creditors			
- internal	(17)	(24)	-27%
Total creditors: amounts falling due within one year	(17)	(24)	-27%
Net current assets	59	57	2%
Total assets less current liabilities	1,005	1,021	-2%
Closing capital employed	1,005	1,021	-2%

Kingston Statement of Costs on a Current Cost Basis

**Network Activity Statement
for the year ended 31 March 2017**

ISDN 2 Lines

Fully Allocated Cost	HCA operating cost	Supplementary Depreciation	Holding gain and other CCA adjustments	Total CCA operating costs	CCA mean capital employed	Applicable rate of return on capital %	Capital costs	Total of operating costs and capital costs relating to current year	Volume (No. of Lines)	Average costs per min/unit on a current cost basis relating to current year
Components										
Exchange concentrator	20	1	3	24	1	13%	-	24	1,852	£12.82
Exchange-exchange transmission length	2	1	(0)	3	-	13%	-	3	1,852	£1.56
PPP for narrowband call services	9	-	-	9	-	13%	-	9	1,852	£5.07
Local Loop Infrastructure	157	35	(3)	190	1,012	13%	132	321	1,852	£173.35
Totals	189	37	(0)	225	1,013		132	357		£192.80
Network Activity Statement for year ended 31st March 2016										
Exchange concentrator	23	1	(1)	22	1	13%	-	22	2,077	£10.81
Exchange-exchange transmission length	3	1	-	3	-	13%	-	3	2,077	£1.62
PPP for narrowband call services	12	-	-	12	-	13%	-	12	2,077	£5.85
Local Loop Infrastructure	221	24	(5)	240	1,090	13%	142	382	2,077	£183.86
Totals	259	26	(7)	278	1,091		142	420		£202.15

Regulatory Financial Review

Kingston Wholesale Market : ISDN 30 Exchange Line Services in the Hull Area

This market is for the provision of ISDN30 lines to businesses within the Hull regulatory area, the primary usage for which is voice traffic.

Number of Lines or Circuits

2011/12		2012/13		2013/14		2014/15		2015/16		2016/17
1,228	0%	1,229	-1%	1,215	-3%	1,175	-3%	1,145	-9%	1,043

ISDN 30 circuit volumes declined by a further 9% in 2016/17 with a trend compound annual reduction since 2011/12 of 3%. In common with ISDN2 alternative technologies such as FTTP (fibre to the premises) are increasingly impacting connectivity choices in this market and has driven some substitution during the reporting period.

Reseller activity in this market has mirrored the overall market with sales from external sources declining 8% year on year. The overall cost base declined by £0.1m / 22% driven primarily by a 19% fall in associated maintenance costs.

Unit circuit costs have declined by 10% year on year to £588 p.a. as a consequence of the network based cost reductions.

Kingston Wholesale Market :ISDN 30 Exchange Line Services in the Hull Area

CURRENT COST PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2017

	£k 2017	% per line item/total	£k 2016	% per line item/total	% Change Year on Year
Turnover					
Internal Sales	411	67%	529	71%	-22%
External Sales	201	33%	218	29%	-8%
Total Turnover	612	100%	748	100%	-18%
Operating costs					
Operating costs of Wholesale Market					
- Maintenance	265	55%	326	50%	-19%
- Provision & Installation	19	4%	22	3%	-12%
- Depreciation	160	33%	245	38%	-35%
- Other Costs	39	8%	57	9%	-30%
Sub total operating expenditure	484	100%	650	100%	-26%
CCA adjustments:					
Holding (gain) / loss	(10)		(24)		-56%
Supplementary depreciation	20		10		93%
Total operating costs	494		637		-22%
Return	118		111		7%
RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER					
for the year ended 31 March 2017					
	2017		2016		%
	%		%		%
Return on mean capital employed	13%		13%		0%
Return on turnover	19%		15%		5%

Kingston Wholesale Market : Business ISDN 30 Exchange Line Services in the Hull Area

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2017

	£k 2017	£k 2016	% Change
Fixed assets			
Tangible fixed assets			
- Land & Buildings	150	153	-2%
- Duct	275	269	2%
- Transmission Equipment	325	309	5%
- Exchange Equipment	3	5	-46%
- Other	48	57	-17%
Total fixed assets	800	795	1%
Current assets			
Stocks	101	95	6%
Debtors			
- internal	42	54	-22%
- external	21	22	-8%
Total current assets	164	172	-5%
Creditors: amounts falling due within one year			
Other creditors			
- internal	(44)	(60)	-26%
Total creditors: amounts falling due within one year	(44)	(60)	-26%
Net current assets	119	112	6%
Total assets less current liabilities	919	907	1%
Closing capital employed	919	907	1%

Kingston Statement of Costs on a Current Cost Basis

Network Activity Statement for the year ended 31 March 2017

Business ISDN 30 Lines

Fully Allocated Cost	HCA operating cost	Supplementary Depreciation	Holding gain and other CCA adjustments	Total CCA operating costs	CCA mean capital employed	Applicable rate of return on capital %	Capital costs	Total of operating costs and capital costs relating to current year	Volume (No. of Business Lines)	Average costs per min/unit on a current cost basis relating to current year
Components										
Exchange concentrator	48	2	6	56	199	13%	26	82	1,043	£78.86
Exchange-exchange transmission link	-	(0)	-	-	-	13%	-	-	1,043	£0.02
Exchange-exchange transmission length	1	1	(0)	2	13	13%	2	3	1,043	£3.16
PPP for narrowband call services	39	-	-	39	-	13%	-	39	1,043	£37.82
Local Loop Infrastructure	396	17	(16)	397	701	13%	91	488	1,043	£467.85
Totals	484	20	(10)	494	913		119	613		£587.71
Network Activity Statement for year ended 31st March 2016										
Exchange concentrator	55	2	(3)	53	203	13%	26	79	1,145	£69.28
Exchange-exchange transmission link	-	(0)	-	-	-	13%	-	-	1,145	£0.02
Exchange-exchange transmission length	1	-	-	1	11	13%	1	3	1,145	£2.55
PPP for narrowband call services	57	-	-	57	-	13%	-	57	1,145	£49.42
Local Loop Infrastructure	538	9	(20)	526	637	13%	83	609	1,145	£531.71
Totals	650	10	(24)	637	851		111	748		£652.99

Regulatory Financial Review

Kingston Wholesale Market : Call Origination on Fixed Public Narrowband Networks in the Hull Area

The call origination market includes the origination of local, fixed-to-mobile, national (e.g. 01/02/03 numbers), number translation services, narrowband internet and international calls.

	2011/12		2012/13		2013/14		2014/15		2015/16		2016/17
Minutes (Billions)	0.71	-8%	0.66	-8%	0.60	-14%	0.52	-10%	0.47	-0.09	0.42

Call origination volumes continue to decline, currently averaging 10% p.a. , reflecting an industry wide trend driven by the increasing diversity of communications media.

Historic maintenance costs increased 4%. Overall operating costs after CCA adjustments increased 3%. In combination with the significant reduction in call volume, this has driven unit costs up 16% to 0.36 pence per minute.

Kingston Wholesale Market : Call Origination on Fixed Public Narrowband Networks in the Hull Area

CURRENT COST PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2017

	£k 2017	% per line item/total	£k 2016	% per line item/total	% Change Year on Year
Turnover					
Internal Sales	1,253	82%	1,080	75%	16%
External Sales	266	18%	357	25%	-25%
Total Turnover	1,519	100%	1,437	100%	6%
Operating costs					
Operating costs of Wholesale Market					
- Maintenance	629	60%	607	56%	4%
- Depreciation	334	32%	386	36%	-13%
- Other Costs	79	8%	86	8%	-8%
Sub total operating expenditure	1,042	100%	1,079	100%	-3%
CCA adjustments:					
Holding (gain) / loss	(7)		(33)		-80%
Supplementary depreciation	24		(17)		-242%
Total operating costs	1,059		1,029		3%
Return	460		408		13%

RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER

for the year ended 31 March 2017

	2017 %	2016 %	%
Return on mean capital employed	13%	13%	0%
Return on turnover	30%	28%	2%

Kingston Wholesale Market : Call Origination on Fixed Public Narrowband Networks in the Hull Area

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2017

	£k 2017	£k 2016	% Change
Fixed assets			
Tangible fixed assets			
- Land & Buildings	1,704	1,578	8%
- Duct	746	618	21%
- Transmission Equipment	17	31	-45%
- Exchange Equipment	1,258	886	42%
- Other	28	58	-52%
Total fixed assets	3,752	3,171	18%
Current assets			
Debtors			
- internal	128	111	16%
- external	8	10	-16%
Total current assets	137	120	13%
Creditors: amounts falling due within one year			
Other creditors			
- internal	(96)	(99)	-3%
Total creditors: amounts falling due within one year	(96)	(99)	-3%
Net current assets	41	21	91%
Total assets less current liabilities	3,793	3,192	19%
Closing capital employed	3,793	3,192	19%

Kingston Statement of Costs on a Current Cost Basis

**Network Activity Statement
for the year ended 31 March 2017**

Call origination on fixed public narrowband networks

	HCA operating cost	Supplementary Depreciation	Holding gain and other CCA adjustments	Total CCA operating costs	CCA mean capital employed	Applicable rate of return on capital %	Capital costs	Total of operating costs and capital costs relating to current year	Volume ('000 Originating Call Minutes)	Average costs per min/unit (PPM) on a current cost basis relating to current year
Fully Allocated Cost										
Components										
Exchange concentrator	273	(17)	(19)	236	2,514	13%	327	563	424,472	0.1327
Exchange processor	469	8	5	482	133	13%	17	499	424,472	0.1177
Exchange-exchange transmission link	65	(33)	9	42	140	13%	18	60	424,472	0.0142
Exchange-exchange transmission length	79	66	(2)	143	703	13%	91	234	424,472	0.0552
National operator assistance	1	-	-	1	1	13%	-	1	424,472	0.0002
Emergency operator assistance	1	-	-	1	1	13%	-	1	424,472	0.0002
PPP for narrowband call services	155	-	-	155	-	13%	-	155	424,472	0.0364
Totals	1,042	24	(6)	1,060	3,493		454	1,514		0.3566
Network Activity Statement for year ended 31st March 2016										
Exchange concentrator	236	(50)	(49)	137	2,093	13%	272	410	467,224	0.0877
Exchange processor	502	9	(3)	508	250	13%	32	540	467,224	0.1157
Exchange-exchange transmission link	68	(28)	13	54	158	13%	20	75	467,224	0.0159
Exchange-exchange transmission length	92	52	6	150	639	13%	83	233	467,224	0.0498
National operator assistance	1	-	-	1	1	13%	-	1	467,224	0.0002
Emergency operator assistance	1	-	-	1	1	13%	-	1	467,224	0.0002
PPP for narrowband call services	179	-	-	179	-	13%	-	179	467,224	0.0383
Totals	1,078	(17)	(33)	1,029	3,140		408	1,437		0.3077

Regulatory Financial Review

Kingston Wholesale Market : Asymmetric Broadband Origination in the Hull Area

The asymmetric broadband origination market comprises broadband internet access products available to both consumers and businesses in the Hull area. Business broadband products have shown decline in the year as fibre begins to replace this technology.

	2011/12		2012/13		2013/14		2014/15		2015/16		2016/17
Circuit Nos	101,717	4%	105,808	7%	112,976	6%	119,623	0%	120,122	-29%	84,990

The extensive roll-out of FTTP during the year has initiated substitution away from ADSL and whilst total internet service numbers exhibited increasing demand, those provided over ADSL have declined. FTTP (Lightstream) is accommodated within the residual markets.

Internal revenue has declined 12% over the prior year and this will continue as the FTTP deployment reaches a greater proportion of the geographic area. External reseller revenues have declined 23% to £241k (2015/16 £315k). Overall historical costs have fallen 15% in line with the reduction in turnover.

Overall unit costs have increased 23% to £36p.a. (2015/16 £29) predominately due to the reduction in number of lines.

Kingston Wholesale Market : Asymmetric Broadband Origination in the Hull Area

CURRENT COST PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2017

	£k 2017	% per line item/total	£k 2016	% per line item/total	% Change Year on Year
Turnover					
Internal Sales	2,799	92%	3,184	91%	-12%
External Sales	241	8%	315	9%	-23%
Total Turnover	3,040	100%	3,499	100%	-13%
Operating costs					
Operating costs of Wholesale Market					
- Maintenance	2,026	67%	2,189	73%	-7%
- Depreciation	976	32%	802	27%	22%
- Other Costs	8	0%	15	0%	-45%
Sub total operating expenditure	3,010	100%	3,005	100%	0%
CCA adjustments:					
Holding (Gain) / Loss	(46)		380		112%
Supplementary depreciation	(266)		(228)		17%
Total operating costs	2,699		3,157		-15%
Return	342		342		0%

RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER

for the year ended 31 March 2017

	2017 %	2016 %	%
Return on mean capital employed	13%	13%	0%
Return on turnover	11%	10%	1%

Kingston Wholesale Market : Asymmetric Broadband Origination in the Hull Area

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2017

	£k 2017	£k 2016	% Change
Fixed assets			
Tangible fixed assets			
- Land & Buildings	1	1	-10%
- Duct	1,059	1,268	-16%
- Transmission Equipment			
- Exchange Equipment	1,147	1,504	-24%
- Other	54	109	-51%
Total fixed assets	2,260	2,882	-22%
Current assets			
Stocks	30	26	15%
Debtors			
- internal	287	326	-12%
Total current assets	317	352	-10%
Creditors: amounts falling due within one year			
Other creditors			
- internal	(277)	(276)	0%
Total creditors: amounts falling due within one year	(277)	(276)	0%
Net current assets	40	76	-47%
Total assets less current liabilities	2,301	2,959	-22%
Closing capital employed	2,301	2,959	-22%

Kingston Statement of Costs on a Current Cost Basis

Network Activity Statement
for the year ended 31 March 2017

Asymmetric Broadband Origination in the Hull Area

	HCA operating cost	Supplementary Depreciation	Holding gain and other CCA adjustments	Total CCA operating costs	CCA mean capital employed	Applicable rate of return on capital %	Capital costs	Total of operating costs and capital costs relating to current year	Volume (No. of Lines)	Average costs per min/unit on a current cost basis relating to current year
Components										
Exchange concentrator	72	(6)	(0)	65	63	13%	8	73	84,990	£0.86
Exchange-exchange transmission length	2,930	(259)	(45)	2,626	2,567	13%	334	2,960	84,990	£34.82
PPP for narrowband call services	8	-	-	8	-	13%	-	8	84,990	£0.09
Local Loop Infrastructure	1	-	-	1	-	13%	-	1	84,990	£0.01
Totals	3,010	(266)	(45)	2,700	2,630		342	3,041		£35.79
Network Activity Statement for year ended 31st March 2016										
Exchange concentrator	111	(08)	-	103	98	13%	13	116	120,122	£0.96
Exchange-exchange transmission length	2,879	(219)	380	3,039	2,537	13%	330	3,369	120,122	£28.04
PPP for narrowband call services	15	-	-	15	-	13%	-	15	120,122	£0.12
Local Loop Infrastructure	1	-	-	1	-	13%	-	1	120,122	£0.01
Totals	3,005	(228)	380	3,157	2,635		343	3,500		£29.14

Regulatory Financial Review (Kingston)

Kingston Wholesale Market : Provision of Traditional Interface Symmetric Broadband Origination with a Bandwidth Capacity up to & Including 8Mb/s Within the Hull Area

The market for the provision of traditional interface symmetric broadband origination includes point-to-point circuits between 64kb/s and 2 Mb/s. Circuit numbers in the sub 2Mb/s category have also been declining for some years but the increasing capabilities of ethernet and other IP services is increasing the pace of substitution and have led to a 10% decline in circuit numbers during the year.

Number of circuits

2011/12		2012/13		2013/14		2014/15		2015/16		2016/17
2,838	-6%	2,663	-13%	2,312	-26%	1,716	-8%	1,574	-10%	1,413

Revenues have declined 5% year on year driven by falling unit numbers. This market is suffering from consolidation of bandwidth into aggregated ethernet bearers at one level and substitution by ethernet point to point in others. Bandwidth capability, in particular for analogue lease line, kiloline and kiloline n circuits, is now too low for most contemporary applications and persists primarily for legacy applications.

HCA operating costs declined by 12%, with a 7% reduction in maintenance costs.

Average unit costs (per line per annum) increased 6% to £369 p.a. (2015/16 £349) as the reduced number of lines now supports a relatively higher cost base.

Kingston Wholesale Market : Provision of Traditional Interface Symmetric Broadband Origination with a Bandwidth Capacity up to & Including 8Mb/s Within the Hull Area

CURRENT COST PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2017

	£k 2017	% per line item/total	£k 2016	% per line item/total	% Change Year on Year
Turnover					
Internal Sales	521	100%	549	100%	-5%
Total Turnover	521	100%	549	100%	-5%
Operating costs					
Operating costs of Wholesale Market					
- Maintenance	176	58%	189	54%	-7%
- Depreciation	110	36%	135	39%	-19%
- Other Costs	19	6%	24	7%	-20%
Sub total operating expenditure	305	100%	348	100%	-12%
CCA adjustments:					
Holding loss	19		14		39%
Supplementary depreciation	(13)		(18)		-28%
Total operating costs	311		344		-10%
Return	210		205		3%

RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER

for the year ended 31 March 2017

	2017 %	2016 %	%
Return on mean capital employed	13%	13%	0%
Return on turnover	40%	37%	3%

Kingston Wholesale Market : Provision of Traditional Interface Symmetric Broadband Origination with a Bandwidth Capacity up to & Including 8Mb/s Within the Hull Area

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2017

	£k 2017	£k 2016	% Change
Fixed assets			
Tangible fixed assets			
- Land & Buildings	241	227	6%
- Duct	717	715	0%
- Transmission Equipment	287	269	6%
- Other	298	316	-6%
Total fixed assets	1,543	1,528	1%
Current assets			
Stocks	65	52	25%
Debtors			
- internal	53	56	-5%
Total current assets	118	108	9%
Creditors: amounts falling due within one year			
Other creditors			
- internal	(28)	(32)	-12%
Total creditors: amounts falling due within one year	(28)	(32)	-12%
Net current assets	90	76	18%
Total assets less current liabilities	1,633	1,604	2%
Closing capital employed	1,633	1,604	2%

Kingston Statement of Costs on a Current Cost Basis

**Network Activity Statement
for the year ended 31 March 2017**

Wholesale Traditional Interface Symmetric Broadband Origination (<= 8Mb)

	HCA operating cost	Supplementary Depreciation	Holding gain and other CCA adjustments	Total CCA operating costs	CCA mean capital employed	Applicable rate of return on capital %	Capital costs	Total of operating costs and capital costs relating to current year	Volume (No. of Business Lines)	Average costs per min/unit on a current cost basis relating to current year
Components										
Exchange concentrator	5	4	10	19	535	13%	70	89	1,413	£62.72
Exchange-exchange transmission length	1	-	-	1	7	13%	1	2	1,413	£1.32
PPP for narrowband call services	19	-	-	19	-	13%	-	19	1,413	£13.26
Local Loop Infrastructure	281	(18)	9	272	1,077	13%	140	412	1,413	£291.56
Totals	305	(13)	19	311	1,619		210	521		£368.86
Network Activity Statement for the year ended 31 March 2016										
Exchange concentrator	7	1	(5)	3	535	13%	70	73	1,574	£46.28
Exchange-exchange transmission length	1	-	(0)	1	7	13%	1	2	1,574	£1.27
PPP for narrowband call services	24	-	-	24	-	13%	-	24	1,574	£14.95
Local Loop Infrastructure	317	(20)	19	316	1,037	13%	135	451	1,574	£286.21
Totals	348	(18)	14	344	1,579		205	549		£348.71

Regulatory Financial Review

Kingston Wholesale Market : Provision of Traditional Interface Symmetric Broadband Origination with a Bandwidth Capacity Above 8 Mb/s & up to & Including 45Mb/s Within the Hull Area

The market for the provision of traditional interface symmetric broadband origination with a capacity of 8 Mb - 45Mb includes point-to-point circuits of 34Mbs and 45Mbs.

This is a static market as a consequence of demand for new bandwidth being drawn to ethernet.

Number of Circuits

2011/12		2012/13		2013/14		2014/15		2015/16		2016/17
9.5	-5%	9	-11%	8	-31%	6	-45%	3	-33%	2

Internal revenues, generated by a 13% return on mean capital employed, declined 14%. Historical costs are impacted by a 6% reduction in attributable maintenance charges which, added to the CCA adjustments represent a 24% overall reduction in the cost base.

Overall unit costs p.a. increased 29% to £42k (2015/16 : £32k) as a consequence of the two remaining circuits supporting a fixed element to their delivery cost base.

Kingston Wholesale Market : Provision of Traditional Interface Symmetric Broadband Origination with a Bandwidth Capacity Above 8 Mb/s & up to & Including 45Mb/s Within the Hull Area

CURRENT COST PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2017

	£k 2017	% per line item/total	£k 2016	% per line item/total	% Change Year on Year
Turnover					
Internal Sales	84	100%	97	100%	-14%
Total Turnover	84	100%	97	100%	-14%
Operating costs					
Operating costs of Wholesale Market					
- Maintenance	42	62%	45	58%	-6%
- Depreciation	22	32%	28	36%	-21%
- Other Costs	5	7%	5	7%	-11%
Sub total operating expenditure	69	100%	78	100%	-12%
CCA adjustments:					
Holding loss	5		9		-42%
Supplementary depreciation	(22)		(19)		17%
Total operating costs	53		69		-24%
Return	31		28		12%

RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER

for the year ended 31 March 2017

	2017 %	2016 %	%
Return on mean capital employed	13%	13%	0%
Return on turnover	37%	29%	8%

Kingston Wholesale Market : Provision of Traditional Interface Symmetric Broadband Origination with a Bandwidth Capacity Above 8 Mb/s & up to & Including 45Mb/s Within the Hull Area

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2017

	£k 2017	£k 2016	% Change
Fixed assets			
Tangible fixed assets			
- Land & Buildings	94	89	5%
- Duct	2	2	-24%
- Transmission Equipment	2	2	28%
- Other	119	127	-6%
Total fixed assets	216	220	-2%
Current assets			
Stocks	15	12	25%
Debtors			
- internal	9	10	-14%
Total current assets	23	22	7%
Creditors: amounts falling due within one year			
Other creditors			
- internal	(6)	(7)	-12%
Total creditors: amounts falling due within one year	(6)	(7)	-12%
Net current assets	17	14	17%
Total assets less current liabilities	233	234	-1%
Closing capital employed	233	234	-1%

Kingston Statement of Costs on a Current Cost Basis

Network Activity Statement
for the year ended 31 March 2017

Wholesale Traditional Interface Symmetric Broadband Origination (8 - 45 Mb)

	HCA operating cost	Supplementary Depreciation	Holding gain and other CCA adjustments	Total CCA operating costs	CCA mean capital employed	Applicable rate of return on capital %	Capital costs	Total of operating costs and capital costs relating to current year	Volume (No. of Business Lines)	Average costs per min/unit on a current cost basis relating to current year
Components										
Exchange concentrator	1	1	4	6	213	13%	28	34	2	£16,912.47
Exchange-exchange transmission length	13	-	-	13	1	13%	-	13	2	£6,595.01
PPP for narrowband call services	5	-	-	5	-	13%	-	5	2	£2,273.64
Local Loop Infrastructure	50	(23)	2	29	21	13%	3	31	2	£15,729.19
Totals	69	(22)	5	53	234		30	83		£41,510.31
Network Activity Statement for year ended 31st March 2016										
Exchange concentrator	1	-	(2)	(1)	216	13%	28	27	3	£9,116.61
Exchange-exchange transmission length	20	-	(0)	20	1	13%	-	20	3	£6,537.43
PPP for narrowband call services	5	-	-	5	-	13%	-	5	3	£1,704.68
Local Loop Infrastructure	53	(19)	11	45	(4)	13%	(0)	45	3	£14,867.40
Totals	78	(19)	9	69	213		28	97		£32,226.11

Regulatory Financial Review

Kingston Wholesale Market : Provision of Traditional Interface Symmetric Broadband Origination with a Bandwidth Capacity above 45Mb/s Within the Hull Area & up to & Including 155Mb/s Within the Hull Area

The market for the provision of traditional interface symmetric broadband origination with a capacity above 45 MB contains point-to-point circuits of 155Mb/s.

Circuit numbers have again fallen and no new sales are expected in this category given the availability of more economic alternatives.

Number of Circuits

2011/12		2012/13		2013/14		2014/15		2015/16		2016/17
8.5	0%	9	-18%	7	-43%	4	0%	4	-25%	3

This market is very similar to that of the 8 - 45Mb with low volumes and minimal movement year on year. Derived revenue has declined by a quarter to £88k (2015/16 : £118k). In common with other markets, maintenance has reduced helping to reduce historical costs by £25k (26%).

Overall circuit unit costs show a decline of £0.2k / 0.7% to £29,440 (2015/16 : £29,634).

Kingston Wholesale Market : Provision of Traditional Interface Symmetric Broadband Origination with a Bandwidth Capacity Above 45 Mb/s & up to & Including 155Mb/s Within the Hull Area

CURRENT COST PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2017

	£k 2017	% per line item/total	£k 2016	% per line item/total	% Change Year on Year
Turnover					
Internal Sales	88	100%	118	100%	-25%
Total Turnover	88	100%	118	100%	-25%
Operating costs					
Operating costs of Wholesale Market					
- Maintenance	45	62%	59	59%	-23%
- Depreciation	24	32%	36	36%	-34%
- Other Costs	5	6%	5	5%	-11%
Sub total operating expenditure	74	100%	99	100%	-26%
CCA adjustments:					
Holding loss	5		9		-42%
Supplementary depreciation	(22)		(19)		17%
Total operating costs	57		90		-37%
Return	31		28		10%

RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER

for the year ended 31 March 2017

	2017 %	2016 %	%
Return on mean capital employed	13%	13%	0%
Return on turnover	35%	24%	11%

Kingston Wholesale Market : Provision of Traditional Interface Symmetric Broadband Origination with a Bandwidth Capacity Above 45 Mb/s & up to & Including 155Mb/s Within the Hull Area

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2017

	£k 2017	£k 2016	% Change
Fixed assets			
Tangible fixed assets			
- Land & Buildings	94	89	5%
- Duct	4	4	-13%
- Transmission Equipment	2	2	
- Other	119	127	-6%
Total fixed assets	219	222	-2%
Current assets			
Stocks	16	15	3%
Debtors			
- internal	9	12	-25%
Total current assets	25	27	-9%
Creditors: amounts falling due within one year			
Other creditors			
- internal	(7)	(9)	-26%
Total creditors: amounts falling due within one year	(7)	(9)	-26%
Net current assets	18	18	-1%
Total assets less current liabilities	236	241	-2%
Closing capital employed	236	241	-2%

Kingston Statement of Costs on a Current Cost Basis

Network Activity Statement
for the year ended 31 March 2017

Wholesale Traditional Interface Symmetric Broadband Origination (>45Mb)

	HCA operating cost	Supplementary Depreciation	Holding gain and other CCA adjustments	Total CCA operating costs	CCA mean capital employed	Applicable rate of return on capital %	Capital costs	Total of operating costs and capital costs relating to current year	Volume (No. of Business Lines)	Average costs per min/unit on a current cost basis relating to current year
Components										
Exchange concentrator	1	1	4	6	213	13%	28	34	3	£11,275.30
Exchange-exchange transmission length	18	-	-	18	2	13%	-	18	3	£5,985.45
PPP for narrowband call services	5	-	-	5	-	13%	-	5	3	£1,521.55
Local Loop Infrastructure	50	(23)	2	29	24	13%	3	32	3	£10,658.27
Totals	74	(22)	5	57	238		31	88		£29,440.57
Network Activity Statement for year ended 31st March 2016										
Exchange concentrator	1	-	(2)	(1)	216	13%	28	27	4	£6,837.63
Exchange-exchange transmission length	41	-	(0)	41	3	13%	-	41	4	£10,267.76
PPP for narrowband call services	5	-	-	5	-	13%	-	5	4	£1,285.46
Local Loop Infrastructure	53	(19)	11	45	(2)	13%	(0)	45	4	£11,243.16
Totals	99	(19)	9	90	217		28	119		£29,634.00

Regulatory Financial Review (Kingston)

Kingston Wholesale Market : Provision of Alternative Interface Symmetric Broadband Origination at all Bandwidths within the Hull Area

The market for the provision of alternative interface symmetric broadband origination includes connections from 2Mb/s to 10Gb/s utilising ethernet technology. Core external clients incorporate mobile infrastructure operators and Communications Providers servicing their national clients.

Number of Circuits

2011/12		2012/13		2013/14		2014/15		2015/16		2016/17
1,178	-5%	1,117	-5%	1,061	8%	1,143	25%	1,432	1%	1,440

Number of lines and turnover have remained broadly consistent with prior year.

The return has increased by 19% , benefitting from reductions in network operating costs.

Annual average circuit costs have declined by 2% to £1,512p.a. (2015/16 : £1,547 p.a)

Kingston Wholesale Market : Provision of Alternative Interface Symmetric Broadband Origination at All Bandwidths within the Hull Area

CURRENT COST PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2017

	£k 2017	% per line item/total	£k 2016	% per line item/total	% Change Year on Year
Turnover					
Internal Sales	1,131	52%	2,215	100%	-49%
External Sales	1,046	48%	-	0%	100%
Total Turnover	2,177	100%	2,215	100%	-2%
Operating costs					
Operating costs of Wholesale Market					
- Maintenance	1,664	83%	1,556	74%	7%
- Depreciation	339	17%	533	25%	-36%
- Other Costs	9	0%	11	1%	-13%
Sub total operating expenditure	2,013	100%	2,100	100%	-4%
CCA adjustments:					
Holding (gain) / loss	(127)		(15)		771%
Supplementary depreciation	3		(114)		-103%
Total operating costs	1,889		1,972		-4%
Return	288		243		19%

RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER

for the year ended 31 March 2017

	2017 %	2016 %	%
Return on mean capital employed	13%	13%	0%
Return on turnover	13%	11%	2%

**Kingston Wholesale Market : Provision of Alternative Interface Symmetric Broadband
Origination at All Bandwidths within the Hull Area**

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2017

	£k 2017	£k 2016	% Change
Fixed assets			
Tangible fixed assets			
- Land & Buildings	59	63	-7%
- Duct	520	463	12%
- Transmission Equipment	1,004	710	41%
- Exchange Equipment	217	297	-27%
- Other	86	168	-49%
Total fixed assets	1,886	1,701	11%
Current assets			
Stocks	455	335	36%
Debtors			
- internal	116	227	-49%
- external	107	-	
Total current assets	678	562	21%
Creditors: amounts falling due within one year			
Other creditors			
- internal	(185)	(193)	-4%
Total creditors: amounts falling due within one year	(185)	(193)	-4%
Net current assets	493	369	34%
Total assets less current liabilities	2,378	2,070	15%
Closing capital employed	2,378	2,070	15%

Kingston Statement of Costs on a Current Cost Basis

Network Activity Statement
for the year ended 31 March 2017

Alternative Interface Symmetric Broadband Origination (All Bandwidths)

	HCA operating cost	Supplementary Depreciation	Holding gain and other CCA adjustments	Total CCA operating costs	CCA mean capital employed	Applicable rate of return on capital %	Capital costs	Total of operating costs and capital costs relating to current year	Volume (No. of Business Lines)	Average costs per min/unit on a current cost basis relating to current year
Components										
Exchange concentrator	5	1	2	9	398	13%	52	61	1,440	£42.12
Exchange-exchange transmission length	1,935	2	(129)	1,808	410	13%	53	1,861	1,440	£1,292.78
PPP for narrowband call services	9	-	-	9	-	13%	-	9	1,440	£6.47
Local Loop Infrastructure	63	-	-	63	1,417	13%	184	247	1,440	£171.46
Totals	2,013	3	(127)	1,889	2,224		289	2,178		£1,512.83
Network Activity Statement for year ended 31st March 2016										
Exchange concentrator	6	1-	(1)	5	391	13%	51	56	1,432	£39.07
Exchange-exchange transmission length	2,023	(114)	(13)	1,896	389	13%	51	1,946	1,432	£1,359.19
PPP for narrowband call services	11	-	-	11	-	13%	-	11	1,432	£7.47
Local Loop Infrastructure	60	-	-	60	1,090	13%	142	202	1,432	£141.06
Totals	2,100	(114)	(15)	1,972	1,869		243	2,215		£1,546.79

Notes to the Regulatory Financial Statements including accounting policies

1. STATUTORY FINANCIAL STATEMENTS

These Financial Statements, which are not statutory accounts within the meaning of the Companies Act 2006, have been prepared on the basis described in the Description of Cost Accounting System (DoCAS) dated 25th July 2017. The statutory financial statements for KCOM Group plc, for the year ended 31st March 2017 have been prepared, on which the auditors issued an unqualified report.

2. ACCOUNTING POLICIES

Summarised below are the principal accounting policies which have been consistently applied throughout the current and prior financial year.

Basis of preparation

The current cost financial statements on pages 7 to 59 are prepared under the financial capital maintenance concept, in line with the DoCAS dated 25 July 2017 and in accordance with applicable United Kingdom accounting standards. The current cost statements for each of the businesses are prepared under this basis, although an adjustment for inflation to ordinary shareholders' funds is not attributed to each of the individual businesses.

Current cost profit is derived firstly by arriving at historical cost profit / (loss) in each of the businesses. Then an adjustment is made for current cost depreciation, to result in current cost retained profit / (loss). Finally, unrealised holding gains / (losses) and realised holding gains / (losses) are calculated to result in holding gains / (losses) on fixed assets. This calculation is added onto current cost retained profit / (loss), to result in amount retained.

In the current cost balance sheet, each Business's assets are restated at their value to the Business, using their net current replacement cost.

Turnover

Group turnover, which excludes value added tax, comprises the value of services provided and equipment sales by Group undertakings, excluding those between them. The Group enters into contractual arrangements that include various components, which operate independently of each other. Turnover is recognised in respect of the Group's right to consideration for each individual component where a reliable fair value can be attributed to these components. Turnover from calls is recognised in the Group profit and loss account at the time the call is made over the Group's network. Turnover from rentals is recognised evenly over the rental period. Turnover from sales is recognised at the point of sale. Turnover from production of directories is recognised at the point when the directory is published. Turnover arising from the provision of other services, including maintenance contracts, is recognised evenly over the periods in which the service is provided to the customer.

Notes to the Regulatory Financial Statements continued

Tangible fixed assets

Tangible fixed assets are recorded at current cost. Depreciation is provided so as to write off the current cost of assets to residual values on a straight-line basis over the assets' useful estimated lives as follows:

- Freehold buildings - 40 years
- Leasehold buildings and improvements - Period of lease
- Exchange equipment - 10 years
- External plant - 10 to 40 years
- Vehicles, other apparatus and equipment - 3 to 10 years
- Freehold land is not depreciated

Depreciation of network infrastructure and related equipment is provided for from the date the network comes into operation. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, over the term of the relevant lease.

The residual value of the asset, if significant, is reassessed annually.

Stocks

Stocks, stores and work-in-progress are valued at the lower of cost or net realisable value. Cost is determined using the weighted average method. Cost includes 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.

Notes to the Regulatory Financial Statements continued

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward exchange contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or, if appropriate, at the forward contract rate. The exchange difference arising on the retranslation of opening net assets is taken directly to reserves. All other translation differences are taken to the profit and loss account with the exception of differences on foreign currency borrowings to the extent that they are used to finance or provide a hedge against Group equity investments in foreign enterprises, which are taken directly to reserves together with the exchange difference on the net investment in these enterprises.

Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the Group, and hire purchase, are capitalised in the balance sheet and are depreciated over their useful economic lives. The capital elements of future obligations under finance leases and hire purchase contracts are included as liabilities in the balance sheet. The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts. Rentals payable under operating leases are charged in the profit and loss account on a straight-line basis over the lease term.

Pensions

During the year the Company operated three primary pension schemes covering the pension arrangements of eligible employees. One of these schemes operates on the defined contribution (money purchase) principle and for this scheme the pension cost charged represents the contributions payable. The other schemes provide members with defined benefits based on final pensionable salary. The overall long term costs of providing pensions for employees who are members of this scheme are charged against profits evenly over the expected working lives of the members. The contributions are assessed in accordance with the advice of a qualified actuary based on actuarial valuations normally conducted every three years. The relevant benefits promises are funded in advance and the assets of the schemes are held in separate trustee administered funds.

Employee share schemes

The cost of award of shares, or share options, to employees is recognised as an operating expense over the period of the employee's performance which relates to the award. The cost of award is calculated based on the difference between the share or option exercise price and the market value of the shares at the date of grant of the award. In the case of the Company's performance related schemes, the cost is based on actual performance to date relative to the performance targets dictated under the rules of the relevant scheme. Where the Company purchases shares to settle a particular award of share options the cost is limited to the price of the shares purchased. To the extent an amount greater than the pro-rated purchase price of such shares has been expensed prior to the date of the purchase then the excess expense is credited to the profit and loss account in the period of the purchase.

3. INTER BUSINESS BALANCES

The Balance Sheet statements for the Businesses include balances relating to the charges from the Wholesale business to the Retail business, based on the Days Sales Outstanding (DSO) with Other Licenced Operators (OLO's) in 2016/17.

Charges by the Wholesale Business to the Retail Business and Other Licenced Operators (OLO's) are made on the basis of achieving a targeted rate of return on Mean Capital Employed of 13%.

4. CORPORATE CENTRE COSTS

Included in the operating costs of the Businesses are £2,442k of recharged KCOM Group plc Corporate costs.

**Kingston Wholesale Sales by Market Statement - External Sales
for the year ended 31 March 2017**

	Average NCC rates ppm			NCC Traffic Minutes ('000s)			24hr	Total Payments £k
	Day	Evening	Weekend	Day	Evening	Weekend		
Kingston Wholesale Market : Analogue Exchange Line Services in the Hull Area								637
Kingston Wholesale Market : ISDN2 Exchange Line Services in the Hull Area								208
Kingston Wholesale Market : ISDN 30 Exchange Line Services in the Hull Area								201
Kingston Wholesale Market : Call Origination on Fixed Public Narrowband Networks in the Hull Area	1.5236	0.6976	0.5493	13,029	3,388	3,615	1.2081	266
Kingston Wholesale Market : Asymmetric Broadband Origination in the Hull Area								241
Kingston Wholesale Market : Provision of Traditional Interface Symmetric Broadband Origination with a Bandwidth Capacity up to & including 8 Mb/s								-
Kingston Wholesale Market : Provision of Traditional Interface Symmetric Broadband Origination with a Bandwidth Capacity Above 8 MB/s & up to & including 45 Mb/s								-
Kingston Wholesale Market : Provision of Traditional Interface Symmetric Broadband Origination with a Bandwidth Capacity Above 45 MB/s & up to & including 155 Mb/s								-
Kingston Wholesale Market : Provision of Alternative Interface Symmetric Broadband Origination at all Bandwidths within the Hull area								1,046
								<u>2,599</u>

**Kingston Wholesale Sales by Market Statement - Internal Sales
for the year ended 31 March 2017**

	Average NCC rates ppm			NCC Traffic Minutes			24hr	Total Charge £k	Total Payments £k
	Day	Evening	Weekend	Day	Evening	Weekend			
Kingston Wholesale Market : Analogue Exchange Line Services in the Hull Area									22,191
Kingston Wholesale Market : ISDN 2 Exchange Line Services in the Hull Area									149
Kingston Wholesale Market : ISDN 30 Exchange Line Services in the Hull Area									411
Kingston Wholesale Market : Call Origination on Fixed Public Narrowband Networks in the Hull Area	0.3111	0.1424	0.1122	263,047	68,412	72,981	0.2467		1,253
Kingston Wholesale Market : Asymmetric Broadband Origination in the Hull Area									2,799
Kingston Wholesale Market : Provision of Traditional Interface Symmetric Broadband Origination with a Bandwidth Capacity up to & including 8 Mb/s									521
Kingston Wholesale Market : Provision of Traditional Interface Symmetric Broadband Origination with a Bandwidth Capacity Above 8 MB/s & up to & including 45 Mb/s									84
Kingston Wholesale Market : Provision of Traditional Interface Symmetric Broadband Origination with a Bandwidth Capacity Above 45 MB/s & up to & including 155 Mb/s									88
Kingston Wholesale Market : Provision of Alternative Interface Symmetric Broadband Origination at all Bandwidths within the Hull area									1,131
									<u>28,627</u>

Kingston Reconciliation Statement

Consolidated profit and loss account
for the year ended 31 March 2017

Market/Area	Turnover £k	Operating Costs £k	HCA Return or Profit after taxation £k	Holding gain/(loss) and other Adjustments £k	Supplem- entary depreciation £k	CCA Return or Profit Before Taxation £k
Wholesale Markets (where cost accounting and/or accounting separation obligations apply)	31,227	(16,595)	14,632	378	(3,003)	12,007
Retail Markets (where cost accounting obligations apply)	-	-	-	-	-	-
Sub Total SMP Markets	31,227	(16,595)	14,632	378	(3,003)	12,007
<u>Residual activities</u>						
- Wholesale residual activities	-	-	-	-	-	-
- Retail residual activities	94,069	(63,331)	30,738	(673)	(748)	29,316
Total	125,295	(79,926)	45,370	(296)	(3,751)	41,323
Adjustments (as necessary)						
Elimination of Inter Business turnover and costs	(28,627)	34,025	5,398			
Other operating income & costs	234,635	(252,646)	(18,012)			
Finance Costs	-	(2,263)	(2,263)			
Share from Associate	-	12	12			
Taxation	-	(5,743)	(5,743)			
Profit for the year attributable to owners of the parent	331,303	(306,541)	24,762			

Kingston Reconciliation Statement

Consolidated profit and loss account
for the year ended 31 March 2016

Market/Area	Turnover £k	Operating Costs £k	HCA Return or Profit after taxation £k	Holding gain/(loss) and other Adjustments £k	Supplem- entary depreciation £k	CCA Return or Profit Before Taxation £k
Wholesale Markets (where cost accounting and/or accounting separation obligations apply)	32,140	(19,269)	12,871	193	(1,583)	11,481
Retail Markets (where cost accounting obligations apply)	-	-	-	-	-	-
Sub Total SMP Markets	32,140	(19,269)	12,871	193	(1,583)	11,481
<u>Residual activities</u>						
- Wholesale residual activities	-	-	-	-	-	-
- Retail residual activities	95,731	(65,067)	30,664	(69)	(1,095)	29,500
Total	127,871	(84,336)	43,535	124	(2,678)	40,981
Adjustments (as necessary)						
Elimination of Inter Business turnover and costs	(30,357)	35,613	5,256			
Other operating income & costs	251,709	(208,715)	42,994			
Finance Costs	-	(3,057)	(3,057)			
Share from Associate	-	16	16			
Taxation	-	(17,609)	(17,609)			
Profit for the year attributable to owners of the parent	349,222	(278,088)	71,134			

Kingston Reconciliation statement

Consolidated mean capital employed
for the year ended 31 March 2017

	2017 £k	2016 £k	% Change
Fixed assets			
Tangible fixed assets			
- Land & Buildings	6,377	5,916	8%
- Duct	54,760	52,586	4%
- Transmission Equipment	41,264	39,940	3%
- Exchange Equipment	29,118	4,766	511%
- Other	887	1,182	-25%
Total fixed assets	132,406	104,389	27%
Current assets			
Stocks	2,797	2,374	18%
Debtors			
- internal	2,987	3,164	-6%
- external	9,851	9,921	-1%
Total current assets	15,635	15,459	1%
Creditors: amounts falling due within one year			
Other creditors			
- internal	(2,020)	(2,200)	-8%
- external	(5,066)	(5,352)	-5%
Total creditors: amounts falling due within one year	(7,086)	(7,551)	-6%
Net current assets	8,549	7,908	8%
Total assets less current liabilities	140,955	112,297	26%
Closing capital employed	140,955	112,297	26%

Kingston Retail Residual Activities Reconciliation

CURRENT COST PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2017

	£k	% per line	£k	% per line	% Change
	2017	item/total	2016	item/total	Year on Year
Turnover	94,069		95,731		-2%
Operating costs					
Charges from Kingston Wholesale Markets					
- wholesale Call Origination	7,618		6,790		12%
- wholesale Network Maintenance	28,620		31,018		-8%
- wholesale PP&P (Corporate Charges)	919		1,203		-24%
Operating costs of Retail Market					
- Marketing	4,450	17%	3,832	15%	16%
- Sales	3,070	12%	2,181	8%	41%
- Finance & Billing	826	3%	1,630	6%	-49%
- Customer Services	4,319	16%	5,020	19%	-14%
- Customer Product Maintenance	741	3%	796	3%	-7%
- Network Maintenance	2,157	8%	2,206	8%	-2%
- Bad Debts	669	3%	864	3%	-23%
- PP&P	1,706	7%	1,575	6%	8%
- Depreciation	3,178	12%	2,956	11%	8%
- Other Costs	5,059	19%	4,998	19%	1%
Sub total operating expenditure	26,175	100%	26,057	100%	0%
CCA adjustments:					
Holding loss / (gain)	673		69		874%
Supplementary depreciation	748		1,094		-32%
Total operating costs	64,752		66,230		-2%
Return	29,316		29,500		-1%

RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER

for the year ended 31 March 2017

	2017	2016	%
	%	%	%
Return on mean capital employed	87%	119%	-32%
Return on turnover	31%	31%	0%

Kingston Retail Residual Activities Reconciliation

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2017

	£k 2017	£k 2016	% Change
Fixed assets			
Tangible fixed assets			
- Land & Buildings	2,237	1,988	13%
- Duct	7,236	8,815	-18%
- Transmission Equipment	5,110	6,370	-20%
- Exchange Equipment	26,055	1,310	1890%
- Other	83	131	-37%
Total fixed assets	40,721	18,614	119%
Current assets			
Stocks	85	72	18%
Debtors			
- internal	53	54	0%
- external	9,629	9,797	-2%
Total current assets	9,767	9,923	-2%
Creditors: amounts falling due within one year			
Other creditors			
- internal	(495)	(429)	15%
- external	(5,066)	(5,352)	-5%
Total creditors: amounts falling due within one year	(5,561)	(5,781)	-4%
Net current assets	4,206	4,142	2%
Total assets less current liabilities	44,927	22,756	97%
Closing capital employed	44,927	22,756	97%

Kingston Inter Market Turnover (Reconciliation) for year ended 31 March 2017

	Wholesale analogue exchange line services in the Hull Area	Wholesale ISDN2 exchange line services in the Hull Area	Wholesale ISDN30 exchange line services in the Hull Area	Call origination on fixed public narrowband networks in the Hull Area + Call split (right)	Wholesale unmetered narrowband Internet termination for Internet traffic originating in the Hull Area	Asymmetric broadband origination in the Hull Area	Provision of traditional interface symmetric broadband origination with a bandwidth capacity up to and including 8 megabits	Provision of traditional interface symmetric broadband origination with a bandwidth capacity above 8 megabits up to 45 megabits	Provision of traditional interface symmetric broadband origination with a bandwidth capacity above 45 megabits up to 155 megabits	Provision of alternative interface symmetric broadband origination at all bandwidths within the Hull Area	Residential analogue exchange line services in the Hull Area	Residential ISDN2 exchange line services in the Hull Area	Business ISDN30 exchange line services in the Hull Area	Residual Activities	Residual Wholesale	Residual Retail	Total
	£k	£k	£k	£k	£k	£k	£k	£k	£k	£k	£k	£k	£k	£k	£k	£k	£k
Turnover originating in:																	
Wholesale analogue exchange line services in the Hull Area	637	-	-	-	-	-	-	-	-	-	-	-	-	-	22,191	-	22,828
Wholesale ISDN2 exchange line services in the Hull Area	-	208	-	-	-	-	-	-	-	-	-	-	-	-	149	-	356
Wholesale ISDN30 exchange line services in the Hull Area	-	-	-	-	-	-	-	-	-	-	-	-	201	-	411	-	612
Call origination on fixed public narrowband networks in the Hull Area + Call Split Below	-	-	-	266	-	-	-	-	-	-	-	-	-	-	1,253	5,512	7,031
Wholesale unmetered narrowband Internet termination for Internet traffic originating in the Hull Area	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Asymmetric broadband origination in the Hull Area	-	-	-	-	-	241	-	-	-	-	-	-	-	-	2,799	35,636	38,676
Provision of traditional interface symmetric broadband origination with a bandwidth capacity up to and including 8 megabits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	521	1,013	1,534
Provision of traditional interface symmetric broadband origination with a bandwidth capacity above 8 megabits up to 45 megabits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	84	30	114
Provision of traditional interface symmetric broadband origination with a bandwidth capacity above 45 megabits up to 155 megabits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	88	104	193
Provision of alternative interface symmetric broadband origination at all bandwidths within the Hull Area	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,177	12,420	14,597
Analogue exchange line services in the Hull Area	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	35,343	35,343
ISDN2 exchange line services in the Hull Area	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(189)	(189)
Business ISDN30 exchange line services in the Hull Area	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(201)	(201)
Residual Activities	-	-	-	-	-	-	-	-	-	-	-	-	-	4,401	-	-	4,401
Residual Wholesale	22,191	149	411	1,253	-	2,799	521	84	88	2,177	-	-	-	-	-	-	-
Residual Retail	-	-	-	5,512	-	35,636	1,013	30	104	12,420	35,343	(189)	(201)	-	-	-	-
Total	22,828	356	411	7,031		38,676	1,534	114	193	14,597	35,343	(189)		4,401			125,295

Kingston Statement of Costs on a Current Cost Basis

Network Activity Statement for the year ended 31 March 2017

Network Activity Statement - Consolidated

Fully Allocated Cost	HCA operating cost	Supplementary Depreciation	Holding gain and other CCA adjustments	Total CCA operating costs	CCA mean capital employed	Applicable rate of return on capital %	Capital costs	Total of operating costs and capital costs relating to current year
Exchange concentrator	1,318	12	67	1,397	5,850	13%	761	2,158
Exchange processor	469	8	5	482	133	13%	17	499
Exchange-exchange transmission link	65	(33)	9	42	140	13%	18	60
Exchange-exchange transmission length	5,152	(119)	(175)	4,858	5,365	13%	697	5,556
National operator assistance	1	-	-	1	1	13%	-	1
Emergency operator assistance	1	-	-	1	1	13%	-	1
PPP for narrowband call services	883	-	-	883	-	13%	-	883
Local loop infrastructure	8,706	3,134	(283)	11,557	81,295	13%	10,568	22,125
Totals	16,595	3,003	(377)	19,221	92,785		12,062	31,283
Network Activity Statement for year ended 31st March 2016								
Exchange concentrator	1,379	(49)	(94)	1,235	5,711	13%	742	1,978
Exchange processor	502	9	(03)	508	250	13%	32	540
Exchange-exchange transmission link	68	(28)	13	54	158	13%	20	75
Exchange-exchange transmission length	5,274	(242)	363	5,395	5,037	13%	655	6,050
National operator assistance	1	-	-	1	1	13%	-	1
Emergency operator assistance	1	-	-	1	1	13%	-	1
PPP for narrowband call services	1,175	-	-	1,175	-	13%	-	1,175
Local loop infrastructure	10,870	1,893	(472)	12,291	77,147	13%	10,029	22,320
Totals	19,269	1,584	(193)	20,660	88,305		11,480	32,139

**Kingston Network Services Reconciliation
for the year ended 31 March 2017**

Consolidation Statement

Fully Allocated Cost		Analogue Exchange Lines	ISDN2 Lines	Business ISDN30 Lines	Call Origination	Traditional Interface <=8Mb/s	Traditional Interface 8- 45Mb/s	Traditional Interface >45Mb	Alternative Interface All Mb/s	ADSL	Total
Components											
	Unit of Measure	Lines	Lines	Lines	Cal Minutes	Lines	Lines	Lines	Lines	Lines	
	Volume (where relevant)	165,938	1,852	1,043	424,472,050	1,413	2	3	1,440	84,990	
Exchange concentrator	Ave cost per unit (adjusted by usage factor)	£7.22	£12.82	£78.86	0.13	£62.72	£16,912.47	£11,275.30	£42.12	£0.86	
	Total cost £k	1,199	24	82	563	89	34	34	61	73	2,158
Exchange processor	Ave cost per unit (adjusted by usage factor)	£0.0000	£0.0000	£0.0000	0.117670	£0.0000	£0.0000	£0.0000	£0.0000	£0.0000	
	Total cost £k				499						499
Exchange-exchange transmission link	Ave cost per unit (adjusted by usage factor)	£0.0000	£0.0000	£0.0173	0.014161	£0.0000	£0.0000	£0.0000	£0.0000	£0.0000	
	Total cost £k				60						60
Exchange-exchange transmission length	Ave cost per unit (adjusted by usage factor)	£2.78	£1.56	£3.16	0.055210	£1.32	£6,595.01	£5,985.45	£1,292.78	£34.82	
	Total cost £k	462	3	3	234	2	13	18	1,861	2,960	5,556
National operator assistance	Ave cost per unit (adjusted by usage factor)	£0.0000	£0.0000	£0.0000	0.000183	£0.0000	£0.0000	£0.0000	£0.0000	-£0.0000	
	Total cost £k				1					(0)	1
Emergency operator assistance	Ave cost per unit (adjusted by usage factor)	£0.0000	£0.0000	£0.0000	0.000178	£0.0000	£0.0000	£0.0000	£0.0000	£0.0000	
	Total cost £k				1						1
PPP for narrowband call services	Ave cost per unit (adjusted by usage factor)	£3.82	£5.07	£37.82	0.036449	£13.26	£2,273.64	£1,521.55	£6.47	£0.09	
	Total cost £k	634	9	39	155	19	5	5	9	8	883
Local Loop Infrastructure	Ave cost per unit (adjusted by usage factor)	£124.10	£173.35	£467.85	0.000000	£291.56	£15,729.19	£10,658.27	£171.46	£0.01	
	Total cost £k	20,594	321	488		412	31	32	247	1	22,125
Totals		22,888	357	613	1,514	521	83	88	2,178	3,041	31,283