



Regulatory Financial Statements for the year ended 31 March 2024

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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.

In October 2021 Ofcom published its *Hull Area Wholesale Fixed Telecoms Market Review 2021-26* ("Hull FTMR") which removed its SMP findings relating to KCOM in the following markets:

- Wholesale Broadband Access
- Wholesale Low Bandwidth Traditional Interface Symmetric Broadband Origination (TISBO) <8Mbit/s
- 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

The FTMR found that KCOM had SMP in the following markets and accordingly required KCOM to prepare RFS for these markets:

- Wholesale Local Access
- Wholesale Leased Lines Access Services

The RFS comprise 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') documents describe 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)
- *Hull Area Wholesale Fixed Telecoms Market Review 2021-26* (28 October 2021)

Introduction to the Regulatory Financial Statements

Wholesale Business Review

Following a review of its pricing in August 2023 and a further review in July 2024 the wholesale business reduced its wholesale FTTP prices on both review dates in order to attract new wholesale customers and increase fibre take-up. This demonstrates from KCOM's commitment to our wholesale partners regarding access to the Company's world class infrastructure, to enable our partners end customers to receive quality products delivered over one of the best networks in the UK. The RFS covers the financial year to 31 March 2024 and therefore some price reductions only impact part of the year under review or were implemented after the balance sheet date and therefore will only be reflected in the next RFS .

Financial Statement Prior year restatements

During the year the decision to enforce the returns of routers issued to customers was made, as per the contractual terms and conditions in customer contracts. The terms and conditions state the routers remain the property of the Group rather than the customer, however previously routers were recorded as a sale when issued to customers, rather than being recorded on the balance sheet within property plant and equipment. Therefore lease accounting applies to these router assets over the term of the underlying contract. The previous year is restated in Current Cost Profit and Loss Account and the Current Cost Mean Capital Employed.

Restatements in the financial statements for Asset Reclassification and for Deferred Tax balance sheet presentation, have no impact on the regulated financial statements.

Impact of inflation on Returns

In FY23, the returns in the RFS were materially impacted by high levels of inflation. In FY24 inflation was lower, and impact of inflation on the RFS was reduced.

The RFS are prepared on a current cost accounting basis, which required fixed assets to be revalued, based on an estimate of the cost to replace them. This is done using the Retail Price Index (RPI). The estimated cost of replacing these assets and the reported mean capital employed will therefore increase each year in line with inflation. This increase, or "holding gain", is recognised in the income statement for the year and has the effect of reducing reported net costs and increasing reported returns.

In FY24 the increase in RPI was 4% (FY23 14%).

The impact on inflation on returns in the SMP reported markets is illustrated in the table below which shows the returns excluding the holding gains and supplementary depreciation in the year from both the income statement and mean capital employed.

	FY23 (Restated) As reported	FY23R Excluding Holding Gains and Additional Depreciation (Unaudited)	FY24 As reported	FY24 Excluding Holding Gains and Additional Depreciation (Unaudited)
Return on Mean Capital Employed				
Wholesale Local Access	23.8%	13.3%	7.7%	7.7%
Wholesale Leased Lines	16.8%	12.8%	32.9%	35.4%
All reported SMP Markets	23.0%	13.2%	9.5%	9.7%

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 23 December 2024. 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.

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



Tim Shaw
Chief Executive Officer
23 December 2024

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 2024 have been properly prepared, in all material respects, in accordance with the Description of Cost Accounting System ("DOCAS") dated 23 December 2024 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 "Hull Wholesale Fixed Telecoms Market Review 2021-26" issued October 2021 (the "Obligations") as summarised in the basis of preparation per the accounting policies in note 2 to the Regulatory Accounts.

We have audited the parts of the Regulatory Financial Statements that are required to be audited (the 'Regulatory Accounts'), 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 for the year ended 31 March 2024;
- the Current Cost Profit and Loss Accounts, the Statements of Current Cost Mean Capital Employed for each Regulatory Market (Wholesale Local Access in the Hull Area, and Wholesale Market for Leased Lines within the Hull Area) for the year ended 31 March 2024;
- the Reconciliation Statement – the Consolidated Profit and Loss Account for the year ended 31 March 2024 and the Reconciliation Statement – the Consolidated Mean Capital Employed for the year ended 31 March 2024;
- the notes to the Regulatory Accounts, which include a description of the accounting policies.

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 Regulatory Accounts in the UK, which includes the FRC's Ethical Standard, 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 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 UK-adopted international accounting standards and 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.

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 including the Regulatory financial review on pages 12 and 13, 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, 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 5, 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 to Ofcom regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. 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;
- Reviewing correspondence with Ofcom to assess compliance with relevant regulations; and
- Assessing the Regulated Accounts have been prepared in accordance with the DOCAS dated 23 December 2024.


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 26 April 2024 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.

Our opinion on the 2024 Regulatory Accounts is separate from our opinions on the statutory financial statements of KCOM Group Limited for the year end 31 March 2024 on which we reported on 26 September 2024, and for the year ended 31 March 2023 on which we reported on 22 September 2023 which are prepared for a different purpose. Our statutory audit work was undertaken so that we might state to KCOM Group Limited's members those matters we are required to state to them in a statutory audit report and for no other purpose. In conducting our subsequent audit of the 2024 Regulatory Accounts, and in providing the opinions above, we have not performed any additional tests of the underlying transactions and balances which are recorded in the general ledgers and other accounting records beyond those already performed for the purpose of the audit of the statutory financial statements of KCOM Group Limited for the years ended 31 March 2023 and 31 March 2024



PricewaterhouseCoopers LLP
Chartered Accountants
Leeds

23 December 2024

Consolidated Current Cost Profit and Loss Account

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

	£k	£k		
	2024	2023 (Restated) (Note 4.)	£k Change Year on Year	% Change Year on Year
for the year ended 31 March 2024				
Turnover				
Internal Sales	30,789	27,822	2,968	11%
External Sales	3,267	2,657	610	23%
Total Turnover	34,056	30,479	3,577	12%
Operating costs				
Operating costs				
- Engineering Support	(4,555)	(4,312)	(243)	6%
- Finance & Billing	(1,467)	(1,992)	526	(26%)
- General Management	(1,938)	(1,517)	(420)	28%
- Bad Debts	5	(10)	15	(151%)
- Back Office Support	(2,020)	(2,154)	135	(6%)
- Other Costs	(4,701)	(2,069)	(2,633)	127%
Sub total operating expenditure	(14,675)	(12,054)	(2,621)	22%
Depreciation				
- Duct	(113)	(136)	23	(17%)
- Copper	-	-	-	-
- Fibre	(4,672)	(3,853)	(820)	21%
- Transmission	(186)	(127)	(59)	46%
- Exchange	(65)	(124)	59	(48%)
- Other	(3,701)	(2,545)	(1,156)	45%
CCA adjustments:				
Holding gain	2,515	12,820	(10,305)	(80%)
Supplementary depreciation	(2,698)	(1,770)	(928)	52%
Other adjustments	-	-	-	-
Total operating costs	(23,595)	(7,789)	(15,806)	203%
Return	10,461	22,690	(12,229)	(54%)
MCE	109,715	98,758	10,957	11%

RETURN ON MEAN CAPITAL EMPLOYED

	2024	2023	Change Year on Year	% Change Year on Year
Total Reported Wholesale Markets	%	%		
Return on mean capital employed	9.5%	23.0%	-13.4%	-58.5%

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 2024

	£k	£k	£k Change	% Change
	2024	2023 (Restated) (Note 4.)		
Fixed assets				
Tangible assets				
- Land & Buildings	1,974	2,187	(213)	(10%)
- Duct	4,980	4,481	500	11%
- Fibre	76,136	70,300	5,836	8%
- Copper	-	-	-	
- Transmission	2,266	2,181	85	4%
- Exchange	210	331	(121)	(36%)
- Other	20,626	15,631	4,995	32%
Investments	-	-		
Total fixed assets	106,192	95,111	11,082	12%
Current assets				
Stocks	1,763	2,033	(270)	(13%)
Debtors	-	-		
- internal	2,531	2,287	244	11%
- external	239	444	(205)	(46%)
Total current assets	4,532	4,763	(231)	(5%)
Creditors: amounts falling due within one year				
Other creditors				
- external	(1,009)	(1,116)	107	-10%
Total creditors: amounts falling due within one year	(1,009)	(1,116)	107	-10%
Net current assets	3,523	3,647	(124)	-3%
Total assets less current liabilities	109,715	98,758	10,957	11%
Provisions for liabilities and charges	-	-	-	-
Mean capital employed	109,715	98,758	10,957	11%

Consolidated Network Activity Statement

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

for the year ended 31 March 2024

	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 £'000											
Components											
Net Current Assets	-	-	-	-	3,523	7.8%	275	275	Various	161,552	£1.70
Electronics	1,355	112	(70)	1,397	2,674	7.8%	209	1,606	Various	161,552	£9.94
Field Provision	1,405	39	28	1,472	245	7.8%	19	1,491	Various	161,552	£9.23
Field Maintenance	694	19	14	727	121	7.8%	10	737	Various	161,552	£4.56
Local Loop Infrastructure	15,228	2,132	(2,326)	15,033	98,203	7.8%	7,660	22,693	Various	161,552	£140.47
Exchange Concentrator	-	-	-	-	-	7.8%	-	-	Various	161,552	£0.00
Exchange to Exchange Transmission link	1,691	286	(226)	1,751	4,168	7.8%	325	2,076	Various	161,552	£12.85
Back-office Provisioning	2,825	79	57	2,961	492	7.8%	39	3,000	Various	161,552	£18.57
Back-office Maintenance	-	-	-	-	-	7.8%	-	-	Various	161,552	£0.00
Sales and Product Management	-	-	-	-	-	7.8%	-	-	Various	161,552	£0.00
Totals 2024	23,412	2,698	(2,515)	23,595	109,715		8,559	32,154			

for the year ended 31 March 2023

	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	Unit of measure (based on network components)	Volume	Average costs per unit on a current cost basis relating to current year
Fully Allocated Costs £'000											
Components											
Components											
Net Current Assets	-	-	-	-	3,647	7.8%	285	285	Various	162,122	£1.76
Electronics	1,063	79	(323)	818	3,081	7.8%	240	1,058	Various	162,122	£6.53
Field Provision	1,150	23	(45)	1,127	367	7.8%	29	1,156	Various	162,122	£7.13
Field Maintenance	259	5	(10)	254	83	7.8%	6	260	Various	162,122	£1.60
Local Loop Infrastructure	11,085	1,273	(11,745)	613	83,822	7.8%	6,538	7,151	Various	162,122	£44.11
Exchange Concentrator	-	-	-	-	-	7.8%	-	-	Various	162,122	£0.00
Exchange to Exchange Transmission link	2,118	281	(487)	1,913	6,451	7.8%	503	2,416	Various	162,122	£14.90
Back-office Provisioning	3,203	63	(126)	3,140	1,021	7.8%	80	3,220	Various	162,122	£19.86
Back-office Maintenance	11	0	(0)	10	3	7.8%	-	10	Various	162,122	£0.06
Sales and Product Management	-	-	-	-	-	7.8%	-	-	Various	162,122	£0.00
Other	(50)	47	(84)	(87)	283	7.8%	46	(41)	Various	162,122	-£0.25
Totals 2023	18,839	1,770	(12,820)	7,789	98,758		7,727	15,516			

Regulatory Financial Review

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.

Regulatory Financial Review (KCOM)

Wholesale Local Access in the Hull area

The Wholesale Local Access market comprises fibre access products from a point of aggregation (at an exchange) to a home or business premise in the Hull area. KCOM does not supply any copper-based Wholesale Local Access services and so none are included in this market (all wholesale copper services in the Hull area included in the statements for the Wholesale Residual market). As at 31 March 2024, 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 proportion of consumer broadband customers connected with fibre was 90% at the end of FY24.

Number of circuits

	2022/23	2023/24	
	Volume	Volume	Annual increase
Rental circuit Volume	143,393	140,460	-2%

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

Revenue has decreased by 8% as a result of higher prices offsetting lower volumes. The price increase effect would have been higher if not for a price reduction enacted in Autumn 2023. In July 2024 the reference offer price was reduced further.

The decrease in profitability is primarily due to the decrease in holding gain (due to lower inflation in the year), higher operating costs and higher depreciation.

Wholesale Local Access in the Hull area

CURRENT COST PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2024

	£k	£k		
	2024	2023 (Restated) (Note 4.)	£k Change Year on Year	% Change Year on Year
Turnover				
Internal Sales	26,705	24,413	2,292	9%
External Sales	-	-	-	0%
Total Turnover	26,705	24,413	2,292	9%
Operating costs				
Operating costs				
- Engineering Support	(2,770)	(2,312)	(458)	20%
- Finance & Billing	(1,259)	(1,619)	360	(22%)
- General Management	(1,659)	(1,235)	(425)	34%
- Bad Debts	4	(8)	12	(154%)
- Back Office Support	(1,615)	(1,600)	(16)	1%
- Other Costs (1)	(3,941)	(1,682)	(2,259)	134%
Sub total operating expenditure	(11,240)	(8,454)	(2,786)	33%
Depreciation				
- Duct	(77)	(90)	13	(15%)
- Copper	-	-	-	
- Fibre	(4,345)	(3,514)	(831)	24%
- Transmission	-	-	-	-
- Exchange	(55)	(114)	59	(52%)
- Other	(3,205)	(2,003)	(1,202)	60%
CCA adjustments:				
Holding gain / (loss)	2,246	11,876	(9,630)	(81%)
Supplementary depreciation	(2,231)	(1,334)	(898)	67%
Other adjustments	-	-	-	-
Total operating costs	(18,908)	(3,634)	(15,274)	420%
Return	7,797	20,780	(12,983)	(62%)
MCE	101,624	87,357	14,267	16%

RETURN ON MEAN CAPITAL EMPLOYED

for the year ended 31 March 2024

			Change Year on Year	% Change Year on Year
Return on mean capital employed	7.7%	23.8%	-16.1%	-67.7%

(1) Other Costs includes £1.2m of Hereditament costs (FY23 £0.9m). All remaining 'Other' cost items are below 5% of total operating costs.

Wholesale Local Access in the Hull area

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2024

	£k 2024	£k 2023 (Restated) (Note 4.)	£k Change	% Change
Fixed assets				
Tangible assets				
- Land & Buildings	1,604	1,661	(57)	(3%)
- Duct	3,396	2,979	417	14%
- Fibre	74,238	67,273	6,965	10%
- Copper	-	-	-	-
- Transmission	-	-	-	-
- Exchange	183	270	(87)	(32%)
- Other	19,361	12,423	6,938	56%
Investments	-	-	-	-
Total fixed assets	98,782	84,606	14,177	17%
Current assets				
Stocks	1,513	1,652	(139)	(8%)
Debtors				
- internal	2,195	2,007	188	9%
- external	-	-	-	-
Total current assets	3,708	3,658	49	1%
Creditors: amounts falling due within one year				
Other creditors				
- internal	-	-	-	-
- external	(866)	(907)	41	(4%)
Total creditors: amounts falling due within one year	(866)	(907)	41	(4%)
Net current assets	2,842	2,752	90	3%
Total assets less current liabilities	101,624	87,357	14,267	16%
Provisions for liabilities and charges	-	-	-	-
Mean capital employed	101,624	87,357	14,267	16%

Regulatory Financial Review (KCOM)

Wholesale Market for Leased Lines within the Hull Area

The Leased Lines market includes 2Mbit/s to 100Gbit/s ethernet services. Customers include businesses, mobile infrastructure operators and Communications Providers servicing their national clients.

Number of Circuits

Circuit Nos

2022/23	2023/24	
Volume	Volume	Annual Increase
1,893	1,724	-9%

Overall, revenue has increased by 21% reflecting higher average prices per circuit. Total costs increased by 14% primarily due to the fall in holding gains due to the decrease in RPI year on year.

Wholesale Market for Leased Lines within the Hull Area

CURRENT COST PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2024

	£k	£k		
	2024	2023 (Restated) (Note 4.)	£k Change Year on Year	% Change Year on Year
Turnover				
Internal Sales	4,084	3,408	676	20%
External Sales	3,267	2,657	610	23%
Total Turnover	7,351	6,065	1,286	21%
Operating costs				
Operating costs				
- Engineering Support	(1,785)	(2,000)	215	(11%)
- Finance & Billing	(208)	(374)	166	(44%)
- General Management	(278)	(283)	4	(2%)
- Bad Debts	1	(2)	3	(139%)
- Back Office Support	(404)	(555)	151	(27%)
- Other Costs (1)	(761)	(387)	(374)	97%
Sub total operating expenditure	(3,435)	(3,600)	165	(5%)
Depreciation				
- Duct	(36)	(46)	10	(21%)
- Copper	-	-	-	-
- Fibre	(327)	(339)	12	(3%)
- Transmission	(186)	(127)	(59)	46%
- Exchange	(9)	(10)	0	(0%)
- Other	(496)	(542)	46	(8%)
CCA adjustments:			-	-
Holding gain / (loss)	269	945	(675)	(71%)
Supplementary depreciation	(467)	(437)	(30)	7%
Other adjustments				
Total operating costs	(4,687)	(4,155)	(532)	13%
Return	2,664	1,910	754	39%
MCE	8,091	11,401	(3,309)	(29%)

RETURN ON MEAN CAPITAL EMPLOYED

	2024	2023 (Restated) (Note 4.)	Change Year on Year	% Change Year on Year
for the year ended 31 March 2024	%	%		
Return on mean capital employed	32.9%	16.8%	16.2%	96.5%

(1) Other Costs includes £0.3m of Hereditament costs (FY23 £0.2m). All 'Other' cost items are below 5% of total operating costs.

Wholesale Market for Leased Lines within the Hull Area

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2024

	£k 2024	£k 2023 (Restated) (Note 4.)	£'k Change	% Change
Fixed assets				
Tangible assets				
- Land & Buildings	370	527	(156)	(30%)
- Duct	1,584	1,502	82	5%
- Fibre	1,898	3,027	(1,129)	(37%)
- Copper	-	-	-	
- Transmission	2,266	2,181	85	4%
- Exchange	27	61	(34)	(55%)
- Other	1,265	3,208	(1,943)	(61%)
Investments	-	-	-	-
Total fixed assets	7,410	10,505	(3,095)	(29%)
Current assets				
Stocks	250	381	(131)	(34%)
Debtors	-	-		
- internal	336	280	56	20%
- external	239	444	(205)	(46%)
Total current assets	824	1,105	(281)	(25%)
Creditors: amounts falling due within one year				
Other creditors				
- internal	-	-	-	
- external	(143)	(209)	66	(32%)
Total creditors: amounts falling due within one year	(143)	(209)	66	(32%)
Net current assets	681	895	(214)	(24%)
Total assets less current liabilities	8,091	11,401	(3,309)	(29%)
Provisions for liabilities and charges	-	-	-	-
Mean capital employed	8,091	11,401	(3,309)	(29%)

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 23 December 2024. The statutory financial statements for KCOM Group Limited, for the year ended 31 March 2024 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 23 December 2024 and as required under Ofcom's regulatory financial reporting requirements as set out in the documents listed on Page 3. The comparative information for the year ended 31 March 2023 originally published on 20 December 2023 was prepared in accordance with the Description of Cost Accounting System dated 20 December 2023. 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.

The reconciliation between mean capital employed in the RFS and the Annual Report (Page 28) 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 30), 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.

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

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.

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

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. As the RFS are prepared on a current cost accounting (CCA) basis, KCOM revalues its assets based on an estimate of what it would cost to replace them. KCOM bases its estimate of replacement cost on the RPI index.

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

Current Cost Accounting

As set out in Ofcom's directions, asset values are stated on a Current Cost Accounting ("CCA") basis. This requires KCOM to revalue its assets based on an estimate of what it would cost to replace them. KCOM bases its estimate of replacement cost on the RPI index.

The estimated cost of replacing these assets, and therefore the reported mean capital employed, will increase each year, in line with inflation. This increase in value, or holding gain, is recognised in the income statement for the year and has the effect of reducing reported net costs. A supplementary CCA depreciation cost on the income statement is also calculated to reflect the higher depreciation costs associated with the increased asset value.

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 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.

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.

4. RESTATEMENT OF PRIOR YEAR COMPARATIVES

The impact of the router restatement, as explained on page 4, is as follows

	Wholesale Local Access in the Hull area		Wholesale Market for Leased Lines within the Hull Area	
	FY23 Previously Reported	FY23 Restated	FY23 Previously Reported	FY23 Restated
Revenues	24,413	24,413	6,065	6,065
Total Operating Costs	(3,879)	(3,634)	(4,214)	(4,155)
Return	20,534	20,780	1,851	1,910
MCE	87,602	87,357	11,460	11,401
ROCE	23.4%	23.8%	16.2%	16.8%

Reconciliation Statement

Consolidated profit and loss account

for the year ended 31 March 2024

	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
Market/Area						
Wholesale SMP Markets	34,056	(23,412)	10,644	2,515	(2,698)	10,461
<u>Residual activities</u>						
- Wholesale residual activities	77,704	(58,874)	18,830	100	(4,376)	14,553
- Retail residual activities	91,522	(113,820)	(22,299)	(21,065)	(2,494)	(45,857)
Total	203,281	(196,107)	7,175			
Adjustments (as necessary)						
Elimination of Inter Business turnover and costs	(101,392)	101,392	-			
Finance income			983			
Finance costs			(9,779)			
As per the KCOM Group Limited Annual Report (page 15)	101,889	(94,714)	(1,622)			

Retail residual includes network assets outside of the Hull Area and associated income and costs.

Reconciliation Statement

Consolidated profit and loss account

for the year ended 31 March 2023 (Restated) (Note 4.)

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*	30,479	(18,839)	11,640	12,820	(1,770)	22,690
<u>Residual activities</u>						
- Wholesale residual activities *	74,172	(52,018)	22,153	5,723	(2,243)	25,633
- Retail residual activities *	90,578	(110,797)	(20,219)	16,068	(1,924)	(6,075)
Total	195,228	(181,654)	13,574			
Adjustments (as necessary)						
Elimination of Inter Business turnover and costs	(94,303)	94,303	-			
Finance income			1,451			
Finance costs			(9,183)			
Long term interest payable			-			
Rounding differences						
Finance Costs attributed to discontinued operations						
Discontinued Operations			-			
As per the KCOM Group Limited Annual Report (year ended 31 Mar 2024 page 15) (as restated for 2023*)	100,925	(87,351)	5,841			

* During the year the decision to enforce the returns of routers issued to customers was made, as per the contractual terms and conditions in customer contracts. The terms and conditions state the routers remain the property of the Group rather than the customer, however previously routers were recorded as a sale when issued to customers, rather than being recorded on the balance sheet within property plant and equipment. Therefore lease accounting applies to these router assets over the term of the underlying contract. The impact of the change on the income statement is shown above and in note 4.

Retail residual includes network assets outside of the Hull Area and associated income and costs.

Reconciliation Statement

	2023 (Restated) (Note 4.)	
2024	2023	
£k	£k	
Consolidated mean capital employed		
for the year ended 31 March 2024		
Consolidated mean capital employed		
Shareholders' funds as per the KCOM Group Limited Annual Report (page 16) (as restated for 2023)*	32,189	37,380
CCA Adjustments	46,583	80,888
Adjustments		
Investments	(36)	(46)
Retirement benefit asset	(3,489)	(7,522)
Finance leases	1,998	4,662
Provisions for other liabilities and charges (short)	1,104	1,397
Bank loans	-	-
Loans from related parties	164,000	165,500
Retirement benefit obligation	-	-
Deferred tax liabilities**	6,649	10,204
Finance leases long term	1,617	6,725
Provisions for other liabilities and charges	154	1,795
Finance lease receivable ST	(1,101)	(3,578)
Finance lease receivable LT	(1,405)	(5,646)
Amounts due from related parties	(725)	-
Other differences	-	-
Closing CCA capital employed at 31 March	247,538	291,759
Opening CCA capital employed as 1 April	291,759	246,706
Adjustment to opening CCA Capital employed at 1 April	(8,378)	1,156
Revised Opening CCA Capital Employed at 1 April	283,381	247,862
Average CCA Capital employed	265,459	269,810
Mean Capital employed of SMP Markets		
Wholesale Local Access	101,624	87,357
Wholesale Broadband Access	8,091	11,401
Sub total markets	109,715	98,758
Residual activities		
- Wholesale residual activity	46,917	69,176
- Retail residual activity	108,827	101,877
Total CCA Mean capital employed	265,459	269,810

**Restatements in the financial statements for Asset Reclassification and for Deferred Tax balance sheet presentation as at 31 March 2023, have no impact on the regulated financial statements.

