

Company Registration No. 3317871

KCOM HOLDINGS LIMITED

Annual Report and Financial Statements

for the year ended 31 March 2021

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KCOM HOLDINGS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

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KCOM HOLDINGS LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

S Booth (appointed 29 September 2021)
M Pearson (appointed 15 February 2021)
D Raneberg (resigned 20 April 2022)
T Shaw (appointed 28 April 2022)
A Tong (resigned 31 March 2021)

COMPANY SECRETARY

M Pearson

REGISTERED OFFICE

37 Carr Lane
Hull
East Yorkshire
HU1 3RE

BANKERS

Royal Bank of Scotland
3rd Floor,
2 Whitehall Quay
Leeds
LS1 4HR

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Central Square
29 Wellington Street
Leeds
LS1 4DL
United Kingdom

KCOM HOLDINGS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2021

The Directors present the strategic report and the audited financial statements of the Company for the year ended 31 March 2021. These financial statements are prepared under United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

PRINCIPAL ACTIVITIES

The principal activities of the Company are providing internet, voice and network infrastructure services to both wholesale and retail customers across Hull, East Yorkshire and North Lincolnshire.

The company's activities include the trade of the entire KCOM Group. The Company is incorporated in the United Kingdom and domiciled in England.

BASIS OF PREPARATION

On 25 June 2021, KCOM announced the sale of its national ICT business (the "National Business") to GCI Network Solutions Limited ("Nasstar"). This sale was subsequently completed on 31 July 2021. Following the criteria in IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", management considered the requirements to treat the National Business as held for sale to be met as at the 31 March 2021.

As a result, all income and costs in relation to the National Business are disclosed separately as discontinued operations and prior year comparatives are restated. Assets held for sale and liabilities directly associated are presented as held for sale and disclosed on two separate lines in the balance sheet. Balance sheet comparatives are not restated.

RESULTS

The profit for the financial year attributable to the shareholders amounts to £22.9 million (2020: loss of £2.6 million).

REVIEW OF THE BUSINESS

The results for the year show revenue for continuing operations of £99.5 million, a £0.3 million increase on prior year and an increase in EBITDA of £2.5 million (8.6 per cent). Profit before tax from continuing operations is £11.0 million compared to a loss before tax of £7.6 million in the year ended 31 March 2020. This is predominantly due to lower exceptional charges in the current year.

Following an in-depth strategic review of our National Business segment, the decision was taken to sell the trade and assets of the business unit. The sale will allow us to focus on our core strategy as a regional provider of full fibre broadband to wholesale and retail markets. Revenue from discontinued operations has significantly declined year-on-year as anticipated, with a decrease of £11.8 million (7 per cent). Profit before tax from discontinued operations improved by £7.9 million from £5.2 million to £13.1 million.

On 31 March 2021, the Group finalised the sale of the National Business consumer base for £1.2 million, resulting in a gain on sale after taxation of £1.0 million which is classified within the discontinued operations results. The sale of the remaining discontinued operations and assets held for sale was finalised on 31 July 2021. For further information see Note 23.

Consumer revenue has increased by £2.7 million due to an increase in overall customer numbers of 5,800 (4 per cent), a higher increase than recent years, and a higher ARPU of £36.26, an increase of £0.60 (2 per cent). Broadband customers have increased by 6 per cent to 132,300 (31 March 2020: 124,300), with 1,100 net adds in our fibre expansion area outside of our traditional footprint. Migration away from our legacy copper broadband has continued with 89.1 per cent of broadband customers on fibre, up from 82.4 per cent as at 31 March 2020.

Business revenue has declined by £0.5 million (2 per cent) predominately due to the impacts of Covid-19 with lower revenue from broadband rentals and voice calls due to small businesses temporarily closing and/or working from home. This is in part offset by bandwidth increasing from the full year impact of four public sector WAN wins. The decline also reflects the continued reduction in voice rentals due to a migration from analogue lines to internet-based communication or VoIP.

Wholesale revenue has declined by £1.6 million (15 per cent). This reflects a reduction in circuits for two large customers in addition to a regulated price decrease on bandwidth and a continued reduction of call volumes as customers move to using VoIP. Fibre volumes have increased, with revenues growing 78 per cent year-on-year.

KCOM HOLDINGS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2021

Exceptional costs of £61,000 were incurred during the year, compared with £16.3 million in the prior year. The current year costs relate to the continuation of the strategic cost transformation programme leading to restructuring costs to the right size and better align to our new operating model by reducing complexity, duplication, and cost restructuring. The comparative included acquisition related costs of £11.8 million, restructuring costs of £1.4 million, right of use asset impairment of £1.9 million and onerous contract costs of £1.2 million.

The Directors do not consider exceptional items or one-off items as part of the key performance indicators because they are significant expenses incurred or income received as a result of events considered to be outside the normal course of business, where the unusual nature and expected frequency merits separate presentation to assist comparisons with previous periods.

On 29 September 2020 the indirect Parent Company, KCOM Holdco 3 Limited (formerly MEIF 6 Fibre Limited), entered into a new external loan agreement to fund the activities of the Group. Certain statutory entities within the consolidated KCOM Group Limited financial statements, including the Company act as guarantors for the loan facility. The agreement comprises of four facilities totalling total available funds of £475.0 million with a maturity date in 5 years. At 31 March 2021 a combined amount of £325.0 million was drawn down under the agreement, with the remaining being available to draw down upon request over the duration of the loans.

KEY PERFORMANCE INDICATORS

Continuing operations

	2021 £'000	2020 £'000
Revenue	99,537	99,209
EBITDA	31,169	28,690
Profit/(loss) before taxation	10,979	(7,569)

Discontinued operations

	2021 £'000	2020 £'000
Revenue	154,126	165,942
Profit before taxation	13,076	5,156

Further details of the financial and non-financial KPIs can be found on pages 14 to 17 of the Strategic Report in the annual report and financial statements of KCOM Group Limited.

YEAR END POSITION

As at the end of the year to 31 March 2021 the Company was in a strong financial position with significant net assets of £108.8 million (2020: £85.9 million).

STRATEGIC OBJECTIVES

The Company's strategic objectives are aligned with KCOM Group Limited and can be found in KCOM Group Limited's annual report and financial statements on page 12.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks associated with the Company are considered to be: customer service and delivery, substitute technologies entering the consumer market, security and resilience of our networks and IT systems, regulatory obligations, health and safety, the accuracy, security and confidentiality of customer data, and the ability to attract and retain talent within the business. Further details of the risks can be found on pages 18 to 21 of the Strategic Report in the annual report and financial statements of KCOM Group Limited.

Approved by the board and signed on its behalf



S Booth

Director

18 May 2022

KCOM HOLDINGS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2021

The Directors present the annual report and the audited financial statements of the Company for the year ended 31 March 2021. These financial statements are prepared under United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

FUTURE DEVELOPMENTS

The Directors are focused on achieving profitable revenue growth for the Company. For further details of future developments, see page 12 of the annual report and financial statements of KCOM Group Limited.

DIVIDENDS

The Company did not recommend or pay any dividends during the year (2020: £nil).

FINANCIAL RISK MANAGEMENT

In the normal course of business, the company is exposed to certain financial risks, principally interest rate risk, liquidity risk and credit risk. These risks are managed by the central treasury function of KCOM Group Limited, in conjunction with the company, in accordance with risk management policies that are designed to minimise the potential adverse effects of these risks on financial performance. The policies are reviewed and approved by the Board of KCOM Group Limited.

Further details of the financial risk management policies can be found on page 36 of the Directors' Report in the annual report and financial statements of KCOM Group Limited.

EMPLOYEES

The Company encourages Group employees who act on behalf of the company to make the difference to our customers and our workplace and enable us to differentiate ourselves from our competitors. We therefore want our Group employment strategies to help our people develop to their full potential while also driving our business performance. Our Group employment policies are designed to provide equal opportunities irrespective of age, disability, ethnicity, gender, gender reassignment, marital and civil partnership status, nationality, pregnancy, maternity and paternity, race, religion and belief, and sexual orientation.

All employees, whether part-time or full-time, temporary or permanent, are treated fairly and equally. We select employees for employment, promotion, training or other matters affecting their employment on the basis of aptitude and ability.

Health and safety is an integral part of good business management, and well established systems of safety management are in place throughout the Group. Details of the Group's employment policy can be found on pages 24 and 25 of the Strategic Report in the annual report and financial statements of KCOM Group Limited.

DIRECTORS

The Directors who served during the year and up to the date of signing the financial statements are listed on page 1.

SECTION 172

In accordance with section 172 of the Companies Act 2006 each of our Directors acts in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole.

In doing so Directors have regard, among other matters to:

- the likely consequences of any decision in the long-term;
- the interests of employees;
- the need to foster business relationships with suppliers, customers and others;
- the impact of operations on the community and the environment;
- the desirability of the company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the company.

The key stakeholders of the company align with those of the Group. Information about key stakeholder groups, their interests and how the company engages with them and takes their views and concerns into account is detailed on the following page.

While direct stakeholder engagement often takes place at senior management or operational level rather than at Board level, during the year the Board received information about stakeholder views and interests that enabled it to consider the impact of KCOM Group's activities and Board decisions on these groups.

KCOM HOLDINGS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2021

SECTION 172 (CONTINUED)

Directors also receive information relating to company strategy, financial and operational performance, risks and compliance with legal and regulatory requirements.

As a result, the Directors are able to comply with their legal duty under section 172 of the Companies Act 2006.

Stakeholder engagement

Stakeholders	Stakeholders' key interests	Ways we have engaged
Colleagues Our most important asset is our people. Our focus is on attracting, engaging, developing and retaining talented individuals, providing opportunities for career-long learning and development and providing safe workplaces within an inclusive culture that values diversity.	<ul style="list-style-type: none"> • Business strategy and plans • Health, safety and wellbeing • Reward and recognition • Learning and development opportunities • Diversity and inclusion 	<ul style="list-style-type: none"> • Senior management round table / briefing sessions with colleagues • Board member safety walks • Board attendance at induction events • Employee engagement surveys • Employee business improvement ideas programme
Customers Understanding our customers' needs and behaviours allows us to deliver relevant products and services, retain and attract customers and identify opportunities for growth.	<ul style="list-style-type: none"> • Availability and reliability of services • Value for money • Protection from harms related to the services we provide (such as online threats) 	<ul style="list-style-type: none"> • Net Promoter Score (NPS) surveys • Board / senior management interaction with key business customers • Board / senior management involvement in resolution of customer complaints
Community and local government KCOM has been at the heart of the Hull and East Yorkshire community since 1904 and we are committed to playing our part in making it a better place to live, work and invest.	<ul style="list-style-type: none"> • Creation of jobs and wealth within the region's economy • Contribution to improving the lives of local residents 	<ul style="list-style-type: none"> • Meetings between Board members / senior management and local civic and business leaders including local authorities, MPs and the Humber Local Enterprise Partnership • Community investment programme focused on connecting communities, delivering digital skills and boosting business success
Suppliers We rely on the high standards of our carefully selected suppliers in order to deliver reliable services that meet customer needs.	<ul style="list-style-type: none"> • Long-term relationships • Fair payment terms • Responsible and ethical business practices 	<ul style="list-style-type: none"> • Board member / senior management meetings with key suppliers
Regulators and government Our main regulatory relationship is with Ofcom.	<ul style="list-style-type: none"> • Protection of consumers, particularly those who are vulnerable • Promotion of competition • Encouraging investment and innovation • Supporting investment in critical digital infrastructure 	<ul style="list-style-type: none"> • Meetings between Board members / senior management and Ofcom • CEO discussions with DCMS about the Government's gigabit-capable connectivity ambitions and KCOM's support of customers throughout the COVID-19 pandemic

KCOM HOLDINGS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2021

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law, Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

DIRECTORS' CONFIRMATIONS

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

INDEPENDENT AUDITORS

A resolution has been passed to maintain PricewaterhouseCoopers LLP as auditors until such time as the Board decides otherwise.

Approved by the board and signed on its behalf



S Booth
Director

18 May 2022

KCOM HOLDINGS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KCOM HOLDINGS LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, KCOM Holdings Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 March 2021; the income statement and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

KCOM HOLDINGS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KCOM HOLDINGS LIMITED

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 March 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, 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 financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements 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 financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to taxation and Ofcom regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting journal entries to manipulate financial performances and management bias in determining significant accounting estimates that could influence reported performance. Audit procedures performed by the engagement team included:

- Enquiring with management to understand relevant laws and regulations applicable to the company and their assessment of fraud related risks;
- Identifying and testing journal entries using a risk based targeting approach for unexpected account combinations and users;
- Testing accounting estimates that we deemed to present a risk of material misstatement including assessing the data, methods and assumptions applied to by management in the development of each estimate;
- Reviewing financial statement disclosures and testing to support documentation where appropriate to assess compliance with applicable laws and regulations; and
- Reviewing correspondence with Ofcom to assess compliance with relevant regulations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

KCOM HOLDINGS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KCOM HOLDINGS LIMITED

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 opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- 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; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Andy Ward (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
19 May 2022

KCOM HOLDINGS LIMITED

INCOME STATEMENT

For the year ended 31 March 2021

		2021	2020 (Restated*)
	Note	£'000	£'000
Continuing operations			
Revenue	2	99,537	99,209
Operating expenses	3	(87,174)	(105,315)
Operating profit/(loss)	3	12,363	(6,106)
Finance costs	6	(1,384)	(1,463)
Profit/(loss) before taxation from continuing operations		10,979	(7,569)
Tax on profit/(loss)	7	(2,042)	631
Profit/(loss) for the financial year from continuing operations		8,937	(6,938)
Discontinued operations			
Profit from discontinued operations	23	13,933	4,359
Profit/(loss) for the financial year		22,870	(2,579)

*The prior year income statement has been restated to reflect the impact of classifying our National ICT Business activities as a discontinued operation (see Note 23).

There is no other comprehensive income in the year (2020: £nil).

The notes on pages 13 to 34 are an integral part of these financial statements.

KCOM Holdings Limited

Company Registration No. 3317871

KCOM HOLDINGS LIMITED

BALANCE SHEET As at 31 March 2021

	Note	2021 £'000	2020 £'000
Non-current assets			
Other intangible assets	8	30,325	34,030
Property, plant and equipment	9	138,887	131,699
Right of use assets	10	8,217	54,659
Deferred tax assets	19	-	3,719
Contract costs	11	695	5,129
		178,124	229,236
Current assets			
Inventories	12	3,357	4,638
Contract assets	13	1,168	3,318
Trade and other receivables	14	30,087	55,085
Cash and cash equivalents		7,020	14,061
		41,632	77,102
Assets classified as held for sale	23	86,227	-
		127,859	77,102
Total Assets		305,983	306,338
Current liabilities			
Trade and other payables: amounts falling due within one year	15	(84,327)	(114,881)
Contract liabilities	16	(7,711)	(20,158)
Lease liabilities	18	(1,653)	(15,123)
Provisions for liabilities and other charges	20	(350)	(3,580)
		(94,041)	(153,742)
Liabilities directly associated with assets classified as held for sale	23	(72,601)	-
		(166,642)	(153,742)
Non-current liabilities			
Trade and other payables: amounts falling due after more than one year	17	(14,916)	(16,071)
Lease liabilities	18	(8,072)	(40,985)
Provisions for liabilities and other charges	20	(600)	(3,944)
Deferred tax liabilities	19	(6,944)	(5,657)
		(30,532)	(66,657)
Total Liabilities		(197,174)	(220,399)
Net assets		108,809	85,939
Equity			
Called up share capital	21	-	-
Retained earnings		108,809	85,939
Total shareholders' funds		108,809	85,939

The notes on pages 13 to 34 are an integral part of these financial statements.

The financial statements on pages 10 to 34 were approved by the Board of Directors and authorised for issue on 18 May 2022. They were signed on its behalf by:

S Booth

S Booth
Director

KCOM HOLDINGS LIMITED

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2021

	Called up share capital £'000	Retained earnings £'000	Total shareholders' funds £'000
At 1 April 2019	-	88,518	88,518
Loss for the financial year	-	(2,579)	(2,579)
Total comprehensive expense for the year	-	(2,579)	(2,579)
At 31 March 2020	-	85,939	85,939
Profit for the financial year	-	22,870	22,870
Total comprehensive income for the year	-	22,870	22,870
At 31 March 2021	-	108,809	108,809

The notes on pages 13 to 34 are an integral part of these financial statements.

KCOM HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2021

1. ACCOUNTING POLICIES

KCOM Holdings Limited is a private company limited by shares. KCOM Holdings Limited is incorporated and domiciled in England in the United Kingdom. The registered office is 37 Carr Lane, Hull, HU1 3RE. The nature of the Company's operations is described within the strategic report on page 2.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of accounting

These financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the UK (UK-adopted international accounting standards), but makes amendments where necessary in order to comply with the Companies Act 2006 and to take advantage of FRS 101 disclosure exemptions.

On 31 December 2020, EU-adopted IFRS was brought into UK law and became UK-adopted international accounting standards, with future changes to IFRS being subject to endorsement by the UK Endorsement Board. In preparing these financial statements in accordance with FRS 101, the Company Financial Statements transitioned to UK-adopted international accounting standards (as described above) on 1 January 2021. There is no impact on recognition, measurement or disclosure in the period reported as a result of this change.

The Company is a qualifying entity for the purposes of FRS 101. Note 25 gives details of the Company's ultimate parent and from where its consolidated financial statements prepared in accordance with IFRS may be obtained.

The disclosure exemptions from the requirements of IFRS adopted by the Company in accordance with FRS 101 are as follows:

- a) Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined)
- b) IFRS 7 'Financial instruments: Disclosures'
- c) The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d) (statement of cash flows);
 - 16 (statement of compliance with all IFRS);
 - 38A (requirement for minimum of two primary statements, including cash flow statements);
 - 38B-D (additional comparative information);
 - 111 (statement of cash flows information); and
 - 134-136 (capital management disclosures).
- d) IAS 7 'Statement of Cash Flows'
- e) Paragraphs 30 and 31 of IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- f) Paragraph 17 of IAS 24 'Related Party Disclosures' (key management compensation)
- g) The requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group

The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006.

Critical accounting judgements and key sources of estimation uncertainty

The table below shows the judgements which have the most significant effect on amounts that are recognised in the financial statements, and the assumptions and estimates at the end of the current reporting year that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

KCOM HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2021

1. ACCOUNTING POLICIES (CONTINUED)

Critical accounting judgements and key sources of estimation uncertainty (continued)

The table below shows the judgements which have the most significant effect on amounts that are recognised in the financial statements, and the assumptions and estimates at the end of the current reporting year that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Area	Critical accounting judgement	Key sources of estimation uncertainty
<p>Significant contracts</p> <p>The Company, at times enters into significant and complex contracts with customers. These contracts may contain multiple elements including, but not limited to, an “installation” or “project phase” and an “in-life” or “managed service”.</p> <p>In accordance with IFRS 15, the number of performance obligations must be identified and the transaction price allocated to each of them based on their standalone selling price. Provided the “installation” phase represents a performance obligation, revenue is recognised on a stage of completion basis if there is an enforceable right to payments. Otherwise costs are capitalised on the balance sheet and subject to impairment during the “installation” phase and upon completion revenue is recognised and the costs are released.</p> <p>Leases</p> <p>Lease accounting requires determination of the lease term, which is defined as the noncancellable period of the lease adjusted for the impact of any reasonably certain extension, termination and purchase options.</p> <p>The lease term and the discount rate are key determinants of the size of the lease liability and right-of-use asset recognised where the Company acts as lessee.</p>	<p>The Directors are required to make judgements when identifying the number of performance obligations within a contract and, due to the bespoke nature of the contracts, when allocating the transaction price between performance obligations. For performance obligations satisfied over time, the Directors are required to make judgements in determining the total costs to complete.</p> <p>Determining the lease term requires judgement to evaluate whether the lessee is reasonably certain to exercise any options available.</p> <p>The Directors also apply judgement in determining the appropriate incremental borrowing rate that reflects the risks specific to leases.</p>	<p>In determining revenue and cost recognition on ongoing contracts, and the associated carrying value of assets and liabilities at the balance sheet date, the Directors are required to estimate total contract costs to complete.</p> <p>Taking into account the number of contracts entered into the Directors do not consider there to be any individual estimates made which could have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.</p> <p>The Directors do not consider there to be any estimates made which could have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.</p>
<p>Exceptional items</p> <p>Exceptional items are presented whenever significant expenses are incurred or income received as a result of events considered to be outside the normal course of business, where the unusual nature and expected frequency merits separate presentation to assist comparisons with previous periods.</p>	<p>The Directors are required to make judgements regarding whether transactions are outside the course of normal business and whether the presentation of exceptional items will assist in providing a meaningful comparison of the Company’s trading results with previous periods.</p>	<p>The Directors do not consider there to be any estimates made which could have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.</p>

KCOM HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2021

1. ACCOUNTING POLICIES (CONTINUED)

Going concern

The Company meets its day to day working capital requirements through access to the bank facilities of the wider group held within KCOM Holdco 3 Limited (formerly MEIF 6 Fibre Limited) and loans with related parties.

On 29 September 2020 the indirect Parent Company, KCOM Holdco 3 Limited (formerly MEIF 6 Fibre Limited), entered into a new external loan agreement to fund the activities of the Group. Certain statutory entities within the consolidated KCOM Group Limited financial statements, including the Company act as guarantors for the loan facility.

The current economic conditions, including Brexit, the war in Ukraine and the impact of Covid-19 continue to create uncertainty in the market. Group management has produced forecasts for the full Group that have been sensitised to reflect plausible downside scenarios as a result of the Covid-19 pandemic and its impact on the global economy, which have been reviewed by the Group Directors. These demonstrate the Group is forecast to generate profits and cash and that the Group has sufficient cash reserves and available facilities to enable the Group to meet its obligations as they fall due for a period of at least 12 months from the date of signing of these financial statements.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

Assets held for sale and discontinued operations

In accordance with IFRS 5 'Non-current assets held for sale and discontinued operations', non-current assets and disposal groups are classified as held for sale only if they are available for immediate sale in their present condition, and a sale is highly probable and expected to be completed within one year from the date of classification. Such assets are measured at the lower of carrying amount and fair value, less the costs of disposal, and are not depreciated or amortised.

A discontinued operation is a component of the Company's business that represents a separate major line of business or geographical area of operations which has been disposed of or is classified as held for sale. Accordingly the net results of the National Business segment are presented within discontinued operations in the income statement (for which the comparatives have been restated) and the assets and liabilities of these operations are presented separately in the Balance Sheet. Further information is provided in Note 23.

Goodwill

Goodwill represents amounts arising on acquisition of subsidiary undertakings and is the difference between the cost of the acquisition and the fair value of the net identifiable assets at the date of acquisition. Goodwill is stated at cost less any accumulated impairment losses and is tested annually or more frequently if events or changes in circumstances indicate potential impairment. Impairment losses on goodwill are not reversed.

Goodwill is allocated to cash-generating units (CGUs) for the purpose of impairment testing. The allocation is made to those CGUs that are expected to benefit from the business combination in which the goodwill arose. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

On transition from UK GAAP to FRS 101, goodwill which had previously been amortised was frozen at the amortised cost on transition to FRS 101. From the date of transition onwards being 1 April 2012, goodwill has been assessed annually for impairment in line with the new accounting policy.

KCOM HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2021

1. ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and any provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Network infrastructure and related equipment (included within exchange equipment and external plant) is recorded at cost including labour costs directly attributable to the cost of the network construction. Depreciation is provided so as to write off the 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	- 1 to 20 years
External plant	- 10 to 40 years
Vehicles, other apparatus and equipment	- 1 to 10 years

Freehold land is not depreciated. Exchange equipment includes assets and equipment which relate to the network. External plant relates to assets which connect the network to our customers.

The residual value, if not insignificant, is reassessed annually. Depreciation of network infrastructure and related equipment is provided for from the date the network comes into operation.

Intangible assets – development costs

An internally-generated intangible asset arising from the Company's internal development activities is recognised only if all of the following conditions are met:

- an asset is created that can be identified (such as software and new processes)
- it is probable that the asset created will generate future economic benefits
- the development cost of the asset can be measured reliably

Internally-generated intangible assets are carried at cost less accumulated amortisation and are amortised on a straight-line basis over their estimated useful lives. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred. Research costs are expensed to the income statement as and when they are incurred.

Intangible assets – software

Software comprises computer software purchased from third parties and also the cost of internally developed software. Computer software purchased from third parties and internally developed software is initially recorded at cost.

Software development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets when the criteria detailed above is met. These intangible assets are amortised on a straight-line basis over their useful lives.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Intangible assets – amortisation

Amortisation of intangible assets is charged to the income statement on a straight-line basis over the estimated useful lives of each intangible asset. Intangible assets are amortised from the date they are available for use.

The estimated useful lives are as follows:

Development costs	- 3 years
Software	- up to 10 years

KCOM HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2021

1. ACCOUNTING POLICIES (CONTINUED)

Contract costs

Contract costs are comprised of costs of obtaining a contract and costs to fulfil a contract:

Costs of obtaining a contract

The internal sales team earn commission when a new contract is signed based predominantly on tiered target commission schemes. Since these costs are incremental and would not have been paid in the absence of a contract, the commission costs attributable to each contract are estimated and capitalised on the balance sheet. These costs are released to the income statement on a time-apportioned basis over the enforceable term of the relevant contract.

The Company has chosen to recognise the cost of obtaining a contract as an expense when incurred if the enforceable term of the contract, and hence the amortisation period of the asset if it was to be recognised, does not exceed a year.

Pre-contract costs, such as bid costs on key contract wins, are generally expensed as incurred as they would have been paid even if the contract was not obtained.

Costs to fulfil a contract

Costs to fulfil a contract consist of initial direct costs incurred by the Company which generate or enhance resources available to satisfy performance obligations of the specific contract in the future. These costs are capitalised as incurred and subsequently released to the income statement on a basis consistent with the recognition of revenue as the performance obligations are satisfied.

Unanticipated costs that are incurred from the use of excessive resources are expensed as incurred.

Contract costs are subject to impairment testing if the facts and circumstances of the contract change during the term.

The amortisation of contract costs is included as an operating expense.

Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined using the weighted average cost method. Costs include 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.

Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are initially recognised at the amount of consideration that is unconditional. We do not have any material significant financing components. The Company holds trade receivables with the objective of collecting the contractual cash flows, and so it measures them subsequently at amortised cost using the effective interest method.

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the debtor;
- it is probable that the debtor will enter bankruptcy or other financial reorganisation; or
- a breach of contract such as default or delinquency in payments.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

The gross carrying amount of a financial asset is written off against the provision when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, this is done on a case-by-case basis. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities to comply with the Company's procedures for recovery of amounts due. Any subsequent recoveries of amounts previously written off are credited against operating expenses in the income statement.

KCOM HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2021

1. ACCOUNTING POLICIES (CONTINUED)

Contract assets

The timing of revenue recognition from contracts may differ from customer invoicing.

Trade receivables presented on the balance sheet represent an unconditional right to receive consideration, i.e. the services and goods promised to the customer have been transferred and only the passage of time is required before payment of that consideration is due.

Contract assets represent the right to receive consideration for goods and services transferred to date, but in contrast to trade receivables, these are conditional on providing further services or goods under the same contract. Examples include:

- *Milestone billing in the "installation phase" of a contract*

Between performance milestones the Company does not have an unconditional right to receive consideration for performance completed to date, therefore a contract asset is recognised. Upon completion of the milestone, the contract asset is transferred to trade receivables.

- *Bundled offerings combining the sale of a router and a fibre service for a fixed period*

The router is provided at a reduced price leading to reallocation of a proportion of the amounts invoiced for the fibre service to the supply of the router. The excess of the amount allocated to the router is recognised as a contract asset and transferred to trade receivables as the fibre service is invoiced.

Contract assets, like trade receivables, are subject to impairment for credit risk.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, short-term deposits and other short-term, highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown in current liabilities on the balance sheet unless a right of offset exists.

Trade payables

Trade payables are recognised initially at fair value and measured subsequently at amortised cost using the effective interest method.

Contract liabilities

Contract liabilities represent amounts paid by, or billed to, customers in advance of receiving the goods and/or services promised in the contract.

Share capital

Ordinary shares are classified as equity.

Leasing

At inception of a contract, the Company assesses whether a contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company leases various office and network properties, data centre space, fibres and cables, vehicles and office equipment.

Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Rental contracts typically have lease terms ranging from 12 months for assets such as fibres and cables up to 25 years for some network properties.

At lease commencement, to determine the lease term, the Company assesses whether, or not, it is reasonably certain to exercise any extension or termination options in the contract. The assessment of reasonably certain is only revised if a significant event or a significant change in circumstances occurs in relation to the lease, which is within the control of the lessee. The Company will also revise the lease term if there is a change in the non-cancellable period of a lease, for example the Company exercises an option not previously included in the determination of the lease term.

KCOM HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2021

1. ACCOUNTING POLICIES (CONTINUED)

Leasing (continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Company under residual value guarantees;
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option;
- penalty payments for terminating the lease, if the lease term reflects the Group exercising that option; and
- lease payments to be made in an extension period, if the Group is reasonably certain to exercise the extension option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

The Company has elected not to recognise right-of-use asset and lease liabilities for short-term leases or low-value asset leases. Short-term leases are leases with a lease term of 12 months or less and typically include leases which are in rolling where both parties have a right to terminate within 12 months. Low-value assets comprise IT equipment and small items of office furniture which have an underlying asset value below the value set out by IFRS 16. Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the income statement.

Revenue recognition

The Company'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.

Standalone service offerings

The Company 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.

KCOM HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2021

1. ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Standalone service offerings (continued)

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.

In some hosting arrangements the Company acts solely as an agent, enabling the supply of third party hosting services to the customer, and not as a principal in the supply of the service. In these circumstances, revenue is recognised net of amounts transferred to the third party.

The Company 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 Company 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.

Multi-element contracts including "installation" and "in-life" services

The Company frequently enters into large multi-element contracts which include two phases: an "installation" phase; and an "in-life" phase which represents the management of the IT platforms created during the "installation" phase.

The facts and circumstances of each contract must be analysed in order to determine whether separate distinct performance obligations exist. If the "installation phase" is deemed to be distinct, provided the Company has an enforceable right to payment during the "installation" phase, revenue is recognised over time on a stage of completion basis with reference to the costs incurred to date relative to the total expected costs to satisfy the performance obligation. If the Company does not have an enforceable right to payment, then revenue is recognised upon completion of the "installation" phase.

"In-life" revenue is recognised using a time-based measure over the enforceable term of the contract.

Similar to bundled offerings above, if the contractually agreed revenues for each phase do not represent a fair market value for the work performed, revenue is reallocated between the two phases based on typical selling prices had the phases been contracted separately.

Contract modifications

Contracts with customers generally do not include a material right, as the price invoiced for goods and services purchased by the customer beyond the specific scope of the contract (e.g. additional IT platform functionality) generally reflect their standalone selling prices. We therefore have no significant impact related to contract modifications as these are generally accounted for as a separate contract.

Variable consideration

Contracts may include variable consideration (e.g. "in-life" phase consists of a fixed fee plus a variable element based on the number of users, or the customer is entitled to a rebate based on sales volumes). In these circumstances, the variable element is estimated and included in the transaction price allocated between the distinct performance obligations identified.

KCOM HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2021

1. ACCOUNTING POLICIES (CONTINUED)

Exceptional items

Exceptional items are defined as items of income and expenditure which are material and unusual in nature. Any future movements on items previously classified as exceptional will also be classified as exceptional.

Restructuring and transformational costs are considered on a case-by-case basis as to whether they meet the exceptional criteria. Other items are considered against the exceptional criteria based on the specific circumstances. The presentation is consistent with the way financial performance is measured by management and reported to the KCOM Group Limited Board.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax. The current tax payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and/or items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised generally for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced or increased to the extent that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items recognised in other comprehensive income or directly to equity. In this case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Prior year adjustments to current and deferred taxes are recognised if the estimated tax position differs from the final tax position subsequently agreed with the taxation authority.

Research and development (R&D) tax reliefs are recognised as a credit to profit before taxation in the year in which relief is claimed. Claims for R&D relief can be made up to two years after the end of the accounting period to which it relates, therefore the period in which the claim is recognised is not necessarily the same as the period in which the costs were borne. Unclaimed reliefs are not recognised.

Dividends

Dividends to the Company's shareholders are recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

Dividend income is recognised when the right to receive payment is established.

KCOM HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2021

2. REVENUE

Revenue is attributable to the principal activities of the Company: providing internet, voice and network infrastructure services to both wholesale and retail customers across Hull, East Yorkshire and the surrounding areas. Revenue is generated wholly within the UK.

Certain customers previously presented in the National Business segment have not been classified as part of the discontinued operation as they remain with KCOM following the sale. As such, £0.7 million of revenue has been restated to Regional Business for the year ended 31 March 2020.

The results for the year ended 31 March 2021 and for the year ended 31 March 2020, excluding amounts relating to discontinued operations, disaggregated by customer type are as follows:

	2021 £'000	Restated 2020 £'000
Revenue		
Consumer	62,833	60,085
Regional Business	26,802	27,273
Wholesale	9,002	10,558
Other	900	1,293
Total from continuing operations	99,537	99,209
Derived from:		
External customers	97,623	96,874
Inter-Group from discontinued operations	1,914	2,335
Total from continuing operations	99,537	99,209

Inter-Group sales are charged at prevailing market prices. Sales have been shown on a gross basis in continuing operations to better reflect the position going forward.

None of the revenue, operating profit or net operating assets arising outside the United Kingdom are material to the Company. No revenue from transactions with one customer exceeded 10% of Company revenue.

The analysis of the Company's revenue between sale of goods and the provision of services is as follows:

	2021 £'000	Restated 2020 £'000
Sale of goods	3,782	3,989
Provision of services	95,755	95,220
Total from continuing operations	99,537	99,209

3. OPERATING PROFIT/(LOSS)

Operating profit/(loss) is stated after charging:

	Note	2021 £'000	Restated 2020 £'000
Staff costs	5	40,808	46,019
Other external charges		27,342	24,412
Auditors' remuneration for the audit of the financial statements		141	88
Depreciation of property, plant and equipment	9	11,082	11,305
Depreciation of right of use asset	10	1,801	2,110
Amortisation of intangible assets	8	5,862	5,106
Acquisition related costs	4	-	11,790
Onerous contract costs	4	-	1,175
ROU asset impairment	4	-	1,940
Loss on disposal of property, plant and equipment	9	10	-
Loss on disposal of other intangibles	8	67	-
Restructuring costs	4	61	1,370
Total from continuing operations		87,174	105,315

KCOM HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2021

3. OPERATING PROFIT/(LOSS) (continued)

Other external charges mainly relate to costs from key partners, such as BT Wholesale. These external charges include managed service and maintenance contract costs along with product costs (for example, ethernet and broadband). Included within staff costs are redundancy costs of £1.6 million (2020: £1.4 million).

The operating expenses detailed above exclude the amounts relating to discontinued operations.

	Note	2021 £'000	Restated 2020 £'000
Operating profit/(loss) from continuing operations analysed as:			
EBITDA before exceptional items		31,169	28,690
Exceptional charges	4	(61)	(16,275)
Amortisation of intangible assets	8	(5,862)	(5,106)
Depreciation of property, plant and equipment	9	(11,082)	(11,305)
Depreciation of right of use asset	10	(1,801)	(2,110)
Operating profit/(loss) from continuing operations		12,363	(6,106)

4. EXCEPTIONAL ITEMS

	Note	2021 £'000	2020 £'000
Restructuring costs		61	1,370
Acquisition related costs		-	11,790
Onerous contract costs		-	1,175
Right of use asset impairment	10	-	1,940
Total charge to the income statement – continuing operations		61	16,275

The Directors continue to recognise the need to differentiate costs incurred outside the normal course of business from the underlying trading performance.

In the current year, exceptional restructuring costs of £0.1 million (2020: £1.4 million) were incurred in relation to organisation design change costs across all areas of the business following the application of cost saving measures introduced by the 'Fit for growth project' in the prior year. Management scrutinises all restructuring costs on a line-by-line basis to determine whether they meet the exceptional criteria.

As part of our site rationalisation strategy, during the prior year, we made the decision to exit a leasehold property in Finsbury Square, London. This was a lease arrangement with just over 4 years remaining. This had the impact of creating a charge under IAS 37 for unavoidable contract costs of £1.2 million and a £1.9 million ROU asset impairment charge under IFRS 16.

In the prior year, £11.8 million of acquisition related costs were incurred, primarily relating to external consultant and advisor fees associated with the purchase of all the ordinary share capital by KCOM Holdco 3 Limited (formerly MEIF 6 Fibre Limited) in July 2019. Fit for growth project costs of £1.3 million in relation to third-party consultant costs were incurred as part of the post-acquisition business review.

KCOM HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2021

5. EMPLOYEES AND DIRECTORS

The average monthly number of employees (including Executive Directors) was nil (2020: nil). The immediate parent company of KCOM Holdings Limited, KCH (Holdings) Limited, provides the administration of the Group's payroll and pension scheme. The services provided by these to the company are purchased from KCH (Holdings) Limited and recorded as "staff costs" within the financial statements (see Note 3).

A breakdown of these staff costs is as follows:

	2021			2020		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Wages and salaries	34,201	28,143	62,344	37,461	25,466	62,927
Social security costs	3,032	2,770	5,802	3,724	2,734	6,458
Other pension costs	1,965	1,556	3,521	2,329	1,513	3,842
Share based payments	-	-	-	150	-	150
Restructuring costs relating to employees	1,610	1,307	2,917	2,355	4,705	7,060
Total	40,808	33,776	74,584	46,019	34,418	80,437

The average monthly number of employees (including Executive Directors) of KCH (Holdings) Limited who performed activities for the company were:

	2021	2020
	Number of employees	
Continued operations	793	1,082
Discontinued operations	509	372
Total	1,302	1,454

During the year Mr D Raneberg was the Director of KCOM Group Limited, and fellow subsidiary companies. Mr A Tong and Mr M Pearson were also Directors of fellow subsidiary companies. It is not practicable to ascertain the proportion of emoluments that specifically relate to the Company. Aggregate emoluments paid to the Directors for their services as directors of KCOM Group Limited and fellow subsidiary companies is as follows:

	2021	2020
	£'000	£'000
Remuneration	652	706
Aggregate amounts receivable under long term incentive plans	-	1,661
Company contributions paid to money purchase pensions schemes	113	99
Compensation for loss of office	-	950
Total	765	3,416

Retirement benefits were received either as cash or as contributions to the Defined Contribution pension scheme. None of the Directors have any prospective entitlement to defined benefits or cash balance benefits in respect of qualifying services.

The highest paid Director's emoluments were as follows:

	2021	2020
	£'000	£'000
Total remuneration (including amounts receivable under long term incentive plans)	516	2,133

KCOM HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2021

6. FINANCE COSTS

	2021	Restated 2020
	£'000	£'000
Interest expense	1,147	1,192
Interest on lease liabilities	237	271
	1,384	1,463

Interest expense predominately relates to the interest paid by the Company on the loan note to KCOM Central Asset Reserve Limited Partnership as part of the second agreement with Trustees of the Group's defined benefit pension schemes to fund the schemes' current deficit position.

7. TAX ON PROFIT/(LOSS)

The charge based on the profit/(loss) for the year comprises:

	2021	Restated 2020
	£'000	£'000
UK corporation tax:		
– Current tax on profit/(loss) for the year	-	612
– Adjustment in respect of prior years	-	(1,517)
Total current tax	-	(905)
UK deferred tax:		
Origination and reversal of temporary differences in respect of:		
– Profit for the year	2,010	1,476
– Impact of change in rate of taxation	2	120
– Adjustment in respect of prior years	365	(525)
Total deferred tax	2,377	1,071
Total taxation charge for the year	2,377	166
Income tax charge/(credit) attributable to:		
Profit/(loss) from continuing operations	2,042	(631)
Profit from discontinued operations	335	797
Total taxation charge for the year	2,377	166

Factors affecting tax charge for the year:

	2020	2020
	£'000	£'000
Profit/(loss) before taxation	25,247	(2,413)
Profit/(loss) before taxation at the standard rate of corporation tax in the UK of 19% (2020: 19%)	4,797	(458)
Effects of:		
– Permanent differences	1,598	2,546
– Effects of group relief	(4,385)	-
– Adjustments in respect of prior year	365	(2,042)
– Impact of change in rate of taxation	2	120
Total taxation charge for the year	2,377	166

KCOM HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2021

7. TAX ON PROFIT/(LOSS) (CONTINUED)

Factors affecting the current and future tax charges

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2015 (on 26 October 2015) and Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020. A further change to the main UK corporation tax rate was announced in the Budget on 11 March 2020, this was substantively enacted for IFRS purposes on 17 March 2020. The rate applicable from 1 April 2020 now remains at 19%, rather than the previously enacted reduction to 17%. Deferred taxes at the balance sheet date have been measured using the enacted tax rate of 19%.

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. At the balance sheet date, the proposal to increase the rate to 25% had not been substantively enacted. Substantive enactment occurred on 24 May 2021; therefore, its effects are not included in these financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, would be to increase the tax expense for the period by £2,193,000 and to increase the deferred tax liability by £2,193,000.

8. OTHER INTANGIBLE ASSETS

	Development costs ¹	Software	Assets under construction	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 April 2019	35,652	59,100	3,974	98,726
Additions	21	2,972	1,348	4,341
Own work capitalised	2,543	964	1,033	4,540
Disposals	(7)	(52)	-	(59)
Transfers	1,241	3,810	(3,682)	1,369
At 31 March 2020	39,450	66,794	2,673	108,917
Additions	278	597	3,257	4,132
Own work capitalised	2,443	135	1,988	4,566
Disposals	(89)	(11)	-	(100)
Transfers	948	622	(1,932)	(362)
Transfer to assets held for sale	(3,905)	(6,332)	(344)	(10,581)
At 31 March 2021	39,125	61,805	5,642	106,572
Accumulated amortisation				
At 1 April 2019	25,708	40,967	-	66,675
Charge for the year	3,567	4,648	-	8,215
Disposals	(3)	-	-	(3)
At 31 March 2020	29,272	45,615	-	74,887
Charge for the year	3,141	5,354	-	8,495
Disposals	(29)	(4)	-	(33)
Transfer to assets held for sale	(2,747)	(4,355)	-	(7,102)
At 31 March 2021	29,637	46,610	-	76,247
Net book value				
At 31 March 2021	9,488	15,195	5,642	30,325
At 31 March 2020	10,178	21,179	2,673	34,030
At 31 March 2019	9,944	18,133	3,974	32,051

1. Development costs are predominantly capitalised staff costs associated with assets relating to new products and provision of services.

£5.9 million (2020: £5.1 million) of the amortisation charge for the year and £4.1 million (2020: £4.2 million) of own work capitalised relates to continuing operations. We have restated amounts disclosed in the comparative period to correct for a previous mis-classification. This does not have a material impact on the closing totals in the comparative period. The transfers line includes £362,000 transferred between other intangibles and property, plant and equipment (see note 9).

KCOM HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2021

9. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £'000	Exchange equipment £'000	External plant £'000	Vehicles, other apparatus and equipment £'000	Assets under Construction £'000	Total £'000
Cost						
At 1 April 2019	1,157	113,083	187,048	55,386	10,969	367,643
Additions	-	580	6,293	3,065	5,932	15,870
Own work capitalised	-	185	1,831	9	903	2,928
Disposals	-	-	(50)	(431)	-	(481)
Transfers	-	60	1,782	2,265	(5,477)	(1,370)
At 31 March 2020	1,157	113,908	196,904	60,294	12,327	384,590
Additions	-	48	7,935	2,074	17,882	27,939
Own work capitalised	-	-	1,857	55	1,955	3,867
Disposals	-	-	(4)	(8)	-	(12)
Transfers	-	41	2,401	1,034	(3,114)	362
Transfer to assets held for sale	(929)	(5,173)	(5,272)	(8,723)	(2,157)	(22,254)
At 31 March 2021	228	108,824	203,821	54,726	26,893	394,492
Accumulated depreciation						
At 1 April 2019	857	78,838	115,046	43,238	-	237,979
Charge for the year	56	3,499	6,587	5,174	-	15,316
Disposals	-	-	-	(404)	-	(404)
At 31 March 2020	913	82,337	121,633	48,008	-	252,891
Charge for the year	56	3,223	6,833	4,225	-	14,337
Disposals	-	-	-	(2)	-	(2)
Transfer to assets held for sale	(880)	(2,523)	(2,868)	(5,350)	-	(11,621)
At 31 March 2021	89	83,037	125,598	46,881	-	255,605
Net book value						
At 31 March 2021	139	25,787	78,223	7,845	26,893	138,887
At 31 March 2020	244	31,571	75,271	12,286	12,327	131,699
At 31 March 2019	300	34,245	72,002	12,148	10,969	129,664

£11.1 million (2020: £11.3 million) of the depreciation charge for the year and £3.9 million (2020: £2.9 million) of own work capitalised relates to continuing operations.

We have restated amounts disclosed in the comparative period to correct for a previous mis-classifications. This does not have a material impact on the closing totals in the comparative period. The transfers line includes £362,000 transferred between other intangibles (see note 8) and property, plant and equipment.

KCOM HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2021

10. RIGHT-OF-USE ASSETS

	Land and buildings £'000	Exchange equipment £'000	External plant £'000	Vehicles, other apparatus and equipment £'000	Total £'000
Carrying amount					
At 1 April 2019 (on transition)	21,081	12,650	30,453	558	64,742
Additions	258	565	7,607	548	8,978
Disposals	(220)	(43)	(1,107)	(8)	(1,378)
At 31 March 2020	21,119	13,172	36,953	1,098	72,342
Additions	—	—	6,078	18	6,096
Modifications	268	—	7	19	294
Disposals	(695)	(168)	(5,497)	(449)	(6,809)
Transfer to assets held for sale	(8,409)	(13,004)	(37,541)	—	(58,954)
At 31 March 2021	12,283	—	—	686	12,969
Accumulated depreciation					
At 1 April 2019 (on transition)	—	—	—	—	—
Charge for the year	3,380	2,704	9,759	436	16,279
Disposals	(60)	(43)	(429)	(4)	(536)
Impairment loss	1,940	—	—	—	1,940
At 31 March 2020	5,260	2,661	9,330	432	17,683
Charge for the year	2,673	2,629	9,950	446	15,698
Disposals	(672)	(168)	(5,089)	(449)	(6,378)
Transfer to assets held for sale	(2,938)	(5,122)	(14,191)	—	(22,251)
At 31 March 2021	4,323	—	—	429	4,752
Net book value					
At 31 March 2021	7,960	—	—	257	8,217
At 31 March 2020	15,859	10,511	27,623	666	54,659
At 1 April 2019 (on transition)	21,081	12,650	30,453	558	64,742

The right-of-use assets are included in the same line item as where the corresponding underlying assets would be presented if they were owned.

£1.8 million (2020: £2.1 million) of the depreciation charge for the year relates to continuing operations.

In accordance with our accounting policy, short-term leases and low-value asset leases have not been recognised as right-of-use assets. The expense recognised in relation to these assets during the year is as follows:

	2021 £'000	2020 £'000
Short-term leases	124	10,930
Low-value asset leases	499	346
Total	623	11,276

KCOM HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2021

11. CONTRACT COSTS

	2021 £'000	2020 £'000
Costs of obtaining a contract	695	1,996
Costs of fulfilling a contract	-	3,133
Total	695	5,129

The costs of obtaining a contract are comprised of sales commissions paid to employees. The costs of fulfilling a contract relate primarily to set-up activities that are not deemed to represent a performance obligation or in circumstances where it has been determined that there is no enforceable right to payment during the project phase and thus revenue cannot be recognised until project completion. The asset is amortised on a straight-line basis over the term of the specific contract it relates to, consistent with the pattern of recognition of the associated revenue. Capitalised contract costs of £0.4 million (2020: £0.4 million) relating to continuing operations were amortised and included in operating expenses.

12. INVENTORIES

	2021 £'000	2020 £'000
Raw materials and consumables	3,357	3,794
Equipment for resale	-	844
Total	3,357	4,638

There is no material difference between the carrying value and the replacement cost of inventories.

Inventories recognised as an expense during the year ended 31 March 2021 amounted to £0.6 million (2020: £1.0 million). These were included in operating expenses.

13. CONTRACT ASSETS

	2021 £'000	2020 £'000
Contract assets	1,168	3,318

Contract assets represent the right to consideration in exchange for goods or services that we have transferred to the customer. A contract asset becomes a receivable when our right to consideration is unconditional.

The carrying amount of contract assets has decreased by £2.2 million to £1.2 million primarily due to £1.6 million of contract assets being classified as assets held for sale in the current year (see Note 23 for further details).

14. TRADE AND OTHER RECEIVABLES

	2021 £'000	2020 £'000
Trade receivables (net)	918	24,237
Amounts owed from group undertakings	14,640	-
Prepayments	7,363	18,861
Unbilled receivables (net)	3,072	8,461
Other receivables	4,094	3,526
Total	30,087	55,085

The majority of the company's trade and other receivables are denominated in Sterling.

Amounts owed from group undertakings are unsecured, bear no interest and are repayable on demand.

All of the Group's receivables are due within one year in both the year ended 31 March 2021 and the year ended 31 March 2020. An allowance has been made for estimated irrecoverable amounts from the sale of goods and services of £0.7 million (2020: £1.4 million).

KCOM HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2021

15. TRADE AND OTHER PAYABLES: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2021 £'000	2020 £'000
Trade payables	6,628	18,607
Amounts owed to group undertakings	69,595	71,003
Other tax and social security	1,150	7,510
Group relief creditor	-	1,663
Accruals	6,834	15,082
Other payables	120	1,016
	84,327	114,881

Amounts owed to group undertakings are unsecured, bear no interest and are repayable on demand with the exception of amounts owed to KCOM Central Asset Reserve Limited Partnership. KCOM Central Asset Reserve Limited Partnership acquired a loan note of £20,000,000 in March 2014 which is secured over the network owned by KCOM Holdings Limited. The loan note has a set repayment schedule and a fixed rate of interest. Of this amount £1,155,000 (2020: £1,489,000) is payable within one year.

16. CONTRACT LIABILITIES

	2021 £'000	2020 £'000
Contract liabilities	7,711	20,158

During the year revenue of £4.2 million has been recognised in relation to the contract liability at the beginning of the period which relates to continuing operations.

The carrying amount has decreased by £12.4 million to £7.7 million as of 31 March 2021, this is primarily due to £8.6 million being classified as liabilities associated with assets held for sale (see Note 23 for further details).

17. TRADE AND OTHER PAYABLES: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2021 £'000	2020 £'000
Amounts owed to group undertakings	14,916	16,071

The balance above relates to the remaining amount owed to KCOM Central Asset Reserve Limited Partnership related to the loan note. The loan note has a set repayment schedule and a fixed rate of interest. The loan note will be fully repaid by June 2029.

KCOM HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2021

18. LEASE LIABILITIES

	2021 £'000	2020 £'000
Lease liabilities		
Minimum lease payments		
- within 12 months	1,845	15,938
- in 1 to 5 years	6,207	41,676
- after 5 years	2,354	2,708
Total gross payments	10,406	60,322
Impact of future finance charges	(681)	(4,214)
Present value of finance lease liabilities	9,725	56,108

The present value of finance lease liabilities is as follows:

- within 12 months	1,653	15,123
- in 1 to 5 years	5,768	38,329
- after 5 years	2,304	2,656
Total	9,725	56,108

An interest expense of £1.1 million (2020: £1.2 million) was recognised in the year in relation to lease liabilities. Of this, £0.2 million (2020: £0.3 million) related to continuing operations (see Note 6).

19. DEFERRED TAX

Deferred tax comprises:

	Asset 2021 £'000	Asset 2020 £'000	Liability 2021 £'000	Liability 2020 £'000
- Property, plant and equipment	-	-	(6,933)	(5,636)
- Other timing differences	-	-	(11)	(21)
- Intangible assets arising on acquisition	-	3,719	-	-
	-	3,719	(6,944)	(5,657)

Movements in net deferred tax assets/(liabilities) are as follows:

	Property, plant and equipment £'000	Intangible assets arising on acquisition £'000	Other timing differences £'000
At 1 April 2019	3,821	(4,688)	
Charged to income statement (Note 7)	(102)	(948)	(21)
At 31 March 2020	3,719	(5,636)	(21)
(Charged)/credited to income statement (Note 7)	(516)	(1,871)	10
Re-classified as assets held for sale	(3,203)	-	-
Re-classified as liabilities directly associated with assets held for sale	-	574	-
At 31 March 2021	-	(6,933)	(11)

Deferred tax assets have been recognised where there is sufficient available evidence that suitable taxable profits will arise against which these assets are expected to reverse. There are no unrecognised deferred tax assets in either year.

KCOM HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2021

20. PROVISIONS FOR LIABILITIES AND OTHER CHARGES

	Onerous lease £'000	Dilapidations £'000	Restructuring £'000	Total £'000
At 1 April 2020	1,138	3,403	2,983	7,524
Established in the year	243	48	-	291
Unused amounts reversed	-	(105)	-	(105)
Utilised in the year	(491)	(159)	(2,983)	(3,633)
Transferred to liabilities associated with assets held for sale	-	(3,127)	-	(3,127)
At 31 March 2021	890	60	-	950
Total provisions for other liabilities and charges 2021				
Included in current liabilities	290	60	-	350
Included in non-current liabilities	600	-	-	600
At 31 March 2021	890	60	-	950
Total provisions for other liabilities and charges 2020				
Included in current liabilities	266	331	2,983	3,580
Included in non-current liabilities	872	3,072	-	3,944
At 31 March 2020	1,138	3,403	2,983	7,524

The dilapidations provision relates to the outflows which will be incurred when returning properties to their original condition at the end of the lease period.

Provision has been made for the estimated fair value of unavoidable incremental contract costs on unoccupied buildings. It is expected that these payments will arise over the next 3.5 years. This cost excludes the lease rental payments that are included as a lease liability under IFRS 16.

The restructuring provision related to organisation design changes as referenced in Note 4, this has been fully settled in the current year.

21. CALLED UP SHARE CAPITAL

	2021 £	2020 £
Allotted and fully paid		
2 ordinary shares (2020: 2) of £1 each	2	2

22. GUARANTEES AND FINANCIAL COMMITMENTS

As part of an agreement with the Trustees of the KCOM Group Limited defined benefit schemes, a loan note of £20,000,000 was secured over network assets of the Company. The security does not offer the Trustees any "normal" rights of enforcement over the assets. Instead it provides first priority payment of any value that would be realised from the network on an insolvency event.

23. DISCONTINUED OPERATIONS AND ASSETS

On 25 March 2021 KCOM Group Limited committed to a plan to sell a significant proportion of the National Business after a period of strategic review following the acquisition of KCOM Group Limited by KCOM Holdco 3 Limited (formerly MEIF 6 Fibre Limited) on 1 August 2019. The associated assets and liabilities are consequently presented as held for sale in the year ended 31 March 2021.

On 31 March 2021, KCOM Group Limited finalised the sale of the National Business consumer base for £1.2 million. The sale of the remaining discontinued operations and assets held for sale was finalised on 31 July 2021. For further information see Note 26.

KCOM HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2021

23. DISCONTINUED OPERATIONS AND ASSETS (CONTINUED)

Financial performance

The financial performance attributable to the discontinued operations for the years ended 31 March 2021 and 31 March 2020 are as follows:

	2021 £'000	2020 £'000
Revenue	154,126	165,942
Operating expenses	(140,196)	(159,817)
Operating profit	13,930	6,125
Finance costs	(854)	(969)
Profit before taxation from discontinued operations	13,076	5,156
Taxation	(109)	(797)
Profit for the year from discontinued operations	12,967	4,359
Gain on sale of National Business consumer base	966	—
Profit for the year from discontinued operations	13,933	4,359

Sale of National Business consumer base

	2021 £'000
Consideration receivable	1,192
Carrying amount of net assets sold	—
Gain on sale before taxation	1,192
Taxation	(226)
Gain on sale after taxation	966

Assets and liabilities of the disposal group classified as held for sale

The following assets and liabilities were reclassified as held for sale in relation to discontinued operations as at 31 March 2021:

	2021 £'000
Assets classified as held for sale	
Other intangible assets	3,479
Property, plant and equipment	10,632
Right of use assets	36,703
Contract costs	2,856
Inventories	198
Trade and other receivables	27,536
Contract assets	1,620
Deferred tax assets	3,203
Total assets of disposal group held for sale	86,227
Liabilities directly associated with assets classified as held for sale	
Trade and other payables	23,764
Finance leases	36,585
Contract liabilities	8,551
Provisions for other liabilities and charges	3,127
Deferred tax liabilities	574
Total liabilities of disposal group held for sale	72,601

KCOM HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2021

24. RELATED PARTY TRANSACTIONS

During the year the company purchased £196,650 (2020: £196,650) of software support services from SmartIntegrator Technology Limited. A fellow group company, KCH (Holdings) Limited, is a 50% shareholder in SmartIntegrator Technology Limited. The amount outstanding in relation to these purchases at the year-end was £4,687 (2020: £29,752).

25. PARENT UNDERTAKING AND CONTROLLING PARTY

The Company's immediate parent undertaking is KCH (Holdings) Limited, a fellow group company incorporated in the United Kingdom. Copies of KCH (Holdings) Limited's financial statements can be obtained from 37 Carr Lane, Hull, HU1 3RE.

As at 31 March 2021, the parent undertaking of the smallest group of undertakings for which group financial statements are drawn up and of which the Company is a member is KCOM Group Limited, registered in England and Wales. The parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the Company is a member is KCOM Holdco 1 Limited (formerly MEIF 6 Holdings Limited), registered in England and Wales. Copies of KCOM Group Limited and KCOM Holdco 1 Limited (formerly MEIF 6 Holding Limited)'s annual report and financial statements can be obtained from 37 Carr Lane, Hull, HU1 3RE.

The company's ultimate parent and controlling party is Macquarie European Infrastructure Fund 6 SCSp (an investment fund managed by Macquarie Infrastructure and Real Assets (Europe) Limited), registered in Luxembourg.

26. SUBSEQUENT EVENTS

Following the year end, on the 31 July 2021 KCOM Group Limited completed the sale of the trade and assets of the National ICT business (predominantly the previously disclosed National Business segment) to GCI Network Solutions Limited ("Nasstar") for consideration of £31.4 million. The consideration was comprised of £29.4 million upfront cash and £2.0m of deferred consideration payable 12 months after the completion date. At the time of signing the financial statements, the completion accounts have been signed. The final true up of working capital does not have a material impact on the outcome of the consideration receivable and therefore the ability to support the carrying value of the disposal group based on fair value less costs to sell at a KCOM Group level.

KCOM HOLDINGS LIMITED

GLOSSARY – UNAUDITED

ALTERNATIVE PERFORMANCE MEASURES (“APM”)

The Directors’ use the APMs listed below as they are critical to understanding the financial performance of the Company. As they are not defined by IFRS, they may not be directly comparable with other companies who use similar measures.

APM	Closest equivalent IFRS measure	Definition and purpose	Reconciliation to closest equivalent IFRS measure
EBITDA before exceptional items (“EBITDA”)	Profit before tax	<p>EBITDA before exceptional items is the key measure used by management to monitor the underlying performance of the Company. EBITDA before exceptional items is also reported to the Board, is incorporated in banking covenants and is an important measure for setting remuneration.</p> <p>EBITDA before exceptional items is important to the users of the financial statements as it assists with comparing performance from previous periods.</p> <p>The items classified as exceptional items are described in Note 4.</p> <p>EBITDA before exceptional items is defined as ‘profit before tax’ before share of profit before associates, finance costs, amortisation, depreciation and exceptional items.</p>	<p>Profit before tax as quoted in the income statement (£11.0 million), add back finance costs (£1.4 million) as quoted on the income statement, add back amortisation (£5.9 million) as quoted in Note 8, add back depreciation (£11.1 million) as quoted in Note 9, add back depreciation of right of use assets (£1.8 million) as quoted in Note 10 and add back exceptional charge of (£0.0 million) as quoted in Note 4.</p>