



KCOM Group PLC

**Regulatory Financial Statements
for the year ended 31 March 2014**

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Note:

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Regulatory financial review
Wholesale market current cost profit and loss account
Wholesale market statement of current cost mean capital employed
Market statement of costs on a current cost basis, network activity statement (as applicable)

Directors' Statement of Responsibility

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

Each financial statement :

- 1 includes
 - A regulatory financial review
 - A current cost profit and loss account
 - A statement of current cost mean capital employed
 - A network activity statement (if applicable)
- 2 is prepared in accordance with the Description of Cost Accounting Systems (the "DOCAS") dated 24th July 2014
- 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 2014 have been prepared in accordance with the requirements of the relevant conditions.



P Simpson
Chief Financial Officer
25 July 2014

Report of the Regulatory Auditors

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

Opinion on Regulatory Accounts

In our opinion the Regulatory Accounts, defined below:

- fairly present, in accordance with the Description of Cost Accounting System dated 24th July 2014 and the accounting policies set out on pages 47 to 49, the results and capital employed by each of the markets for the year ended 31 March 2014; and
- have been properly prepared in accordance with "The regulatory financial reporting obligations on BT and Kingston Communications" published by Ofcom on 22 July 2004 ("the Obligations") and the accounting policies.

This opinion is to be read in the context of what we say in the remainder of this report.

Basis of preparation

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

What we have audited

We have audited the regulatory accounts of KCOM Group PLC (the "Company") for the year ended 31 March 2014 on pages 6 to 59 (the "Regulatory Accounts"), which comprise:

- the current cost profit and loss account for each market;
- the statement of current cost mean capital employed for each market; and
- the related notes.

These Regulatory Accounts have been prepared in accordance with the basis of preparation and accounting policies set out in the Statement of Accounting Policies.

Scope of the audit of the Regulatory Accounts

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounts sufficient to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the Regulatory Accounts. In addition, we read all the financial and non-financial information in the Regulatory Financial Statements to identify material inconsistencies with the audited Regulatory Accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by the Obligations. Where the Obligations do not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory Accounts are consistent with those used in the preparation of the statutory financial statements of KCOM Group PLC. Furthermore, as the nature, form and content of Regulatory Accounts are determined by the Regulator, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

Many of the Company's revenues, costs, assets and liabilities are not directly identifiable with individual businesses, and the preparation of the Regulatory Accounts requires a significant number of apportionments. The principal methods and bases of apportionment are described in the Description of Cost Accounting System and the Regulatory Accounts should be read in connection herewith. As explained on page 47 in the "Basis of preparation", in selecting appropriate attribution models employed in the production of the Regulatory Accounts, the Company has had to make certain estimates and exercise its judgement, having regard to the Description of Cost Accounting System, including cost causality and objectivity, in order to comply with the requirements of the Description of Cost Accounting System. The company has informed Ofcom that attribution methods and non-financial data sources will be subject to ongoing review and, where deemed appropriate, improvement. We have not considered the appropriateness of the methods of attribution adopted in preparing the Regulatory Accounts.

Report of the Regulatory Auditors continued

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where, under the Obligations, we are required to report to you if, in our opinion:

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

Respective responsibilities of the Regulator, the Directors and the Auditors

As explained more fully in the Directors' Statement of Responsibility set out on page 3, the directors are responsible for the preparation of the Regulatory Accounts and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the Regulatory Accounts in accordance with ISAs (UK & Ireland), except as stated in the 'Scope of the audit of the Regulatory Accounts' below, and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Other matters

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

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2014 on which we reported on 18 June 2014, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors,
Leeds
25 July 2014

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.

Representation of Prior Year Statements

Following the publication of Ofcom's determination in the Review of the fixed narrowband services market in September 2013, KCOM are now treated in the same manner as other Communication Providers in the market for wholesale call termination and no longer have accounting separation requirements for this market. No accounting separation statements for this market are incorporated for 2013/14 and the 2012/13 statements have therefore been represented excluding the wholesale call termination market to maintain comparability between the years.

The Kingston Reconciliation Statement for 2012/13 has been represented to reflect the adjustments made in respect of a charge over Group assets relating to the funding of the defined benefit pension schemes. This is detailed in the KCOM Group PLC Annual Report and Accounts.

Kingston Wholesale Markets Consolidation Statement

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

CURRENT COST PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2014

	£k 2014	% per line item/total	Restated £k 2013	% per line item/total	% Change Year on Year
Turnover					
Internal Sales	30,040	95%	31,842	96%	-6%
External Sales	1,726	5%	1,178	4%	47%
Total Turnover	31,766	100%	33,020	100%	-4%
Operating costs					
Operating costs of Wholesale Market					
- Maintenance	11,050	60%	11,992	59%	-8%
- Provision & Installation	36	0%	24	0%	50%
- Outpayments	38	0%	0	0%	
- Depreciation	5,834	32%	6,754	33%	-14%
- Other Costs	1,347	7%	1,419	7%	-5%
Sub total operating expenditure	18,304	100%	20,189	100%	-9%
CCA adjustments:					
Holding gain	(258)		(205)		26%
Supplementary depreciation	2,630		2,462		7%
Total operating costs	20,677		22,446		-8%
Return	11,089		10,574		5%

RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER

for the year ended 31 March 2014

	2014 %	2013 %	%
Return on mean capital employed	13%	13%	0%
Return on turnover	35%	32%	3%

Kingston Wholesale Markets Consolidation Statement

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

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2014

	£k 2014	Restated £k 2013	% Change
Fixed assets			
Tangible fixed assets			
- Land & Buildings	4,122	3,917	5%
- Duct	42,059	41,340	2%
- Transmission Equipment	33,555	33,402	0%
- Exchange Equipment	1,668	1,837	-9%
- Other	1,184	697	70%
Total fixed assets	82,587	81,192	2%
Current assets			
Stocks	2,378	1,753	36%
Debtors			
- internal	3,078	3,097	-1%
- external	124	97	28%
Total current assets	5,580	4,947	13%
Creditors: amounts falling due within one year			
Other creditors			
- internal	(1,681)	(1,855)	-9%
Total creditors: amounts falling due within one year	(1,681)	(1,855)	-9%
Net current assets	3,899	3,092	26%
Total assets less current liabilities	86,486	84,285	3%
Closing capital employed	86,486	84,285	3%

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

CURRENT COST PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2014

	£k 2014	% per line item/total	Restated £k 2013	% per line item/total	% Change Year on Year
Turnover					
Internal Sales	24,496	94%	25,148	96%	-3%
External Sales	1,476	6%	1,002	4%	47%
Total Turnover	25,971	100%	26,150	100%	-1%
Operating costs					
Operating costs of Wholesale Market					
- Maintenance	7,306	57%	7,887	58%	-7%
- Provision & Installation	36	0%	24	0%	50%
- Outpayments	38	0%	0	0%	
- Depreciation	4,117	32%	4,366	32%	-6%
- Other Costs	1,271	10%	1,345	10%	-5%
Sub total operating expenditure	12,768	100%	13,621	100%	-6%
CCA adjustments:					
Holding gain	(159)		(141)		13%
Supplementary depreciation	2,949		2,683		10%
Total operating costs	15,558		16,163		-4%
Return	10,414		9,987		4%
RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER					
for the year ended 31 March 2014	2014		2013		%
	%		%		%
Return on mean capital employed	13%		13%		0%
Return on turnover	40%		38%		3%

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

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2014

	£k 2014	Restated £k 2013	% Change
Fixed assets			
Tangible fixed assets			
- Land & Buildings	3,651	3,530	3%
- Duct	39,543	38,825	2%
- Transmission Equipment	32,756	32,635	0%
- Exchange Equipment	1,006	1,725	-42%
- Other	433	285	52%
Total fixed assets	77,388	77,001	1%
Current assets			
Stocks	1,858	1,349	38%
Debtors			
- internal	2,510	2,446	3%
- external	124	97	28%
Total current assets	4,492	3,892	15%
Creditors: amounts falling due within one year			
Other creditors			
- internal	(1,173)	(1,251)	-6%
Total creditors: amounts falling due within one year	(1,173)	(1,251)	-6%
Net current assets	3,319	2,641	26%
Total assets less current liabilities	80,708	79,642	1%
Closing capital employed	80,708	79,642	1%

Regulatory Financial Review

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

The analogue exchange line services market provides analogue lines to residential and business consumers within the Hull regulatory area. Line numbers declined 2% over 2012/13 continuing a trend over the past few years, reflecting continued substitution by alternative communications including IP and mobile.

Number of Lines or Circuits

2008/09		2009/10		2010/11		2011/12		2012/13		2013/14
191,433	-3%	185,338	-1%	182,560	-2%	178,031	0%	178,496	-2%	175,690

Internal revenue increased fractionally to £22.7m (2012/13 : £22.6m), driven by the fixed return on mean capital employed.

External wholesale revenue of £0.6m (2012/13 : £0.6m) reflects a 4% increase in the contribution from reseller customers within the Hull area. This represents a slowing of growth from such customers in analogue lines and an increased share of a declining market. Resellers accounted for 3900 business lines by the end of 2013/14 (3500 in 2012/13), representing 10% of business lines in this market.

Operating costs have declined by 3% year on year :

HCA maintenance costs have declined £0.4m (-6%) year on year, reflecting cost allocation relative to other products on a declining maintenance cost base. Depreciation charges have declined £0.1m (-4%) and other costs have decreased 4%.

CCA Adjustments : An increase in the size of the holding gain reflects indexed adjustments increasing the gross replacement costs associated with the narrowband network. The overall impact of the CCA movements is an increase in cost base of £0.2m..

Mean capital employed has increased by £3.6m (+5%) reflecting network construction on new industrial and residential estates and indexing of the components within, particularly labour for which the RPI index (+3%) is used as a base for adjustment. The relative strength of the analogue market has attracted an increased share of the asset base, for example, in Land & Buildings. The overall allocated fixed asset base increased by £0.8m (+1%).

Overall unit costs per line have increased 2% year on year to £133 p.a.

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

CURRENT COST PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2014

	£k 2014	% per line item/total	£k 2013	% per line item/total	% Change Year on Year
Turnover					
Internal Sales	22,716	97%	22,645	98%	0%
External Sales	592	3%	567	0%	4%
Total Turnover	23,308	100%	23,212	100%	0%
Operating costs					
Operating costs of Wholesale Market					
- Maintenance	6,231	58%	6,652	59%	-6%
- Provision & Installation	10	0%	10	0%	-8%
- Outpayments	38	0%		0%	
- Depreciation	3,388	32%	3,528	31%	-4%
- Other Costs	1,042	10%	1,085	10%	-4%
Sub total operating expenditure	10,709	100%	11,275	100%	-5%
CCA adjustments:					
Holding gain	(166)		(115)		45%
Supplementary depreciation	3,037		2,782		9%
Total operating costs	13,580		13,943		-3%
Return	9,728		9,269		5%

RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER

for the year ended 31 March 2014

	2014 %	2013 %	%
Return on mean capital employed	13%	13%	0%
Return on turnover	42%	40%	2%

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

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2014

	£k 2014	£k 2013	% Change
Fixed assets			
Tangible fixed assets			
- Land & Buildings	1,747	1,431	22%
- Duct	38,303	37,485	2%
- Transmission Equipment	31,923	31,696	1%
- Exchange Equipment	336	990	-66%
- Other	178	115	55%
Total fixed assets	72,487	71,716	1%
Current assets			
Stocks	1,715	1,242	38%
Debtors			
- internal	2,327	2,202	6%
- external	61	55	10%
Total current assets	4,103	3,499	17%
Creditors: amounts falling due within one year			
Other creditors			
- internal	(984)	(1,036)	-5%
Total creditors: amounts falling due within one year	(984)	(1,036)	-5%
Net current assets	3,119	2,464	27%
Total assets less current liabilities	75,606	74,180	2%
Closing capital employed	75,606	74,180	2%

Kingston Statement of Costs on a Current Cost Basis

Network Activity Statement for the year ended 31 March 2014

Analogue Exchange Lines

Fully Allocated Cost	HCA operating cost	Supplementary Depreciation	Holding gain and other CCA adjustments	Total CCA operating costs	CCA mean capital employed	Applicable rate of return on capital %	Capital costs	Total of operating costs and capital costs relating to current year	Volume (No. of Lines)	Average costs per min/unit on a current cost basis relating to current year
Components										
Exchange concentrator	958	(54)	102	1,006	1,690	13%	220	1,226	175,690	£6.98
Exchange-exchange transmission length	191	63	(9)	245	1,403	13%	182	427	175,690	£2.43
PPP for narrowband call services	1,042	-	-	1,042	-	13%	-	1,042	175,690	£5.93
Local Loop Infrastructure	8,517	3,028	(259)	11,287	71,800	13%	9,334	20,621	175,690	£117.37
Totals	10,709	3,037	(166)	13,580	74,893		9,736	23,316		£132.71
Network Activity Statement for year ended 31st March 2013										
Exchange concentrator	800	49	(13)	836	1,828	13%	238	1,074	178,496	£6.02
Exchange-exchange transmission length	208	58	(27)	240	1,341	13%	174	414	178,496	£2.32
PPP for narrowband call services	1,085	-	-	1,085	-	13%	-	1,085	178,496	£6.08
Local Loop Infrastructure	9,182	2,674	(75)	11,781	68,143	13%	8,859	20,640	178,496	£115.63
Totals	11,275	2,782	(115)	13,943	71,312		9,271	23,213		£130.05

Regulatory Financial Review

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

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

ISDN 2 circuits accelerated their decline in 2013/14 pushing the annual compound year on year reduction to 7% p.a. The investment currently under way in high bandwidth connectivity is achieving significant uptake and, in conjunction with client lifecycle decisions on termination of legacy applications such as PBX, is set to drive increasing substitution over time.

Number of Lines or Circuits

2008/09		2009/10		2010/11		2011/12		2012/13		2013/14
4,256	-4%	4,073	-14%	3,494	9%	3,795	-8%	3,481	-13%	3,012

Overall revenue has declined £0.1m (-9%) year on year but the change in mix has been more significant with over a third of revenue now of external origin arising through the activities of resellers. Reseller derived revenue has increased £93k (+83%) over the prior period.

Operating costs have declined by 11% year on year.

The cost base reduction in this market has been less than the relative reduction in circuit numbers resulting in an increase in unit costs relating to this legacy product.

Unit circuit costs have increased by 6% year on year to £189p.a.

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

CURRENT COST PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2014

	£k 2014	% per line item/total	£k 2013	% per line item/total	% Change Year on Year
Turnover					
Internal Sales	363	64%	510	82%	-29%
External Sales	206	36%	112	18%	83%
Total Turnover	569	100%	622	100%	-9%
Operating costs					
Operating costs of Wholesale Market					
- Maintenance	165	51%	193	51%	-15%
- Provision & Installation	3	1%	4	1%	-21%
- Depreciation	120	37%	138	36%	-13%
- Other Costs	37	12%	43	11%	-13%
Sub total operating expenditure	325	100%	378	100%	-14%
CCA adjustments:					
Holding gain	0		(0)		-172%
Supplementary depreciation	53		47		12%
Total operating costs	378		425		-11%
Return	190		198		-4%

RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER

for the year ended 31 March 2014

	2014 %	2013 %	%
Return on mean capital employed	13%	13%	0%
Return on turnover	33%	32%	2%

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

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2014

	£k 2014	£k 2013	% Change
Fixed assets			
Tangible fixed assets			
- Land & Buildings	88	70	25%
- Duct	657	731	-10%
- Transmission Equipment	547	618	-11%
- Exchange Equipment	6	19	-70%
- Other	35	10	237%
Total fixed assets	1,333	1,449	-8%
Current assets			
Stocks	51	41	25%
Debtors			
- internal	37	50	-25%
- external	21	11	93%
Total current assets	109	101	8%
Creditors: amounts falling due within one year			
Other creditors			
- internal	(30)	(35)	-14%
Total creditors: amounts falling due within one year	(30)	(35)	-14%
Net current assets	79	67	19%
Total assets less current liabilities	1,412	1,515	-7%
Closing capital employed	1,412	1,515	-7%

Kingston Statement of Costs on a Current Cost Basis

Network Activity Statement for the year ended 31 March 2014

ISDN 2 Lines

Fully Allocated Cost	HCA operating cost	Supplementary Depreciation	Holding gain and other CCA adjustments	Total CCA operating costs	CCA mean capital employed	Applicable rate of return on capital %	Capital costs	Total of operating costs and capital costs relating to current year	Volume (No. of Lines)	Average costs per min/unit on a current cost basis relating to current year
Components										
Exchange concentrator	33	(1)	7	38	6	13%	1-	39	3,012	£12.89
Exchange-exchange transmission length	3	1		5	-	13%	-	5	3,012	£1.61
PPP for narrowband call services	23	-	-	23	-	13%	-	23	3,012	£7.69
Local Loop Infrastructure	266	53	(7)	312	1,458	13%	190	502	3,012	£166.65
Totals	325	53		378	1,464		190	569		£188.84
Network Activity Statement for year ended 31st March 2013										
Exchange concentrator	31	3	(1)	33		13%	-	33	3,481	£9.60
Exchange-exchange transmission length	4	1	1	6	-	13%	-	6	3,481	£1.78
PPP for narrowband call services	28	-	-	28	-	13%	-	28	3,481	£7.94
Local Loop Infrastructure	315	43		358	1,519	13%	197	555	3,481	£159.53
Totals	378	47	(0)	425	1,520		198	623		£178.85

Regulatory Financial Review

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

This market is for the provision of ISDN30 lines to businesses within the Hull regulatory area.

Number of Lines or Circuits

ISDN 30 circuit volumes declined 1% in 2013/14 after stalled growth in 2012/13. FTTP (fibre to the premises) is gradually expanding its footprint and becoming the connectivity of choice in areas where it is available, resulting in limited substitution during the reporting period.

2008/09		2009/10		2010/11		2011/12		2012/13		2013/14
1,145	3%	1,178	2%	1,200	2%	1,228	0%	1,229	-1%	1,215

Reseller activity dropped back in this market with sales from external sources falling 23% on 2012/13. Internal sales, driven by the return on mean capital employed, increased +8%. The overall cost base has declined 6% overall.

Unit circuit costs are stable, declining 2% year on year to £556 p.a..

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

CURRENT COST PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2014

	£k 2014	% per line item/total	£k 2013	% per line item/total	% Change Year on Year
Turnover					
Internal Sales	479	71%	445	64%	8%
External Sales	196	29%	255	36%	-23%
Total Turnover	676	100%	700	100%	-3%
Operating costs					
Operating costs of Wholesale Market					
- Maintenance	285	49%	307	50%	-7%
- Provision & Installation	23	4%	9	2%	143%
- Depreciation	210	36%	226	37%	-7%
- Other Costs	68	12%	71	12%	-4%
Sub total operating expenditure	586	100%	613	100%	-4%
CCA adjustments:					
Holding (gain) / loss	(8)		(7)		19%
Supplementary depreciation	(5)		2		-298%
Total operating costs	573		608		-6%
Return	103		92		12%

RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER

for the year ended 31 March 2014

	2014 %	2013 %	%
Return on mean capital employed	13%	13%	0%
Return on turnover	15%	13%	2%

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

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2014

	£k 2014	£k 2013	% Change
Fixed assets			
Tangible fixed assets			
- Land & Buildings	163	124	31%
- Duct	265	258	3%
- Transmission Equipment	245	259	-5%
- Exchange Equipment	2	7	-66%
- Other	50	23	115%
Total fixed assets	725	671	8%
Current assets			
Stocks	92	66	39%
Debtors			
- internal	49	43	13%
- external	20	25	-19%
Total current assets	161	134	20%
Creditors: amounts falling due within one year			
Other creditors			
- internal	(54)	(56)	-4%
Total creditors: amounts falling due within one year	(54)	(56)	-4%
Net current assets	107	78	38%
Total assets less current liabilities	833	749	11%
Closing capital employed	833	749	11%

Kingston Statement of Costs on a Current Cost Basis

Network Activity Statement for the year ended 31 March 2014

Business ISDN 30 Lines

Fully Allocated Cost	HCA operating cost	Supplementary Depreciation	Holding gain and other CCA adjustments	Total CCA operating costs	CCA mean capital employed	Applicable rate of return on capital %	Capital costs	Total of operating costs and capital costs relating to current year	Volume (No. of Business Lines)	Average costs per min/unit on a current cost basis relating to current year
Components										
Exchange concentrator	58	(3)	12	68	205	13%	27	94	1,215	£77.62
Exchange-exchange transmission link	-	(0)	-	-	-	13%	-	-	1,215	£0.02
Exchange-exchange transmission length	1	1	-	2	12	13%	2	3	1,215	£2.88
PPP for narrowband call services	68	-	-	68	-	13%	-	68	1,215	£56.01
Local Loop Infrastructure	458	(3)	(20)	435	574	13%	75	510	1,215	£419.97
Totals	586	(5)	(8)	573	791		103	676		£556.49
Network Activity Statement for year ended 31st March 2013										
Exchange concentrator	50	5	(2)	54	145	13%	19	73	1,229	£59.26
Exchange-exchange transmission link	-	(0)	-	-	-	13%	-	-	1,229	£0.00
Exchange-exchange transmission length	1	1	-	2	12	13%	2	4	1,229	£3.01
PPP for narrowband call services	71	-	-	71	-	13%	-	71	1,229	£57.60
Local Loop Infrastructure	490	(3)	(6)	481	549	13%	71	553	1,229	£449.78
Totals	613	2	(7)	608	706		92	700		£569.65

Regulatory Financial Review

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

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

	2008/09		2009/10		2010/11		2011/12		2012/13		2013/14
Minutes (Billions)	0.92	-14%	0.80	-5%	0.76	-6%	0.71	-8%	0.66	-8%	0.60

Call origination volumes continue to decline, currently averaging 8% p.a. , representing an industry wide trend which reflects the increasing diversity of communications media.

External call origination revenues incorporate £0.2m of Indirect Access with the balance generated by the resellers. In total they now constitute half of the wholesale call revenue within this market.

Overall operating costs reduced by 14% reflecting reduced maintenance costs (-£0.1m/-15%) and reduced depreciation charges (-£0.1m / -16%). Unit call origination costs declined by 4.5%.

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

CURRENT COST PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2014

	£k 2014	% per line item/total	£k 2013	% per line item/total	% Change Year on Year
Turnover					
Internal Sales	938	66%	1,548	96%	-39%
External Sales	481	34%	67	4%	614%
Total Turnover	1,419	100%	1,616	100%	-12%
Operating costs					
Operating costs of Wholesale Market					
- Maintenance	625	54%	734	54%	-15%
- Depreciation	399	35%	475	35%	-16%
- Other Costs	123	11%	146	11%	-16%
Sub total operating expenditure	1,148	100%	1,355	100%	-15%
CCA adjustments:					
Holding gain	15		(20)		-176%
Supplementary depreciation	(137)		(148)		-8%
Total operating costs	1,026		1,187		-14%
Return	393		429		-8%

RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER

for the year ended 31 March 2014

	2014 %	2013 %	%
Return on mean capital employed	13%	13%	0%
Return on turnover	28%	27%	1%

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

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2014

	£k 2014	£k 2013	% Change
Fixed assets			
Tangible fixed assets			
- Land & Buildings	1,653	1,905	-13%
- Duct	318	351	-9%
- Transmission Equipment	40	63	-35%
- Exchange Equipment	662	709	-7%
- Other	169	136	24%
Total fixed assets	2,843	3,165	-10%
Current assets			
Debtors			
- internal	96	151	-36%
- external	23	7	244%
Total current assets	119	157	-25%
Creditors: amounts falling due within one year			
Other creditors			
- internal	(105)	(124)	-15%
Total creditors: amounts falling due within one year	(105)	(124)	-15%
Net current assets	13	33	-60%
Total assets less current liabilities	2,856	3,198	-11%
Closing capital employed	2,856	3,198	-11%

Kingston Statement of Costs on a Current Cost Basis

Network Activity Statement for the year ended 31 March 2014

Call origination on fixed public narrowband networks

Fully Allocated Cost	HCA operating cost	Supplementary Depreciation	Holding gain and other CCA adjustments	Total CCA operating costs	CCA mean capital employed	Applicable rate of return on capital %	Capital costs	Total of operating costs and capital costs relating to current year	Volume ('000 Originating Call Minutes)	Average costs per min/unit (PPM) on a current cost basis relating to current year
Components										
Exchange concentrator	315	(120)	18	213	2,425	13%	315	529	602,322	0.0878
Exchange processor	499	2	(52)	449	116	13%	15	464	602,322	0.0770
Exchange-exchange transmission link	72	(78)	75	69	99	13%	13	82	602,322	0.0136
Exchange-exchange transmission length	53	59	(26)	86	384	13%	50	136	602,322	0.0226
National operator assistance	1	-	-	1	2	13%	-	1	602,322	0.0002
Emergency operator assistance	1	-	-	1	2	13%	-	1	602,322	0.0001
PPP for narrowband call services	208	-	-	208	-	13%	-	208	602,322	0.0345
Totals	1,148	(137)	15	1,027	3,027		394	1,420		0.2358
Network Activity Statement for year ended 31st March 2013										
Exchange concentrator	476	48	(21)	503	2,353	13%	306	809	655,496	0.1235
Exchange processor	500	(103)	2	398	399	13%	52	450	655,496	0.0687
Exchange-exchange transmission link	79	(77)	4	6	124	13%	16	23	655,496	0.0034
Exchange-exchange transmission length	63	(16)	(05)	43	433	13%	56	99	655,496	0.0151
National operator assistance	1	-	-	1	1	13%	-	1	655,496	0.0001
Emergency operator assistance	1	-	-	1	1	13%	-	1	655,496	0.0001
PPP for narrowband call services	235	-	-	235	-	13%	-	235	655,496	0.0359
Totals	1,355	(148)	(20)	1,187	3,311		430	1,618		0.2468

Regulatory Financial Review

Kingston Wholesale Market : Asymmetric Broadband Origination in the Hull Area

The asymmetric broadband origination market comprises broadband internet access products available to both consumers and businesses in the Hull area. Business broadband products are now available for resale by other operators and this has assisted the acceleration of sales in the review period. The build of superfast broadband reached 8,200 installations by the year end, the majority of these being residential.

	2008/09		2009/10		2010/11		2011/12		2012/13		2013/14
Circuit Nos	90,342	6%	96,035	1%	96,895	5%	101,717	4%	105,808	7%	112,976

Volumes have continued to grow (5% p.a. for the past 5 years) and there has been substantial emphasis on eliminating sub 2Mb circuits so ensuring all areas of the city and surrounding areas receive fast broadband. Penetration levels remain below national peer statistics, providing further growth prospects within this market.

Costs associated with this market are independent of the local loop drivers most impacted by end premise connectivity. Investment has occurred in head end equipment as evidenced by the increased exchange asset base but the internal revenue, driven by return on the mean capital employed, exhibits a decline of £0.8m / (-26%) from the prior year. Reseller generated revenue expanded by £0.1m (+42%) over 2012/13 reflecting increased activity from the reseller base.

Maintenance costs declined marginally (-10%) over the period but the most significant impact on operating costs arises from a decline in the depreciation charge which has shrunk by £0.5m (-40%).

Unit costs declined 27% year on year to £24 p.a.

Kingston Wholesale Market : Asymmetric Broadband Origination in the Hull Area

CURRENT COST PROFIT AND LOSS ACCOUNT for the year ended 31 March 2014

	£k 2014	% per line item/total	£k 2013	% per line item/total	% Change Year on Year
Turnover					
Internal Sales	2,442	91%	3,289	95%	-26%
External Sales	250	9%	176	5%	42%
Total Turnover	2,693	100%	3,465	100%	-22%
Operating costs					
Operating costs of Wholesale Market					
- Maintenance	1,987	74%	2,207	65%	-10%
- Depreciation	699	26%	1,160	34%	-40%
- Other Costs	16	1%	16	0%	0%
Sub total operating expenditure	2,702	100%	3,384	100%	-20%
CCA adjustments:					
Holding gain	(103)		(61)		-68%
Supplementary depreciation	(113)		(19)		478%
Total operating costs	2,487		3,303		-25%
Return	206		162		27%

RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER

for the year ended 31 March 2014

	2014 %	2013 %	%
Return on mean capital employed	13%	13%	0%
Return on turnover	8%	5%	3%

Kingston Wholesale Market : Asymmetric Broadband Origination in the Hull Area

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2014

	£k 2014	£k 2013	% Change
Fixed assets			
Tangible fixed assets			
- Land & Buildings	1	1	18%
- Duct	1,165	1,071	9%
- Exchange Equipment	559	96	482%
- Other	166	58	184%
Total fixed assets	1,891	1,227	54%
Current assets			
Stocks	28	23	21%
Debtors			
- internal	250	320	-22%
Total current assets	278	343	-19%
Creditors: amounts falling due within one year			
Other creditors			
- internal	(248)	(311)	-20%
Total creditors: amounts falling due within one year	(248)	(311)	-20%
Net current assets	30	32	-7%
Total assets less current liabilities	1,921	1,259	53%
Closing capital employed	1,921	1,259	53%

Kingston Statement of Costs on a Current Cost Basis

Network Activity Statement for the year ended 31 March 2014

Asymmetric Broadband Origination in the Hull Area

	HCA operating cost	Supplementary Depreciation	Holding gain and other CCA adjustments	Total CCA operating costs	CCA mean capital employed	Applicable rate of return on capital %	Capital costs	Total of operating costs and capital costs relating to current year	Volume (No. of Lines)	Average costs per min/unit on a current cost basis relating to current year
Components										
Exchange concentrator	234	(10)	(0)	224	138	13%	18	242	112,976	£2.14
Exchange-exchange transmission length	2,451	(103)	(103)	2,246	1,451	13%	189	2,435	112,976	£21.55
PPP for narrowband call services	16	-	-	16	-	13%	-	16	112,976	£0.14
Local Loop Infrastructure	1	-	-	1	-	13%	-	1	112,976	£0.01
Totals	2,702	(113)	(103)	2,487	1,590		207	2,693		£23.84
Network Activity Statement for year ended 31st March 2013										
Exchange concentrator	159	(01)	-	158	59	13%	8	166	105,808	£1.57
Exchange-exchange transmission length	3,208	(19)	(61)	3,128	1,186	13%	154	3,283	105,808	£31.02
PPP for narrowband call services	16	-	-	16	-	13%	-	16	105,808	£0.15
Local Loop Infrastructure	1	-	-	1	-	13%	-	1	105,808	£0.01
Totals	3,384	(19)	(61)	3,303	1,245		162	3,465		£32.75

Regulatory Financial Review (Kingston)

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

The market for the provision of traditional interface symmetric broadband origination includes point-to-point circuits between 64kb/s and 2 Mb/s. Circuit numbers in the sub 2Mb/s category have also been declining for some years but the increasing capabilities of ethernet and other IP services is increasing the pace of substitution and have led to a 13% decline in circuit numbers during the year.

Number of circuits

2008/09		2009/10		2010/11		2011/12		2012/13		2013/14
3,203	-6%	3,010	-3%	2,916	-3%	2,838	-6%	2,663	-13%	2,312

Revenues have declined £0.1m / -12% year on year driven by falling unit numbers. This market is likely to be susceptible to replacement by FTTP technology which, as it becomes more universal in its availability and, ultimately in a form supportive of point to point ethernet, is likely to hasten further the decline in the numbers of circuits, in particular the kiloline and kiloline n circuits .

HCA operating costs were 13% lower year on year but partially offset by holding loss adjustments.

Average unit costs (per line per annum) increased by 1% to £284 p.a.

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

CURRENT COST PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2014

	£k 2014	% per line item/total	£k 2013	% per line item/total	% Change Year on Year
Turnover					
Internal Sales	657	100%	750	100%	-12%
Total Turnover	657	100%	750	100%	-12%
Operating costs					
Operating costs of Wholesale Market					
- Maintenance	253	52%	278	50%	-9%
- Depreciation	194	40%	247	44%	-21%
- Other Costs	35	7%	30	5%	18%
Sub total operating expenditure	482	100%	555	100%	-13%
CCA adjustments:					
Holding loss	8		3		163%
Supplementary depreciation	(75)		(41)		83%
Total operating costs	414		517		-20%
Return	243		233		4%

RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER

for the year ended 31 March 2014

	2014 %	2013 %	%
Return on mean capital employed	13%	13%	0%
Return on turnover	37%	31%	6%

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

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2014

	£k 2014	£k 2013	% Change
Fixed assets			
Tangible fixed assets			
- Land & Buildings	235	104	126%
- Duct	971	1,075	-10%
- Transmission Equipment	383	474	-19%
- Other	225	82	173%
Total fixed assets	1,814	1,736	5%
Current assets			
Stocks	79	64	24%
Debtors			
- internal	67	73	-8%
Total current assets	147	137	7%
Creditors: amounts falling due within one year			
Other creditors			
- internal	(44)	(51)	-13%
Total creditors: amounts falling due within one year	(44)	(51)	-13%
Net current assets	102	86	19%
Total assets less current liabilities	1,916	1,821	5%
Closing capital employed	1,916	1,821	5%

Kingston Statement of Costs on a Current Cost Basis

Network Activity Statement for the year ended 31 March 2014

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

	HCA operating cost	Supplementary Depreciation	Holding gain and other CCA adjustments	Total CCA operating costs	CCA mean capital employed	Applicable rate of return on capital %	Capital costs	Total of operating costs and capital costs relating to current year	Volume (No. of Business Lines)	Average costs per min/unit on a current cost basis relating to current year
Components										
Exchange concentrator	39	(8)	13	44	449	13%	58	103	2,312	£44.45
Exchange-exchange transmission length	1	-	(0)	2	10	13%	1	3	2,312	£1.24
PPP for narrowband call services	35	-	-	35	-	13%	-	35	2,312	£15.29
Local Loop Infrastructure	407	(68)	(6)	333	1,410	13%	183	516	2,312	£223.26
Totals	482	(75)	8	414	1,869		243	657		£284.24
Network Activity Statement for the year ended 31 March 2013										
Exchange concentrator	(0)	5	(1)	3	184	13%	24	27	2,663	£10.14
Exchange-exchange transmission length	1	-	(0)	2	11	13%	1	3	2,663	£1.10
PPP for narrowband call services	30	-	-	30	-	13%	-	30	2,663	£11.22
Local Loop Infrastructure	524	(46)	4	482	1,599	13%	208	690	2,663	£259.16
Totals	555	(41)	3	517	1,793		233	750		£281.62

Regulatory Financial Review

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

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

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

Number of Circuits

2008/09		2009/10		2010/11		2011/12		2012/13		2013/14
13	-8%	12	-8%	11	-14%	10	-5%	9	-11%	8

Internal revenues, generated by a 13% return on mean capital employed, declined 12% in line with the circuit volume reduction. Historical costs are impacted by a £0.1m / -62% reduction in attributable maintenance charges offset by CCA adjustments to record a 14% overall reduction in the cost base.

Overall unit costs p.a. declined 1% to £15,822.

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

CURRENT COST PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2014

	£k 2014	% per line item/total	£k 2013	% per line item/total	% Change Year on Year
Turnover					
Internal Sales	127	100%	144	100%	-12%
Total Turnover	127	100%	144	100%	-12%
Operating costs					
Operating costs of Wholesale Market					
- Maintenance	61	52%	160	78%	-62%
- Depreciation	50	42%	36	18%	36%
- Other Costs	7	6%	9	4%	-23%
Sub total operating expenditure	118	100%	205	100%	-42%
CCA adjustments:					
Holding loss	35		11		216%
Supplementary depreciation	(56)		(103)		-46%
Total operating costs	97		114		-14%
Return	29		31		-4%

RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER

for the year ended 31 March 2014

	2014 %	2013 %	%
Return on mean capital employed	13%	13%	0%
Return on turnover	23%	21%	2%

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

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2014

	£k 2014	£k 2013	% Change
Fixed assets			
Tangible fixed assets			
- Land & Buildings	91	116	-21%
- Duct	5	6	-8%
- Transmission Equipment		1	116%
- Other	82	111	-26%
Total fixed assets	178	232	-23%
Current assets			
Stocks	20	24	-18%
Debtors			
- internal	13	14	-7%
Total current assets	33	38	-14%
Creditors: amounts falling due within one year			
Other creditors			
- internal	(11)	(19)	-42%
Total creditors: amounts falling due within one year	(11)	(19)	-42%
Net current assets	22	19	14%
Total assets less current liabilities	200	251	-20%
Closing capital employed	200	251	-20%

Kingston Statement of Costs on a Current Cost Basis

**Network Activity Statement
for the year ended 31 March 2014**

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

	HCA operating cost	Supplementary Depreciation	Holding gain and other CCA adjustments	Total CCA operating costs	CCA mean capital employed	Applicable rate of return on capital %	Capital costs	Total of operating costs and capital costs relating to current year	Volume (No. of Business Lines)	Average costs per min/unit on a current cost basis relating to current year
Components										
Exchange concentrator	1	(4)	6	4	173	13%	22	26	8	£3,263.32
Exchange-exchange transmission length	58	-	(0)	58	2	13%	-	58	8	£7,262.47
PPP for narrowband call services	7	-	-	7	-	13%	-	7	8	£873.74
Local Loop Infrastructure	52	(52)	29	29	51	13%	7	35	8	£4,422.94
Totals	118	(56)	35	97	226		29	127		£15,822.48
Network Activity Statement for year ended 31st March 2013										
Exchange concentrator	1	5	(1)	5	226	13%	29	34	9	£3,784.74
Exchange-exchange transmission length	127	-	(0)	127	2	13%	-	127	9	£14,124.21
PPP for narrowband call services	9	-	-	9	-	13%	-	9	9	£1,005.65
Local Loop Infrastructure	68	(108)	12	(27)	5	13%	1	(26)	9	(£2,926.12)
Totals	205	(103)	11	114	234		30	144		£15,988.48

Regulatory Financial Review

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

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

There has been a decline of 2 circuits (-18%) within this market. There remain some applications for which the traditional interface is advantageous but significant requests for new services in this range are not expected as the alternatives continue to develop.

Number of Circuits

2008/09		2009/10		2010/11		2011/12		2012/13		2013/14
6	0%	6	8%	7	31%	9	0%	9	-18%	7

This market is very similar to that of the 8 - 45Mb with low volumes and minimal movement year on year. Derived revenue has declined 19%. Maintenance costs have declined 60% portraying a similar path to the 8-45Mb market. There has been some offset through CCA adjustments.

Overall circuit unit costs exhibit a 1% decrement to £20,985 p.a.

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

CURRENT COST PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2014

	£k 2014	% per line item/total	£k 2013	% per line item/total	% Change Year on Year
Turnover					
Internal Sales	147	100%	180	100%	-19%
Total Turnover	147	100%	180	100%	-19%
Operating costs					
Operating costs of Wholesale Market					
- Maintenance	71	52%	177	74%	-60%
- Depreciation	59	43%	54	23%	8%
- Other Costs	7	5%	9	4%	-23%
Sub total operating expenditure	137	100%	240	100%	-43%
CCA adjustments:					
Holding loss	35		11		217%
Supplementary depreciation	(56)		(102)		-46%
Total operating costs	117		149		-22%
Return	30		31		-3%

RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER

for the year ended 31 March 2014

	2014 %	2013 %	%
Return on mean capital employed	13%	13%	0%
Return on turnover	21%	17%	3%

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

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2014

	£k 2014	£k 2013	% Change
Fixed assets			
Tangible fixed assets			
- Land & Buildings	91	116	-21%
- Duct	7	9	-15%
- Other	82	111	-26%
Investments			
Total fixed assets	181	236	-23%
Current assets			
Stocks	23	28	-18%
Debtors			
- internal	15	18	-14%
Total current assets	38	46	-17%
Creditors: amounts falling due within one year			
Other creditors			
- internal	(13)	(22)	-43%
Total creditors: amounts falling due within one year	(13)	(22)	-43%
Net current assets	26	24	8%
Total assets less current liabilities	206	259	-20%
Closing capital employed	206	259	-20%

Kingston Statement of Costs on a Current Cost Basis

**Network Activity Statement
for the year ended 31 March 2014**

Wholesale Traditional Interface Symmetric Broadband Origination (>45Mb)

	HCA operating cost	Supplementary Depreciation	Holding gain and other CCA adjustments	Total CCA operating costs	CCA mean capital employed	Applicable rate of return on capital %	Capital costs	Total of operating costs and capital costs relating to current year	Volume (No. of Business Lines)	Average costs per min/unit on a current cost basis relating to current year
Components										
Exchange concentrator	1	(4)	6	4	173	13%	22	26	7	£3,729.42
Exchange-exchange transmission length	77	-	(0)	77	5	13%	1	78	7	£11,114.47
PPP for narrowband call services	7	-	-	7	-	13%	-	7	7	£1,003.32
Local Loop Infrastructure	52	(52)	29	29	55	13%	7	36	7	£5,137.98
Totals	137	(56)	35	117	233		30	147		£20,985.20
Network Activity Statement for year ended 31st March 2013										
Exchange concentrator	1	5	(1)	5	226	13%	29	34	9	£4,007.31
Exchange-exchange transmission length	162	-	(0)	162	5	13%	1	163	9	£19,176.21
PPP for narrowband call services	9	-	-	9	-	13%	-	9	9	£1,070.66
Local Loop Infrastructure	68	(107)	12	(27)	9	13%	1	(26)	9	(£3,041.51)
Totals	240	(102)	11	149	240		31	180		£21,212.67

Regulatory Financial Review (Kingston)

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

The market for the provision of alternative interface symmetric broadband origination includes connections from 2MB/s to 1GB/s utilising ethernet technology. Volumes have reduced in 2013/14, by 5% year on year for the second consecutive year, but total bandwidth supplied has increased confirming a trend toward fewer circuits but with higher bandwidth for increased application flexibility .

Number of Circuits

2008/09		2009/10		2010/11		2011/12		2012/13		2013/14
930	6%	986	9%	1,072	10%	1,178	-5%	1,117	-5%	1,061

Internally generated revenue has declined £0.2m (-7%). Operating costs for the market have declined £0.2m (-9%) with half the movement being attributable to CCA adjustments. A greater proportion of maintenance costs has been allocated to ethernet as against the other markets but this has been offset by a reduction in depreciation charges . The overall fixed asset base has increased by £0.4m (+49%).

Annual average circuit costs have declined 2% to £2,047 p.a.

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

CURRENT COST PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2014

	£k 2014	% per line item/total	£k 2013	% per line item/total	% Change Year on Year
Turnover					
Internal Sales	2,171	100%	2,331	100%	-7%
Total Turnover	2,171	100%	2,331	100%	-7%
Operating costs					
Operating costs of Wholesale Market					
- Maintenance	1,372	65%	1,283	59%	7%
- Depreciation	714	34%	891	41%	-20%
- Other Costs	10	0%	9	0%	9%
Sub total operating expenditure	2,097	100%	2,183	100%	-4%
CCA adjustments:					
Holding (gain) / loss	(73)		(27)		169%
Supplementary depreciation	(19)		45		-143%
Total operating costs	2,004		2,201		-9%
Return	167		130		29%

RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER

for the year ended 31 March 2014

	2014 %	2013 %	%
Return on mean capital employed	13%	13%	0%
Return on turnover	8%	6%	2%

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

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2014

	£k 2014	£k 2013	% Change
Fixed assets			
Tangible fixed assets			
- Land & Buildings	53	50	5%
- Duct	367	354	4%
- Transmission Equipment	415	292	42%
- Exchange Equipment	102	15	562%
- Other	196	50	293%
Total fixed assets	1,134	761	49%
Current assets			
Stocks	370	265	40%
Debtors			
- internal	222	227	-2%
Total current assets	593	492	21%
Creditors: amounts falling due within one year			
Other creditors			
- internal	(193)	(201)	-4%
Total creditors: amounts falling due within one year	(193)	(201)	-4%
Net current assets	400	291	37%
Total assets less current liabilities	1,534	1,052	46%
Closing capital employed	1,534	1,052	46%

Kingston Statement of Costs on a Current Cost Basis

Network Activity Statement
for the year ended 31 March 2014

Alternative Interface Symmetric Broadband Origination (All Bandwidths)

	HCA operating cost	Supplementary Depreciation	Holding gain and other CCA adjustments	Total CCA operating costs	CCA mean capital employed	Applicable rate of return on capital %	Capital costs	Total of operating costs and capital costs relating to current year	Volume (No. of Business Lines)	Average costs per min/unit on a current cost basis relating to current year
Components										
Exchange concentrator	5		3	9	292	13%	38	47	1,061	£44.19
Exchange-exchange transmission length	2,047	(19)	(77)	1,950	311	13%	40	1,991	1,061	£1,876.34
PPP for narrowband call services	10	-	-	10	-	13%	-	10	1,061	£9.72
Local Loop Infrastructure	34	-	-	34	690	13%	90	124	1,061	£116.90
Totals	2,097	(19)	(73)	2,004	1,293		168	2,172		£2,047.15
Network Activity Statement for year ended 31st March 2013										
Exchange concentrator	5	2	(1)	7	430	13%	56	63	1,117	£56.14
Exchange-exchange transmission length	2,138	42	(27)	2,154	306	13%	40	2,194	1,117	£1,964.08
PPP for narrowband call services	9	-	-	9	-	13%	-	9	1,117	£8.48
Local Loop Infrastructure	30	-	-	30	264	13%	34	64	1,117	£57.70
Totals	2,183	45	(27)	2,201	999		130	2,331		£2,086.40

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 24th July 2014. The statutory financial statements for KCOM Group plc, for the year ended 31st March 2014 have been prepared, on which the auditors issued an unqualified report.

2. ACCOUNTING POLICIES

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

Basis of preparation

The current cost financial statements on pages 7 to 59 are prepared under the financial capital maintenance concept, in line with the DoCAS dated 24th July 2014 and in accordance with applicable United Kingdom accounting standards. The current cost statements for each of the businesses are prepared under this basis, although an adjustment for inflation to ordinary shareholders' funds is not attributed to each of the individual businesses.

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

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

Turnover

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

Notes to the Regulatory Financial Statements continued

Tangible fixed assets

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

- Freehold buildings - 40 years
- Leasehold buildings and improvements - Period of lease
- Exchange equipment - 10 years
- External plant - 10 to 20 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 First In, First Out (FIFO) method. Cost includes raw materials and, where appropriate, direct overhead expenses. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Provision is made for obsolete, slow moving or defective items where appropriate.

Notes to the Regulatory Financial Statements continued

Foreign currencies

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

Leasing and hire purchase commitments

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

Pensions

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

Employee share schemes

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

3. INTER BUSINESS BALANCES

The Balance Sheet statements for the Businesses include balances relating to the charges from the Wholesale business to the Retail business, based on the Days Sales Outstanding (DSO) with Other Licenced Operators (OLO's) in 2013/14.

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

4. CORPORATE CENTRE COSTS

Included in the operating costs of the Businesses are £2,037k of recharged KCOM Group plc Corporate costs.

**Kingston Wholesale Sales by Market Statement - External Sales
for the year ended 31 March 2014**

	Average NCC rates ppm			NCC Traffic Minutes ('000s)			24hr	Total Payments £k
	Day	Evening	Weekend	Day	Evening	Weekend		
Kingston Wholesale Market : Analogue Exchange Line Services in the Hull Area								592
Kingston Wholesale Market : ISDN2 Exchange Line Services in the Hull Area								206
Kingston Wholesale Market : ISDN 30 Exchange Line Services in the Hull Area								196
Kingston Wholesale Market : Call Origination on Fixed Public Narrowband Networks in the Hull Area	1.9488	0.8923	0.7026	19,722	5,697	6,576	1,5045	481
Kingston Wholesale Market : Asymmetric Broadband Origination in the Hull Area								250
Kingston Wholesale Market : Provision of Traditional Interface Symmetric Broadband Origination with a Bandwidth Capacity up to & including 8 Mb/s								-
Kingston Wholesale Market : Provision of Traditional Interface Symmetric Broadband Origination with a Bandwidth Capacity Above 8 MB/s & up to & including 45 Mb/s								-
Kingston Wholesale Market : Provision of Traditional Interface Symmetric Broadband Origination with a Bandwidth Capacity Above 45 MB/s & up to & including 155 Mb/s								-
Kingston Wholesale Market : Provision of Alternative Interface Symmetric Broadband Origination at all Bandwidths within the Hull area								-
								<u>1,726</u>

**Kingston Wholesale Sales by Market Statement - Internal Sales
for the year ended 31 March 2014**

	Average NCC rates ppm			NCC Traffic Minutes			24hr	Total Charge £k	Total Payments £k
	Day	Evening	Weekend	Day	Evening	Weekend			
Kingston Wholesale Market : Analogue Exchange Line Services in the Hull Area									22,716
Kingston Wholesale Market : ISDN 2 Exchange Line Services in the Hull Area									363
Kingston Wholesale Market : ISDN 30 Exchange Line Services in the Hull Area									479
Kingston Wholesale Market : Call Origination on Fixed Public Narrowband Networks in the Hull Area	0.2130	0.0975	0.0768	351,554	101,554	117,218	0.1644		938
Kingston Wholesale Market : Asymmetric Broadband Origination in the Hull Area									2,442
Kingston Wholesale Market : Provision of Traditional Interface Symmetric Broadband Origination with a Bandwidth Capacity up to & including 8 Mb/s									657
Kingston Wholesale Market : Provision of Traditional Interface Symmetric Broadband Origination with a Bandwidth Capacity Above 8 MB/s & up to & including 45 Mb/s									127
Kingston Wholesale Market : Provision of Traditional Interface Symmetric Broadband Origination with a Bandwidth Capacity Above 45 MB/s & up to & including 155 Mb/s									147
Kingston Wholesale Market : Provision of Alternative Interface Symmetric Broadband Origination at all Bandwidths within the Hull area									2,171
									<u>30,040</u>

Kingston Reconciliation Statement

Consolidated profit and loss account
for the year ended 31 March 2014

Market/Area	Turnover £k	Operating Costs £k	HCA Return or Profit after taxation £k	Holding gain/(loss) and other Adjustments £k	Supple- mentary depreciation £k	CCA Return or Profit Before Taxation £k
Wholesale Markets (where cost accounting and/or accounting separation obligations apply)	31,766	(18,304)	13,461	258	(2,630)	11,089
Retail Markets (where cost accounting obligations apply)	-	-	-	-	-	-
Sub Total SMP Markets	31,766	(18,304)	13,461	258	(2,630)	11,089
<u>Residual activities</u>						
- Wholesale residual activities	-	-	-	-	-	-
- Retail residual activities	92,433	(66,694)	25,739	(3,293)	(715)	21,731
Total	124,199	(84,999)	39,200	(3,035)	(3,345)	32,820
Adjustments (as necessary)						
Elimination of Inter Business turnover and costs	(30,040)	34,757	4,718			
Other operating income & costs	276,538	(264,849)	11,689			
Finance Costs	-	(5,075)	(5,075)			
Share from Associate	-	(02)	(02)			
Taxation	-	(11,760)	(11,760)			
Profit for the year attributable to owners of the parent	370,697	(331,927)	38,770			

Kingston Reconciliation Statement

Consolidated profit and loss account
for the year ended 31 March 2013 (Restated)

Market/Area	Turnover £k	Operating Costs £k	HCA Return or Profit after taxation £k	Holding gain/(loss) and other Adjustments £k	Supplem- entary depreciation £k	CCA Return or Profit Before Taxation £k
Wholesale Markets (where cost accounting and/or accounting separation obligations apply)	33,486	(20,189)	13,297	242	(2,151)	11,389
Retail Markets (where cost accounting obligations apply)	-	-	-	-	-	-
Sub Total SMP Markets	33,486	(20,189)	13,297	242	(2,151)	11,389
<u>Residual activities</u>						
- Wholesale residual activities	-	-	-	-	-	-
- Retail residual activities	93,083	(70,710)	22,373	(2,006)	(681)	19,686
Total	126,569	(90,898)	35,671	(1,764)	(2,832)	31,075
Adjustments (as necessary)						
Elimination of Inter Business turnover and costs	(32,308)	37,913	5,606			
Other operating income & costs	278,608	(264,929)	13,679			
Finance Costs	-	(4,589)	(4,589)			
Share from Associate	-	10	10			
Taxation	-	(12,478)	(12,478)			
Profit for the year attributable to owners of the parent	372,869	(334,971)	37,898			

Kingston Reconciliation statement

Consolidated mean capital employed
for the year ended 31 March 2014

	2014 £k	2013 £k	% Change
Fixed assets			
Tangible fixed assets (identifying asset categories where the value exceeds 10% of total fixed asset base)			
- Land & Buildings	5,934	5,890	1%
- Duct	53,873	52,806	2%
- Transmission Equipment	42,212	41,954	1%
- Exchange Equipment	2,571	2,663	-3%
- Other	1,447	913	59%
Total fixed assets	106,036	104,226	2%
Current assets			
Stocks	2,453	1,815	35%
Debtors			
- internal	3,145	3,644	-14%
- external	9,563	8,966	7%
Total current assets	15,161	14,425	5%
Creditors: amounts falling due within one year			
Other creditors			
- internal	(1,992)	(2,154)	-8%
- external	(5,724)	(6,097)	-6%
Total creditors: amounts falling due within one year	(7,716)	(8,251)	-6%
Net current assets	7,445	6,174	21%
Total assets less current liabilities	113,481	110,400	3%
Closing capital employed	113,481	110,400	3%

Kingston Retail Residual Activities Reconciliation

CURRENT COST PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2014

	2014		Restated 2013		% Change Year on Year
	£k	% per line item/total	£k	% per line item/total	
Turnover	92,433		93,083		-1%
Operating costs					
Charges from Kingston Wholesale Markets					
- wholesale Call Origination	8,291		9,327		-11%
- wholesale Network Maintenance	31,073		32,528		-4%
- wholesale PP&P (Corporate Charges)	1,485		1,564		-5%
Operating costs of Retail Market					
- Marketing	4,448	17%	5,105	19%	-13%
- Sales	1,712	7%	1,320	5%	30%
- Finance & Billing	2,189	8%	2,203	8%	-1%
- Customer Services	4,526	18%	4,342	16%	4%
- Customer Product Maintenance	676	3%	468	2%	44%
- Network Maintenance	1,970	8%	2,037	8%	-3%
- Bad Debts	644	2%	760	3%	-15%
- PP&P	2,039	8%	1,861	7%	10%
- Depreciation	1,704	7%	1,071	4%	59%
- Other Costs	5,937	23%	7,970	29%	-26%
Sub total operating expenditure	25,845	100%	27,136	100%	-5%
CCA adjustments:					
Holding loss / (gain)	3,293		1,969		67%
Supplementary depreciation	715		369		94%
Total operating costs	70,702		72,893		-3%
Return	21,731		20,190		8%

RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER

for the year ended 31 March 2014

	2014	2013	
	%	%	%
Return on mean capital employed	82%	92%	-10%
Return on turnover	24%	22%	2%

Kingston Retail Residual Activities Reconciliation

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED

for the year ended 31 March 2014

	£k 2014	Restated £k 2013	% Change
Fixed assets			
Tangible fixed assets			
- Land & Buildings	1,812	1,973	-8%
- Duct	11,814	11,466	3%
- Transmission Equipment	8,657	8,553	1%
- Exchange Equipment	903	826	9%
- Other	263	216	22%
Total fixed assets	23,449	23,034	2%
Current assets			
Stocks	75	62	20%
Debtors			
- internal	67	547	-88%
- external	9,438	8,533	11%
Total current assets	9,581	9,143	5%
Creditors: amounts falling due within one year			
Other creditors			
- internal	(310)	(300)	3%
- external	(5,724)	(6,017)	-5%
Total creditors: amounts falling due within one year	(6,034)	(6,317)	-4%
Net current assets	3,546	2,825	26%
Total assets less current liabilities	26,995	25,860	4%
Closing capital employed	26,995	25,860	4%

Kingston Inter Market Turnover (Reconciliation) for year ended 31 March 2014

	Wholesale analogue exchange line services in the Hull Area	Wholesale ISDN2 exchange line services in the Hull Area	Wholesale ISDN30 exchange line services in the Hull Area	Call origination on fixed public narrowband networks in the Hull Area + Call split (right)	Wholesale unmetered narrowband Internet termination for Internet traffic originating in the Hull Area	Asymmetric broadband origination in the Hull Area	Provision of traditional interface symmetric broadband origination with a bandwidth capacity up to and including 8 megabits	Provision of traditional interface symmetric broadband origination with a bandwidth capacity above 8 megabits up to 45 megabits	Provision of traditional interface symmetric broadband origination with a bandwidth capacity above 45 megabits up to 155 megabits	Provision of alternative interface symmetric broadband origination at all bandwidths within the Hull Area	Residential analogue exchange line services in the Hull Area	Residential ISDN2 exchange line services in the Hull Area	Business ISDN30 exchange line services in the Hull Area	Residual Activities	Residual Wholesale	Residual Retail	Total
	£k	£k	£k	£k	£k	£k	£k	£k	£k	£k	£k	£k	£k	£k	£k	£k	£k
Turnover originating in:																	
Wholesale analogue exchange line services in the Hull Area	592	-	-	-	-	-	-	-	-	-	-	-	-	-	22,716	-	23,308
Wholesale ISDN2 exchange line services in the Hull Area	-	206	-	-	-	-	-	-	-	-	-	-	-	-	363	-	569
Wholesale ISDN30 exchange line services in the Hull Area	-	-	-	-	-	-	-	-	-	-	-	-	196	-	479	-	676
Call origination on fixed public narrowband networks in the Hull Area + Call Split Below	-	-	-	481	-	-	-	-	-	-	-	-	-	-	938	11,923	13,343
Wholesale unmetered narrowband Internet termination for Internet traffic originating in the Hull Area	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Asymmetric broadband origination in the Hull Area	-	-	-	-	-	250	-	-	-	-	-	-	-	-	2,442	32,784	35,477
Provision of traditional interface symmetric broadband origination with a bandwidth capacity up to and including 8 megabits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	657	10,842	11,499
Provision of traditional interface symmetric broadband origination with a bandwidth capacity above 8 megabits up to 45 megabits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	127	106	232
Provision of traditional interface symmetric broadband origination with a bandwidth capacity above 45 megabits up to 155 megabits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	147	193	339
Provision of alternative interface symmetric broadband origination at all bandwidths within the Hull Area	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,171	5,810	7,982
Analogue exchange line services in the Hull Area	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	23,229	23,229
ISDN2 exchange line services in the Hull Area	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	120	120
Business ISDN30 exchange line services in the Hull Area	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	495	495
Residual Activities	-	-	-	-	-	-	-	-	-	-	-	-	-	6,931	-	-	6,931
Residual Wholesale	22,716	363	479	938	-	2,442	657	127	147	2,171	-	-	-	-	-	-	-
Residual Retail	-	-	-	11,923	-	32,784	10,842	106	193	5,810	23,229	120	495	-	-	-	-
Total	23,308	569	479	13,343		35,477	11,499	232	339	7,982	23,229	120	691	6,931			124,199

Kingston Statement of Costs on a Current Cost Basis

Network Activity Statement for the year ended 31 March 2014

Network Activity Statement - Consolidated

Fully Allocated Cost	HCA operating cost	Supplementary Depreciation	Holding gain and other CCA adjustments	Total CCA operating costs	CCA mean capital employed	Applicable rate of return on capital %	Capital costs	Total of operating costs and capital costs relating to current year
Exchange concentrator	1,644	(204)	168	1,609	5,549	13%	721	2,331
Exchange processor	499	2	(52)	449	116	13%	15	464
Exchange-exchange transmission link	72	(78)	75	69	99	13%	13	82
Exchange-exchange transmission length	4,882	3	(215)	4,670	3,578	13%	465	5,136
National operator assistance	1			1	2	13%		1
Emergency operator assistance	1			1	2	13%		1
PPP for narrowband call services	1,418			1,418		13%		1,418
Local loop infrastructure	9,788	2,906	(234)	12,460	76,039	13%	9,885	22,345
Totals	18,304	2,630	(258)	20,676	85,385		11,100	31,777
Network Activity Statement for year ended 31st March 2013								
Exchange concentrator	2,007	181	(60)	2,128	7,748	13%	1,007	3,135
Exchange processor	1,048	(217)	4	835	842	13%	109	945
Exchange-exchange transmission link	161	(156)	8	13	254	13%	33	46
Exchange-exchange transmission length	5,983	47	(124)	5,905	3,777	13%	491	6,396
National operator assistance	1	-	-	1	1	13%	-	1
Emergency operator assistance	1	-	-	1	1	13%	-	1
PPP for narrowband call services	1,647	-	-	1,647	-	13%	-	1,647
Local loop infrastructure	10,678	2,452	(51)	13,080	72,088	13%	9,371	22,451
Totals	21,526	2,307	(224)	23,609	84,710		11,012	34,621

**Kingston Network Services Reconciliation
for the year ended 31 March 2014**

Consolidation Statement

Fully Allocated Cost		Analogue Exchange Lines	ISDN2 Lines	Business ISDN30 Lines	Call Origination	Traditional Interface <=8Mb/s	Traditional Interface 8- 45Mb/s	Traditional Interface >45Mb	Alternative Interface All Mb/s	ADSL	Total
Components											
	Unit of Measure	Lines	Lines	Lines	Cal Minutes	Lines	Lines	Lines	Lines	Lines	
	Volume (where relevant)	175,690	3,012	1,215	602,322,246	2,312	8	7	1,061	112,976	
Exchange concentrator	Ave cost per unit (adjusted by usage factor)	£6.98	£12.89	£77.62	£0.09	£44.45	£3,263.32	£3,729.42	£44.19	£2.14	
	Total cost £k	1,226	39	94	529	103	26	26	47	242	2,331
Exchange processor	Ave cost per unit (adjusted by usage factor)	£0.0000	£0.0000	£0.0000	£0.076979	£0.0000	£0.0000	£0.0000	£0.0000	£0.0000	
	Total cost £k				464						464
Exchange-exchange transmission link	Ave cost per unit (adjusted by usage factor)	£0.0000	£0.0000	£0.0210	£0.013634	£0.0000	£0.0000	£0.0000	£0.0000	£0.0000	
	Total cost £k				82						82
Exchange-exchange transmission length	Ave cost per unit (adjusted by usage factor)	£2.43	£1.61	£2.88	£0.022567	£1.24	£7,262.47	£11,114.47	£1,876.34	£21.55	
	Total cost £k	427	5	3	136	3	58	78	1,991	2,435	5,136
National operator assistance	Ave cost per unit (adjusted by usage factor)	£0.0000	£0.0000	£0.0000	£0.000157	£0.0000	£0.0000	£0.0000	£0.0000	£0.0000	
	Total cost £k				1						1
Emergency operator assistance	Ave cost per unit (adjusted by usage factor)	£0.0000	£0.0000	£0.0000	£0.000136	£0.0000	£0.0000	£0.0000	£0.0000	£0.0000	
	Total cost £k				1						1
PPP for narrowband call services	Ave cost per unit (adjusted by usage factor)	£5.93	£7.69	£56.01	£0.034549	£15.29	£873.74	£1,003.32	£9.72	£0.14	
	Total cost £k	1,042	23	68	208	35	7	7	10	16	1,418
Local Loop Infrastructure	Ave cost per unit (adjusted by usage factor)	£117.37	£166.65	£419.97	£0.000000	£223.26	£4,422.94	£5,137.98	£116.90	£0.01	
	Total cost £k	20,621	502	510		516	35	36	124	1	22,345
Totals		23,316	569	676	1,420	657	127	147	2,172	2,693	31,777