



KCOM Group PLC

**Regulatory Financial Statements
for the year ended 31 March 2019**

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Ofcom Statement on KCOM's Regulatory Financial Statements 2019

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 2018/19 RFS.

New Regulatory Financial Reporting Directions

On 6 February 2019, we published the statement "KCOM Regulatory Financial Reporting: Statement on new regulatory financial reporting directions covering all regulated fixed telecoms markets" (the Statement). As set out on page 9, this has had the effect of changing the way the RFS are presented. In summary, we required KCOM to report actual Returns on Capital Employed ("ROCE") across all relevant markets. Previously KCOM had used a 13% ROCE to impute internal revenue.

In the Statement we updated the format and content of the RFS, including the cost categorisations used within some published schedules and required new market reporting in respect of the Wholesale Local Access and Wholesale Broadband markets following our review of those markets. The 2017/18 comparative figures in the RFS have been restated to reflect these changes.

In the Statement we also set out new requirements relating to the audit of the RFS. Specifically, we explained that KCOM is required to procure an opinion from its auditors' opinion that each Regulatory Financial Statement Properly Prepared In Accordance (PPIA) with the Primary Accounting Documents. This year's audit opinion has been provided on this basis.

Delay to the publication of KCOM's RFS

On 13 June 2019 KCOM requested a two-month extension to its RFS publication deadline. In its request KCOM explained that the proposed acquisition of KCOM by MEIF6 Fibre Limited had meant the re-deployment of the finance team executing the prospective transaction from other activities, including the preparation and publication of its RFS. On 6 July 2019, we published an explanatory statement and granted a consent for KCOM to defer publication of its RFS.

¹ Ofcom, "KCOM Regulatory Financial Reporting Statement on new regulatory financial reporting directions covering all regulated fixed telecoms markets" 6 February 2019 https://www.ofcom.org.uk/__data/assets/pdf_file/0032/135869/Statement-Regulatory-Financial-Reporting-new-regulatory-financial-reporting-directions-for-KCOM.pdf

² Ofcom, "Wholesale Local Access and Wholesale Broadband Access Market Reviews Review of competition in the Hull Area", 31 July 2018 https://www.ofcom.org.uk/__data/assets/pdf_file/0027/116991/statement-wba-competition-hull.pdf

³ Ofcom, "Consent for KCOM to defer its 2018/19 Regulatory Financial Statements Explanatory statement and Consent", 26th July 2019. https://www.ofcom.org.uk/__data/assets/pdf_file/0022/159007/kcom-consent-to-defer-regulatory-financial-statements.pdf

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, including the most recent directions conferred in "KCOM Regulatory Financial Reporting: Statement on new regulatory financial reporting directions covering all regulated fixed telecoms issued 6 February 2019".

Each financial statement:

- 1 Includes:
 - A Regulatory Financial Review
 - A Current Cost Profit and Loss (P&L) Statement
 - Statement of Current Cost Mean Capital Employed (MCE) Statement
 - A network activity statement (if applicable)
- 2 Is prepared in accordance with the Description of Cost Accounting Systems (the "DOCAS") dated 30 September 2019
- 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 2019 have been prepared in accordance with the requirements of the relevant conditions.



Anna Bielby
Chief Financial Officer
30 September 2019

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 2019 have been properly prepared, in all material respects, in accordance with the Description of Cost Accounting System ("DOCAS") dated 30 September 2019 and "The regulatory financial reporting obligations of BT and Kingston Communications" published by the Office of Communications ("Ofcom" or the "Regulator") on 22 July 2004 and subsequent amendments, including the most recent directions conferred in "KCOM Regulatory Financial Reporting: Statement on new regulatory financial reporting directions covering all regulated fixed telecoms" issued 6 February 2019 (the "Obligations") as summarised in the basis of preparation in note 2 and accounting policies in note 2 to the Regulatory Accounts.

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

- the Consolidated Current Cost Profit and Loss Account, the Consolidated Statement of Current Cost Mean Capital Employed and the Consolidated Network Activity Statement as at 31 March 2019 and for the year then ended;
- the Current Cost Profit and Loss Accounts and the Statement of Current Cost Mean Capital Employed for each Regulatory Market defined below as at 31 March 2019 and for the year then ended; and
- the notes to the Regulatory Accounts, which include a description of the significant accounting policies.

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

- KCOM Wholesale Broadband Access in the Hull area;
- KCOM Wholesale Market for Low Bandwidth Traditional Interface Symmetric Broadband Origination (TISBO) in the Hull area, at Bandwidths \leq 8Mbit/s;
- KCOM Wholesale Market for Contemporary Interface Symmetric Broadband Origination (CISBO) at all Bandwidths within the Hull Area;
- KCOM Wholesale Fixed Analogue Exchange Line Services in the Hull Area;
- KCOM Wholesale ISDN 30 Exchange Line Services in the Hull Area;
- KCOM Wholesale ISDN 2 Exchange Line Services in the Hull Area; and
- KCOM Wholesale Call Origination on a Fixed Narrowband Network in the Hull Area.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the Regulatory Accounts section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Emphasis of matter - Basis of preparation

In forming our opinion on the financial statements, which is not modified, we draw attention to note 2 of the Regulatory Accounts which includes a description of the basis of preparation, and in particular, the fact that the accounting policies used and disclosures made are not intended to, and do not, comply with the requirements of International 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 these Regulatory Accounts have not been prepared under section 394 of the Companies Act 2006 and are not the company's statutory financial statements.

Conclusions relating to going concern

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 the date when the company's financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

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. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

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

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

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

Auditors' responsibilities for the audit of the Regulatory Accounts

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

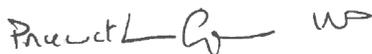
A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the 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 11 July 2019 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.

Partner responsible for the audit

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



PricewaterhouseCoopers LLP
Chartered Accountants
London

30 September 2019

KCOM Consolidated Statement

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

CURRENT COST PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2019

	£k 2019	Restated £k 2018	£k Change Year on Year	% Change Year on Year
Turnover				
Internal Sales	52,996	47,247	5,749	12%
External Sales	5,699	5,511	188	3%
Total Turnover	58,695	52,759	5,936	11%
Operating costs				
Operating costs				
- Engineering Support	(6,124)	(6,204)	80	(1%)
- Finance & Billing	(1,974)	(1,682)	(292)	17%
- General Management	(3,207)	(2,102)	(1,105)	53%
- Outpayments	-	-	-	-
- Bad Debts	4	(23)	27	(117%)
- Back Office Support	(1,968)	(922)	(1,046)	113%
- Other Costs	(11,574)	(6,618)	(4,956)	75%
Sub total operating expenditure	(24,843)	(17,550)	(7,293)	42%
Depreciation				
- Duct	(233)	(232)	(1)	-
- Copper	(1,828)	(1,738)	(90)	5%
- Fibre	(3,004)	(1,799)	(1,205)	67%
- Transmission	(775)	(699)	(76)	11%
- Exchange	(2,200)	(2,481)	281	(11%)
- Other	(4,565)	(3,251)	(1,314)	40%
CCA adjustments:				
Holding gain	2,314	3,346	(1,032)	(31%)
Supplementary depreciation	(1,606)	(1,402)	(204)	15%
Other adjustments	-	-	-	-
Total operating costs	(36,740)	(25,806)	(10,934)	42%
Return	21,955	26,953	(4,998)	(19%)
MCE	138,010	115,137	22,873	20%
RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER				
Total Reported Wholesale Markets	2019 %	2018 %		
Return on mean capital employed	15.9%	23.4%		

KCOM Consolidated Statement

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

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2019

	£k 2019	<i>Restated</i> £k 2018	£k Change	% Change
Fixed assets				
Tangible fixed assets				
- Land & Buildings	3,381	2,883	498	17.3%
- Duct	7,888	7,932	(44)	(0.6%)
- Fibre	15,705	12,971	2,734	21.1%
- Copper	17,839	18,036	(197)	(1.1%)
- Transmission	4,821	4,898	(77)	(1.6%)
- Exchange	19,241	15,822	3,419	21.6%
- Other	62,094	45,440	16,654	36.7%
Investments	-	-	-	-
Total fixed assets	130,969	107,982	22,987	21.3%
Current assets				
Stocks	2,818	3,050	(232)	(7.6%)
Debtors				
- internal	4,356	3,883	473	12.2%
- external	1,619	1,720	(101)	(5.9%)
Cash	-	-	-	-
Total current assets	8,793	8,653	140	1.6%
Creditors: amounts falling due within one year				
Other creditors				
- internal	-	-	-	-
- external	(1,752)	(1,498)	(254)	17.0%
Total creditors: amounts falling due within one year	(1,752)	(1,498)	(254)	17.0%
Net current assets	7,041	7,155	(114)	(1.6%)
Total assets less current liabilities	138,010	115,137	22,873	19.9%
Provisions for liabilities and charges	-	-	-	-
Closing capital employed	138,010	115,137	22,873	19.9%

Regulatory Financial Review

New direction from Ofcom and re-presentation of the 2017/18 results

On 31 July 2018, Ofcom published a statement entitled "Wholesale Local Access and Wholesale Broadband Access Market Reviews: Review of competition in the Hull Area" (the "2018 WLA and WBA Statement"). The 2018 WLA and WBA Statement presents Ofcom's conclusion that KCOM continues to have significant market power in each of the markets for wholesale local access and wholesale broadband access in the Hull Area.

Subsequently on 7 August 2018, Ofcom published a consultation document entitled "KCOM Regulatory Financial Reporting: Consultation on proposed regulatory financial reporting directions for KCOM" (the "2018 KCOM RFR Consultation"), on proposals to replace the 2004 Regulatory Financial Reporting Directions with new regulatory financial reporting directions.

After a consultation process, on 6 February 2019, Ofcom published the statement from their review and a revised set of directions in the document entitled "KCOM Regulatory Financial Reporting: Statement on new regulatory financial reporting directions covering all regulated fixed telecoms". The publication revokes the existing SMP directions and imposes fresh directions across all markets in which KCOM are currently regulated.

The main changes are summarised as follows:

- Ofcom has removed the requirement for KCOM to obtain a "Fairly Presents In Accordance with" (FPIA) opinion on its RFS. Instead, KCOM are required to obtain an opinion that the RFS are "Properly Prepared In Accordance with" (PPIA) its Primary Accounting Documents.
- A change in cost categorisations used within some published schedules of the RFS and the requirement to report an actual Return on Capital Employed ("ROCE") across all relevant markets, rather than fixing the ROCE at 13%.
- The previously reported wholesale Asymmetric Broadband Origination market services has been split into Wholesale Local Access and Wholesale Broadband Access.
- The format and content of the RFS schedules have been updated.

A full comprehensive list of changes can be found in the "KCOM Regulatory Financial Reporting: Statement on new regulatory financial reporting directions covering all regulated fixed telecoms" publication.

The revised directions have been applied to the 2018/19 results and the restated 2017/18 results, meaning the comparatives presented within these financial 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 2017/18 results presented last year and the 2017/18 results presented within these statements.

The 'Hull area', which is referenced throughout, accords with the geographic boundary that is defined by KCOM's original license granted on 30 November 1987 by the Secretary of State under Section 7 of the Telecommunications Act 1984 to Kingston upon Hull City Council and Kingston Communications (Hull) plc (KCOM).

Changes in cost allocation

On 31 March 2018, KCOM exited an agreement with a key partner to provide an outsourced managed service for the running and maintenance of the network and of exchange and technical sites. KCOM have subsequently in-sourced this function, leading to a change in the cost structure in the current year. The higher visibility over the previously outsourced costs in 2018/19 allows for a more granular allocation of the costs when compared to the prior year, resulting to some changes in the allocation.

Regulatory Financial Review (continued)

Changes in accounting standards

IFRS 15

Transition to IFRS 15 for the Group took place on 1 April 2018 and in accordance with the transition provisions of the standard we have adopted IFRS 15 using the modified retrospective transition method. Consequently, the prior period comparatives have not been restated, and the full cumulative impact of applying this standard retrospectively have been reflected in an adjustment to equity at the date of transition.

The transition to IFRS 15 results in the change in timing of both revenue and cost recognition, as well as changes to how balances are classified on the balance sheet in the 2018/19 underlying numbers. In line with the application requirements of IFRS 15, these same changes have not been applied to the 2017/18 underlying numbers. A comprehensive impact assessment has been set out in the KCOM Annual Report and Accounts 2018/19 in the Accounting Policies Note on pages 77 to 83.

Inter-market revenues are calculated on a 'price x volumes' basis and do not include adjustments to spread connection revenues over contractual periods, which would typically be applied when accounting in accordance with IFRS 15 for statutory reporting purposes.

IFRS 9

Transition to IFRS 9 for the Group took place on 1 April 2018 and in accordance with the transitional provisions of IFRS 9, comparative figures have not been restated. The Group has also adopted the consequential amendments to IFRS 7 "Financial Instruments: Disclosures" which have been applied to current year disclosures but have not generally been applied to comparatives.

The main impact on the application of IFRS 9 is the utilisation of the expected credit loss model for trade and unbilled receivables and contract assets. Adoption of the expected credit loss model has not had a significant impact on the financial statements of the Group. A comprehensive impact assessment has been set out in the KCOM Annual Report and Accounts 2018/19 in the Accounting Policies Note on pages 77 to 83.

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)

KCOM Wholesale Broadband Access in the Hull area

The Wholesale Broadband Access market comprises broadband internet access products available to both consumers and businesses in the Hull area. As at 31 March 2019, we were at 100% premises passed with 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 indeterminate lead times 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 to address these exceptions. The proportion of Consumer broadband customers now connected with fibre stood at 71% at the year end.

Number of circuits

	ADSL Circuits only			ADSL and FTTP Circuits		
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Circuit Nos	112,976	119,623	120,122	137,770	154,734	168,171
	6%	0%	15%	12%	9%	

The completion of the FTTP roll-out has facilitated an increase in overall circuit numbers. The wholesale FTTP product suite includes a reseller product. Reference Offer products in the Wholesale Broadband Access market were introduced in May 2019. Demand for ADSL is reducing as fibre becomes the main delivery within the local market.

A one-off rebate on hereditament, apportioned over the wholesale markets, contributed to a reduction in operating costs in the comparative year. On 31 March 2018, KCOM exited its main outsourcing arrangement with one of its key partners and moved the services in-house. The change in cost base and better visibility of the type of costs has led to a more granular allocation of the costs and therefore a change in the cost categories. In addition, the implementation of the new accounting standards, IFRS 15 and IFRS 9, has led to some changes in the timing of costs impacting comparisons with the prior year.

Wholesale products in this market, for both periods under review, are priced based on reference offer prices that were published in May 2019.

External sales reflects actual revenues. The price of reseller products are amended to reflect changes in the relevant retail prices.

KCOM Wholesale Broadband Access in the Hull area

CURRENT COST PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2019

	£k 2019	Restated £k 2018	£'k Change Year on Year	£'k Change Year on Year
Turnover				
Internal Sales	27,440	22,151	5,289	24%
External Sales	1,169	1,005	164	16%
Total Turnover	28,609	23,155	5,454	24%
Operating costs				
Operating costs				
- Engineering Support	(3,408)	(3,728)	320	(9%)
- Finance & Billing	(1,453)	(1,358)	(95)	7%
- General Management	(2,360)	(1,697)	(663)	39%
- Outpayments	-	-	-	-
- Bad Debts	-	(7)	7	(100%)
- Back Office Support	(1,095)	(554)	(541)	98%
- Other Costs	(6,730)	(4,148)	(2,582)	62%
Sub total operating expenditure	(15,046)	(11,492)	(3,554)	31%
Depreciation				
- Duct	(114)	(101)	(13)	13%
- Copper	-	-	-	-
- Fibre	(2,577)	(1,371)	(1,206)	88%
- Transmission	(740)	(660)	(80)	12%
- Exchange	(1,634)	(1,861)	227	(12%)
- Other	(2,982)	(2,053)	(929)	45%
CCA adjustments:				
Holding gain	1,403	2,042	(639)	(31%)
Supplementary depreciation	(546)	(430)	(116)	27%
Other adjustments	-	-	-	-
Total operating costs	(22,236)	(15,926)	(6,310)	40%
Return	6,373	7,229	(856)	(12%)
MCE	88,590	69,706	18,884	27%

RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER

for the year ended 31 March 2019

	%	%
Return on mean capital employed	7.2%	10.4%

KCOM Wholesale Broadband Access in the Hull area

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2019

	£k 2019	<i>Restated</i> £k 2018	£k Change	% Change
Fixed assets				
Tangible fixed assets				
- Land & Buildings	1,881	1,501	380	25%
- Duct	3,850	3,433	417	12%
- Fibre	12,189	9,238	2,951	32%
- Copper	-	-	-	-
- Transmission	4,688	4,723	(35)	(1%)
- Exchange	12,298	9,817	2,481	25%
- Other	50,012	37,343	12,669	34%
Investments	-	-	-	-
Total fixed assets	84,918	66,055	18,863	29%
Current assets				
Stocks	2,374	2,726	(352)	(13%)
Debtors				
- internal	2,255	1,821	434	24%
- external	332	314	18	6%
Cash	-	-	-	-
Total current assets	4,961	4,861	100	2%
Creditors: amounts falling due within one year				
Other creditors				
- internal	-	-	-	-
- external	(1,289)	(1,210)	(79)	7%
Total creditors: amounts falling due within one year	(1,289)	(1,210)	(79)	7%
Net current assets	3,672	3,651	21	1%
Total assets less current liabilities	88,590	69,706	18,884	27%
Provisions for liabilities and charges	-	-	-	-
Closing capital employed	88,590	69,706	18,884	27%

Regulatory Financial Review (KCOM)

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

The market for the provision of traditional interface symmetric broadband origination (TISBO) includes point-to-point circuits between 64Kbit/s and 8 Mbit/s. Circuit numbers in the sub 2Mbit/s category have been declining for some years as the increasing capabilities of ethernet and other IP services increase the pace of substitution. Analogue circuits have now been withdrawn and sub 2Mbit/s circuits are being withdrawn in March 2020.

Number of circuits

2013/14		2014/15		2015/16		2016/17		2017/18		2018/19
2,312	-26%	1,716	-8%	1,574	-19%	1,282	-34%	841	17%	982

Volumes in 2018/19 include analogue, low bandwidth legacy circuits previously included in other markets.

A one-off rebate on hereditament, apportioned over the wholesale markets, contributed to a reduction in operating costs in the comparative year. On 31 March 2018, KCOM exited its main outsourcing arrangement with one of its key partners and moved the services in-house. The change in cost base and better visibility of the type of costs has led to a more granular allocation of the costs and therefore a change in the cost categories. In addition, the implementation of the new accounting standards, IFRS 15 and IFRS 9, has led to some changes in the timing of costs impacting comparisons with the prior year.

Wholesale products for services between 1Mbit/s and 8Mbit/s in this market have been provided under the Reference Offers in the period under review. Wholesale products for Services < 1Mbit/s in this market have consisted of 'retail minus' products in the period under review.

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

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

CURRENT COST PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2019

	£k 2019	Restated £k 2018	£k Change Year on Year	£k Change Year on Year
Turnover				
Internal Sales	805	328	477	145%
External Sales	803	916	(113)	(12%)
Total Turnover	1,608	1,244	364	29%
Operating costs				
Operating costs				
- Engineering Support	(100)	(197)	97	(49%)
- Finance & Billing	(46)	(37)	(9)	24%
- General Management	(75)	(47)	(28)	60%
- Outpayments	-	-	-	-
- Bad Debts	1	(3)	4	(133%)
- Back Office Support	(32)	(29)	(3)	10%
- Other Costs	(232)	(173)	(59)	34%
Sub total operating expenditure	(483)	(487)	4	(1%)
Depreciation				
- Duct	-	-	-	-
- Copper	(11)	(8)	(3)	38%
- Fibre	(1)	(1)	-	0%
- Transmission	(34)	(36)	2	(6%)
- Exchange	(19)	(20)	1	(5%)
- Other	(325)	(255)	(70)	27%
CCA adjustments:				
Holding gain	43	71	(28)	(39%)
Supplementary depreciation	(39)	(29)	(10)	34%
Other adjustments	-	-	-	-
Total operating costs	(869)	(765)	(104)	14%
Return	739	479	260	54%
MCE	4,320	3,852	468	12%
RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER				
For the year ended 31 March 2019	2019	2018		
	%	%		
Return on mean capital employed	17.1%	12.4%		

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

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2019

	£k 2019	<i>Restated</i> £k 2018	£k Change	% Change
Fixed assets				
Tangible fixed assets				
- Land & Buildings	64	48	16	33%
- Duct	16	16	-	0%
- Fibre	7	7	-	0%
- Copper	103	87	16	18%
- Transmission	127	159	(32)	(20%)
- Exchange	231	252	(21)	(8%)
- Other	3,481	2,967	514	17%
Investments	-	-	-	-
Total fixed assets	4,029	3,536	493	14%
Current assets				
Stocks	38	36	2	6%
Debtors				
- internal	66	27	39	144%
- external	228	286	(58)	(20%)
Cash	-	-	-	-
Total current assets	332	349	(17)	(5%)
Creditors: amounts falling due within one year				
Other creditors				
- internal	-	-	-	-
- external	(41)	(33)	(8)	24%
Total creditors: amounts falling due within one year	(41)	(33)	(8)	24%
Net current assets	291	316	(25)	(8%)
Total assets less current liabilities	4,320	3,852	468	12%
Provisions for liabilities and charges	-	-	-	-
Closing capital employed	4,320	3,852	468	12%

Regulatory Financial Review (KCOM)

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

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

Number of Circuits

2013/14		2014/15		2015/16		2016/17		2017/18		2018/19	
1,061	8%	1,143	25%	1,432	-26%	1,055	27%	1,340	19%	1,594	

Pricing of these circuits has witnessed ongoing reductions which, together with growing requirements for ever greater bandwidth, has encouraged migration of circuits from older technology, lower bandwidth alternatives. Analogue private circuits ceased at the end of 2018/19 whilst sub 2Mbit/s circuits are on notice for closure in March 2020.

A one-off rebate on hereditament, apportioned over the wholesale markets, contributed to a reduction in operating costs in the comparative year. On 31 March 2018, KCOM exited its main outsourcing arrangement with one of its key partners and moved the services in-house. The change in cost base and better visibility of the type of costs has led to a more granular allocation of the costs and therefore a change in the cost categories. In addition, the implementation of the new accounting standards, IFRS 15 and IFRS 9, has led to some changes in the timing of costs impacting comparisons with the prior year.

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

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

CURRENT COST PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2019

	£k 2019	Restated £k 2018	£k Change Year on Year	£k Change Year on Year
Turnover				
Internal Sales	4,609	3,824	785	21%
External Sales	1,864	1,541	323	21%
Total Turnover	6,472	5,364	1,108	21%
Operating costs				
Operating costs				
- Engineering Support	(707)	(476)	(231)	49%
- Finance & Billing	(66)	(27)	(39)	144%
- General Management	(108)	(34)	(74)	218%
- Outpayments	-	-	-	-
- Bad Debts	2	(5)	7	(140%)
- Back Office Support	(227)	(71)	(156)	220%
- Other Costs	(1,625)	(1,135)	(490)	43%
Sub total operating expenditure	(2,731)	(1,748)	(983)	56%
Depreciation				
- Duct	(54)	(58)	4	(7%)
- Copper	-	-	-	-
- Fibre	(395)	(403)	8	(2%)
- Transmission	-	-	-	-
- Exchange	(172)	(201)	29	(14%)
- Other	(177)	(66)	(111)	168%
CCA adjustments:				
Holding (gain) / loss	186	272	(86)	(32%)
Supplementary depreciation	(268)	(256)	(12)	5%
Other adjustments	-	-	-	-
Total operating costs	(3,611)	(2,460)	(1,151)	47%
Return	2,861	2,904	(43)	(1%)
MCE	9,169	8,657	512	6%

RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER

for the year ended 31 March 2019

	2019 %	2018 %
Return on mean capital employed	31.2%	33.5%

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

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2019

	£k 2019	<i>Restated</i> £k 2018	£'k Change	% Change
Fixed assets				
Tangible fixed assets				
- Land & Buildings	621	557	64	11%
- Duct	1,835	1,977	(142)	(7%)
- Fibre	3,366	3,571	(205)	(6%)
- Copper	-	-	-	-
- Transmission	-	-	-	-
- Exchange	1,700	1,460	240	16%
- Other	743	297	446	150%
Investments	-	-	-	-
Total fixed assets	8,265	7,862	403	5%
Current assets				
Stocks	54	24	30	125%
Debtors	-	-	-	-
- internal	379	314	65	21%
- external	530	481	49	10%
Cash	-	-	-	-
Total current assets	963	819	144	18%
Creditors: amounts falling due within one year				
Other creditors				
- internal	-	-	-	-
- external	(59)	(24)	(35)	146%
Total creditors: amounts falling due within one year	(59)	(24)	(35)	146%
Net current assets	904	795	109	14%
Total assets less current liabilities	9,169	8,657	512	6%
Provisions for liabilities and charges	-	-	-	-
Closing capital employed	9,169	8,657	512	6%

Regulatory Financial Review (KCOM)

KCOM Wholesale Fixed Analogue Exchange Line Services in the Hull Area

The analogue exchange line services market provides analogue lines to residential and business consumers within the Hull area.

Number of Lines or Circuits		2014/15		2015/16		2016/17		2017/18		2018/19
2013/14		2014/15		2015/16		2016/17		2017/18		2018/19
175,690	-2%	171,994	-1%	169,783	-2%	165,568	5%	173,549	-3%	168,897

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

A one-off rebate on hereditament, apportioned over the wholesale markets, contributed to a reduction in operating costs in the comparative year. On 31 March 2018, KCOM exited its main outsourcing arrangement with one of its key partners and moved the services in-house. The change in cost base and better visibility of the type of costs has led to a more granular allocation of the costs and therefore a change in the cost categories. In addition, the implementation of the new accounting standards, IFRS 15 and IFRS 9, has led to some changes in the timing of costs impacting comparisons with the prior year.

Transfer prices are based on externally published Reference Offer prices, that were implemented in September 2018. The prices did not change year on year.

KCOM Wholesale Fixed Analogue Exchange Line Services in the Hull Area

CURRENT COST PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2019

	£k 2019	Restated £k 2018	£k Change Year on Year	£k Change Year on Year
Turnover				
Internal Sales	16,901	17,373	(472)	(3%)
External Sales	1,091	1,230	(139)	(11%)
Total Turnover	17,992	18,603	(611)	(3%)
Operating costs				
Operating costs				
- Engineering Support	(1,447)	(869)	(578)	67%
- Finance & Billing	(218)	(167)	(51)	31%
- General Management	(353)	(209)	(144)	69%
- Outpayments	-	-	-	-
- Bad Debts	1	(5)	6	(120%)
- Back Office Support	(465)	(129)	(336)	260%
- Other Costs	(2,062)	(665)	(1,397)	210%
Sub total operating expenditure	(4,544)	(2,044)	(2,500)	122%
Depreciation				
- Duct	(63)	(71)	8	(11%)
- Copper	(1,797)	(1,708)	(89)	5%
- Fibre	-	-	-	-
- Transmission	-	-	-	-
- Exchange	(252)	(173)	(79)	46%
- Other	(451)	(151)	(300)	199%
CCA adjustments:				
Holding gain	576	810	(234)	(29%)
Supplementary depreciation	(704)	(636)	(68)	11%
Other adjustments	-	-	-	-
Total operating costs	(7,235)	(3,973)	(3,262)	82%
Return	10,757	14,630	(3,873)	(26%)
MCE	30,088	27,809	2,279	8%

RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER

for the year ended 31 March 2019

	2019 %	2018 %
Return on mean capital employed	35.8%	52.6%

KCOM Wholesale Fixed Analogue Exchange Line Services in the Hull Area

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2019

	£k 2019	Restated £k 2018	£k Change	% Change
Fixed assets				
Tangible fixed assets				
- Land & Buildings	519	479	40	8%
- Duct	2,120	2,424	(304)	(13%)
- Fibre	-	-	-	-
- Copper	17,537	17,726	(189)	(1%)
- Transmission	-	-	-	-
- Exchange	3,042	2,135	907	42%
- Other	5,177	3,211	1,966	61%
Investments	-	-	-	-
Total fixed assets	28,395	25,975	2,420	9%
Current assets				
Stocks	187	171	16	9%
Debtors				
- internal	1,389	1,428	(39)	(3%)
- external	310	384	(74)	(19%)
Cash				
Total current assets	1,886	1,983	(97)	(5%)
Creditors: amounts falling due within one year				
Other creditors				
- internal	-	-	-	-
- external	(193)	(149)	(44)	30%
Total creditors: amounts falling due within one year	(193)	(149)	(44)	30%
Net current assets	1,693	1,834	(141)	(8%)
Total assets less current liabilities	30,088	27,809	2,279	8%
Provisions for liabilities and charges	-	-	-	-
Closing capital employed	30,088	27,809	2,279	8%

Regulatory Financial Review (KCOM)

KCOM Wholesale ISDN 30 Exchange Line Services in the Hull Area

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

Number of Lines or Circuits:

Lines			Channels		
2013/14		2014/15	2016/17		2017/18
1,175	-3%	1,145	9,379	13%	10,555
		2015/16			2018/19
		1,043			9,381
		-9%			-11%

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

A one-off rebate on hereditament, apportioned over the wholesale markets, contributed to a reduction in operating costs in the comparative year. On 31 March 2018, KCOM exited its main outsourcing arrangement with one of its key partners and moved the services in-house. The change in cost base and better visibility of the type of costs has led to a more granular allocation of the costs and therefore a change in the cost categories. In addition, the implementation of the new accounting standards, IFRS 15 and IFRS 9, has led to some changes in the timing of costs impacting comparisons with the prior year.

Wholesale products in this market are the historic 'retail minus' products and their equivalents provided under the Wholesale Line Rental Reference Offer launched during December 2018.

External wholesale prices for the 'retail minus' products did not change in the year. Transfer prices for both periods under review are based upon the Reference Offer pricing established and published during December 2018.

KCOM Wholesale ISDN 30 Exchange Line Services in the Hull Area

CURRENT COST PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2019

	£k 2019	Restated £k 2018	£k Change Year on Year	£k Change Year on Year
Turnover				
Internal Sales	1,104	1,222	(118)	(10%)
External Sales	234	245	(11)	(4%)
Total Turnover	1,339	1,468	(129)	(9%)
Operating costs				
Operating costs				
- Engineering Support	(18)	(5)	(13)	260%
- Finance & Billing	(46)	(49)	3	(6%)
- General Management	(74)	(62)	(12)	19%
- Outpayments	-	-	-	-
- Bad Debts	-	(1)	1	(100%)
- Back Office Support	(6)	(1)	(5)	500%
- Other Costs	(121)	(121)	-	0%
Sub total operating expenditure	(264)	(238)	(26)	11%
Depreciation				
- Duct	(1)	(2)	1	(50%)
- Copper	-	-	-	-
- Fibre	(31)	(24)	(7)	29%
- Transmission	-	-	-	-
- Exchange	-	-	-	-
- Other	(405)	(558)	153	(27%)
CCA adjustments:				
Holding gain	35	49	(14)	(29%)
Supplementary depreciation	(11)	(12)	1	(8%)
Other adjustments	-	-	-	-
Total operating costs	(677)	(785)	108	(14%)
Return	662	683	(21)	(3%)
MCE	1,646	1,676	(30)	(2%)

RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER

for the year ended 31 March 2019

	2019 %	2018 %
Return on mean capital employed	40.2%	40.8%

KCOM Wholesale ISDN 30 Exchange Line Services in the Hull Area

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2019

	£k 2019	<i>Restated</i> £k 2018	£k Change	% Change
Fixed assets				
Tangible fixed assets				
- Land & Buildings	32	29	3	10%
- Duct	42	52	(10)	(19%)
- Fibre	142	155	(13)	(8%)
- Copper	-	-	-	-
- Transmission	-	-	-	-
- Exchange	43	31	12	39%
- Other	1,231	1,225	6	0%
Investments	-	-	-	-
Total fixed assets	1,490	1,492	(2)	(0%)
Current assets				
Stocks	39	51	(12)	(24%)
Debtors				
- internal	91	100	(9)	(9%)
- external	67	77	(10)	(13%)
Cash	-	-	-	-
Total current assets	197	228	(31)	(14%)
Creditors: amounts falling due within one year				
Other creditors				
- internal	-	-	-	-
- external	(41)	(44)	3	(7%)
Total creditors: amounts falling due within one year	(41)	(44)	3	(7%)
Net current assets	156	184	(28)	(15%)
Total assets less current liabilities	1,646	1,676	(30)	(2%)
Provisions for liabilities and charges	-	-	-	-
Closing capital employed	1,646	1,676	(30)	(2%)

Regulatory Financial Review (KCOM)

KCOM Wholesale ISDN 2 Exchange Line Services in the Hull Area

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

Number of Lines or Circuits

2013/14		2014/15		2015/16		2016/17		2017/18		2018/19
6,024	-19%	4,876	-15%	4,154	2%	4,253	-23%	3,289	-13%	2,875

Following industry trends ISDN 2 circuits continued their decline in the year and have now declined by a compound 14% p.a. over the past six years. Scheduled for withdrawal in 2025, these legacy circuits are being superceded 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 one-off rebate on hereditament, apportioned over the wholesale markets, contributed to a reduction in operating costs in the comparative year. On 31 March 2018, KCOM exited its main outsourcing arrangement with one of its key partners and moved the services in-house. The change in cost base and better visibility of the type of costs has led to a more granular allocation of the costs and therefore a change in the cost categories. In addition, the implementation of the new accounting standards, IFRS 15 and IFRS 9, has led to some changes in the timing of costs impacting comparisons with the prior year.

Wholesale products in this market are the historic 'retail minus' products and their equivalents provided under the Wholesale Line Rental Reference Offer launched during December 2018.

External wholesale prices for the 'retail minus' products did not change in the year. Transfer prices for both periods under review are based upon the Reference Offer pricing established and published during December 2018.

KCOM Wholesale ISDN 2 Exchange Line Services in the Hull Area

CURRENT COST PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2019

	£k 2019	Restated £k 2018	£k Change Year on Year	£k Change Year on Year
Turnover				
Internal Sales	431	479	(48)	(10%)
External Sales	268	322	(54)	(17%)
Total Turnover	699	801	(102)	(13%)
Operating costs				
Operating costs				
- Engineering Support	(25)	(11)	(14)	127%
- Finance & Billing	(11)	(10)	(1)	10%
- General Management	(18)	(12)	(6)	50%
- Outpayments	-	-	-	-
- Bad Debts	-	(1)	1	(100%)
- Back Office Support	(8)	(2)	(6)	300%
- Other Costs	(59)	(36)	(23)	64%
Sub total operating expenditure	(121)	(71)	(50)	70%
Depreciation				
- Duct	(1)	(1)	-	0%
- Copper	(20)	(21)	1	(5%)
- Fibre	-	-	-	-
- Transmission	-	-	-	-
- Exchange	(3)	(2)	(1)	50%
- Other	(99)	(133)	34	(26%)
CCA adjustments:				
Holding gain	12	16	(4)	(25%)
Supplementary depreciation	(10)	(10)	-	0%
Other adjustments	-	-	-	-
Total operating costs	(242)	(222)	(20)	9%
Return	457	579	(122)	(21%)
MCE	605	612	(7)	(1%)

RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER

for the year ended 31 March 2019

	2019 %	2018 %
Return on mean capital employed	75.5%	94.6%

KCOM Wholesale ISDN 2 Exchange Line Services in the Hull Area

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2019

	£k 2019	<i>Restated</i> £k 2018	£k Change	% Change
Fixed assets				
Tangible fixed assets				
- Land & Buildings	11	9	2	22%
- Duct	24	30	(6)	(20%)
- Fibre	-	-	-	-
- Copper	199	223	(24)	(11%)
- Transmission	-	-	-	-
- Exchange	34	27	7	26%
- Other	227	183	44	24%
Investments	-	-	-	-
Total fixed assets	495	472	23	5%
Current assets				
Stocks	9	9	-	0%
Debtors				
- internal	35	39	(4)	(10%)
- external	76	100	(24)	(24%)
Cash	-	-	-	-
Total current assets	120	148	(28)	(19%)
Creditors: amounts falling due within one year				
Other creditors				
- internal	-	-	-	-
- external	(10)	(8)	(2)	25%
Total creditors: amounts falling due within one year	(10)	(8)	(2)	25%
Net current assets	110	140	(30)	(21%)
Total assets less current liabilities	605	612	(7)	(1%)
Provisions for liabilities and charges	-	-	-	-
Closing capital employed	605	612	(7)	(1%)

Regulatory Financial Review (KCOM)

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

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

Number of minutes

	2013/14		2014/15		2015/16		2016/17		2017/18		2018/19
Minutes (Billions)	0.60	-14%	0.52	-10%	0.47	-10%	0.42	-14%	0.36	-9%	0.33

Call origination volumes over fixed lines have fallen at a compound rate of 12% over the past six years. This decline is industry wide and driven by the increasing diversity of communications media, notably substitution by mobile voice and IP based traffic.

A one-off rebate on hereditament, apportioned over the wholesale markets, contributed to a reduction in operating costs in the comparative year. On 31 March 2018, KCOM exited its main outsourcing arrangement with one of its key partners and moved the services in-house. The change in cost base and better visibility of the type of costs has led to a more granular allocation of the costs and therefore a change in the cost categories. In addition, the implementation of the new accounting standards, IFRS 15 and IFRS 9, has led to some changes in the timing of costs impacting comparisons with the prior year.

Wholesale products in this market have been listed under the Reference Offers in the period under review. External wholesale call origination pricing did not change in the year.

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

CURRENT COST PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2019

	£k 2019	Restated £k 2018	£k Change Year on Year	£k Change Year on Year
Turnover				
Internal Sales	1,706	1,870	(164)	(9%)
External Sales	269	252	17	7%
Total Turnover	1,975	2,122	(147)	(7%)
Operating costs				
Operating costs				
- Engineering Support	(421)	(918)	497	(54%)
- Finance & Billing	(135)	(33)	(102)	309%
- General Management	(219)	(41)	(178)	434%
- Outpayments	-	-	-	-
- Bad Debts	-	(1)	1	(100%)
- Back Office Support	(135)	(136)	1	(1%)
- Other Costs	(744)	(340)	(404)	119%
Sub total operating expenditure	(1,654)	(1,469)	(185)	13%
Depreciation				
- Duct	-	-	-	-
- Copper	-	-	-	-
- Fibre	-	-	-	-
- Transmission	(2)	(3)	1	(33%)
- Exchange	(116)	(220)	104	(47%)
- Other	(126)	(37)	(89)	241%
CCA adjustments:				
Holding (gain) / loss	58	87	(29)	(33%)
Supplementary depreciation	(28)	(28)	-	0%
Other adjustments	-	-	-	-
Total operating costs	(1,868)	(1,670)	(198)	12%
Return	107	452	(345)	(76%)
MCE	3,590	2,826	764	27%

RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER

for the year ended 31 March 2019

	2019	2018
	%	%
Return on mean capital employed	3.0%	16.0%

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

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

Wholesale Call Origination
for the year ended 31 March 2019

	£k 2019	<i>Restated</i> £k 2018	£k Change	% Change
Fixed assets				
Tangible fixed assets				
- Land & Buildings	254	259	(5)	(2%)
- Duct	-	-	-	-
- Fibre	-	1	(1)	(100%)
- Copper	-	-	-	-
- Transmission	6	15	(9)	(60%)
- Exchange	1,892	2,100	(208)	(10%)
- Other	1,224	213	1,011	475%
Investments	-	-	-	-
Total fixed assets	3,376	2,588	788	30%
Current assets				
Stocks	117	34	83	244%
Debtors				
- internal	140	154	(14)	(9%)
- external	77	79	(2)	(3%)
Cash	-	-	-	-
Total current assets	334	267	67	25%
Creditors: amounts falling due within one year				
Other creditors				
- internal	-	-	-	-
- external	(120)	(29)	67	(231%)
Total creditors: amounts falling due within one year	(120)	(29)	(91)	314%
Net current assets	214	238	(24)	(10%)
Total assets less current liabilities	3,590	2,826	764	27%
Provisions for liabilities and charges	-	-	-	-
Closing capital employed	3,590	2,826	764	27%

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 30 September 2019. The statutory financial statements for KCOM Group PLC, for the year ended 31 March 2019 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 30 September 2019. 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 2017/18 comparatives have been restated in line with the change in Ofcom requirements discussed on page 11.

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.

The Group also generates revenue for the sale of advertising space both online and in a paper directory distributed to consumers. Revenue from the sale of advertising space in the paper directory is recognised at the point in time that the directory is delivered to the consumers. Revenue from online advertising is recognised over time as the advert is available online.

Standalone product sales

Equipment sales may be separate from, or bundled with, a service offer. When equipment sales are separate to a service offer, the amount invoiced is recognised in revenue upon delivery of the equipment, at the point that control is deemed to transfer to the customer.

Bundled equipment and service offerings

The Group often enters into contracts with customers which comprise equipment (e.g. a router) and services (e.g. an internet access contract).

Equipment revenue is recognised separately if the two components are deemed to be distinct (i.e. the customer can benefit from each component of the contract separately). Where one of the components is provided at a reduced selling price, revenue is allocated to each component in proportion to their individual selling prices.

Notes to the Regulatory Financial Statements including accounting policies (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 including accounting policies (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 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.

KCOM Reconciliation Statement

Consolidated profit and loss account

for the year ended 31 March 2019

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	58,695	(37,449)	21,246	2,314	(1,606)	21,954
<u>Residual activities</u>						
- Wholesale residual activities	6,679	(8,445)	(1,766)	97	(59)	(1,728)
- Retail residual activities	275,647	(323,949)	(48,302)	2,199	(1,464)	(47,567)
Total	341,021	(369,843)	(28,822)			
Adjustments (as necessary)						
Elimination of Inter Business turnover and costs	(59,383)	59,383	-			
Other operating income	-	-	-			
Goodwill	-	-	-			
Group's share of profits of associates and joint ventures	-	-	16			
Profit on sale of fixed asset investments	-	-	-			
Profit on sale of Group undertakings	-	-	-			
Amounts written off investments	-	-	-			
Profit on sale of property fixed assets before exceptional items	-	-	-			
Profit on sale of property fixed assets	-	-	-			
Net short term interest payable	-	-	-			
Long term interest payable	-	-	(2,837)			
Rounding differences	(1)	1	-			
As per the KCOM Group PLC Annual Report p72	281,637	(310,459)	(31,643)			

KCOM 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 before taxation £k	Holding gain/(loss) and other Adjustments £k	Supplementary depreciation £k	CCA Return or Profit Before Taxation £k
Wholesale SMP Markets	52,759	(27,751)	25,008	3,346	(1,402)	26,952
<u>Residual activities</u>						
- Wholesale residual activities	6,141	(6,554)	(413)	104	(47)	(356)
- Retail residual activities	295,432	(283,580)	11,852	4,871	(1,468)	15,256
Total	354,332	(317,885)	36,447			
Adjustments (as necessary)						
Elimination of Inter Business turnover and costs	(52,423)	52,423	-			
Other operating income	-	-	-			
Goodwill	-	-	-			
Group's share of profits of associates and joint ventures	-	-	12			
Profit on sale of fixed asset investments	-	-	-			
Profit on sale of Group undertakings	-	-	-			
Amounts written off investments	-	-	-			
Profit on sale of property fixed assets before exceptional items	-	-	-			
Profit on sale of property fixed assets	-	-	-			
Net short term interest payable	-	-	-			
Long term interest payable	-	-	(2,399)			
Rounding differences	(11)	-	(11)			
As per the KCOM Group PLC Annual Report p72	301,898	(265,462)	34,049			

KCOM Reconciliation Statement

Consolidated mean capital employed for the year ended 31 March 2019	2019 £k	2018 £k
Consolidated mean capital employed		
Shareholders' funds as per the KCOM Group PLC Annual Report (p74)	45,151	101,193
CCA Adjustments	31,536	39,832
Adjustments		
Investments	(63)	(46)
Retirement benefit asset	(5,924)	-
Deferred tax assets	(4,539)	(4,376)
Finance leases	418	1,722
Provisions for other liabilities and charges (short)	182	471
Bank loans	114,129	73,821
Retirement benefit obligation	2,378	7,507
Deferred tax liabilities	9,109	8,016
Finance leases long term	-	285
Provisions for other liabilities and charges	3,160	5,746
Other differences	1	-
Closing CCA capital employed at 31 March	195,538	234,171
Opening CCA capital employed as 1 April	234,171	217,754
Adjustment to opening CCA Capital employed at 1 April	(9,754)	-
Revised Opening CCA Capital Employed at 1 April	224,417	217,754
Average CCA Capital employed	209,978	225,963
Daily averaging adjustment	-	-
Deferred Costs	-	-
Total CCA Mean capital employed	209,978	225,963
Mean Capital employed of SMP Markets		
Wholesale Local Access	-	-
Wholesale Broadband Access	88,590	69,705
Wholesale Low Bandwidth TISBO	4,322	3,853
Wholesale CISBO	9,169	8,657
Wholesale Analogue Exchange Lines	30,087	27,809
Wholesale ISDN30	1,646	1,676
Wholesale ISDN2	606	612
Wholesale Call Origination	3,590	2,825
Sub total markets	138,010	115,137
<u>Residual activities</u>		
- Wholesale residual activity	5,715	3,494
- Retail residual activity	66,253	107,332
Total CCA Mean capital employed	209,978	225,963

