

KCOM

KCOM Group PLC

**Regulatory Financial Statements
for the year ended 31 March 2018**

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Ofcom Statement on KCOM's Regulatory Financial Statements 2018

Introduction

KCOM's reporting obligations arise out of market reviews conducted by Ofcom which impose requirements relating to regulatory financial reporting through SMP Conditions and Directions. Such requirements include publishing with the audited regulatory financial statements (RFS) any written statement made by Ofcom and provided to KCOM commenting on the information, the notes to or the presentation of any or all the RFS, and/or the Primary and Secondary Accounting Documents.

Ofcom believes that the statement below will be helpful to users of the RFS by drawing attention to several important aspects of KCOM's 2017/18 RFS.

New Accounting Separation System

As set out on page 7, and explained in more detail on pages 6 and 7 of the revised Primary and Secondary Accounting Documents, (as set out in the Description of KCOM's Cost Accounting and Accounting Separation Systems dated 18 December 2018 (DOCAS)), KCOM has prepared this year's RFS using a new Cost Accounting and Accounting Separation System. This has had the effect of changing the way some costs are attributed in the RFS. KCOM told us of its intention to move to a new Cost Accounting and Accounting Separation System and has kept us informed of progress throughout the year. The 2016/17 comparative figures have been restated on the new basis. As explained on page 5, the restated comparative information as at, and for the period ended, 31 March 2017 has not been audited.

Form of audit opinion

As in previous years, this year we required KCOM to obtain from its auditors, an opinion that each Regulatory Financial Statement Fairly Presents in Accordance (FPFA) with the Primary Accounting Documents within KCOM's DOCAS and that the Secondary Accounting Documents are appropriate to implement the Primary Accounting Documents¹. This provides more assurance than an opinion that each Regulatory Financial Statement has been Properly Prepared in Accordance (PPFA) with the Accounting Documents and whether having reviewed KCOM's DOCAS, nothing has come to the auditors' attention that would lead them to conclude that the Secondary Accounting Documents are unreasonable in the context of the Primary Accounting Documents.

As set out in the auditors' report on page 5 of the RFS, KCOM's auditors have only provided a PPFA opinion on the current year figures. KCOM has written to us explaining that following the introduction of the revised International Standards on Auditing (UK) 800², its auditors no longer consider the PPFA form of opinion to be the only appropriate form of opinion, that they are able to provide a FPFA opinion. This is because, as KCOM set out in note 2 of the basis of preparation on page 40, "These financial statements have been prepared on the basis described in the Description of Cost Accounting System dated 18 December 2018. This special reporting framework is specific to these financial statements and does not represent a financial reporting framework established by an authorized or recognised standing setting organisation." We are currently considering KCOM's representations and our appropriate response.

Review of KCOM's Regulatory Financial Reporting obligations

It is important that KCOM's regulatory financial reporting obligations remain relevant and appropriate. Earlier this year, we published a consultation on KCOM's reporting requirements in order to ensure that they continue to be fit for purpose³. Amongst other things, we are considering the appropriate form of future audit opinions. We plan to publish a statement that will impose new regulatory financial reporting requirements to be in place for the 2018/19 RFS.

¹ Both opinions also state whether the RFS complies with SMP conditions OAS (BCMR and Narrowband markets) and 8 (WLA and WBA markets) and that the Secondary Accounting Documents are appropriate to implement the Primary Accounting Documents.

² In October 2016, the Financial Reporting Council issued a revised International Standards on Auditing (UK) 800 – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks ("ISA (UK) 800") effective for audits of financial statements for periods commencing on or after 1 January 2017.

³ <https://www.ofcom.gov.uk/consultations-and-statements/category-2/regulatory-financial-reporting-directions-kcom>

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" and subsequent amendments.

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 18 December 2018
- 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 2018 have been prepared in accordance with the requirements of the relevant conditions.



Anna Bielby
Interim Chief Financial Officer
18 December 2018

Independent auditors' report to the directors of KCOM Group PLC and Ofcom

Opinion

In our opinion, KCOM Group PLC's Regulatory Accounts for the year ended 31 March 2018 have been properly prepared, in all material respects, in accordance with the Description of Cost Accounting System ("DOCAS") dated 18 December 2018 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 (the "Obligations") as summarised in the basis of preparation in note 2 and accounting policies in note 2 to the financial statements.

We have audited the Regulatory Accounts, included within the Regulatory Financial Statements, which comprise: the statement of current cost mean capital employed as at 31 March 2018; the current cost profit and loss account for each market for the year then ended; and the notes to the Regulatory Accounts, which include a description of the significant accounting policies.

The markets covered by this opinion include the following titles from the Regulatory Markets:

- Analogue exchange line services;
- ISDN 2;
- ISDN 30 exchange line services;
- Call origination on fixed public narrowband networks;
- Asymmetric broadband origination;
- Traditional interface symmetric broadband origination, bandwidths up to and including 8mbit/s ("TISBO"); and
- Contemporary interface symmetric broadband origination ("CISBO").

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 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 Regulatory Accounts, which is not modified, we draw attention to note 2 of the Regulatory Accounts which describes 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 Financial Reporting Standards (IFRSs) as adopted by the European Union. 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.

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

Other matter

The re-presented comparative information as at, and for the period ended 31 March 2017 has not been audited.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the Regulatory Accounts is not appropriate; or
- the directors have not disclosed in the Regulatory Accounts any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from 8 June 2018, the date when the company's statutory financial statements were authorised for issue.

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

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 set out on page 4, the directors are responsible for the preparation of the Regulatory Accounts in accordance with the basis of preparation in note 2 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.

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

Use of this report

This report, including the 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 17 July 2018 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.

The engagement partner on the audit resulting in this independent auditors' report is Stuart Newman.



PricewaterhouseCoopers LLP
Chartered Accountants
London

18 December 2018

New Regulatory Costing Model and Re-presentation of 2016/17 Results

In 2017, KCOM began a project to build a new regulatory costing model. The new model was designed to address, amongst other things, changes to the structure of the KCOM Group, changes to the network design and services and the new Ofcom regulatory requirements. Full details of the changes are included in pages 6 and 7 of the DoCAS. The new model has been used to calculate the results for both 2017/18 and 2016/17, meaning the comparatives presented within these statements are not consistent with the results presented last year. The extent of changes made to the format and structure of the model means that it is not practicable, or meaningful to prepare a reconciliation between the 2016/17 results presented last year and the 2016/17 results presented within these statements. Amongst the changes made to the new model is the inclusion of FTTP (fibre-to-the-premise) services within the Asymmetric Broadband Origination wholesale market.

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 2018

	£k 2018	% per line item/total	£k 2017	% per line item/total	% Change Year on Year
Turnover					
Internal Sales	35,861	86%	37,572	87%	-5%
External Sales	5,746	14%	5,700	13%	1%
Total Turnover	41,608	100%	43,272	100%	-4%
Operating costs					
Operating costs of Wholesale Market					
- Maintenance	8,593	29%	11,618	36%	-26%
- Provision & Installation	1,208	4%	467	1%	159%
- Finance & Billing	999	3%	1,432	4%	-30%
- Bad Debts	22	0%	(40)	0%	-156%
- Depreciation	10,583	36%	11,262	35%	-6%
- Other Costs	7,849	27%	7,335	23%	7%
Sub total operating expenditure	29,254	100%	32,075	100%	-9%
CCA adjustments:					
Holding (gain) / loss	(3,303)		(2,690)		23%
Supplementary depreciation	1,449		1,268		14%
Total operating costs	27,399		30,653		-11%
Return	14,209		12,619		13%

RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER

for the year ended 31 March 2018

Return on mean capital employed	2018	2017
	%	%
	13%	13%
Return on turnover	34%	29%
		5%

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 2018

	£k 2018	£k 2017	% Change
Fixed assets			
Tangible fixed assets			
- Land & Buildings	3,084	3,718	-17%
- Duct	8,099	8,128	0%
- Transmission Equipment	4,587	5,340	-14%
- Exchange Equipment	16,716	14,645	14%
- Other	74,559	68,819	8%
Total fixed assets	107,044	100,650	6%
Current assets			
Stocks	3,355	1,545	117%
Debtors			
- internal	2,912	2,838	3%
- external	2,004	1,572	27%
Total current assets	8,271	5,955	39%
Creditors: amounts falling due within one year			
Other creditors			
- internal			
- external	(1,052)	(2,272)	-54%
- external			
Total creditors: amounts falling due within one year	(1,052)	(2,272)	-54%
Net current assets	7,219	3,683	96%
Total assets less current liabilities	114,263	104,332	10%
Mean capital employed	109,297	97,064	13%

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

CURRENT COST PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2018

	£k 2018	% per line item/total	£k 2017	% per line item/total	% Change Year on Year
Turnover					
Internal Sales	9,822	83%	15,622	89%	-37%
External Sales	2,050	17%	1,921	11%	7%
Total Turnover	11,871	100%	17,543	100%	-32%
Operating costs					
Operating costs of Wholesale Market					
- Maintenance	2,793	36%	5,157	39%	-46%
- Provision & Installation	153	2%	103	1%	48%
- Finance & Billing	164	2%	480	4%	-66%
- Bad Debts	7	0%	(16)	0%	-146%
- Depreciation	3,313	43%	4,523	35%	-27%
- Other Costs	1,288	17%	2,845	22%	-55%
	7,717	100%	13,092	100%	-41%
Sub total operating expenditure					
CCA adjustments:					
Holding gain	(1,012)		(1,043)		-3%
Supplementary depreciation	722		702		3%
Total operating costs	7,428		12,750		-42%
Return	4,444		4,793		-7%

RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER

for the year ended 31 March 2018

Return on mean capital employed	2018	2017
	%	%
	13%	13%
Return on turnover	37%	27%
		10%

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 2018

	£k 2018	£k 2017	% Change
Fixed assets			
Tangible fixed assets			
- Land & Buildings	825	1,443	-43%
- Duct	2,623	2,981	-12%
- Transmission Equipment	40	1	3788%
- Exchange Equipment	5,019	5,206	-4%
- Other	21,890	26,920	-19%
Total fixed assets	30,397	36,549	-17%
Current assets			
Stocks	310	515	-40%
Debtors			
- internal	759	998	-24%
- external	711	605	17%
Total current assets	1,780	2,118	-16%
Creditors: amounts falling due within one year			
Other creditors			
- internal	(720)	(1,758)	-59%
- external			
Total creditors: amounts falling due within one year	(720)	(1,758)	-59%
Net current assets	1,060	360	195%
Total assets less current liabilities	31,457	36,909	-15%
Closing capital employed	31,457	36,909	-15%

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.

Number of Lines or Circuits	2013/14	2014/15	2015/16	2016/17	2017/18			
2012/13								
178,496	-2%	171,994	-1%	169,783	-2%	165,568	1%	167,142

Industry trends have been for analogue exchange line services to decline year on year and KCOM Hull has been part of this trend. However, line numbers increased during 2017/18 reflecting an increased demand for fixed line internet over fibre, each such service requiring 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.

A one-off rebate on hereditament, apportioned over the wholesale markets, contributed to a reduction in operating costs over the year. Movement in 'Other Costs' reflects changes in cost allocations.

Wholesale products in this market have consisted of 'retail minus' products in the period under review. A wholesale line rental product has been launched in 2018/19 as an addition to the portfolio.

External wholesale prices for the 'retail minus' products did not change in the year.

Internal wholesale revenue is derived from a 13% return on mean capital employed.

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

CURRENT COST PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2018

	£k	% per line item/total	£k	% per line item/total	% Change Year on Year
	2018		2017		
Turnover					
Internal Sales	7,276	86%	11,490	90%	-37%
External Sales	1,230	14%	1,237	10%	-1%
Total Turnover	8,506	100%	12,728	100%	-33%
Operating costs					
Operating costs of Wholesale Market					
- Maintenance	1,261	26%	3,049	35%	-59%
- Provision & Installation	118	2%	41	0%	191%
- Finance & Billing	118	2%	313	4%	-62%
- Bad Debts	5	0%	(10)	0%	-145%
- Depreciation	2,397	49%	3,599	41%	-33%
- Other Costs	953	20%	1,782	20%	-47%
Sub total operating expenditure	4,852	100%	8,774	100%	-45%
CCA adjustments:					
Holding (gain) / loss	(906)		(905)		0%
Supplementary depreciation	677		650		4%
Total operating costs	4,622		8,518		-46%
Return	3,884		4,210		-8%

RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER

for the year ended 31 March 2018

Return on mean capital employed	2018	2017
	%	%
	13%	13%
Return on turnover	46%	33%
		13%

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

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2018

	£k 2018	£k 2017	% Change
Fixed assets			
Tangible fixed assets			
- Land & Buildings	526	732	-28%
- Duct	2,538	2,897	-12%
- Transmission Equipment	-	-	0%
- Exchange Equipment	4,940	5,114	-3%
- Other	19,358	22,835	-15%
Total fixed assets	27,363	31,578	-13%
Current assets			
Stocks	222	335	-34%
Debtors			
- internal	564	920	-39%
- external	427	417	2%
Total current assets	1,214	1,672	-27%
Creditors: amounts falling due within one year			
Other creditors			
- internal	-	-	0%
- external	(628)	(1,449)	-57%
Total creditors: amounts falling due within one year	(628)	(1,449)	-57%
Net current assets	586	223	162%
Total assets less current liabilities	27,949	31,801	-12%
Closing capital employed	27,949	31,801	-12%

Kingston Statement of Costs on a Current Cost Basis

Network Activity Statement
for the year ended 31 March 2018

Analogue Exchange Lines

Components	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 capital costs relating to current year	Volume (No. of Lines)	Average costs per min/unit on a current cost basis relating to current year
Net Current Assets	-	-	-	-	1,236	13%	161	161	167,142	£0.96
Field Provision	118	-	-	118	7	13%	1	118	167,142	£0.71
Other	33	-	(1)	32	1,184	13%	154	186	167,142	£1.11
Local Loop Infrastructure	4,017	676	(903)	3,790	27,396	13%	3,561	7,351	167,142	£43.98
Electronics	-	-	-	-	-	13%	-	-	167,142	£0.00
Exchange to Exchange Infrastructure	-	-	-	-	-	13%	-	-	167,142	£0.00
Sales and Product Management	72	-	(1)	71	18	13%	2	73	167,142	£0.44
Field Maintenance	612	-	(1)	611	35	13%	5	615	167,142	£3.68
Totals	4,852	676	(906)	4,622	29,875		3,884	8,505		£50.89
2017										
Net Current Assets	-	-	-	-	1,311	13%	170	170	165,568	£6.69
Exchange Concentrator	2	1	-	3	1	13%	-	3	165,568	£0.02
Field Provision	40	-	-	40	7	13%	1	41	165,568	£0.25
Other	21	-	(1)	21	24	13%	3	24	165,568	£0.15
Local Loop Infrastructure	8,087	648	(901)	7,834	30,238	13%	3,931	11,765	165,568	£71.06
Electronics	-	-	-	-	-	13%	-	-	165,568	£0.00
Exchange to Exchange Infrastructure	-	-	-	-	-	13%	-	-	165,568	£0.00
Exchange Processor	-	-	-	-	-	13%	-	-	165,568	£0.00
Sales and Product Management	57	-	-	57	11	13%	1	58	165,568	£0.35
Field Maintenance	566	1	(3)	563	105	13%	14	577	165,568	£3.48
Totals	8,774	650	(905)	8,518	31,697		4,121	12,639		£82.00

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.

Following industry trends ISDN 2 circuits continued their decline in the year and have now declined by a compound 13% p.a. 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, driving increasing substitution over time. A product withdrawal plan is under development for these products.

Number of Lines or Circuits		2014/15		2015/16		2016/17		2017/18		
2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	
6,961	-13%	6,024	-19%	4,876	-15%	4,154	2%	4,253	-19%	3,455

A one-off rebate on hereditament, apportioned over the wholesale markets, contributed to a reduction in operating costs over the year. This has impacted as a one-off reduction upon the derived internal sales revenue in 2017/18, external sales revenue being that billed. Wholesale products in this market have consisted of 'retail minus' products in the period under review. A wholesale line rental product has been launched in 2018/19 as an addition to the portfolio.

External wholesale prices for the 'retail minus' products did not change in the year.

Internal wholesale revenue is derived from a 13% return on mean capital employed.

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

CURRENT COST PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2018

	£k 2018	% per line item/total	£k 2017	% per line item/total	% Change Year on Year
Turnover					
Internal Sales	(14)	-5%	71	24%	-119%
External Sales	322	105%	231	76%	39%
Total Turnover	308	100%	303	100%	2%
Operating costs					
Operating costs of Wholesale Market					
- Maintenance	15	6%	32	13%	-53%
- Provision & Installation	20	8%	45	18%	-56%
- Finance & Billing	5	2%	8	3%	-36%
- Bad Debts	1	0%	(2)	-1%	-161%
- Depreciation	161	66%	128	52%	26%
- Other Costs	42	17%	32	13%	31%
Sub total operating expenditure	245	100%	243	100%	1%
CCA adjustments:					
Holding (gain) / loss	(16)		(13)		24%
Supplementary depreciation	11		9		24%
Total operating costs	240		239		0%
Return	68		64		7%

RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER

for the year ended 31 March 2018

Return on mean capital employed	2018 %	2017 %	%
	13%	13%	0%
Return on turnover	22%	21%	1%

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

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2018

	£k 2018	£k 2017	% Change
Fixed assets			
Tangible fixed assets			
- Land & Buildings	11	12	-10%
- Duct	32	31	5%
- Transmission Equipment	-	-	0%
- Exchange Equipment	62	54	15%
- Other	351	400	-12%
Total fixed assets	455	496	-8%
Current assets			
Stocks	10	10	0%
Debtors			
- internal	(2)	6	-138%
- external	112	-	0%
Total current assets	120	16	644%
Creditors: amounts falling due within one year			
Other creditors			
- internal	-	-	0%
- external	(34)	-	0%
Total creditors: amounts falling due within one year	(34)	-	0%
Net current assets	85	16	430%
Total assets less current liabilities	541	512	6%
Closing capital employed	541	512	6%

Kingston Statement of Costs on a Current Cost Basis

Network Activity Statement
for the year ended 31 March 2018

ISDN 2 Channels

Components	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
Net Current Assets	-	-	-	-	66	13%	9	9	3,455	£2.47
Field Provision	2	-	-	2	-	13%	-	2	3,455	£0.59
Other	166	2	(5)	164	112	13%	15	178	3,455	£51.56
Local Loop Infrastructure	50	8	(11)	48	344	13%	45	92	3,455	£26.74
Electronics	-	-	-	-	-	13%	-	-	3,455	£0.00
Exchange to Exchange Infrastructure	-	-	-	-	-	13%	-	-	3,455	£0.00
Sales and Product Management	19	-	-	19	5	13%	1	19	3,455	£5.62
Field Maintenance	8	-	-	8	-	13%	-	8	3,455	£2.23
Totals	245	11	(16)	240	526		68	308		£89.21
2017										
Net Current Assets	-	-	-	-	27	13%	4	4	4,253	£6.69
Exchange Concentrator	-	-	-	-	-	13%	-	-	4,253	£0.01
Field Provision	32	-	-	32	6	13%	1	33	4,253	£7.72
Other	109	2	(3)	108	129	13%	17	124	4,253	£29.27
Local Loop Infrastructure	85	7	(9)	82	318	13%	41	124	4,253	£29.13
Electronics	-	-	-	-	-	13%	-	-	4,253	£0.00
Exchange to Exchange Infrastructure	-	-	-	-	-	13%	-	-	4,253	£0.00
Exchange Processor	-	-	-	-	-	13%	-	-	4,253	£0.00
Sales and Product Management	11	-	-	11	2	13%	-	11	4,253	£2.55
Field Maintenance	6	-	-	6	1	13%	-	6	4,253	£1.43
Totals	243	9	(13)	239	484		63	302		£76.80

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

Lines				Channels	
2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
1,215	1,175	1,145	1,043	9,379	10,555
	-3%	-3%	-9%		13%

ISDN 30 circuits are now reported in channel numbers rather than the former line volumes. They continue to have value for voice applications but are expected to decline in the future as IP telephony applications become the default alternatives.

A one-off rebate on hereditament, apportioned over the wholesale markets, contributed to a reduction in operating costs over the year. Movement in 'Other Costs' reflects changes in cost allocations.

Wholesale products in this market have consisted of 'retail minus' products in the period under review. A wholesale line rental product has been launched in 2018/19 as an addition to the portfolio.

External wholesale prices for the 'retail minus' products did not change in the year.

Internal wholesale revenue is derived from a 13% return on mean capital employed.

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

CURRENT COST PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2018

	£k	2018	% per line item/total	£k	2017	% per line item/total	% Change Year on Year
Turnover							
Internal Sales	792		76%	424		59%	87%
External Sales	245		24%	297		41%	-17%
Total Turnover	1,038		100%	721		100%	44%
Operating costs							
Operating costs of Wholesale Market							
- Maintenance	4		0%	26		5%	-85%
- Provision & Installation	15		2%	18		3%	-14%
- Finance & Billing	29		3%	33		6%	-12%
- Bad Debts	1		0%	(2)		0%	-138%
- Depreciation	589		68%	400		69%	48%
- Other Costs	231		27%	101		18%	129%
Sub total operating expenditure	870		100%	575		100%	51%
CCA adjustments:							
Holding (gain) / loss	(44)			(33)			35%
Supplementary depreciation	13			9			34%
Total operating costs	838			552			52%
Return	200			169			18%

RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER

for the year ended 31 March 2018

Return on mean capital employed	2018	2017
	%	%
	13%	13%
Return on turnover	19%	23%
		-4%

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 2018

	£k 2018	£k 2017	% Change
Fixed assets			
Tangible fixed assets			
- Land & Buildings	34	30	14%
- Duct	52	53	-2%
- Transmission Equipment	-	-	0%
- Exchange Equipment	-	-	0%
- Other	1,262	1,427	-12%
Total fixed assets	1,349	1,510	-11%
Current assets			
Stocks	55	35	56%
Debtors			
- internal	63	36	74%
- external	85	100	-15%
Total current assets	203	171	18%
Creditors: amounts falling due within one year			
Other creditors			
- internal	-	-	0%
- external	(53)	(109)	-52%
Total creditors: amounts falling due within one year	(53)	(109)	-52%
Net current assets	150	62	142%
Total assets less current liabilities	1,498	1,572	-5%
Closing capital employed	1,498	1,572	-5%

Kingston Statement of Costs on a Current Cost Basis

Network Activity Statement
for the year ended 31 March 2018

Business ISDN 30 Lines

Components	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 Channels)	Average costs per min/unit on a current cost basis relating to current year
Net Current Assets	-	-	-	-	102	13%	13	13	10,555	£1.26
Field Provision	2	-	-	2	-	13%	-	2	10,555	£0.18
Other	665	9	(19)	655	577	13%	75	730	10,555	£69.12
Local Loop Infrastructure	184	4	(24)	163	852	13%	111	274	10,555	£25.97
Electronics	-	-	-	-	-	13%	-	-	10,555	£0.00
Exchange to Exchange Infrastructure	-	-	-	-	-	13%	-	-	10,555	£0.00
Sales and Product Management	14	-	-	14	4	13%	-	14	10,555	£1.33
Field Maintenance	4	-	-	4	-	13%	-	4	10,555	£0.38
Totals	869	13	(44)	838	1,535		199	1,037		£98.23
2017										
Net Current Assets	-	-	-	-	55	13%	7	7	9,379	£0.77
Exchange Concentrator	-	-	-	-	-	13%	-	-	9,379	£0.00
Field Provision	2	-	-	2	-	13%	-	2	9,379	£0.18
Other	437	7	(14)	431	516	13%	67	498	9,379	£53.08
Local Loop Infrastructure	119	2	(19)	102	715	13%	93	195	9,379	£20.84
Electronics	-	-	-	-	-	13%	-	-	9,379	£0.00
Exchange to Exchange Infrastructure	-	-	-	-	-	13%	-	-	9,379	£0.00
Exchange Processor	-	-	-	-	-	13%	-	-	9,379	£0.00
Sales and Product Management	14	-	-	14	3	13%	-	14	9,379	£1.49
Field Maintenance	3	-	-	3	1	13%	-	4	9,379	£0.38
Totals	575	9	(33)	538	1,290		168	720		£76.73

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.

Minutes (Billions)	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
	0.66	0.60	0.52	0.47	0.42	0.36
	-8%	-14%	-10%	-10%	-14%	0.36

Call origination volumes over fixed lines are declining industry wide, driven by the increasing diversity of communications media. The trend in Hull is reflective of this pattern, substituting fixed and mobile data for traditional voice traffic.

External wholesale call origination pricing did not change in the year.

Internal wholesale revenue is derived from a 13% return on mean capital employed.

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 2018

	£k 2018	% per line item/total	£k 2017	% per line item/total	% Change Year on Year
Turnover					
Internal Sales	1,767	88%	3,636	96%	-51%
External Sales	252	12%	155	4%	62%
Total Turnover	2,020	100%	3,792	100%	-47%
Operating costs					
Operating costs of Wholesale Market	1,512	86%	2,049	59%	-26%
- Maintenance	-	0%	-	0%	0%
- Provision & Installation	12	1%	126	4%	-90%
- Finance & Billing	1	0%	(02)	0%	-143%
- Bad Debts	165	9%	397	11%	-59%
- Depreciation	61	3%	930	27%	-93%
- Other Costs					
Sub total operating expenditure	1,751	100%	3,500	100%	-50%
CCA adjustments:					
Holding (gain) / loss	(45)		(92)		-51%
Supplementary depreciation	22		34		-36%
Total operating costs	1,728		3,442		-50%
Return	292		350		-17%
RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER					
for the year ended 31 March 2018	2018	2017			
	%	%			%
Return on mean capital employed	13%	13%			0%
Return on turnover	14%	28%			-14%

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

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2018

	£k 2018	£k 2017	% Change
Fixed assets			
Tangible fixed assets			
- Land & Buildings	254	669	-62%
- Duct	-	-	0%
- Transmission Equipment	40	1	3788%
- Exchange Equipment	17	38	-55%
- Other	919	2,258	-59%
Total fixed assets	1,230	2,966	-59%
Current assets			
Stocks	23	135	-83%
Debtors			
- internal	134	36	274%
- external	88	88	-1%
Total current assets	245	259	-5%
Creditors: amounts falling due within one year			
Other creditors			
- internal	-	-	0%
- external	(5)	(200)	-97%
Total creditors: amounts falling due within one year	(5)	(200)	-97%
Net current assets	239	58	310%
Total assets less current liabilities	1,469	3,024	-51%
Closing capital employed	1,469	3,024	-51%

Kingston Statement of Costs on a Current Cost Basis

Network Activity Statement

for the year ended 31 March 2018

Call origination on fixed public narrowband networks

Components	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 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
Net Current Assets	-	-	-	-	239	13%	31	31	359,581	0.0087
Field Provision	-	-	-	-	-	13%	-	-	359,581	0.0000
Other	-	-	-	-	-	13%	-	-	359,581	0.0000
Local Loop Infrastructure	-	-	-	-	-	13%	-	-	359,581	0.0000
Electronics	1,736	22	(45)	1,713	1,999	13%	260	1,973	359,581	0.5486
Exchange to Exchange Infrastructure	-	-	-	-	3	13%	-	-	359,581	0.0000
Sales and Product Management	15	-	-	15	6	13%	1	15	359,581	0.0043
Field Maintenance	-	-	-	-	-	13%	-	-	359,581	0.0000
Totals	1,751	22	(45)	1,727	2,246		292	2,019		0.5615
2017										
Net Current Assets	-	-	-	-	85	13%	11	11	424,472	0.0026
Exchange Concentrator	3,238	23	(42)	3,219	1,295	13%	168	3,387	424,472	0.7980
Field Provision	-	-	-	-	-	13%	-	-	424,472	0.0000
Other	-	-	-	-	-	13%	-	-	424,472	0.0000
Local Loop Infrastructure	-	-	-	-	-	13%	-	-	424,472	0.0000
Electronics	-	-	-	-	1	13%	-	-	424,472	0.0001
Exchange to Exchange Infrastructure	-	-	-	-	-	13%	-	-	424,472	0.0000
Exchange Processor	249	11	(50)	210	1,273	13%	165	376	424,472	0.0885
Sales and Product Management	12	-	-	12	2	13%	-	12	424,472	0.0029
Field Maintenance	-	-	-	-	-	13%	-	-	424,472	0.0000
Totals	3,500	34	(92)	3,442	2,657		345	3,787		0.8922

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. KCOM has been rolling out an FTTP network within the area and expects to complete full fibre deployment by March 2019. 164,000 premises had been passed by fibre by 31.03.18 whilst 54% of consumer broadband customers were taking fibre services.

Circuit Nos	ADSL Circuits only				ADSL and FTTP Circuits			
	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2016/17	2017/18
	105,808	112,976	119,623	120,122	137,770	160,426	137,770	160,426
	7%		6%	0%	15%	16%		

FTTP roll-out has both initiated substitution away from ADSL and driven new line installation. Fibre penetration of the broadband base has moved from 31% to 46% during the year. The ADSL 'reseller' products were complemented in December 2017 by a range of FTTP reseller products for business and, in March 2018, by a range of residential reseller products.

A one-off rebate on hereditament, apportioned over the wholesale markets, contributed to a reduction in operating costs over the year. Movement in 'Other Costs' reflects changes in cost allocations.

Wholesale products in this market have consisted of 'retail minus' products in the period under review. A wholesale Fibreline Access product has been launched in 2018/19 as a further complement to the fibre broadband wholesale portfolio.

External wholesale prices for the 'retail minus' ADSL products did not change in the year. Retail Minus fibre products were introduced at new tariffs.

Kingston Wholesale Market : Asymmetric Broadband Origination in the Hull Area

CURRENT COST PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2018

	£k 2018	% per line item/total	£k 2017	% per line item/total	% Change Year on Year
Turnover					
Internal Sales	24,189	96%	19,067	96%	27%
External Sales	895	4%	801	4%	12%
Total Turnover	25,085	100%	19,868	100%	26%
Operating costs					
Operating costs of Wholesale Market					
- Maintenance	4,353	24%	4,868	34%	-11%
- Provision & Installation	885	5%	243	2%	264%
- Finance & Billing	781	4%	839	6%	-7%
- Bad Debts	5	0%	(7)	0%	-174%
- Depreciation	5,992	33%	4,524	32%	32%
- Other Costs	6,174	34%	3,732	26%	65%
Sub total operating expenditure	18,189	100%	14,199	100%	28%
CCA adjustments:					
Holding (gain) / loss	(1,875)		(1,420)		-32%
Supplementary depreciation	427		385		11%
Total operating costs	16,741		13,165		27%
Return	8,343		6,703		24%
RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER					
for the year ended 31 March 2018					
Return on mean capital employed	13%		13%		0%
Return on turnover	33%		34%		0%

Kingston Wholesale Market : Asymmetric Broadband Origination in the Hull Area

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2018

	£k 2018	£k 2017	% Change
Fixed assets			
Tangible fixed assets			
- Land & Buildings	1,549	1,587	-2%
- Duct	3,580	4,032	-11%
- Transmission Equipment	4,456	5,129	-13%
- Exchange Equipment	5,975	6,060	-1%
- Other	48,912	39,111	25%
Total fixed assets	64,473	55,920	15%
Current assets			
Stocks	2,942	908	224%
Debtors			
- internal	1,991	1,613	23%
- external	320	271	18%
Total current assets	5,253	2,792	88%
Creditors: amounts falling due within one year			
Other creditors			
- internal	-	-	0%
- external	(29)	(54)	-45%
Total creditors: amounts falling due within one year	(29)	(54)	-45%
Net current assets	5,224	2,738	91%
Total assets less current liabilities	69,697	58,658	19%
Closing capital employed	69,697	58,658	19%

Kingston Statement of Costs on a Current Cost Basis

Network Activity Statement for the year ended 31 March 2018

Asymmetric Broadband Origination in the Hull Area

Components	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 mini/unit on a current cost basis relating to current year
Net Current Assets	-	-	-	-	5,224	13%	679	679	160,426	£4.23
Field Provision	834	1	(2)	833	46	13%	6	839	160,426	£5.23
Other	2,367	44	(131)	2,280	3,438	13%	447	2,727	160,426	£17.00
Local Loop Infrastructure	9,288	181	(1,234)	8,235	40,793	13%	5,303	13,538	160,426	£84.39
Electronics	2,846	87	(343)	2,590	9,996	13%	1,299	3,890	160,426	£24.25
Exchange to Exchange Infrastructure	579	112	(159)	532	4,547	13%	591	1,123	160,426	£7.00
Sales and Product Management	54	-	-	54	13	13%	2	55	160,426	£0.35
Field Maintenance	2,221	1	(4)	2,217	121	13%	16	2,233	160,426	£13.92
Totals	18,189	426	(1,874)	16,741	64,177		8,343	25,084		£156.36
2017										
Net Current Assets	-	-	-	-	3,296	13%	428	428	137,770	£3.11
Exchange Concentrator	3	-	-	3	1	13%	-	3	137,770	£0.02
Field Provision	199	-	(1)	198	37	13%	5	203	137,770	£1.47
Other	2,689	24	(156)	2,558	4,729	13%	615	3,173	137,770	£23.03
Local Loop Infrastructure	4,022	72	(638)	3,456	24,136	13%	3,138	6,594	137,770	£47.86
Electronics	2,700	54	(310)	2,444	10,060	13%	1,308	3,752	137,770	£27.23
Exchange to Exchange Infrastructure	2,384	233	(302)	2,315	9,540	13%	1,240	3,555	137,770	£25.81
Exchange Processor	-	-	-	-	-	13%	-	-	137,770	£0.00
Sales and Product Management	37	-	-	37	7	13%	1	38	137,770	£0.27
Field Maintenance	2,165	2	(13)	2,154	401	13%	52	2,206	137,770	£16.01
Totals	14,199	385	(1,420)	13,165	52,208		6,787	19,952		£144.82

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. Notice has been served on sub 1Mb/s circuits and preparations are under way to review withdrawal of other legacy circuits.

Number of circuits	2013/14	2014/15	2015/16	2016/17	2017/18					
2012/13										
2,663	-13%	2,312	-26%	1,716	-8%	1,574	-19%	1,282	-34%	841

A one-off rebate on hereditament, apportioned over the wholesale markets, contributed to a reduction in operating costs over the year. Movement in 'Other Costs' reflects changes in cost allocations.

Wholesale products in this market have been listed under the Reference Offers in the period under review.

There has been some reclassification of circuits between this market and that for Contemporary Interface circuits leading to additional reduction in volumes for the Traditional Interface market and corresponding increase in volumes within the Contemporary Interface market.

External wholesale prices for the these products did not change in the year.

Internal wholesale revenue is derived from a 13% return on mean capital employed.

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 2018

	£k 2018	% per line item/total	£k 2017	% per line item/total	% Change Year on Year
Turnover					
Internal Sales	268	23%	2,521	73%	-89%
External Sales	916	77%	920	27%	0%
Total Turnover	1,184	100%	3,441	100%	-66%
Operating costs					
Operating costs of Wholesale Market					
- Maintenance	360	42%	806	27%	-55%
- Provision & Installation	50	6%	-	0%	0%
- Finance & Billing	19	2%	52	2%	-62%
- Bad Debts	3	0%	-	0%	0%
- Depreciation	280	33%	1,801	60%	-84%
- Other Costs	145	17%	367	12%	-60%
Sub total operating expenditure	858	100%	3,026	100%	-72%
CCA adjustments:					
Holding (gain) / loss	(57)		(65)		-12%
Supplementary depreciation	23		56		-59%
Total operating costs	824		3,017		-73%
Return	360		424		-15%
RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER					
for the year ended 31 March 2018					
Return on mean capital employed	13%		13%		0%
Return on turnover	30%		12%		18%

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 2018

	£k 2018	£k 2017	% Change
Fixed assets			
Tangible fixed assets			
- Land & Buildings	50	424	-88%
- Duct	11	28	-62%
- Transmission Equipment	91	210	-57%
- Exchange Equipment	1,530	1,941	-21%
- Other	211	447	-53%
Total fixed assets	1,892	3,050	-38%
Current assets			
Stocks	37	55	-33%
Debtors			
- internal	12	205	-94%
- external	318	-	0%
Total current assets	367	260	41%
Creditors: amounts falling due within one year			
Other creditors			
- internal	-	-	0%
- external	(31)	(1)	4566%
Total creditors: amounts falling due within one year	(31)	(1)	4566%
Net current assets	336	260	29%
Total assets less current liabilities	2,228	3,310	-33%
Closing capital employed	2,228	3,310	-33%

Kingston Statement of Costs on a Current Cost Basis

Network Activity Statement
for the year ended 31 March 2018

Origination with a Bandwidth Capacity up to & Including 8Mb/s Within the Hull Area

Components	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	Average costs per min/unit on a current cost basis relating to current year
Net Current Assets	-	-	-	-	336	13%	44	44	841	£51.95
Field Provision	-	-	-	-	-	13%	-	-	841	£0.02
Other	-	-	-	-	-	13%	-	-	841	£0.00
Local Loop Infrastructure	16	3	(4)	15	138	13%	18	33	841	£38.89
Electronics	767	20	(53)	734	2,270	13%	295	1,029	841	£1,223.69
Exchange to Exchange Infrastructure	1	-	-	1	5	13%	1	1	841	£1.45
Sales and Product Management	54	-	-	54	17	13%	2	56	841	£66.34
Field Maintenance	21	-	-	21	2	13%	-	21	841	£24.97
Totals	858	23	(57)	824	2,769		360	1,184		£1,407.31
2017										
Net Current Assets	-	-	-	-	255	13%	33	33	1,282	£6.69
Exchange Concentrator	-	-	-	-	-	13%	-	-	1,282	£0.00
Field Provision	-	-	-	-	-	13%	-	-	1,282	£0.08
Other	-	-	-	-	-	13%	-	-	1,282	£0.00
Local Loop Infrastructure	60	5	(7)	58	225	13%	29	87	1,282	£68.24
Electronics	2,892	50	(57)	2,885	2,817	13%	366	3,251	1,282	£2,536.06
Exchange to Exchange Infrastructure	7	1	(1)	7	29	13%	4	11	1,282	£8.38
Exchange Processor	-	-	-	-	-	13%	-	-	1,282	£0.00
Sales and Product Management	-	-	-	-	-	13%	-	-	1,282	£0.00
Field Maintenance	67	-	-	66	12	13%	2	68	1,282	£53.10
Totals	3,026	56	(65)	3,017	3,339		434	3,451		£2,672.55

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	2013/14	2014/15	2015/16	2016/17	2017/18
2012/13					
1,117	-5%	1,061	8%	1,143	25%
				1,432	-26%
				1,055	27%
					1,343

A one-off rebate on hereditament, apportioned over the wholesale markets, was offset in this market by volume growth.

Wholesale products in this market have been listed under the Reference Offers in the period under review.

There has been some reclassification of circuits between this market and that for Traditional Interface circuits leading to additional reduction in volumes for the Traditional Interface market and corresponding increase in volumes within the Contemporary Interface market.

External wholesale prices for the these products were simplified during the year with multiple exchange distance based pricing replaced by single category pricing for 100Mb + and price reductions for high end bandwidth circuits.

Internal wholesale revenue is derived from a 13% return on mean capital employed.

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

CURRENT COST PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2018

	£k 2018	% per line item/total	£k 2017	% per line item/total	% Change Year on Year
Turnover					
Internal Sales	1,583	46%	361	15%	338%
External Sales	1,885	54%	2,058	85%	100%
Total Turnover	3,468	100%	2,419	100%	43%
Operating costs					
Operating costs of Wholesale Market	1,087	44%	787	45%	38%
- Maintenance	120	5%	121	7%	-1%
- Provision & Installation	34	1%	62	4%	-44%
- Finance & Billing	7	0%	(17)	-1%	-140%
- Bad Debts	999	40%	413	24%	142%
- Depreciation	242	10%	391	22%	-38%
- Other Costs					
Sub total operating expenditure	2,489	100%	1,758	100%	42%
CCA adjustments:					
Holding (gain) / loss	(359)		(161)		123%
Supplementary depreciation	277		125		121%
Total operating costs	2,406		1,721		40%
Return	1,062		698		52%
RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER					
for the year ended 31 March 2018	2018		2017		%
	%		%		%
Return on mean capital employed	13%		13%		0%
Return on turnover	31%		29%		2%

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

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2018

	£k 2018	£k 2017	% Change
Fixed assets			
Tangible fixed assets			
- Land & Buildings	658	264	149%
- Duct	1,886	1,086	74%
- Transmission Equipment	-	-	0%
- Exchange Equipment	4,192	1,438	191%
- Other	3,546	2,341	51%
Total fixed assets	10,282	5,130	100%
Current assets			
Stocks	66	67	-1%
Debtors			
- internal	150	22	573%
- external	654	696	-6%
Total current assets	870	785	11%
Creditors: amounts falling due within one year			
Other creditors			
- internal	-	-	0%
- external	(271)	(460)	-41%
Total creditors: amounts falling due within one year	(271)	(460)	-41%
Net current assets	598	325	84%
Total assets less current liabilities	10,880	5,455	99%
Closing capital employed	10,880	5,455	99%

Kingston Statement of Costs on a Current Cost Basis

Network Activity Statement

for the year ended 31 March 2018

Contemporary Interface Symmetric Broadband Origination (All Bandwidths)

Components	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
Net Current Assets	-	-	-	-	598	13%	78	78	1343	£57.93
Field Provision	16	-	-	16	1	13%	-	16	1343	£12.07
Other	-	-	-	-	-	13%	-	-	1343	£0.00
Local Loop Infrastructure	32	7	(8)	32	165	13%	21	53	1343	£39.69
Electronics	1,143	45	(33)	1,156	629	13%	82	1,237	1343	£921.30
Exchange to Exchange Infrastructure	1,155	224	(318)	1,061	6,754	13%	878	1,939	1343	£1,443.56
Sales and Product Management	110	-	(1)	109	19	13%	3	112	1343	£83.25
Field Maintenance	32	-	-	32	1	13%	-	32	1343	£24.05
Totals	2,489	276	(359)	2,406	8,168		1,062	3,467		£2,581.84
2017										
Net Current Assets	-	-	-	-	175	13%	23	23	1055	£21.56
Exchange Concentrator	-	-	-	-	-	13%	-	-	1055	£0.00
Field Provision	9	-	-	9	2	13%	-	9	1055	£8.66
Other	54	-	-	53	10	13%	1	55	1055	£51.76
Local Loop Infrastructure	50	6	(6)	50	198	13%	26	76	1055	£71.67
Electronics	335	5	(7)	333	219	13%	28	362	1055	£343.07
Exchange to Exchange Infrastructure	1,158	113	(147)		4,634	13%	602	1,727	1055	£1,636.99
Exchange Processor	-	-	-	-	-	13%	-	-	1055	£0.00
Sales and Product Management	95	-	(1)	95	18	13%	2	97	1055	£91.80
Field Maintenance	57	-	-	57	11	13%	1	58	1055	£54.89
Totals	1,758	125	(161)	597	5,266		685	2,406		£2,280.41

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 18 December 2018. The statutory financial statements for KCOM Group plc, for the year ended 31st March 2018 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 18 December 2018. 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.

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 2017/18.

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 Wholesale and Retail Businesses are £5,589k of KCOM Group plc 'central' costs.

Kingston Wholesale Sales by Market Statement - External Sales
for the year ended 31 March 2018

	Total Payments £k
Kingston Wholesale Market : Analogue Exchange Line Services in the Hull Area	1,230
Kingston Wholesale Market : ISDN2 Exchange Line Services in the Hull Area	322
Kingston Wholesale Market : ISDN 30 Exchange Line Services in the Hull Area	245
Kingston Wholesale Market : Call Origination on Fixed Public Narrowband Networks in the Hull Area	252
Kingston Wholesale Market : Asymmetric Broadband Origination in the Hull Area	895
Kingston Wholesale Market : Provision of Traditional Interface Symmetric Broadband Origination with a Bandwidth Capacity up to & including 8 Mb/s	916
Kingston Wholesale Market : Provision of Contemporary Interface Symmetric Broadband Origination at all Bandwidths within the Hull area	1,885
	<u>5,746</u>
2017	
Kingston Wholesale Market : Analogue Exchange Line Services in the Hull Area	1,237
Kingston Wholesale Market : ISDN2 Exchange Line Services in the Hull Area	231
Kingston Wholesale Market : ISDN 30 Exchange Line Services in the Hull Area	297
Kingston Wholesale Market : Call Origination on Fixed Public Narrowband Networks in the Hull Area	155
Kingston Wholesale Market : Asymmetric Broadband Origination in the Hull Area	801
Kingston Wholesale Market : Provision of Traditional Interface Symmetric Broadband Origination with a Bandwidth Capacity up to & including 8 Mb/s	920
Kingston Wholesale Market : Provision of Contemporary Interface Symmetric Broadband Origination at all Bandwidths within the Hull area	2,058
	<u>5,700</u>

Kingston Wholesale Sales by Market Statement - Internal Sales
for the year ended 31 March 2018

	Total Payments £k
Kingston Wholesale Market : Analogue Exchange Line Services in the Hull Area	7,276
Kingston Wholesale Market : ISDN 2 Exchange Line Services in the Hull Area	(14)
Kingston Wholesale Market : ISDN 30 Exchange Line Services in the Hull Area	792
Kingston Wholesale Market : Call Origination on Fixed Public Narrowband Networks in the Hull Area	1,767
Kingston Wholesale Market : Asymmetric Broadband Origination in the Hull Area	24,189
Kingston Wholesale Market : Provision of Traditional Interface Symmetric Broadband Origination with a Bandwidth Capacity up to & including 8 Mb/s	268
Kingston Wholesale Market : Provision of Contemporary Interface Symmetric Broadband Origination at all Bandwidths within the Hull area	1,583
	<u>35,861</u>
2017	
Kingston Wholesale Market : Analogue Exchange Line Services in the Hull Area	11,490
Kingston Wholesale Market : ISDN 2 Exchange Line Services in the Hull Area	71
Kingston Wholesale Market : ISDN 30 Exchange Line Services in the Hull Area	424
Kingston Wholesale Market : Call Origination on Fixed Public Narrowband Networks in the Hull Area	3,636
Kingston Wholesale Market : Asymmetric Broadband Origination in the Hull Area	19,067
Kingston Wholesale Market : Provision of Traditional Interface Symmetric Broadband Origination with a Bandwidth Capacity up to & including 8 Mb/s	2,521
Kingston Wholesale Market : Provision of Contemporary Interface Symmetric Broadband Origination at all Bandwidths within the Hull area	361
	<u>37,572</u>

Kingston Reconciliation Statement

Consolidated profit and loss account
for the year ended 31 March 2018

Market/Area	Turnover £k	Operating Costs £k	HCA Return or Profit after taxation £k	Holding gain/(loss) and other Adjustments £k	Supplementary depreciation £k	CCA Return or Profit Before Taxation £k
Wholesale Markets (where cost accounting and/or accounting separation obligations apply)	41,608	(29,254)	12,354	3,303	(1,449)	14,209
Retail Markets (where cost accounting obligations apply)	-	-	-	-	-	-
Sub Total SMP Markets	41,608	(29,254)	12,354	3,303	(1,449)	14,209
Residual activities						
- Wholesale residual activities	1,602	(1,488)	114	(38)	18	94
- Retail residual activities	94,124	(52,679)	41,444	327	(256)	41,515
Total	137,334	(83,421)	53,912	3,592	(1,686)	55,818
Adjustments (as necessary)						
Other operating income & costs	164,564	(182,041)	(17,476)			
Finance Costs	-	(2,399)	(2,399)			
Share from Associate	-	12	12			
Taxation	-	(6,571)	(6,571)			
Profit for the year attributable to owners of the parent	301,898	(274,420)	27,478			

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	Supple- mentary depreciation £k	CCA Return or Profit Before Taxation £k
Wholesale Markets (where cost accounting and/or accounting separation obligations apply)	43,272	(32,075)	11,197	2,690	(1,268)	12,619
Retail Markets (where cost accounting obligations apply)	-	-	-	-	-	-
Sub Total SMP Markets	43,272	(32,075)	11,197	2,690	(1,268)	12,619
<u>Residual activities</u>						
- Wholesale residual activities	-	-	-	-	-	-
- Retail residual activities	91,018	(63,727)	27,291	341	(228)	27,404
Total	134,290	(95,802)	38,488	3,030	(1,495)	40,023
Adjustments (as necessary)						
Elimination of Inter Business turnover and costs	197,013	(202,745)	(5,732)			
Other operating income & costs	-	-	-			
Exceptional Items	-	(2,263)	(2,263)			
Finance Costs	-	12	12			
Share from Associate	-	(5,743)	(5,743)			
Taxation	-					
Profit for the year attributable to owners of the parent	331,303	(306,541)	24,762			

Kingston Reconciliation statement

Consolidated mean capital employed
for the year ended 31 March 2018

	2018 £k	2017 £k	% Change
Fixed assets			
Tangible fixed assets			
- Land & Buildings	3,469	4,155	-17%
- Duct	8,099	8,128	0%
- Transmission Equipment	4,587	5,340	-14%
- Exchange Equipment	16,716	14,645	14%
- Other	82,752	78,701	5%
Total fixed assets	115,622	110,968	4%
Current assets			
Stocks	3,355	1,620	107%
Debtors			
- internal	2,912	2,838	3%
- external	5,292	12,453	-58%
Total current assets	11,559	16,912	-32%
Creditors: amounts falling due within one year			
Other creditors			
- internal	-	-	0%
- external	(10,565)	(19,373)	-45%
Total creditors: amounts falling due within one year	(10,565)	(19,373)	-45%
Net current assets	994	(2,462)	-140%
Total assets less current liabilities	116,616	108,507	7%
Closing capital employed	116,616	108,507	7%

Kingston Retail Residual Activities Reconciliation

CURRENT COST PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2018

	£k	% per line item/total	£k	% per line item/total	% Change Year on Year
Turnover	94,124		91,018		3%
Operating costs					
Charges from Kingston Wholesale Markets	37,463		42,824		-13%
Operating costs of Retail Market					
- Marketing	2,279	15%	2,098	10%	9%
- Sales	2,388	16%	5,413	26%	-56%
- Finance & Billing	437	3%	723	3%	-40%
- Customer Services	2,689	18%	2,599	12%	3%
- Network Maintenance	26	0%	64	0%	-59%
- Bad Debts	628	4%	608	3%	3%
- Depreciation	1,368	9%	1,620	8%	-16%
- Other Costs	5,400	35%	7,778	37%	-31%
Sub total operating expenditure	15,216	100%	20,903	100%	-27%
CCA adjustments:					
Holding (gain) / loss	(327)		(341)		0%
Supplementary depreciation	256		228		-4%
Total operating costs	52,608		63,614		-17%
Return	41,515		27,404		51%

RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER

for the year ended 31 March 2018

Return on mean capital employed	1272%	2018	169%	2017	1103%
		%		%	%
Return on turnover	44%		38%		6%

Kingston Retail Residual Activities Reconciliation

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2018

	£k 2018	£k 2017	% Change
Fixed assets			
Tangible fixed assets			
- Land & Buildings	385	437	-12%
- Duct	-	-	0%
- Transmission Equipment	-	-	0%
- Exchange Equipment	-	-	0%
- Other	8,193	9,882	-17%
	-	-	0%
Total fixed assets	8,578	10,319	-17%
Current assets			
Stocks	-	75	-100%
Debtors	-	-	0%
- internal	-	-	0%
-external	3,288	10,881	-70%
Total current assets	3,288	10,957	-70%
Creditors: amounts falling due within one year			
Other creditors			
- internal	(9,512)	(17,101)	-44%
- external			
Total creditors: amounts falling due within one year	(9,512)	(17,101)	-44%
Net current assets	(6,224)	(6,144)	1%
Total assets less current liabilities	2,354	4,174	-44%
Closing capital employed	2,354	4,174	-44%

Kingston Inter Market Turnover (Reconciliation) for year ended 31 March 2018

Turnover originating in:	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 and 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 up to and including 8 megabits	Provision of traditional interface symmetric broadband origination with a bandwidth up to 45 megabits	Provision of traditional interface symmetric broadband origination with a bandwidth up to 45 megabits	Provision of traditional interface symmetric broadband origination with a bandwidth 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 Wholesale	Residual Retail	Total
	£k	£k	£k	£k	£k	£k	£k	£k	£k	£k	£k	£k	£k	£k	£k	£k	£k
Wholesale analogue exchange line services in the Hull Area	7,276	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,506
Wholesale ISDN2 exchange line services in the Hull Area	-	(14)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	308
Wholesale ISDN30 exchange line services in the Hull Area	-	-	792	-	-	-	-	-	-	-	-	-	-	-	-	-	1,038
Call origination on fixed public narrowband networks in the Hull Area + Call Split Below	-	-	-	1,767	-	-	-	-	-	-	-	-	-	-	-	-	2,020
Fixed geographic call termination provided by Kingston	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Wholesale unmetered narrowband and internet termination for internet traffic originating in the Hull Area	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Asymmetric broadband origination in the Hull Area	-	-	-	-	-	24,189	-	-	-	-	-	-	-	-	-	-	25,085
Provision of traditional interface symmetric broadband origination with a bandwidth capacity up to and including 8 megabits	-	-	-	-	-	-	268	-	-	-	-	-	-	-	-	-	1,184
Provision of traditional interface symmetric broadband origination with a bandwidth capacity above 8 megabits up to 45 megabits	-	-	-	-	-	-	-	1,583	-	-	-	-	-	-	-	-	3,468
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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Analogue exchange line services in the Hull Area	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
ISDN2 exchange line services in the Hull Area	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Business ISDN30 exchange line services in the Hull Area	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Residential local calls in the Hull Area	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Residential national calls originating in the Hull Area	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Residential calls to mobiles originating in the Hull Area	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Residential operator assisted calls originating in the Hull Area	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Residential IDD Category A calls originating in the Hull Area	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Residential IDD Category B calls (on a route by route basis) originating in the Hull Area	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Business local calls in the Hull Area	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Business national calls originating in the Hull Area	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Business calls to mobiles originating in the Hull Area	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Business operator assisted calls originating in the Hull Area	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Business IDD Category A calls originating in the Hull Area	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Business IDD Category B calls (on a route by route basis) originating in the Hull Area	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Residual Activities	1,230	322	245	252	-	895	916	1,885	-	-	-	-	-	164,564	-	94,124	258,688
Residual Wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Residual Retail	8,506	308	1,038	2,020	-	25,085	1,184	3,468	-	-	-	-	-	164,564	7,349	94,124	301,898

Kingston Network Services Reconciliation
for the year ended 31 March 2018

Consolidation Statement

Fully Allocated Cost	Analogue Exchange Lines	ISDN2 Channels	Business ISDN30 Channels	Call Origination	Traditional Interface <=8Mb/s	Contemporary Interface All Mb/s	Asymmetric Broadband	Total
Components								
Unit of Measure	Lines	Lines	Lines	Cal Minutes	Lines	Lines	Lines	
Volume (where relevant)	160,426	3,455	10,555	359,580,905	841	1,343	160,426	
Ave cost per unit (adjusted by usage factor)	£0.96	£2.47	£1.26	£0.01	£51.95	£57.93	£4.23	
Total cost £k	161	9	13	31	44	78	679	1,014
Ave cost per unit (adjusted by usage factor)	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	
Total cost £k	-	-	-	-	-	-	-	-
Ave cost per unit (adjusted by usage factor)	£0.71	£0.59	£0.18	£0.00	£0.02	£12.07	£5.23	
Total cost £k	118	2	2	-	16	16	839	977
Ave cost per unit (adjusted by usage factor)	£1.11	£51.56	£69.12	£0.00	£0.00	£0.00	£17.00	
Total cost £k	186	178	730	-	-	-	2,727	3,821
Ave cost per unit (adjusted by usage factor)	£43.98	£26.74	£25.97	£0.00	£38.89	£39.69	£84.39	
Total cost £k	7,351	92	274	-	33	53	13,538	21,342
Ave cost per unit (adjusted by usage factor)	£0.00	£0.00	£0.00	£0.55	£1,223.69	£921.30	£24.25	
Total cost £k	-	-	-	1,973	1,029	1,237	3,890	8,129
Ave cost per unit (adjusted by usage factor)	£0.00	£0.00	£0.00	£0.00	£1.45	£1,443.56	£7.00	
Total cost £k	-	-	-	-	1	1,939	1,123	3,063
Ave cost per unit (adjusted by usage factor)	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	
Total cost £k	-	-	-	-	-	-	-	-
Ave cost per unit (adjusted by usage factor)	£0.44	£5.62	£1.33	£0.00	£66.34	£83.25	£0.35	
Total cost £k	73	19	14	15	56	112	55	345
Ave cost per unit (adjusted by usage factor)	£3.68	£2.23	£0.38	£0.00	£24.97	£24.05	£13.92	
Total cost £k	615	8	4	-	21	32	2,233	2,914
Totals	8,505	308	1,037	2,019	1,184	3,467	25,084	41,605

Kingston Statement of Costs on a Current Cost Basis

Network Activity Statement for the year ended 31 March 2018

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
Net Current Assets	-	-	-	-	7,801	13%	1,014	1,014
Field Provision	972	1	(02)	970	53	13%	7	977
Other	3,231	55	(156)	3,130	5,311	13%	690	3,821
Local Loop Infrastructure	13,587	880	(2,185)	12,283	69,688	13%	9,060	21,342
Electronics	6,493	174	(474)	6,192	14,894	13%	1,936	8,129
Exchange to Exchange Infrastructure	1,734	336	(477)	1,593	11,309	13%	1,470	3,063
Sales and Product Management	337	-	(02)	335	82	13%	10	345
Field Maintenance	2,898	1	(05)	2,893	159	13%	20	2,914
Totals	29,252	1,447	(3,301)	27,397	109,298		14,207	41,605
2017								
Net Current Assets	-	-	-	-	5,206	13%	677	677
Exchange Concentrator	3,243	24	(42)	3,225	1,298	13%	168	3,393
Field Provision	283	-	(01)	281	52	13%	7	288
Other	3,311	33	(173)	3,171	5,408	13%	703	3,874
Local Loop Infrastructure	12,423	740	(1,580)	11,583	55,830	13%	7,258	18,841
Electronics	5,927	109	(374)	5,662	13,098	13%	1,703	7,365
Exchange to Exchange Infrastructure	3,550	347	(450)	2,322	14,203	13%	1,846	5,293
Exchange Processor	249	11	(50)	210	1,273	13%	165	376
Sales and Product Management	225	-	(01)	211	42	13%	5	230
Field Maintenance	2,864	3	(17)	2,850	531	13%	69	2,919
Totals	32,075	1,266	(2,687)	29,514	96,940		12,600	43,255

