

**KCOM HOLDINGS LIMITED**

**Annual Report and Financial Statements**

**for the year ended 31 March 2023**

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# KCOM HOLDINGS LIMITED

## ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

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# **KCOM HOLDINGS LIMITED**

## **OFFICERS AND PROFESSIONAL ADVISERS**

### **DIRECTORS**

M Pearson (resigned 25 August 2023)  
S Booth (resigned 15 December 2022)  
D Raneberg (resigned 20 April 2022)  
T Shaw (appointed 28 April 2022)  
C Hutchison (appointed 25 August 2023)

### **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 2023

The Directors present the strategic report and the audited financial statements of the Company for the year ended 31 March 2023. These financial statements are prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards), including FRS 101 "Reduced Disclosure Framework".

### 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 (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 up to the completion date and hence results were presented in the four months to the date of sale as discontinued operations.

Throughout the report, we may refer to alternative performance measures ("APMs") as they are deemed to be critical to understanding the financial performance of the Company. They are reconciled to statutory measures in the Glossary on page 35. As they are not defined by IFRS, they may not be directly comparable with other companies who use similar measures.

### RESULTS

The profit for the financial year attributable to the shareholders amounts to £15.9 million (2022: £11.2 million).

### REVIEW OF THE BUSINESS

The results for the year show revenue for continuing operations of £101.2 million, a £0.5 million increase on prior year and an EBITDA from continuing operations of £39.0 million, a £1.3 million (3.5%) increase on prior year. Profit before tax from continuing operations is £12.3 million compared to a profit before tax from continuing operations of £5.9 million in the year ended 31 March 2022. This is predominantly due to the flow through from EBITDA, with lower depreciation of leased assets and no exceptional costs during the year.

The expansion of our full fibre broadband network has progressed as planned with the help of our own Internal Construction Teams. We have now reached more than 20 new towns and villages outside of our traditional network heartland of Hull and East Yorkshire including homes and businesses.

In September, as part of our Full Fibre Future vision, we announced the next £62 million phase of our disciplined investment plan to further expand our full fibre network. This will take the size of our network footprint to 350,000 premises by connecting at least 14 more communities across the region.

We also announced a further £10 million investment to upgrade 14,000 properties in East Yorkshire currently without full fibre and a £10 million long-term upgrade of the existing fibre network to enable download speeds of 10Gbps.

Despite the backdrop of economic uncertainty, high inflation and rising costs, especially energy costs which have doubled for two years running, we have recorded another solid year of results with a growth in both revenue and EBITDA. This has been driven by an encouraging uptake of full fibre broadband services within our traditional heartland areas as well as winning new customers in our expansion areas.

Our Wholesale business has continued to perform solidly with more than 150 reseller partners now providing services over our expanding network.

This has been another pivotal year for KCOM, entering a phase of disciplined and carefully planned expansion, winning new fibre customers in core and expansion areas and developing our wholesale offering. We have done this while focusing on our role as a leading regional broadband provider and setting the foundations for future growth. We are now in a strong position to move forward for future success.

On 29 September 2020, the indirect Parent Company, KCOM Holdco 3 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 available funds of £475.0 million with a maturity date on 28 September 2025.

# KCOM HOLDINGS LIMITED

## STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2023

### REVIEW OF THE BUSINESS (CONTINUED)

At 31 March 2023 a combined amount of £390.0 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

	2023 £'000	2022 £'000
Revenue	101,197	100,726
EBITDA	39,111	37,757
Profit before taxation	12,305	5,908

#### Discontinued operations

	2023 £'000	2022 £'000
Revenue	—	44,658
Profit before taxation	—	4,714

Further details of the financial and non-financial KPIs used by management in monitoring the group's performance can be found on pages 5 to 6 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 2023 the Company was in a strong financial position with significant net assets of £135.9 million (2022: £120.0 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 3.

### PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks associated with the Company are considered to be security and resilience of our IT systems, health and safety, regulatory obligations and the ability to attract and retain talent within the business. Further details of the risks can be found on pages 7 to 8 of the Strategic report in the annual report and financial statements of the KCOM Group Limited.

Approved by the board and signed on its behalf



C Hutchison  
Director

17 November 2023

# KCOM HOLDINGS LIMITED

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2023

The Directors present the annual report and the audited financial statements of the Company for the year ended 31 March 2023. These financial statements are prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards), including FRS 101 "Reduced Disclosure Framework".

### FUTURE DEVELOPMENTS

The Directors are focused on maintaining the Company operations as a going concern. For further details of future developments of the group, see page 3 in the KCOM Group Limited annual report and financial statements.

### DIVIDENDS

The Company did not recommend or pay any dividends during the year (2022: £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 16 of the Directors' report in the annual report and financial statements of KCOM Group Limited.

### EMPLOYEES

The Company encourages its employees to be aware of the financial and economic factors affecting the performance of the Company. A consultative committee has been established which meets regularly.

Employment policies are designed to provide equal opportunities irrespective of colour, ethnic or national origin, nationality, sex, religion, material or disabled status. Full consideration is given to the employment, training and career development of disabled persons.

Health and safety is an integral part of good business management, and well established systems of safety management are in place throughout the Company. The Company's employment policy is in accordance with that of the Group, further details of which can be found on page 9 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.

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.

# KCOM HOLDINGS LIMITED

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2023

### SECTION 172 (CONTINUED)

Further details of the sustainability policies, including SECR disclosures, can be found on pages 9 to 13 of the Strategic report in the annual report and financial statements of KCOM Group Limited.

#### Stakeholder engagement

Stakeholders	Stakeholders' key interests	Ways we have engaged
<b>Colleagues</b>		
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"> <li>• Business strategy and plans</li> <li>• Health, safety and wellbeing</li> <li>• Reward and recognition</li> <li>• Learning and development opportunities</li> <li>• Diversity and inclusion</li> </ul>	<ul style="list-style-type: none"> <li>• Senior management monthly updates colleagues</li> <li>• Board member safety walks and participation in wellbeing training</li> <li>• Employee engagement surveys</li> <li>• Employee business improvement ideas programme</li> <li>• Monthly wellbeing calls within teams focusing on physical, mental and financial health</li> <li>• Employee wellbeing month focused on physical, mental and financial health</li> </ul>
<b>Customers</b>		
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"> <li>• Availability and reliability of services</li> <li>• Value for money</li> <li>• Protection from harms related to the services we provide (such as online threats)</li> </ul>	<ul style="list-style-type: none"> <li>• Net Promoter Score (NPS) surveys</li> <li>• Senior management interaction with key business customers</li> <li>• Senior management involvement in resolution of customer complaints. Make social tariff more accessible and affordable</li> </ul>
<b>Community and local government</b>		
Committed to playing our part in making it a better place to live, work and invest.	<ul style="list-style-type: none"> <li>• Creation of jobs and wealth within the region's economy</li> <li>• Contribution to improving the lives of local residents</li> </ul>	<ul style="list-style-type: none"> <li>• Meetings between Board members / senior management and local civic and business leaders</li> <li>• Community investment programme focused on connecting communities, delivering digital skills and boosting business success</li> <li>• Series of community initiatives and sponsorships</li> </ul>
<b>Suppliers</b>		
We rely on the high standards of our carefully selected suppliers to deliver reliable services that meet customer needs.	<ul style="list-style-type: none"> <li>• Long-term relationships</li> <li>• Fair payment terms</li> <li>• Responsible and ethical business practices</li> </ul>	<ul style="list-style-type: none"> <li>• Senior management meetings with key suppliers</li> <li>• Informing suppliers of changes to the business in advance</li> </ul>
<b>Regulators and government</b>		
Our main regulatory relationship is with Ofcom.	<ul style="list-style-type: none"> <li>• Protection of consumers, particularly those who are vulnerable</li> <li>• Promotion of competition</li> <li>• Encouraging investment and innovation</li> <li>• Supporting investment in critical digital infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>• Meetings between Board members / senior management and Ofcom</li> <li>• Engagement with DCMS about the Government's gigabit-capable connectivity ambitions</li> </ul>

# KCOM HOLDINGS LIMITED

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2023

### STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the annual report and 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), including FRS 101 "Reduced Disclosure Framework".

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 Generally Accepted Accounting Practice (United Kingdom Accounting Standards), including FRS 101 "Reduced Disclosure Framework" standards 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.

### 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



C Hutchison  
Director

17 November 2023



# 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 2023 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, including 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 2023; 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

## KCOM HOLDINGS LIMITED

### INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KCOM HOLDINGS LIMITED

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.

#### 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 2023 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 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 UK tax legislation and 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 performance and management bias in determining significant accounting estimates that could influence reported performance. Audit procedures performed by the engagement team included:

## KCOM HOLDINGS LIMITED

### INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KCOM HOLDINGS LIMITED

- 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 by management in the development of each estimate;
- Reviewing correspondence with Ofcom to assess compliance with relevant regulations; and
- Reviewing financial statement disclosures and testing to supporting documentation where appropriate to assess compliance with applicable laws and 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.

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](http://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.

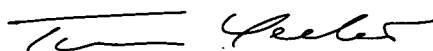
### Other required reporting

#### 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.



Tom Yeates (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Leeds  
17 November 2023

**KCOM HOLDINGS LIMITED****INCOME STATEMENT  
FOR THE YEAR ENDED 31 MARCH 2023**

	Note	2023 £'000	2022 £'000
<b>Continuing operations</b>			
Revenue	2	101,197	100,726
Other income		1,921	226
Operating expenses	3	(89,637)	(93,460)
<b>Operating profit</b>	3	<b>13,481</b>	<b>7,492</b>
Finance income	6	353	277
Finance costs	7	(1,529)	(1,861)
<b>Profit before taxation from continuing operations</b>		<b>12,305</b>	<b>5,908</b>
Tax on profit	8	3,574	(5,006)
<b>Profit for the financial year from continuing operations</b>		<b>15,879</b>	<b>902</b>
<b>Discontinued operations</b>			
Profit from discontinued operations	25	—	10,266
<b>Profit for the financial year</b>		<b>15,879</b>	<b>11,168</b>

There is no other comprehensive income in the year (2022: £nil).

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

# KCOM HOLDINGS LIMITED

## BALANCE SHEET AS AT 31 MARCH 2023

	Note	2023 £'000	2022 £'000
<b>Non-current assets</b>			
Other intangible assets	9	37,144	33,405
Property, plant and equipment	10	158,107	153,053
Right of use assets	11	7,143	9,023
Finance lease receivables	20	5,646	10,490
Contract costs	12	264	492
		<b>208,304</b>	<b>206,463</b>
<b>Current assets</b>			
Inventories	13	4,894	5,753
Contract assets	14	1,696	1,412
Trade and other receivables	15	15,454	37,923
Finance lease receivables	20	3,578	7,290
Contract costs	12	398	—
Cash and cash equivalents		12,392	7,829
		<b>38,412</b>	<b>60,207</b>
<b>Total Assets</b>		<b>246,716</b>	<b>266,670</b>
<b>Current liabilities</b>			
Trade and other payables	16	(63,684)	(80,740)
Contract liabilities	17	(6,424)	(8,443)
Lease liabilities	19	(5,804)	(9,859)
Provisions for liabilities and other charges	22	(1,397)	(303)
		<b>(77,309)</b>	<b>(99,345)</b>
<b>Non-current liabilities</b>			
Trade and other payables	18	(11,982)	(13,557)
Lease liabilities	19	(11,399)	(18,160)
Provisions for liabilities and other charges	22	(1,795)	(3,682)
Deferred tax liabilities	21	(8,375)	(11,949)
		<b>(33,551)</b>	<b>(47,348)</b>
<b>Total Liabilities</b>		<b>(110,860)</b>	<b>(146,693)</b>
<b>Net assets</b>		<b>135,856</b>	<b>119,977</b>
<b>Equity</b>			
Called up share capital	23	—	—
Retained earnings		135,856	119,977
<b>Total shareholders' funds</b>		<b>135,856</b>	<b>119,977</b>

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 17 November 2023. They were signed on its behalf by:



C Hutchison

Director

KCOM Holdings Limited

Company Registration No. 3317871

# KCOM HOLDINGS LIMITED

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2023

	Called up share capital £'000	Retained earnings £'000	Total shareholders' funds £'000
At 1 April 2021	—	108,809	108,809
Profit for the financial year	—	11,168	11,168
Total comprehensive income for the year	—	11,168	11,168
At 31 March 2022	—	119,977	119,977
Profit for the financial year	—	15,879	15,879
Total comprehensive income for the year	—	15,879	15,879
At 31 March 2023	—	135,856	135,856

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

# KCOM HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2023

#### 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.

On 25 June 2021, KCOM announced the sale of its National ICT Business (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 up to the completion date and hence results were presented in the four months to the date of sale as discontinued operations.

#### 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.

The Company is a qualifying entity for the purposes of FRS 101. Note 27 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) IFRS 7 'Financial instruments: Disclosures'
- b) The following paragraphs of IAS 1, 'Presentation of financial statements':
  - a. 10(d) (statement of cash flows);
  - b. 16 (statement of compliance with all IFRS);
  - c. 38A (requirement for minimum of two primary statements, including cash flow statements);
  - d. 38B-D (additional comparative information);
  - e. 111 (statement of cash flows information); and
  - f. 134-136 (capital management disclosures).
- c) IAS 7 'Statement of Cash Flows'
- d) 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)
- e) Paragraph 17 of IAS 24 'Related Party Disclosures' (key management compensation)
- f) 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.

**KCOM HOLDINGS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2023**

**1. ACCOUNTING POLICIES (CONTINUED)**

**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.

Area	Critical accounting judgement	Key sources of estimation uncertainty
<p><b>Leases</b></p> <p>Lease accounting requires determination of the lease term, which is defined as the non-cancellable 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 lease liability and right-of-use asset recognised where the Company acts as lessee.</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>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>

**Going concern**

The Company meets its day-to-day working capital requirements through its cash reserves and borrowings. The Group's loan facilities, entered into by KCOM Holdco 3 Limited in September 2020, mature in September 2025. The loan facilities require compliance with leverage and interest cover ratios, on both a forward and backward looking 12-month basis, that are submitted on a biannual basis. All covenants have been complied with up to the date of signing the financial statements.

Management has produced forecasts for the Company that have been sensitised to reflect reasonably plausible downside scenarios from current economic conditions. These have been reviewed by the Company directors and demonstrate the Company is forecast to generate profits and cash and that the Company has sufficient cash reserves and headroom on its banking facility covenants to enable the Company 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.

As part of the covenant compliance modelling, we have sensitised forecast cash flows to reflect a severe downside case. In addition, we are able to rephase cash outflows through capital expenditure and restrict the repayment of intercompany debt (as confirmed by the parent and ultimate controlling party). There are no severe downside cases that breach the default covenants.

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. In the prior year, all income and costs in relation to the National Business are disclosed separately as discontinued operations in the Income Statement. As the sale completed prior to the 31 March 2022 year end there were no balance sheet items relating to the National Business in the prior year comparatives.



**KCOM HOLDINGS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2023**

**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**  
**FOR THE YEAR ENDED 31 MARCH 2023**

**1. ACCOUNTING POLICIES (CONTINUED)**

**Contract costs**

*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.

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**  
**FOR THE YEAR ENDED 31 MARCH 2023**

**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. 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 customers in advance of receiving the goods and/or services promised in the contract and lease payments received under operating leases released as other income on a straight-line basis over the lease term.

**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.

**KCOM HOLDINGS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2023**

**1. ACCOUNTING POLICIES (CONTINUED)**

**Leasing (continued)**

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.

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 entered into by 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.

**Lessor accounting – sub-leases**

A sub-lease is a transaction in which a lessee (or 'intermediate lessor') grants the sub-lessee the right to use the underlying asset during the period of the lease in exchange for amounts equal to the amounts payable under the head lease. The 'head lease' between the original lessor and lessee remains in effect.

**KCOM HOLDINGS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2023**

**1. ACCOUNTING POLICIES (CONTINUED)**

**Lessor accounting – sub-leases (continued)**

When the Group acts as a lessor in a sub-lease arrangement it determines whether the sub-lease is a finance or operating lease. The Group assesses if the lease transfers substantially all of the risks and rewards of ownership of the underlying asset along with the below criteria and if so this is treated as a finance lease:

- indicators that the lease is for a major part of the economic life of the underlying asset; and
- at the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the underlying asset.

The Group sub-leases various properties, data centre space and leased lines to Nasstar and these sub-leases are accounted for as finance leases by the Company. The net investment in a lease is defined as the present value of the lease payments receivable plus any unguaranteed residual accruing to the lessor, discounted at the rate implicit in the lease. As the sub-lease arrangement was entered into as part of the wider National Business sale transaction, the interest rate implicit in the sub-lease cannot be readily determined; the Group therefore measures the finance lease receivable based on the discount rate applicable under the head lease.

The original lease liability of the head lease continues to be recognised by the Group under the original lease term and discount rates applied.

The associated right-of-use asset is derecognised and any difference to the finance lease receivable is recognised in the income statement as a gain or loss on disposal.

Lease income is allocated between principal and finance income. The finance income 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 receivable for each period. The finance income is presented separate to the finance costs arising on the head lease. On completion of the legal novation of the leases to Nasstar, the Group will derecognise both the finance lease receivable and the finance lease liability payable to the head lessor.

If the head lease is determined to be a short-term lease (as per the criteria listed above) the sub-lease is classified as an operating lease. Lease payments received associated with short-term lease is recognised on a straight-line basis as other income in the income statement.

The Group applies the impairment requirements in IFRS 9 to the net investment of the lease.

**Lessor accounting – operating leases (IP addresses)**

When the Group acts as a lessor it determines at lease inception whether the arrangement is a finance or operating lease. To do this the Group assesses if the lease transfers substantially all of the risks and rewards of ownership of the underlying asset and if so this is treated as a finance lease, otherwise it is treated as an operating lease.

The Group recognises lease amounts received for IP address operating leases as other income on a straight-line basis over the lease term as part of other income in the income statement and any deferred revenue within contract liabilities.

The Group applies the impairment requirements in IFRS 9 to the net investment of the lease.

**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**  
**FOR THE YEAR ENDED 31 MARCH 2023**

**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**  
**FOR THE YEAR ENDED 31 MARCH 2023**

**1. ACCOUNTING POLICIES (CONTINUED)**

**Exceptional items**

Exceptional items are defined as items of income and expenditure which are material and unusual in nature and which are considered to be of such significance that they require separate disclosure in the operating expenses note. 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.

Adjustments in respect of prior years 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**  
**FOR THE YEAR ENDED 31 MARCH 2023**

**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.

The results for the year ended 31 March 2023 and for the year ended 31 March 2022, excluding amounts relating to discontinued operations, disaggregated by customer type are as follows:

	2023 £'000	2022 £'000
<b>Revenue</b>		
Consumer	67,353	66,192
Regional Business	23,415	25,384
Wholesale	10,396	8,353
Other	33	797
<b>Total from continuing operations</b>	<b>101,197</b>	<b>100,726</b>
Derived from:		
External customers	101,197	100,125
Inter-Group from discontinued operations	—	601
<b>Total from continuing operations</b>	<b>101,197</b>	<b>100,726</b>

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:

	2023 £'000	2022 £'000
Sale of goods	3,290	3,394
Provision of services	97,907	97,332
<b>Total from continuing operations</b>	<b>101,197</b>	<b>100,726</b>

**3. OPERATING PROFIT**

Operating profit is stated after charging/(crediting):

	Note	2023 £'000	2022 £'000
Staff costs	5	36,881	40,112
Other external charges		27,073	23,177
Auditors' remuneration for the audit of the financial statements		—	251
Depreciation of property, plant and equipment	10	15,040	11,070
Depreciation of right of use assets	11	2,252	6,544
Amortisation of intangible assets	9	8,338	6,736
Profit on disposal of leases	11	—	(366)
Property, plant and equipment impairment	4	—	5,915
Loss on disposal of property, plant and equipment	10	64	10
(Profit)/Loss on disposal of other intangibles	9	(11)	11
<b>Total from continuing operations</b>		<b>89,637</b>	<b>93,460</b>

In the current year, auditors' remuneration has been borne by a fellow Group Company without recharge.



**KCOM HOLDINGS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2023**

**3. OPERATING PROFIT (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 £nil (2022: £2.6 million).

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

	Note	2023 £'000	2022 £'000
<b>Operating profit from continuing operations analysed as:</b>			
EBITDA before exceptional items		39,111	37,757
Exceptional charges	4	—	(5,915)
Amortisation of intangible assets	9	(8,338)	(6,736)
Depreciation of property, plant and equipment	10	(15,040)	(11,070)
Depreciation of right of use assets	11	(2,252)	(6,544)
<b>Operating profit from continuing operations</b>		<b>13,481</b>	<b>7,492</b>

**4. EXCEPTIONAL ITEMS**

	Note	2023 £'000	2022 £'000
Property, plant and equipment impairment	10	—	5,915
<b>Total charge to the income statement – continuing operations</b>		<b>—</b>	<b>5,915</b>

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

In the year ended 31 March 2023, no exceptional restructuring costs were incurred. In the prior financial year an impairment loss was recognised in respect of certain equipment that will no longer be utilised, leading to an impairment of the assets of £5,915k.

**KCOM HOLDINGS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2023**

**5. EMPLOYEES AND DIRECTORS**

The average monthly number of employees (including Executive Directors) was nil (2022: 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:

	2023			2022		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Wages and salaries	31,985	—	31,985	32,597	11,134	43,731
Social security costs	3,009	—	3,009	2,962	804	3,766
Other pension costs	1,887	—	1,887	1,908	466	2,374
Restructuring costs relating to employees	—	—	—	2,645	41	2,686
<b>Total</b>	<b>36,881</b>	<b>—</b>	<b>36,881</b>	<b>40,112</b>	<b>12,445</b>	<b>52,557</b>

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

	2023	2022
	Number of employees	
Continuing operations	760	791
Discontinued operations	—	458
<b>Total</b>	<b>760</b>	<b>1,249</b>

During the year, D Raneberg, S Booth and T Shaw were a Directors of KCOM Group Limited, and fellow subsidiary companies. M. Pearson was also a Director 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:

	2023	2022
	£'000	£'000
Remuneration	1,072	849
Aggregate amounts receivable under long term incentive plans	270	—
Company contributions paid to money purchase pensions schemes	65	104
Compensation for loss of office	188	1,742
<b>Total</b>	<b>1,595</b>	<b>2,695</b>

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:

	2023	2022
	£'000	£'000
Remuneration	555	575
Aggregate amounts receivable under long term incentive plans	206	—
Company contributions paid to money purchase pensions schemes	33	82
Compensation for loss of office	—	1,742
<b>Total</b>	<b>794</b>	<b>2,399</b>

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**6. FINANCE INCOME**

	2023	2022
	£'000	£'000
Interest receivable	353	277

**7. FINANCE COSTS**

	2023	2022
	£'000	£'000
Interest expense	969	1,092
Interest on lease liabilities	560	769
	1,529	1,861

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.

**8. TAX ON PROFIT**

The charge based on the profit for the year comprises:

	2023	2022
	£'000	£'000
<b>UK corporation tax:</b>		
– Current tax on profit for the year	—	—
<b>Total current tax</b>	—	—
<b>UK deferred tax:</b>		
Origination and reversal of temporary differences in respect of:		
– Profit for the year	1,640	5,043
– Impact of change in rate of taxation	—	2,932
– Adjustment in respect of prior years	(5,214)	—
<b>Total deferred tax</b>	<b>(3,574)</b>	<b>7,975</b>
<b>Total taxation (credit)/charge for the year</b>	<b>(3,574)</b>	<b>7,975</b>

Income tax (credit)/charge attributable to:		
Profit from continuing operations	(3,574)	5,006
Profit from discontinued operations	—	2,969
<b>Total taxation (credit)/charge for the year</b>	<b>(3,574)</b>	<b>7,975</b>

Factors affecting tax charge for the year:

	2023	2022
	£'000	£'000
<b>Profit before taxation</b>	<b>13,447</b>	<b>19,143</b>
<b>Profit before taxation at the standard rate of corporation tax in the UK of 19% (2022: 19%)</b>	<b>2,555</b>	<b>3,637</b>

Effects of:

– Permanent differences	(915)	2,432
– Effects of group relief	—	(1,026)
– Adjustments in respect of prior year	(5,214)	—
– Impact of change in rate of taxation	—	2,932
<b>Total taxation (credit)/charge for the year</b>	<b>(3,574)</b>	<b>7,975</b>

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**8. TAX ON PROFIT (CONTINUED)**

**Factors affecting the current and future tax charges**

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase from 19% to 25%. The increase in rate was substantively enacted for IFRS purposes on 24 May 2021. As a result, the relevant deferred tax balances have been remeasured in the prior year. Deferred tax expected to unwind in the year to 31 March 2023 was calculated using a rate of 19% and subsequently at a rate of 25%. The impact of the change in tax rate was recognised in the tax charge in the prior year income statement.

**9. OTHER INTANGIBLE ASSETS**

	Development costs <sup>1</sup> £'000	Software £'000	Assets under construction £'000	Total £'000
<b>Cost</b>				
At 1 April 2021 (Restated)	26,197	56,524	5,642	88,363
Additions	40	1,542	2,292	3,874
Own work capitalised	2,791	260	2,257	5,308
Disposals (Restated)	(12,264)	(2,482)	—	(14,746)
Transfers	1,865	2,029	(2,934)	960
Transfer to assets held for sale	(525)	(17,746)	(51)	(18,322)
At 31 March 2022 (Restated)	18,104	40,127	7,206	65,437
Additions	13	1,992	2,183	4,188
Own work capitalised	2,984	584	3,422	6,990
Disposals	—	—	—	—
Transfers	2,150	3,670	(4,932)	888
<b>At 31 March 2023</b>	<b>23,251</b>	<b>46,373</b>	<b>7,879</b>	<b>77,503</b>
<b>Accumulated amortisation</b>				
At 1 April 2021 (Restated)	16,710	41,328	—	58,038
Charge for the year	2,087	4,649	—	6,736
Disposals (Restated)	(12,264)	(2,472)	—	(14,736)
Transfer to assets held for sale	(329)	(17,677)	—	(18,006)
At 31 March 2022 (Restated)	6,204	25,828	—	32,032
Charge for the year	2,477	5,861	—	8,338
Disposals	—	(11)	—	(11)
<b>At 31 March 2023</b>	<b>8,681</b>	<b>31,678</b>	<b>—</b>	<b>40,359</b>
<b>Net book value</b>				
<b>At 31 March 2023</b>	<b>14,570</b>	<b>14,695</b>	<b>7,879</b>	<b>37,144</b>
<b>At 31 March 2022</b>	<b>11,900</b>	<b>14,299</b>	<b>7,206</b>	<b>33,405</b>

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

£8.3 million (2022: £6.7 million) of the amortisation charge for the year and £7.0 million (2022: £5.3 million) of own work capitalised relates to continuing operations. The transfers line includes £888,000 (2022: £960,000) transferred between other intangibles and property, plant and equipment (see note 10).

After a comprehensive review of the fixed asset register, a restatement has been made against the prior period opening balances, in relation to assets which have been replaced or decommissioned. Both cost and accumulated amortisation have been reduced by £12,928k in development costs and £5,282k in software as at April 2021. Disposals (cost) and accumulated amortisation on disposals in the prior period have been reduced by £12,264k in development costs and £2,469k in software. There has been no impact on reserves.

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**10. 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
<b>Cost</b>						
At 1 April 2021 (Restated)	228	103,635	176,127	45,483	26,893	352,366
Additions	—	—	12,098	1,093	16,015	29,206
Own work capitalised	—	—	966	—	2,343	3,309
Disposals (Restated)	(36)	(2,895)	(5,355)	(19,980)	—	(28,266)
Impairment	—	—	—	—	(5,915)	(5,915)
Transfers	—	—	14,415	1,582	(16,957)	(960)
Transfer to assets held for sale	—	—	310	(8,612)	(265)	(8,567)
At 31 March 2022 (Restated)	192	100,740	198,561	19,566	22,114	341,173
Additions	—	—	5,963	1,048	10,185	17,196
Own work capitalised	—	—	5	404	3,399	3,808
Disposals	—	—	—	(129)	—	(129)
Transfers	—	—	10,176	2,344	(13,408)	(888)
<b>At 31 March 2023</b>	<b>192</b>	<b>100,740</b>	<b>214,705</b>	<b>23,233</b>	<b>22,290</b>	<b>361,160</b>
<b>Accumulated depreciation</b>						
At 1 April 2021 (Restated)	—	89	77,848	37,543	—	213,384
Charge for the year	10	2,462	6,847	1,801	—	11,120
Disposals (Restated)	(36)	(2,895)	(5,355)	(19,969)	—	(28,255)
Transfer to assets held for sale	—	—	416	(8,588)	—	(8,172)
At 31 March 2022 (Restated)	63	77,415	99,812	10,787	—	188,077
Charge for the year	10	2,307	10,539	2,184	—	15,040
Disposals	—	—	(20)	(44)	—	(64)
<b>At 31 March 2023</b>	<b>73</b>	<b>79,722</b>	<b>110,331</b>	<b>12,927</b>	<b>—</b>	<b>203,053</b>
<b>Net book value</b>						
<b>At 31 March 2023</b>	<b>119</b>	<b>21,018</b>	<b>104,374</b>	<b>10,306</b>	<b>22,290</b>	<b>158,107</b>
At 31 March 2022	129	23,325	98,749	8,779	22,114	153,053

£15.0 million (2022: £11.1 million) of the depreciation charge for the year and £3.4 million (2022: £3.3 million) of own work capitalised relates to continuing operations.

The transfers line includes £888,000 (2022: £960,000) transferred between other intangibles (see note 9) and property, plant and equipment.

After a comprehensive review of the fixed asset register, a restatement has been made against the prior period opening balances, in relation to assets which have been replaced or decommissioned. Both cost and accumulated amortisation have been reduced by £5,189k in exchange equipment, £27,694k in external plant and £11,570k in vehicles, other apparatus and equipment as at April 2021. Disposals (cost) and accumulated depreciation on disposals in the prior period have been reduced by £36k in land and buildings, £2,895k in exchange equipment, £5,355k in external plant and £19,962k in vehicles, other apparatus and equipment. There has been no impact on reserves.

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**11. RIGHT OF USE ASSETS**

	Land and buildings £'000	Exchange equipment £'000	External plant £'000	Vehicles, other apparatus and equipment £'000	Total £'000
<b>Carrying amount</b>					
At 1 April 2021	20,692	13,004	37,541	686	71,923
Additions	—	—	2,071	1,096	3,167
Modifications	268	—	(49)	96	315
Disposals	(8,835)	(13,004)	(37,014)	(304)	(59,157)
At 31 March 2022	12,125	—	2,549	1,574	16,248
Additions	—	—	340	47	387
Modifications	6	—	12	141	159
Disposals	—	—	(634)	—	(634)
<b>At 31 March 2023</b>	<b>12,131</b>	<b>—</b>	<b>2,267</b>	<b>1,762</b>	<b>16,160</b>
<b>Accumulated depreciation</b>					
At 1 April 2021	7,261	5,122	14,191	429	27,003
Charge for the year	1,576	855	3,649	464	6,544
Disposals	(3,423)	(5,977)	(16,622)	(300)	(26,322)
At 31 March 2022	5,414	—	1,218	593	7,225
Charge for the year	1,127	—	715	410	2,252
Disposals	—	—	(460)	—	(460)
<b>At 31 March 2023</b>	<b>6,541</b>	<b>—</b>	<b>1,473</b>	<b>1,003</b>	<b>9,017</b>
<b>Net book value</b>					
<b>At 31 March 2023</b>	<b>5,590</b>	<b>—</b>	<b>794</b>	<b>759</b>	<b>7,143</b>
<b>At 31 March 2022</b>	<b>6,711</b>	<b>—</b>	<b>1,331</b>	<b>981</b>	<b>9,023</b>

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.

£Nil (2022: £20.2 million) included in disposals is due to the Group entering into finance sub-lease arrangements on these leases and therefore derecognising the right-of-use assets.

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:

	2023 £'000	2022 £'000
Short-term leases	1,064	6,922
Low-value asset leases	—	435
<b>Total</b>	<b>1,064</b>	<b>7,357</b>

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**12. CONTRACT COSTS**

	2023 £'000	2022 £'000
Costs of obtaining a contract (current)	398	—
	2023 £'000	2022 £'000
Costs of obtaining a contract (non-current)	264	492

The costs of obtaining a contract are comprised of sales commissions paid to employees. 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 (2022: £0.3 million) relating to continuing operations were amortised and included in operating expenses.

**13. INVENTORIES**

	2023 £'000	2022 £'000
Raw materials and consumables	4,894	5,753

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 2023 amounted to £0.2 million (2022: £0.5 million). These were included in operating expenses.

**14. CONTRACT ASSETS**

	2023 £'000	2022 £'000
Contract assets	1,696	1,412

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 the right to consideration is unconditional.

**15. TRADE AND OTHER RECEIVABLES**

	2023 £'000	2022 £'000
Trade receivables (net)	6,916	5,320
Amounts owed from group undertakings	—	15,800
Prepayments	4,452	5,045
Unbilled receivables (net)	810	708
Other receivables	3,276	11,050
	15,454	37,923

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 as at 31 March 2023 and as at 31 March 2022. An allowance has been made for estimated irrecoverable amounts from the sale of goods and services of £0.5 million (2022: £0.7 million).

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

	<b>2023</b>	<b>2022</b>
	<b>£'000</b>	<b>£'000</b>
Trade payables	8,924	10,034
Amounts owed to group undertakings	44,846	54,794
Other tax and social security	2,448	2,733
Accruals	7,210	11,065
Other payables	256	2,114
	<b>63,684</b>	<b>80,740</b>

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 7%. Of this amount £1,155,000 (2022: £1,359,000) is payable within one year.

**17. CONTRACT LIABILITIES**

	<b>2023</b>	<b>2022</b>
	<b>£'000</b>	<b>£'000</b>
Contract liabilities	6,424	8,443

During the year revenue of £0.5 million (2022: £0.5 million) has been recognised in relation to the contract liability at the beginning of the period which relates to continuing operations.

Included within contract liabilities is £1,079k (2022: £1,418k) relating to rentals received from the lease of IP addresses. These are classified as an operating lease from a lessor perspective. Rental income of £322k (2022: £226k) has been recognised by the Company in the year.

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

	<b>2023</b>	<b>2022</b>
	<b>£'000</b>	<b>£'000</b>
Amounts owed to group undertakings	11,982	13,557

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 of 7%. The loan note will be fully repaid by June 2029.



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**19. LEASE LIABILITIES**

	2023 £'000	2022 £'000
<b>Lease liabilities</b>		
Minimum lease payments		
- within 12 months	6,190	10,360
- in 1 to 5 years	11,769	17,529
- after 5 years	49	1,358
<b>Total gross payments</b>	<b>18,008</b>	<b>29,247</b>
Impact of future finance charges	(805)	(1,228)
<b>Present value of finance lease liabilities</b>	<b>17,203</b>	<b>28,019</b>
The present value of finance lease liabilities is as follows:		
- within 12 months	5,804	9,859
- in 1 to 5 years	11,350	17,170
- after 5 years	49	990
<b>Total</b>	<b>17,203</b>	<b>28,019</b>

An interest expense of £0.6 million (2022: £0.8 million) was recognised in the year in relation to lease liabilities.

The total cash outflow for leases during the year was £10,558k (2022: £28,302k) including £1,064k (2022: £7,356k) relating to short-term and low-value asset leases which have not been included in the finance lease liability.

**20. FINANCE LEASE RECEIVABLES**

	2023 £'000	2022 £'000
<b>Finance Lease Receivables</b>		
Undiscounted lease payments to be received:		
- within 12 months	3,807	7,604
- in 1 to 5 years	5,793	10,523
- after 5 years	36	333
<b>Total undiscounted lease receivable</b>	<b>9,636</b>	<b>18,460</b>
Future finance income	(412)	(680)
<b>Present value of finance lease liabilities</b>	<b>9,224</b>	<b>17,780</b>
The present value of finance lease receivables is as follows:		
- within 12 months	3,578	7,290
- in 1 to 5 years	5,611	10,164
- after 5 years	35	326
<b>Total</b>	<b>9,224</b>	<b>17,780</b>

From the point of sale of the trade and the assets of the National ICT Business to Nasstar, the Group began to sub-lease a number of buildings, data centre space and leased lines to Nasstar and will continue to do so until the lease contracts legally novate or the properties leases are reassigned. These leases were previously recognised as part of right-of-use assets and the Group recognised a gain/loss on derecognition of the right-of-use assets relating to these buildings and leased lines. The gain/loss is presented in note 3 within profit on disposal of leases.

Interest income of £0.4 million (2022: £0.3 million) was recognised in the year in relation to finance lease receivables.

After 31 March 2023, up to the date of signing, disposals of £2.0 million have occurred in relation to lease contracts novated to Nasstar.

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**21. DEFERRED TAX**

Deferred tax comprises:

	Asset 2023 £'000	Asset 2022 £'000	Liability 2023 £'000	Liability 2022 £'000
Intangible assets arising on acquisition	—	—	(8,375)	(11,949)

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
<b>At 31 March 2021</b>	—	(6,933)	(11)
(Charged)/credited to income statement (Note 8)	(3,205)	(4,781)	11
Re-classified as assets held for sale	3,205	—	—
Re-classified as liabilities directly associated with assets held for sale	—	(235)	—
<b>At 31 March 2022</b>	—	(11,949)	—
Credited to income statement (Note 8)	—	3,574	—
<b>At 31 March 2023</b>	—	(8,375)	—

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.

**22. PROVISIONS FOR LIABILITIES AND OTHER CHARGES**

	Onerous leases £'000	Dilapidations £'000	Total £'000
<b>At 1 April 2022</b>	688	3,297	3,985
(Released)/established in the year	(15)	102	87
Utilised in the year	(313)	(567)	(880)
<b>At 31 March 2023</b>	<b>360</b>	<b>2,832</b>	<b>3,192</b>
<b>Total provisions for other liabilities and charges 2022</b>			
Included in current liabilities	303	—	303
Included in non-current liabilities	385	3,297	3,682
<b>At 31 March 2022</b>	<b>688</b>	<b>3,297</b>	<b>3,985</b>
<b>Total provisions for other liabilities and charges 2023</b>			
Included in current liabilities	303	1,094	1,397
Included in non-current liabilities	57	1,738	1,795
<b>At 31 March 2023</b>	<b>360</b>	<b>2,832</b>	<b>3,192</b>

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 2.5 years. This cost excludes the lease rental payments that are included as a lease liability under IFRS 16.

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**23. CALLED UP SHARE CAPITAL**

	2023	2022
	£	£
<b>Allotted and fully paid</b>		
2 ordinary shares (2022: 2) of £1 each	2	2

**24. 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.

**25. DISCONTINUED OPERATIONS AND ASSETS**

On 25 March 2021, the Group committed to a plan to sell a significant proportion of the National Business after a period of strategic review following the acquisition of the Group by KCOM Holdco 3 Limited on 1 August 2019. The associated assets and liabilities were consequently presented as held for sale in the year ended 31 March 2021 and the National Business segment was classified as a discontinued operation.

On 31 March 2021, the Group finalised the sale of the National Business consumer base for £1.2 million. On the 31 July 2021, KCOM Group Limited completed the sale of the trade and net 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 £22.3 million upfront cash and £2.0 million of deferred consideration payable 12 months after the completion date. Financial information relating to the discontinued operation for the period to the date of disposal is set out below.

**Financial performance**

The financial performance attributable to the discontinued operations for the four months ended 31 July 2022 (2022 column) and the year ended 31 March 2022 are as follows:

	2022
	£'000
Revenue	44,658
Operating expenses	(39,944)
<b>Operating profit</b>	<b>4,714</b>
Finance costs	—
<b>Profit before taxation from discontinued operations</b>	<b>4,714</b>
Taxation	(786)
<b>Profit for the year from discontinued operations</b>	<b>3,928</b>
Gain on sale of National Business consumer base	6,338
<b>Profit for the year from discontinued operations</b>	<b>10,266</b>

**Sale of National Business consumer base**

	2022
	£'000
Consideration receivable	1,192
Carrying amount of net assets sold	—
Gain on sale before taxation	1,192
Taxation	(226)
<b>Gain on sale after taxation</b>	<b>966</b>

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**25. DISCONTINUED OPERATIONS AND ASSETS (CONTINUED)**

*Sale of National Business trade and net assets*

	2022 £'000
Consideration receivable	22,340
Deferred consideration	2,000
Carrying amount of net assets sold	(15,819)
Gain on sale before taxation	8,521
Taxation	(2,183)
<b>Gain on sale after taxation</b>	<b>6,338</b>

The carrying amount of the assets and liabilities in relation to the discontinued operations of the National Business at the date of disposal (31 July 2021) were:

	31 July 2021 £'000
<b>Assets classified as held for sale</b>	
Other intangible assets	3,407
Property, plant and equipment	11,736
Contract costs	1,791
Inventories	117
Trade and other receivables	24,511
Contract assets	1,422
<b>Total assets of disposal group held for sale</b>	<b>42,984</b>
<b>Liabilities directly associated with assets classified as held for sale</b>	
Trade and other payables	13,544
Contract liabilities	10,201
Provisions for other liabilities and charges	3,080
Deferred tax liabilities	340
<b>Total liabilities of disposal group held for sale</b>	<b>27,165</b>
<b>Carrying amount of net assets sold</b>	<b>15,819</b>

**26. RELATED PARTY TRANSACTIONS**

There are no related party transactions during the year that require disclosure.

**27. 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 2023, 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, registered in England and Wales. Copies of KCOM Group Limited and KCOM Holdco 1 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.

**28. SUBSEQUENT EVENTS**

There are no subsequent events after the reporting date that would have a material impact on the financial performance and position of the Group.

# KCOM HOLDINGS LIMITED

## Glossary - Unaudited

Year ended 31 March 2023

### 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 (£12.3 million), add back finance costs and finance income (net of £1.2 million) as quoted on the income statement, add back amortisation (£8.3 million) as quoted in Note 9, add back depreciation (£15.0 million) as quoted in Note 10, add back depreciation of right of use assets (£2.2 million) as quoted in Note 11 and add back exceptional charge of (£nil million) as quoted in Note 4.</p>