

KCOM

KCOM Group Limited

**Regulatory Financial Statements
for the year ended 31 March 2021**

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Introduction to the Regulatory Financial Statements

KCOM Limited ("KCOM"), has been classified by Ofcom as a communications provider with Significant Market Power ("SMP") in certain communications markets in the Hull area represented by the geographic area of KCOM's original licensed area ("OLA" or the "Hull Area").

In accordance with Ofcom's conditions and directions relating to its SMP findings, KCOM is required to prepare financial statements (the Regulatory Financial Statements or "RFS") setting out its financial performance in certain markets which KCOM has been found to have SMP.

KCOM is required to prepare RFS for those markets in the Hull Area shown below (the "RFS Markets").

- Wholesale Local Access*
- Wholesale Broadband Access
- Wholesale Contemporary Interface Symmetric Broadband Origination ('CISBO')
- Wholesale Fixed Analogue Exchange Lines
- Wholesale ISDN 30 Exchange Line Services
- Wholesale ISDN 2 Exchange Line Services
- Wholesale Call Origination on Fixed Narrowband network

**KCOM has no reported volumes in this market, therefore no financial statements are presented*

The RFS comprises individual and consolidated reports for each of the markets where cost accounting and accounting separation obligations apply. The RFS are based on the consolidated results of KCOM Group Limited. Reconciliations to the KCOM Group Limited annual report are included in the RFS.

The respective wholesale markets contain fully allocated costs, revenues, assets and liabilities relating to services provided to other licensed telecommunications operators or similar services provided to KCOM's retail business units. Network charges to other operators and KCOM's own retail business are based on their consumption of bundles of network elements (known as "components") in network services. The current cost accounting ("CCA") cost of components is based on fully allocated costs of components including a cost of capital.

The accompanying Description of Cost Accounting System ('DOCAS') document describes the basis on which the RFS have been prepared.

The form and content of the RFS are based on the reporting obligations set by Ofcom in the following documents:

- *KCOM Regulatory Financial Reporting, Statement on new regulatory financial reporting directions covering all regulated fixed telecoms markets* (6 February 2019)
- *Promoting competition and investment in fibre networks: review of the physical infrastructure and business connectivity markets Volume 2: market analysis, SMP findings, and remedies for the Business Connectivity Market Review (BCMR)* (28 June 2019)
- *Wholesale Local Access and Wholesale Broadband Access Market Reviews - Review of competition in the Hull Area* (1 July 2018)
- *Narrowband Market Review: Statement Markets, market power determinations and remedies for wholesale call termination, wholesale call origination and wholesale narrowband access markets* (30 November 2017)

Sale of National Business

On 31 July 2021, KCOM sold its national ICT business (the "National Business") to GCI Network Solutions Limited ("Nasstar"). The sale of the National Business will allow KCOM to focus on its core strategy as a regional provider of full fibre broadband, growing its presence in both retail and wholesale markets as it continues to invest in network expansion. KCOM has retained its regulated and unregulated business in the Hull Area (and in East Yorkshire and North Lincolnshire). Annex 1 provides further detail of the sale and its indicative impact on profitability in the RFS Markets in future years.

Statement of directors' responsibilities in respect of the regulatory financial statements

The directors of KCOM Group Limited are responsible for preparing the regulatory financial statements in accordance with the Description of Cost Accounting System ("DOCAS") dated 15 December 2021. This special reporting framework is specific to these financial statements and does not represent a financial reporting framework established by an authorised or recognised standard setting organisation. The directors must not approve the regulatory financial statements unless they are satisfied that they have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies in note 2 to the regulatory financial statements. In preparing the regulatory financial statements, the directors are responsible for:

- selecting suitable accounting policies and then applying them consistently;
- making judgements and accounting estimates that are reasonable and prudent;
- stating the basis of preparation and accounting policies applied; and
- reconciling the regulatory financial statements with the Annual Report and Accounts of KCOM Group Limited and ensuring that reconciliation is demonstrated and explained.

The directors are responsible for safeguarding the assets of the KCOM Group Limited, which may for regulatory purposes be allocated or apportioned to the separate businesses, 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 transactions and disclose with reasonable accuracy at any time the financial position of the group.



Sam Booth
Chief Financial Officer
15 December 2021

Independent auditors' report to the members of KCOM Group Limited and Ofcom

Opinion

In our opinion, KCOM Group Limited's Regulatory Accounts for the year ended 31 March 2021 have been properly prepared, in all material respects, in accordance with the Description of Cost Accounting System ("DOCAS") dated 15 December 2021 and "The regulatory financial reporting obligations of BT and Kingston Communications" published by the Office of Communications ("Ofcom" or the "Regulator") on 22 July 2004 and subsequent amendments, including the most recent directions conferred in "KCOM Regulatory Financial Reporting: Statement on new regulatory financial reporting directions covering all regulated fixed telecoms" issued 6 February 2019 (the "Obligations") as summarised in the basis of preparation in note 2 and accounting policies in note 2 to the Regulatory Accounts.

We have audited the Regulatory Accounts, included within the Regulatory Financial Statements, which comprise:

- the Consolidated Current Cost Profit and Loss Account, the Consolidated Statement of Current Cost Mean Capital Employed and the Consolidated Network Activity Statement as at 31 March 2021 and for the year then ended;
- the Current Cost Profit and Loss Accounts, the Statement of Current Cost Mean Capital Employed and the Network Activity Statements for each Regulatory Market defined below as at 31 March 2021 and for the year then ended; and
- the notes to the Regulatory Accounts, which include a description of the significant accounting policies.

We have not audited the supplementary schedule 'Commentary on Sale of National Business' presented in Annex 1 of the Regulatory Accounts.

The Consolidated Current Cost Profit and Loss Account, the Consolidated Statement of Current Cost Mean Capital Employed and the Consolidated Network Activity Statement, include information in respect of the following Regulatory Markets:

- KCOM Wholesale Broadband Access in the Hull area;
- KCOM Wholesale Market for Contemporary Interface Symmetric Broadband Origination (CISBO) at all Bandwidths within the Hull Area;
- KCOM Wholesale Fixed Analogue Exchange Line Services in the Hull Area;
- KCOM Wholesale ISDN 30 Exchange Line Services in the Hull Area;
- KCOM Wholesale ISDN 2 Exchange Line Services in the Hull Area; and
- KCOM Wholesale Call Origination on a Fixed Narrowband Network in the Hull Area.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the Regulatory Accounts 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 company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Emphasis of matter - Basis of preparation

In forming our opinion on the financial statements, which is not modified, we draw attention to note 2 of the Regulatory Accounts which includes a description of the basis of preparation, and in particular, the fact that the accounting policies used and disclosures made are not intended to, and do not, comply with the requirements of international accounting standards in conformity with the requirements of the Companies Act 2006. The Regulatory Accounts are prepared in accordance with a special purpose framework for the directors and Ofcom for the specific purpose as described in the Use of this report paragraph below. As a result, the Regulatory Accounts may not be suitable for another purpose. for the specific purpose as described in the Use of this report paragraph below. As a result, the Regulatory Accounts may not be suitable for another purpose.

In addition, we draw attention to the fact that these Regulatory Accounts have not been prepared under section 394 of the Companies Act 2006 and are not the company's statutory financial statements.

Independent auditors' report to the members of KCOM Group Limited and Ofcom

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 company's ability to continue as a going concern for a period of at least twelve months from the date on which 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 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 Regulatory Financial Statements other than the Regulatory Accounts and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the Regulatory Accounts does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the Regulatory Accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Regulatory Accounts 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 Regulatory Accounts 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.

Responsibilities for the Regulatory Accounts and the audit

Responsibilities of the directors for the Regulatory Accounts

As explained more fully in the Statement of directors' responsibilities in respect of the regulatory financial statements set out on page 4 the directors are responsible for the preparation of the Regulatory Accounts in accordance with the basis of preparation and accounting policies in note 2 to the Regulatory Accounts and for determining that the basis of preparation and accounting policies are acceptable in the circumstances. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of Regulatory Accounts that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the Regulatory Accounts

Our objectives are to obtain reasonable assurance about whether the Regulatory Accounts 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 Regulatory Accounts.

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.

Independent auditors' report to the members of KCOM Group Limited and Ofcom

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related 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 Regulatory Accounts are based upon (including the risk of override of controls), and determined that the principal risks were related to posting journal entries to manipulate financial performances and management bias in determining significant accounting estimates that could influence reported performance. Audit procedures performed 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 to 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 Regulatory Accounts. 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 Regulatory Accounts 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 opinion, has been prepared for and only for the company's directors as a body for the purposes of meeting the company's obligations under the Obligations and for Ofcom in accordance with our engagement letter dated 13 October 2021 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person other than the company (or, where the Regulator has signed a Written Notice, the Regulator) to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the company, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
Leeds
15 December 2021

Consolidated Current Cost Profit and Loss Account

Consolidated Total - For all markets where cost accounting and accounting separation obligations apply

for the year ended 31 March 2021

	2021	2020 (Restated)	£k Change Year on Year	% Change Year on Year
Turnover				
Internal Sales	60,713	56,323	4,389	8%
External Sales	4,989	5,954	(965)	(16%)
Total Turnover	65,702	62,277	3,424	5%
Operating costs				
Operating costs				
- Engineering Support	(8,061)	(8,942)	881	(10%)
- Finance & Billing	(978)	(1,751)	773	(44%)
- General Management	(5,829)	(3,410)	(2,418)	71%
- Outpayments	-	-	-	-
- Bad Debts	(65)	(103)	38	(37%)
- Back Office Support	(1,262)	(964)	(298)	31%
- Other Costs	(10,617)	(9,869)	(747)	8%
Sub total operating expenditure	(26,811)	(25,040)	(1,771)	7%
Depreciation				
- Duct	(220)	(225)	5	(2%)
- Copper	(1,989)	(1,999)	10	(0%)
- Fibre	(1,688)	(1,824)	137	(7%)
- Transmission	(765)	(765)	-	-
- Exchange	(2,198)	(2,796)	598	(21%)
- Other	(5,278)	(4,672)	(606)	13%
CCA adjustments:				
Holding gain	2,219	3,394	(1,175)	(35%)
Supplementary depreciation	(1,865)	(1,774)	(91)	5%
Other adjustments	-	-	-	-
Total operating costs	(38,594)	(35,701)	(2,893)	8.1%
Return	27,108	26,576	531	2.0%
MCE	141,876	141,166	710	0.5%
RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER				
Total Reported Wholesale Markets	2021	2020 (Restated)		
	%	%		
Return on mean capital employed	19.1%	18.8%		

Consolidated Statement of Current Cost Mean Capital Employed
Consolidated Total - For all markets where cost accounting and accounting separation obligations apply

for the year ended 31 March 2021

	£k 2021	£k 2020 (Restated)	£k Change	% Change
Fixed assets				
Tangible fixed assets				
- Land & Buildings	3,570	3,724	(154)	(4%)
- Duct	7,452	7,661	(209)	(3%)
- Fibre	18,136	16,211	1,926	12%
- Copper	16,840	17,817	(977)	(5%)
- Transmission	3,905	4,539	(634)	(14%)
- Exchange	19,638	22,975	(3,337)	(15%)
- Other	64,405	60,161	4,244	7%
Investments	-	-	-	-
Total fixed assets	133,946	133,088	858	1%
Current assets				
Stocks	1,961	2,534	(573)	(23%)
Debtors	-	-	-	-
- internal	4,990	4,629	361	8%
- external	2,102	1,829	273	15%
Cash	-	-	-	-
Total current assets	9,053	8,993	61	1%
Creditors: amounts falling due within one year				
Other creditors				
- internal	-	-	-	-
- external	(1,123)	(915)	(208)	23%
Total creditors: amounts falling due within one year	(1,123)	(915)	(208)	23%
Net current assets	7,930	8,078	(148)	(2%)
Total assets less current liabilities	141,876	141,166	710	1%
Provisions for liabilities and charges	-	-	-	-
Closing capital employed	141,876	141,166	710	1%

Consolidated Network Activity Statement

for the year ended 31 March 2021

	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	Unit of measure (based on network components)	Volume	Average costs per unit on a current cost basis relating to current year
Fully Allocated Costs											
Components											
Net Current Assets	-	-	-	-	7,930	8.40%	666	666	Various	373,755,633	£0.0018
Electronics	5,617	283	(322)	5,578	20,072	8.40%	1,686	7,264	Various	373,755,633	£0.0194
Field Provision	4,864	21	(20)	4,865	1,188	8.40%	100	4,965	Various	373,755,633	£0.0133
Field Maintenance	1,252	5	(5)	1,252	299	8.40%	25	1,277	Various	373,755,633	£0.0034
Local Loop Infrastructure	19,248	1,219	(1,678)	18,789	100,248	8.40%	8,421	27,210	Various	373,754,651	£0.0728
Exchange Concentrator	958	17	(14)	961	861	8.40%	72	1,033	Various	373,754,651	£0.0028
Exchange to Exchange Transmission link	3,610	262	(132)	3,740	8,400	8.40%	706	4,446	Various	373,754,651	£0.0119
Back-office Provisioning	1,880	8	(7)	1,881	447	8.40%	38	1,919	Various	373,754,651	£0.0051
Back-office Maintenance	754	3	(3)	754	179	8.40%	15	769	Various	373,754,651	£0.0021
Sales and Product Management	2	-	-	2	-	8.40%	-	2	Various	373,754,651	£0.0000
Other	763	46	(36)	773	2,253	8.40%	189	962	Various	373,754,651	£0.0026
Totals 2021	38,948	1,864	(2,217)	38,593	141,875		11,918	50,511			

for the year ended 31 March 2020 (Restated)

	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	Unit of measure (based on network components)	Volume	Average costs per unit on a current cost basis relating to current year
Fully Allocated Costs											
Components											
Net Current Assets	-	-	-	-	8,078	9.30%	751	751	Various	329,018,040	£0.0023
Electronics	6,602	270	(657)	6,215	23,609	9.30%	2,196	8,411	Various	329,018,040	£0.0256
Field Provision	4,739	-	(27)	4,712	1,159	9.30%	108	4,820	Various	329,018,040	£0.0146
Field Maintenance	2,368	26	(13)	2,381	569	9.30%	53	2,434	Various	329,018,040	£0.0074
Local Loop Infrastructure	15,895	1,133	(2,367)	14,661	95,276	9.30%	8,861	23,522	Various	329,018,040	£0.0715
Exchange Concentrator	1,089	18	(27)	1,080	1,073	9.30%	100	1,180	Various	329,018,040	£0.0036
Exchange to Exchange Transmission link	2,300	272	(215)	2,356	7,968	9.30%	741	3,097	Various	329,018,040	£0.0094
Back-office Provisioning	2,154	7	(11)	2,150	512	9.30%	48	2,198	Various	329,018,040	£0.0067
Back-office Maintenance	1,075	4	(6)	1,073	255	9.30%	24	1,097	Various	329,018,040	£0.0033
Sales and Product Management	149	-	-	149	35	9.30%	3	152	Various	329,018,040	£0.0005
Other	948	44	(69)	923	2,630	9.30%	245	1,168	Various	329,018,040	£0.0036
Totals 2020	37,319	1,773	(3,392)	35,701	141,165		13,130	48,831			

Regulatory Financial Review

Prior Year Restatement: Wholesale Market for Low Bandwidth Traditional Interface Symmetric Broadband Origination (TISBO) in the Hull area, at Bandwidths ≤ 8Mbit/s

In its 28 June 2019 leased line market review statement, Ofcom removed its SMP finding in respect of KCOM in the low bandwidth TISBO market and all associated SMP remedies, including financial reporting. (Paragraph 17.119, Volume 2: market analysis, SMP findings, and remedies).

Accordingly, the FY21 RFS do not include separate financial statements for the low bandwidth TISBO market, but where appropriate, these services are included in the Wholesale Residual Market. FY21 prior year results have been restated on a comparable basis. There are no changes to the financial statements for the other SMP reported markets.

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.

Ofcom's Market Review: Hull Area Wholesale Fixed Telecoms Market Review 2021-26

On 28 October 2021 Ofcom published its Hull Area Wholesale Fixed Telecoms Market Review which will have the effect, *inter alia*, of removing KCOM's SMP obligations in the Wholesale Broadband Access, ISDN 2, ISDN 30 and Call Origination markets with effect from 1 November 2021. The new regulations will be applied in KCOM's Regulatory Accounts for the year ending 31 March 2022, and have not had an impact on these Regulatory Accounts for the period ending 31 March 2021.

Ofcom Statement

Under Schedule 4 of Ofcom's Statement: *KCOM Regulatory Financial Reporting*, 6 February 2019, Ofcom is entitled to comment on the data in, the notes to, or the presentation of any of the Financial Statements, in relation to each of the markets. Ofcom has informed KCOM that it does not consider such a statement necessary for the Regulatory Accounts ending 31 March 2021.

Regulatory Financial Review (KCOM)

Wholesale Broadband Access in the Hull area

The Wholesale Broadband Access market comprises broadband internet access products available to both consumers and businesses in the Hull area. As at 31 March 2021, 100% of premises were passed by KCOM's fibre deployment in the Hull Area. There are a number of residential and business addresses in the Hull Area that are currently without 'bookable' access to our fibre broadband service (i.e. those customers that cannot currently purchase our fibre broadband service due to controllable engineering exceptions but whose premise has been passed with the requisite fibre infrastructure). These 'non-bookable exceptions' arise as a consequence of engineering (e.g. direct buried cables) or administrative (e.g. wayleaves) issues. KCOM has an active programme to address these exceptions. The average proportion of Consumer broadband customers connected with fibre was 85% during FY21.

Number of circuits

	2018/19 Restated	2019/20 Restated		2020/21	
	Volume	Volume	Annual increase	Volume	Annual increase
Circuit Nos	138,276	144,563	5%	146,369	1%

The completion of the FTTP roll-out has facilitated an increase in overall circuit numbers. The wholesale FTTP product suite includes a reseller product. Reference Offer products in the Wholesale Broadband Access market were introduced in May 2019. Demand for ADSL is reducing as customers move to the higher bandwidth services available on the fibre network.

In previous RFS, volumes included in the regulatory financial review commentaries had included connections and other services. The stated volumes have been amended to now include only circuit or line rental volumes.

Wholesale products in this market have been priced using relevant Reference Offer prices in the period under review.

External sales reflects actual revenues.

Revenue has increased by 14% due in part to the increase in fibre to the premise ("FTTP") circuits in FY21, reflecting customers migrating from the copper ADSL services to higher-priced fibre products.

Overall costs have also increased, driven mainly by higher staff costs and current cost accounting adjustments.

On 28th October 2021 Ofcom published its Hull Area Wholesale Fixed Telecoms Market Review (WFTMR) statement and removed KCOM's SMP finding and associated cost accounting and regulatory financial reporting remedies for this market with effect from 1 November 2021. KCOM's RFS for the year ending 31 March 2022 will therefore not include accounts for this market.

Wholesale Broadband Access in the Hull area

CURRENT COST PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2021

	£k	£k	£k Change Year on Year	% Change Year on Year
	2021	2020		
Turnover				
Internal Sales	36,626	32,008	4,618	14%
External Sales	1,566	1,526	40	3%
Total Turnover	38,192	33,535	4,658	14%
Operating costs				
Operating costs				
- Engineering Support	(4,971)	(4,664)	(307)	7%
- Finance & Billing	(596)	(1,100)	504	(46%)
- General Management	(3,275)	(1,891)	(1,384)	73%
- Bad Debts	(46)	(84)	38	(45%)
- Back Office Support	(676)	(611)	(65)	11%
- Other Costs	(5,316)	(5,350)	34	(1%)
Sub total operating expenditure	(14,879)	(13,700)	(1,179)	9%
Depreciation				
- Duct	(114)	(116)	2	(2%)
- Copper	-	-	-	-
- Fibre	(1,368)	(1,502)	134	(9%)
- Transmission	(187)	(238)	51	(22%)
- Exchange	(1,745)	(1,959)	214	(11%)
- Other	(3,831)	(3,415)	(416)	12%
Holding gain	1,454	2,142	(688)	(32%)
Supplementary depreciation	(723)	(643)	(79)	12%
Other adjustments	-	-	-	-
Total operating costs	(21,393)	(19,431)	(1,962)	10%
Return	16,800	14,104	2,696	19%
MCE	91,942	88,903	3,039	3%
RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER				
for the year ended 31 March 2021				
Return on mean capital employed	18.3%	15.9%		

Wholesale Broadband Access in the Hull area

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2021

	£k 2021	£k 2020	£k Change	% Change
Fixed assets				
Tangible fixed assets				
- Land & Buildings	1,885	1,991	(107)	(5%)
- Duct	3,864	3,954	(91)	(2%)
- Fibre	15,346	13,632	1,714	13%
- Copper	-	-	-	-
- Transmission	950	1,411	(462)	(33%)
- Exchange	11,382	13,144	(1,763)	(13%)
- Other	54,352	50,404	3,948	8%
Total fixed assets	87,778	84,537	3,241	4%
Current assets				
Stocks	1,196	1,831	(636)	(35%)
Debtors				
- internal	3,010	2,631	380	14%
- external	643	469	174	37%
Cash	-	-	-	-
Total current assets	4,849	4,931	(82)	-2%
Creditors: amounts falling due within one year				
Other creditors				
- internal	-	-	-	-
- external	(685)	(565)	(120)	21%
Total creditors: amounts falling due within one year	(685)	(565)	(120)	21%
Net current assets	4,165	4,366	(201)	(5%)
Total assets less current liabilities	91,942	88,903	3,039	3%
Provisions for liabilities and charges	-	-	-	-
Closing capital employed	91,942	88,903	3,039	3%

Regulatory Financial Review (KCOM)

Wholesale Market for Contemporary Interface Symmetric Broadband Origination (CISBO) at all Bandwidths within the Hull Area

The market for the provision of contemporary interface symmetric broadband origination (CISBO) includes connections from 2Mbit/s to 10Gbit/s utilising ethernet technology. Core external clients incorporate mobile infrastructure operators and Communications Providers servicing their national clients.

Number of Circuits

	2018/19 Restated	2019/20 Restated		2020/21	
	Volume	Volume	Annual increase	Volume	Annual increase
Circuit Nos	719	1,547	115%	1,616	4%

In previous RFS, volumes included in the regulatory financial review commentaries had included connections and other services. The stated volumes have been amended to now include only circuit or line rental volumes.

Wholesale products in this market have been priced based on the Reference Offers in the period under review.

Revenue has declined by 6%. Increased volumes from demand for high capacity circuits, has in part been offset by a reduction in Reference Offer prices.

Costs have increased due to increased bandwidth driving higher allocations of network common costs.

Wholesale Market for Contemporary Interface Symmetric Broadband Origination (CISBO) at all Bandwidths within the Hull Area

CURRENT COST PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2021

	£k	£k	£k Change Year on Year	% Change Year on Year
	2021	2020		
Turnover				
Internal Sales	4,897	4,847	50	1%
External Sales	2,111	2,633	(523)	(20%)
Total Turnover	7,008	7,480	(473)	(6%)
Operating costs				
Operating costs				
- Engineering Support	(1,015)	(1,337)	322	(24%)
- Finance & Billing	(127)	(157)	30	(19%)
- General Management	(886)	(459)	(426)	93%
- Outpayments	-	-	-	-
- Bad Debts	(5)	(4)	(1)	15%
- Back Office Support	(95)	(26)	(69)	260%
- Other Costs	(1,686)	(1,204)	(482)	40%
Sub total operating expenditure	(3,813)	(3,187)	(626)	20%
Depreciation				
- Duct	(45)	(44)	(1)	2%
- Copper	-	-	-	-
- Fibre	(308)	(307)	(1)	0%
- Transmission	(568)	(525)	(44)	8%
- Exchange	(134)	(342)	208	(61%)
- Other	(415)	(319)	(96)	30%
Holding (gain) / loss	174	328	(154)	(47%)
Supplementary depreciation	(319)	(304)	(15)	5%
Other adjustments	-	-	-	-
Total operating costs	(5,430)	(4,701)	(728)	15%
Return	1,578	2,779	(1,201)	(43%)
MCE	12,566	13,583	(1,017)	(7%)
RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER				
for the year ended 31 March 2021	2021	2020		
	%	%		
Return on mean capital employed	12.6%	20.5%		

Wholesale Market for Contemporary Interface Symmetric Broadband Origination (CISBO) at all Bandwidths within the Hull Area

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2021

	£k 2021	£k 2020	£'k Change	% Change
Fixed assets				
Tangible fixed assets				
- Land & Buildings	753	726	27	4%
- Duct	1,527	1,508	20	1%
- Fibre	2,666	2,439	227	9%
- Copper	-	-	-	-
- Transmission	2,893	3,114	(221)	(7%)
- Exchange	1,440	3,091	(1,651)	(53%)
- Other	1,866	1,404	462	33%
Total fixed assets	11,146	12,281	(1,135)	(9%)
Current assets				
Stocks	262	190	72	38%
Debtors				
- internal	403	398	4	1%
- external	906	809	97	12%
Cash	-	-	-	-
Total current assets	1,570	1,397	173	12%
Creditors: amounts falling due within one year				
Other creditors				
- internal	-	-	-	-
- external	(150)	(95)	(55)	57%
Total creditors: amounts falling due within one year	(150)	(95)	(55)	57%
Net current assets	1,420	1,302	118	9%
Total assets less current liabilities	12,566	13,583	(1,017)	(7%)
Provisions for liabilities and charges	-	-	-	-
Closing capital employed	12,566	13,583	(1,017)	(7%)

Regulatory Financial Review (KCOM)

Wholesale Fixed 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 area.

Number of Lines or Circuits

2018/19 Restated Volume	2019/20 Restated Annual Volume increase		2020/21 Annual Volume increase	
162,311	166,340	2%	164,689	-1%

Industry trends have been for analogue exchange line services to decline year on year as traditional voice services have been supplanted by mobile and IP alternatives and KCOM Hull has been part of this trend. Volumes are maintained due to demand for fixed line internet over fibre, which requires an active telephone service. The FTTP network, which operates in parallel with traditional infrastructure in those areas in which it has been rolled out, expanded significantly in the year.

In previous RFS, volumes included in the regulatory financial review commentaries had included connections and other services. The stated volumes have been amended to now include only circuit or line rental volumes.

Transfer prices are based on externally published Reference Offer prices, updated in October 2020.

Revenue has declined by 4% year on year driven by a minor reduction in volumes and the mix of Consumer and Business customers.

Reported returns have fallen due to the reduced revenue and increased costs.

On 28th October 2021 Ofcom published its Hull Area Wholesale Fixed Telecoms Market Review (WFTMR) statement and removed KCOM's SMP finding and associated cost accounting and regulatory financial reporting remedies for this market with effect from 1 November 2021. KCOM's RFS for the year ending 31 March 2022 will therefore not include accounts for this market.

Wholesale Fixed Analogue Exchange Line Services in the Hull Area

CURRENT COST PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2021

	£k 2021	£k 2021	£k Change Year on Year	% Change Year on Year
Turnover				
Internal Sales	16,000	16,254	(254)	(2%)
External Sales	830	1,072	(242)	(23%)
Total Turnover	16,830	17,326	(496)	(3%)
Operating costs				
Operating costs				
- Engineering Support	(1,828)	(2,425)	597	(25%)
- Finance & Billing	(212)	(353)	141	(40%)
- General Management	(1,379)	(805)	(575)	71%
- Outpayments	-	-	-	-
- Bad Debts	(14)	(14)	(0)	2%
- Back Office Support	(451)	(297)	(154)	52%
- Other Costs	(2,966)	(2,378)	(588)	25%
Sub total operating expenditure	(6,850)	(6,272)	(579)	9%
Depreciation				
- Duct	(60)	(63)	3	(5%)
- Copper	(1,979)	(1,984)	6	(0%)
- Fibre	-	-	-	-
- Transmission	-	-	-	-
- Exchange	(220)	(347)	128	(37%)
- Other	(828)	(716)	(113)	16%
CCA adjustments:				
Holding gain	496	748	(251)	(34%)
Supplementary depreciation	(781)	(780)	(0)	0%
Other adjustments	-	-	-	-
Total operating costs	(10,221)	(9,414)	(807)	9%
Return	6,609	7,912	(2,845)	(36%)
MCE	31,328	32,464	2,376	7%
RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER				
for the year ended 31 March 2021	2020	2021		
	%	%		
Return on mean capital employed	21.1%	24.4%		

Wholesale Fixed Analogue Exchange Line Services in the Hull Area

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2021

	£k 2021	£k 2020	£k Change	% Change
Fixed assets				
Tangible fixed assets				
- Land & Buildings	690	702	(12)	(2%)
- Duct	2,022	2,147	(125)	(6%)
- Fibre	-	-	-	-
- Copper	16,756	17,689	(933)	(5%)
- Transmission	-	-	-	-
- Exchange	2,874	3,132	(258)	(8%)
- Other	7,146	6,943	202	3%
Total fixed assets	29,487	30,613	(1,126)	(4%)
Current assets				
Stocks	419	367	52	14%
Debtors				
- internal	1,315	1,336	(21)	(2%)
- external	347	329	18	5%
Cash	-	-	-	-
Total current assets	2,081	2,033	49	2%
Creditors: amounts falling due within one year				
Other creditors				
- internal	-	-	-	-
- external	(240)	(182)	(58)	32%
Total creditors: amounts falling due within one year	(240)	(182)	(58)	32%
Net current assets	1,841	1,851	(10)	(1%)
Total assets less current liabilities	31,328	32,464	(1,136)	(3%)
Provisions for liabilities and charges	-	-	-	-
Closing capital employed	31,328	32,464	(1,136)	(3%)

Regulatory Financial Review (KCOM)

Wholesale 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:

2018/19 Restated	2019/20 Restated		2020/21	
Volume	Volume	Annual increase	Volume	Annual increase
7,925	10,376	31%	8,939	-14%

ISDN 30 circuits continue to have value for voice applications but are expected to decline in the future as IP telephony applications over FTTP become the default alternatives.

In previous RFS, volumes included in the regulatory financial review commentaries had included connections and other services. The stated volumes have been amended to now include only circuit or line rental volumes.

Wholesale products in this market are the historic 'retail minus' products and their equivalents provided under the Wholesale Line Rental Reference Offer. Transfer prices for the period under review are based upon the average of the Reference Offer pricing published in December 2018 and updated pricing from October 2020.

The reduction of lines has contributed to a reduction in revenue of 17%.

Overall costs have decreased, driven by lower allocation of 'Other' costs.

On 28th October 2021 Ofcom published its Hull Area Wholesale Fixed Telecoms Market Review (WFTMR) statement and removed KCOM's SMP finding and associated cost accounting and regulatory financial reporting remedies for this market with effect from 1 November 2021. KCOM's RFS for the year ending 31 March 2022 will therefore not include accounts for this market.

Wholesale ISDN 30 Exchange Line Services in the Hull Area

CURRENT COST PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2021

	£k 2021	£k 2020	£k Change Year on Year	% Change Year on Year
Turnover				
Internal Sales	1,036	1,241	(206)	(17%)
External Sales	192	238	(46)	(19%)
Total Turnover	1,228	1,480	(252)	(17%)
Operating costs				
Operating costs				
- Engineering Support	(11)	(17)	6	(35%)
- Finance & Billing	(4)	(12)	8	(66%)
- General Management	(21)	(19)	(3)	15%
- Outpayments	-	-	-	-
- Bad Debts	-	(1)	1	
- Back Office Support	(14)	(8)	(6)	70%
- Other Costs	(36)	(51)	15	(29%)
Sub total operating expenditure	(87)	(107)	21	(19%)
Depreciation				
- Duct	(1)	(1)	-	0%
- Copper	-	-	-	-
- Fibre	(11)	(15)	4	(28%)
- Transmission	-	-	-	-
- Exchange	(2)	(3)	2	(47%)
- Other	(70)	(60)	(10)	16%
CCA adjustments:				
Holding gain	12	20	(9)	(42%)
Supplementary depreciation	(5)	(5)	-	0%
Other adjustments	-	-	-	-
Total operating costs	(163)	(171)	8	(5%)
Return	1,065	1,308	(244)	(19%)
MCE	878	1,015	(136)	(13%)
RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER				
for the year ended 31 March 2021	2021	2020		
	%	%		
Return on mean capital employed	121.2%	129.0%		

Wholesale ISDN 30 Exchange Line Services in the Hull Area

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2021

	£k 2021	£k 2020	£k Change	% Change
Fixed assets				
Tangible fixed assets				
- Land & Buildings	11	16	(5)	(32%)
- Duct	29	36	(7)	(21%)
- Fibre	124	139	(15)	(11%)
- Copper	-	-	-	-
- Transmission	-	-	-	-
- Exchange	23	30	(7)	(23%)
- Other	520	612	(92)	(15%)
Investments	-	-	-	-
Total fixed assets	707	833	(127)	(15%)
Current assets				
Stocks	8	12	(4)	(33%)
Debtors				
- internal	85	102	(17)	(17%)
- external	83	73	10	13%
Cash	-	-	-	-
Total current assets	176	187	(11)	(6%)
Creditors: amounts falling due within one year				
Other creditors				
- internal	-	-	-	-
- external	(5)	(6)	1	(24%)
Total creditors: amounts falling due within one year	(5)	(6)	1	(24%)
Net current assets	171	181	(10)	(5%)
Total assets less current liabilities	878	1,015	(136)	(13%)
Provisions for liabilities and charges	-	-	-	-
Closing capital employed	878	1,015	(136)	(13%)

Regulatory Financial Review (KCOM)

Wholesale ISDN 2 Exchange Line Services in the Hull Area

This market is for the provision of ISDN2 lines to businesses within the Hull regulatory area, the primary usage for which is voice traffic.

Number of Lines or Circuits

2018/19 Restated Volume	2019/20 Restated		2020/21	
	Volume	Annual increase	Volume	Annual increase
1,596	1,750	10%	1,244	-29%

Services are scheduled for withdrawal in 2025, as these circuits 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, driving increasing substitution over time.

In previous RFS, volumes included in the regulatory financial review commentaries had included connections and other services. The stated volumes have been amended to now include only circuit or line rental volumes.

Wholesale products in this market are the historic 'retail minus' products and their equivalents provided under the Wholesale Line Rental Reference Offer. Transfer prices for the period under review are based upon the average of the Reference Offer pricing published in December 2018 and updated pricing from October 2020.

The volume reduction of lines has contributed to a reduction in revenue of 25%.

On 28th October 2021 Ofcom published its Hull Area Wholesale Fixed Telecoms Market Review (WFTMR) statement and removed KCOM's SMP finding and associated cost accounting and regulatory financial reporting remedies for this market with effect from 1 November 2021. KCOM's RFS for the year ending 31 March 2022 will therefore not include accounts for this market.

Wholesale ISDN 2 Exchange Line Services in the Hull Area

CURRENT COST PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2021

	£k 2021	£k 2020	£k Change Year on Year	% Change Year on Year
Turnover				
Internal Sales	204	256	(52)	(20%)
External Sales	192	269	(77)	(29%)
Total Turnover	396	525	(129)	(25%)
Operating costs				
Operating costs				
- Engineering Support	(11)	(28)	18	(62%)
- Finance & Billing	(2)	(5)	4	(68%)
- General Management	(10)	(9)	(0)	3%
- Outpayments	-	-	-	-
- Bad Debts	-	(1)	1	(110%)
- Back Office Support	(12)	(9)	(4)	45%
- Other Costs	(22)	(35)	13	(37%)
Sub total operating expenditure	(56)	(87)	31	(36%)
Depreciation				
- Duct	-	(0)	0	-
- Copper	(10)	(14)	4	(30%)
- Fibre	-	-	-	-
- Transmission	-	-	-	-
- Exchange	(1)	(3)	1	(56%)
- Other	(16)	(14)	(2)	14%
CCA adjustments:				
Holding gain	3	6	(3)	(52%)
Supplementary depreciation	(4)	(6)	2	(29%)
Other adjustments	-	-	-	-
Total operating costs	(84)	(118)	34	(29%)
Return	311	407	(96)	(23%)
MCE	280	366	(85)	(23%)
RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER				
for the year ended 31 March 2021	2021	2020		
	%	%		
Return on mean capital employed	111.0%	111.2%		

Wholesale ISDN 2 Exchange Line Services in the Hull Area

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2021

	£k 2021	£k 2020	£k Change	% Change
Fixed assets				
Tangible fixed assets				
- Land & Buildings	4	7	(3)	(40%)
- Duct	10	16	(5)	(34%)
- Fibre	-	-	-	-
- Copper	85	128	(44)	(34%)
- Transmission	-	-	-	-
- Exchange	15	23	(8)	(36%)
- Other	65	86	(21)	(24%)
Investments	-	-	-	-
Total fixed assets	179	260	(81)	(31%)
Current assets				
Stocks	3	5	(2)	(35%)
Debtors	-	-	-	-
- internal	17	21	(4)	(20%)
- external	83	83	-	0%
Cash	-	-	-	-
Total current assets	103	109	(6)	(5%)
Creditors: amounts falling due within one year				
Other creditors				
- internal	-	-	-	-
- external	(2)	(3)	1	(30%)
Total creditors: amounts falling due within one year	(2)	(3)	1	(30%)
Net current assets	101	106	(5)	(5%)
Total assets less current liabilities	280	366	(85)	(23%)
Provisions for liabilities and charges	-	-	-	-
Closing capital employed	280	366	(85)	(23%)

Regulatory Financial Review (KCOM)

Wholesale Call Origination on a Fixed Narrowband Network 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 and international calls.

Number of minutes	2018/19	2019/20		2020/21	
	Volume	Volume	Annual increase	Volume	Annual increase
Minutes (Billions)	0.33	0.33	1%	0.37	14%

Wholesale products in this market are priced at reference offer prices which decreased in the year.

The growth in volumes has contributed to growth in revenue of 6% year on year.

On 28th October 2021 Ofcom published its Hull Area Wholesale Fixed Telecoms Market Review (WFTMR) statement and removed KCOM's SMP finding and associated cost accounting and regulatory financial reporting remedies for this market with effect from 1 November 2021. KCOM's RFS for the year ending 31 March 2022 will therefore not include accounts for this market.

Wholesale Call Origination on a Fixed Narrowband Network in the Hull Area

CURRENT COST PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2021

	£k 2021	£k 2020	£k Change Year on Year	% Change Year on Year
Turnover				
Internal Sales	1,950	1,717	234	14%
External Sales	98	215	(117)	(54%)
Total Turnover	2,049	1,932	117	6%
Operating costs				
Operating costs				
- Engineering Support	(226)	(472)	246	(52%)
- Finance & Billing	(37)	(124)	87	(70%)
- General Management	(258)	(227)	(31)	14%
- Outpayments	-	-	-	-
- Bad Debts	-	-	-	-
- Back Office Support	(14)	(14)	-	-
- Other Costs	(591)	(850)	259	(30%)
Sub total operating expenditure	(1,125)	(1,686)	561	(33%)
Depreciation				
- Duct	-	-	-	-
- Copper	-	-	-	-
- Fibre	-	-	-	-
- Transmission	(10)	(2)	(8)	377%
- Exchange	(96)	(141)	45	(32%)
- Other	(117)	(148)	31	(21%)
CCA adjustments:				
Holding (gain) / loss	79	149	(69)	(47%)
Supplementary depreciation	(33)	(36)	2	(7%)
Other adjustments	-	-	-	-
Total operating costs	(1,303)	(1,865)	562	(30%)
Return	746	67	679	1018%
MCE	4,881	4,836	45	1%
RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER for the year ended 31 March 2021	2021 %	2020 %		
Return on mean capital employed	15.3%	1.4%		

Wholesale Call Origination on a Fixed Narrowband Network in the Hull Area

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

Wholesale Call Origination
for the year ended 31 March 2021

	£k 2021	£k 2020	£k Change	% Change
Fixed assets				
Tangible fixed assets				
- Land & Buildings	227	282	(55)	(20%)
- Duct	-	-	-	-
- Fibre	-	-	-	-
- Copper	-	-	-	-
- Transmission	62	14	48	332%
- Exchange	3,904	3,555	350	10%
- Other	456	712	(256)	(36%)
	-	-	-	-
Investments	-	-	-	-
Total fixed assets	4,649	4,563	86	2%
Current assets				
Stocks	73	129	(56)	(43%)
Debtors				
- internal	160	141	19	14%
- external	40	66	(26)	(39%)
Cash	-	-	-	-
Total current assets	274	336	(62)	(19%)
Creditors: amounts falling due within one year				
Other creditors				
- internal	-	-	-	-
- external	(42)	(63)	21	(34%)
Total creditors: amounts falling due within one year	(42)	(63)	21	(34%)
Net current assets	232	273	(41)	(15%)
Total assets less current liabilities	4,881	4,836	45	1%
Provisions for liabilities and charges	-	-	-	-
Closing capital employed	4,881	4,836	45	0.9%

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 15 December 2021. The statutory financial statements for KCOM Limited, for the year ended 31 March 2021 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

These financial statements have been prepared on the basis described in the Description of Cost Accounting System dated 15 December 2021 and as required under Ofcoms regulatory financial reporting requirements as set out in the documents listed on Page 4. This special reporting framework is specific to these financial statements and does not represent a financial reporting framework established by an authorised or recognised standard setting organisation.

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.

Wholesale services used internally and externally are costed using the same network components and allocated using the same usage factors.

As noted in the Introduction to these RFS, KCOM sold its National Business on 31 July 2021. KCOM Group Limited's Annual Report for the year ended 31 March 2021 has therefore been prepared on the basis of accounting standards which show results and assets and liabilities of the National Business separately as a 'discontinued operation' and assets and liabilities 'held for sale'.

The reconciliation between mean capital employed in the RFS and the Annual Report (Page 33) reconciles the Profit as shown in the RFS to the operating profit before tax in KCOM Annual Report excluding 'profit from discontinued operation.'

Similarly, in the reconciliation between mean capital employed in the RFS and the Annual Report (Page 34), the adjustments to Shareholder Funds, made to exclude items not relevant to the regulatory financial statements, are based on the amounts shown in the Annual Report presented net of 'Liabilities directly associated with assets classified as held for sale' and 'Assets held for sale'. As a result, the RFS include an allocation of certain items, (including deferred tax assets and lease liabilities) to the retail residual activity which would previously have been excluded from the RFS as reconciling items.

Turnover

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. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

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.

Notes to the Regulatory Financial Statements including accounting policies (continued)

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.

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.

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.

Notes to the Regulatory Financial Statements including accounting policies (continued)

Leases

On 1 April 2019 the Company transitioned to IFRS 16 'Leases', a new accounting standard that supercedes IAS 17 'Leases'. Upon transition, the modified retrospective approach was adopted, along with certain practical expedients as detailed in Note 2 of the KCOM Group Limited 2020 Annual Report. IFRS 16 removes the distinction between an operating and finance lease and substantially changes the accounting for lessees.

Upon transition and on inception of a new lease, a 'lease liability' is recognised in the balance sheet. The lease liability is measured at the present value of minimum lease payments, discounted using the Company's incremental borrowing rate. A 'right of use asset' is also recognised, typically at an amount equal to the lease liability.

The right of use asset is depreciated over the life of the lease and interest is recognised based on the incremental borrowing rate. This replaces the straight line expense typically seen for operating leases.

All Right of Use assets and associated liabilities are associated with the part of the KCOM business outside of the regulated Hull area and are therefore excluded from the RFS statements for those markets.

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 assuming a 30 day payment cycle.

Charges by the Wholesale Business to the Retail Business and Other Licenced Operators (OLO's) are made on the basis of Reference Offer prices for the relevant products where available.

Reconciliation Statement

Consolidated profit and loss account

for the year ended 31 March 2021

Market/Area	Turnover £k	Operating Costs £k	HCA Return or Profit before taxation £k	Holding gain/(loss) and other Adjustments £k	Supplementary depreciation £k	CCA Return or Profit Before Taxation £k
Wholesale SMP Markets	65,702	(38,948)	26,753	2,219	(1,865)	27,108
<u>Residual activities</u>						
- Wholesale residual activities	5,957	(7,956)	(1,999)	178	(123)	(1,944)
- Retail residual activities	246,667	(244,433)	2,234	1,410	(1,053)	2,591
Total	318,325	(291,337)	26,988			
Adjustments (as necessary)						
Elimination of Inter Business turnover and costs	(64,637)	64,637	-			
Other operating income			-			
Goodwill			-			
Group's share of profits of associates and joint ventures			13			
Profit on sale of fixed asset investments			-			
Profit on sale of Group undertakings			-			
Amounts written off investments			-			
Profit on sale of property fixed assets before exceptional items			-			
Profit on sale of property fixed assets			-			
Net short term interest payable			-			
Finance Income			1,069			
Long term interest payable			(9,613)			
Rounding differences						
Finance Costs attributed to discontinued operations			854			
Discontinued Operations	(154,126)	139,082	(15,044)			
As per the KCOM Group Limited Annual Report (page 44)	99,562	(87,618)	4,266			

KCOM Reconciliation Statement

Consolidated profit and loss account

for the year ended 31 March 2020 (restated)

Market/Area	Turnover £k	Operating Costs £k	HCA Return or Profit before taxation £k	Holding gain/(loss) and other Adjustments £k	Supplementary depreciation £k	CCA Return or Profit Before Taxation £k
Wholesale SMP Markets	62,277	(37,909)	24,368	3,394	(1,774)	25,988
Residual activities	-	-	-	-	-	-
- Wholesale residual activities	8,363	(8,906)	(544)	262	(109)	(391)
- Retail residual activities	254,615	(280,678)	(26,063)	2,048	(1,128)	(25,142)
Total	325,255	(327,493)	(2,238)			
Adjustments (as necessary)						
Elimination of Inter Business turnover and costs	(62,408)	62,408	-			
Other operating income	-	-	-			
Goodwill	-	-	-			
Group's share of profits of associates and joint ventures	-	-	16			
Profit on sale of fixed asset investments	-	-	-			
Profit on sale of Group undertakings	-	-	-			
Amounts written off investments	-	-	-			
Profit on sale of property fixed assets before exceptional items	-	-	-			
Profit on sale of property fixed assets	-	-	-			
Net short term interest payable	-	-	-			
Long term interest payable	-	-	(6,904)			
Rounding differences	-	-	-			
As per the KCOM Limited Annual Report (page 47)	262,847	(265,085)	(9,125)			

Reconciliation Statement

Consolidated mean capital employed for the year ended 31 March 2021	2021 £k	2020 £k
Consolidated mean capital employed		
Shareholders' funds as per the KCOM Group Limited Annual Report (page 45)	49,014	59,753
CCA Adjustments	34,375	33,937
Adjustments		
Investments	(81)	(79)
Retirement benefit asset	(32,513)	(38,763)
Deferred tax assets	(1,864)	(5,811)
Finance leases	575	14,086
Provisions for other liabilities and charges (short)	350	3,580
Loans from related parties	160,029	148,661
Deferred tax liabilities	14,747	16,590
Finance leases long term	1,039	32,875
Provisions for other liabilities and charges	601	3,944
Other differences	(6)	-
Closing CCA capital employed at 31 March	226,265	268,773
Opening CCA capital employed as 1 April	268,773	195,538
Adjustment to opening CCA Capital employed at 1 April	(328)	(280)
Revised Opening CCA Capital Employed at 1 April	268,445	195,258
Average CCA Capital employed	247,355	232,016
Daily averaging adjustment	-	-
Deferred Costs	-	-
Total CCA Mean capital employed	247,355	232,016
Mean Capital employed of SMP Markets		
Wholesale Broadband Access	91,942	88,903
Wholesale Low Bandwidth TISBO		
Wholesale CISBO	12,566	13,583
Wholesale Analogue Exchange Lines	31,328	32,464
Wholesale ISDN30	878	1,015
Wholesale ISDN2	280	366
Wholesale Call Origination	4,882	4,836
Sub total markets	141,876	141,166
<u>Residual activities</u>		
- Wholesale residual activity	13,155	10,851
- Retail residual activity	92,324	79,999
Total CCA Mean capital employed	247,355	232,016

Annex 1

Commentary on sale of National Business

On 31 July 2021, KCOM completed the sale of its national ICT business (the "National Business") to GCI Network Solutions Limited ("Nasstar"). The sale of the National Business will allow KCOM to focus on its core strategy as a regional provider of full fibre broadband, growing its presence in both retail and wholesale markets as it continues to invest in network expansion. KCOM has retained its regulated and unregulated business in the Hull Area (and in East Yorkshire and North Lincolnshire).

In the RFS, corporate overheads and assets are allocated across all of KCOM's activities in line with cost allocation methodologies set out in the DOCAS. Following the sale of the National Business, the scale of KCOM's operations will be reduced and so the SMP Markets will be allocated a higher proportion of corporate costs and assets.

To illustrate the scale of this future change in KCOM's cost structure, the following table shows returns on mean capital employed in FY21 recalculated to include:

- A reallocation of estimated overhead costs which are allocated to the Retail Residual market in the RFS but which are expected to be retained in the business (at least temporarily) after the sale.
- An estimate of corporate fixed assets which are allocated to the Retail Residual market in the FY21 RFS but which are expected to remain in the business after the sale.

Return on Mean Capital Employed	FY21 As stated in the RFS	FY21 Including additional overhead costs and assets	Difference
Wholesale Broadband Access	18.3%	14.1%	-4.1%
CISBO	12.6%	6.1%	-6.5%
Wholesale Fixed Analogue Exchange Lines	21.1%	16.8%	-4.3%
Wholesale ISDN 2 and ISDN 30	118.7%	114.2%	-4.5%
Wholesale Call Origination	15.3%	10.6%	-4.7%
All Reported SMP Markets	19.1%	14.7%	-4.4%