

KCH (HOLDINGS) LIMITED

Annual Report and Financial Statements

for the year ended 31 March 2020

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KCH (HOLDINGS) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

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KCH (HOLDINGS) LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

G Sutherland (resigned 22 October 2019)
A Bielby (resigned 31 December 2019)
A Tong (appointed 31 December 2019, resigned 31 March 2021)
D Raneberg (appointed 14 November 2019)
M Pearson (appointed 15 February 2021)

COMPANY SECRETARY

M Pearson (appointed 9 December 2019)
S Jones (resigned 9 December 2019)

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
1 Embankment Place
London
WC2N 6RH

KCH (HOLDINGS) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2020

The Directors present the strategic report and the audited financial statements of the Company for the year ended 31 March 2020. These financial statements are prepared under United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The principal activities of the Company are the administration of the Group's payroll function and pension schemes, as well as being an intermediate holding company. The results for the year include the Group's staff costs and revenues associated with the sale of related services to another Group company. Also included are dividends received from subsidiary undertakings and interest on the Group's external borrowings. The Company is incorporated in England and Wales and domiciled in England.

RESULTS

The loss for the financial year amounts to £5,455,000 (2019: profit of £23,389,000).

REVIEW OF THE BUSINESS

During the year ended 31 March 2020, the Company incurred employee costs relating to all employees of the Group. The services provided by these employees have been recharged to other Group entities resulting in revenues of £80,436,000 (2019: £83,171,000).

In the current year the Company received dividend income of £Nil from subsidiary companies (2019: £25,830,000). These combined factors have resulted in an EBITDA before exceptional items of £6,382,000 (2019: £27,191,000).

Exceptional costs of £7,060,000 (2019: £2,728,000) have been recognised in the year relating to restructuring costs associated with redundancies as a result of organisational changes. Linked to the acquisition of KCOM Group Limited (formerly KCOM Group PLC), a further £1,948,000 (2019: £Nil) was incurred relating to the accelerated vesting of share schemes.

In the prior year an exceptional charge of £789,000 was recognised for the equalisation of pension benefits for men and women in relation to guaranteed minimum pension benefits in the defined benefit pension schemes.

KEY PERFORMANCE INDICATORS

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Revenue	80,436	83,171
EBITDA before exceptional items	6,382	27,191
Profit before taxation and exceptional items as a percentage of revenue (%)	2%	31%

YEAR END POSITION

As at 31 March 2020, the Company remains in a strong net asset position. The Company has loans from related parties of £148,661,000. In the prior year the Company had external borrowings £115,000,000.

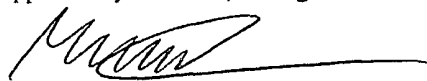
STRATEGIC OBJECTIVES

The Company's strategic objectives are to support the KCOM Group in achieving its strategic objectives, which can be found in the KCOM Group Limited (formerly KCOM Group PLC) annual report and financial statements on page 13.

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, and the ability to attract and retain talent within the business. Further details of the risks can be found on pages 18 to 22 of the Strategic Report in the annual report and financial statements of the KCOM Group Limited (formerly KCOM Group PLC).

Approved by the board, and signed on its behalf



M Pearson

Director,

6 May 2021

KCH (HOLDINGS) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2020

The Directors present the annual report and the audited financial statements of the Company for the year ended 31 March 2020. These financial statements are prepared under United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

FUTURE DEVELOPMENTS

The Directors are focused on maintaining the Company as a holding company. For further details of future developments of the group, see page 13 in the KCOM Group Limited (formerly KCOM Group PLC) annual report and financial statements.

DIVIDENDS

The Company has paid ordinary dividends of £Nil (2019: £26,280,000) during the year. The Directors recommend a final dividend of £Nil per share, amounting to £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 (formerly KCOM Group PLC), 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 (formerly KCOM Group PLC).

Further details of the financial risk management policies can be found on page 38 of the Directors' Report in the annual report and financial statements of the KCOM Group Limited (formerly KCOM Group PLC).

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 pages 25 and 26 of the Strategic Report in the annual report and financial statements of KCOM Group Limited (formerly KCOM Group PLC).

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.

KCH (HOLDINGS) LIMITED
DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2020

Stakeholder engagement

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

KCH (HOLDINGS) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

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

The Directors are responsible for 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.

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

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



M Pearson
Director

6th May 2021

KCH (HOLDINGS) LIMITED
INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KCH (HOLDINGS)
LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, KCH (Holdings) Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 March 2020; the income statement, the statement of comprehensive income 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

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

Reporting on other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

KCH (HOLDINGS) LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KCH (HOLDINGS) LIMITED

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2020 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, 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.

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

- we have not received 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.

Stuart Newman

Stuart Newman (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
07 May 2021

KCH (HOLDINGS) LIMITED
INCOME STATEMENT
For the year ended 31 March 2020

		2020	2019
	Note	£'000	£'000
Revenue	2	80,436	83,171
Other operating income	3	363	26,136
Operating expenses		(83,425)	(85,633)
Operating (loss)/profit	3	(2,626)	23,674
Finance income	6	1,710	1,551
Finance costs	7	(6,099)	(2,796)
(Loss)/profit before taxation		(7,015)	22,429
Tax on (loss)/profit	8	1,560	960
(Loss)/profit for the financial year		(5,455)	23,389
Operating (loss)/profit analysed as:			
EBITDA before exceptional items		6,382	27,191
Exceptional items	4	(9,008)	(3,517)

The notes on pages 11 to 33 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 March 2020

		2020	2019
	Note	£'000	£'000
(Loss)/profit for the financial year		(5,455)	23,389
Other comprehensive income			
Remeasurements on retirement benefit obligation	20	25,854	2,901
Tax on items that will not be reclassified	17	(4,912)	(493)
Total items that will not be reclassified to the income statement		20,942	2,408
Total comprehensive income for the financial year		15,487	25,797

KCH (Holdings) Limited

Company Registration No. 6072997

KCH (HOLDINGS) LIMITED
BALANCE SHEET
As at 31 March 2020

	Note	2020 £'000	2019 £'000
Non-current assets			
Investments	11	126,422	126,422
Retirement benefit asset	20	38,764	5,924
Deferred tax assets	17	2,092	717
		167,278	133,063
Current assets			
Trade and other receivables: amounts falling due within one year	12	59,505	37,583
Trade and other receivables: amounts falling due after more than one year	13	16,688	18,089
Cash and cash equivalents	19	455	-
		76,648	55,672
Total assets		243,926	188,735
Current liabilities			
Bank overdrafts	19	-	(104)
Créditors: amounts falling due within one year	14	(110)	(388)
Loans from related parties	16	(148,661)	-
		(148,771)	(492)
Non-current liabilities			
Bank loans	15	-	(114,129)
Retirement benefit obligation	20	-	(2,378)
Deferred tax liabilities	17	(11,004)	(4,492)
		(11,004)	(120,999)
Total liabilities		(159,775)	(121,491)
Net assets		84,151	67,244
Equity			
Called up share capital	18	2,000	2,000
Retained earnings		82,151	65,244
Total shareholders' funds		84,151	67,244

The notes on pages 11 to 33 are an integral part of these financial statements.

The financial statements on pages 8 to 33 were approved by the Board of Directors and authorised for issue on 6 May 2021. They were signed on its behalf by:



M Pearson
Director

KCH (Holdings) Limited

Company Registration No. 6072997

KCH (HOLDINGS) LIMITED
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2020

	Note	Called up share capital £'000	Retained earnings £'000	Total shareholders' funds £'000
At 1 April 2018		2,000	64,339	66,339
Profit for the financial year		-	23,389	23,389
Other comprehensive income		-	2,408	2,408
Total comprehensive income for the year		-	25,797	25,797
Employee share schemes		-	1,381	1,381
Deferred tax credit relating to share schemes		-	7	7
Dividends	9	-	(26,280)	(26,280)
Transactions with owners		-	(24,892)	(24,892)
At 31 March 2019		2,000	65,244	67,244
Loss for the financial year		-	(5,455)	(5,455)
Other comprehensive income		-	20,942	20,942
Total comprehensive income for the year		-	15,487	15,487
Employee share schemes		-	1,544	1,544
Deferred tax credit relating to share schemes		-	(124)	(124)
Transactions with owners		-	1,420	1,420
At 31 March 2020		2,000	82,151	84,151

The notes on pages 11 to 33 are an integral part of these financial statements.

KCH (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

KCH (Holdings) Limited is a private company limited by shares. KCH (Holdings) Limited is incorporated in 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 are summarised below. They have all been applied consistently throughout the year.

Basis of accounting

These financial statements have been prepared in accordance with United Kingdom Accounting Standards, in particular, Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and the Companies Act 2006 (the Act) as appropriate to companies using FRS101. FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

The Company is a qualifying entity for the purposes of FRS 101. Note 20 gives details of the Company's ultimate parent and from where its consolidated financial statements prepared in accordance with IFRS may be obtained.

FRS 101 sets out amendments to EU-adopted IFRS that are necessary to achieve compliance with the Act and related Regulations. The disclosure exemptions adopted by the Company in accordance with FRS 101 are as follows:

- a) Statement of cash flows
- b) Capital risk management
- c) Related party transactions
- d) Accounting policies issued but not yet effective
- e) Certain exemptions allowable under IAS1

The financial statements have been prepared under the historical cost convention modified by the valuation of derivative financial statements. A summary of the accounting policies is set out below.

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
Post-employment benefits The Company operates two defined benefit schemes. All post-employment benefits associated with these schemes have been accounted for in accordance with IAS 19 'Employee benefits (revised)'. As detailed within the accounting policies note, in accordance with IAS 19, all actuarial gains and losses have been recognised immediately through the Statement of comprehensive income.	Accounting for defined benefit pension schemes requires judgement over areas such as: <ul style="list-style-type: none"> • setting appropriate criteria to derive assumptions such as discount rates; and • the recognition of pension scheme surplus under IFRIC 14. 	Several estimates contribute to the year end valuation including discount rates, inflation and rate of increase to pensions in payment. Changes to these estimates could result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Sensitivity analysis is provided in Note 20.

KCH (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (CONTINUED)

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

Area	Critical accounting judgement	Key sources of estimation uncertainty
Exceptional items		
Exceptional items are presented whenever significant expenses are incurred or income received as a result of events considered to be outside the normal course of business, where the unusual nature and expected frequency merits separate presentation to assist comparisons with previous periods.	The Directors are required to make judgements regarding whether transactions are outside the course of normal business and whether the presentation of exceptional items will assist in providing a meaningful comparison of the Company's trading results with previous periods. Within the current year the Directors have made judgements around the classification of certain restructuring costs.	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.

New and amended standards adopted by the Company

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on 1 April 2019 that have had a material impact on the Company.

Consolidation

The Company has taken advantage of the exemption from preparing consolidated financial statements afforded by Section 400 of the Companies Act 2006 because its immediate parent undertaking is incorporated within the European Union and it is included and consolidated within the group the financial statements of KCOM Group Limited (formerly KCOM Group PLC). Note 20 gives details of the Company's ultimate parent and from where its consolidated financial statements prepared in accordance with IFRS may be obtained.

Going concern

The Company meets its day to day working capital requirements through its bank facilities and loans with related parties.

On 1 August 2019, MEIF 6 Fibre Limited acquired 100% of the ordinary share capital of KCOM Group Limited (formerly KCOM Group PLC). As a result of the acquisition, a change in control clause was triggered to repay the drawn down amount under the £180.0 million multi-currency revolving facility, dated 30 September 2016.

The full outstanding amount was repaid on 31 October 2019, using funds secured from a short-term intercompany loan from MEIF 6 Fibre Limited to KCH (Holdings) Limited. At the date of repayment, the Company had borrowings of £145.0m and interest of £0.3m outstanding under this agreement. The £145.3m intercompany loan is unsecured and repayable within 360 days.

As a consequence of this intercompany loan, at the end of year to 31 March 2020, the company was in a net liability position. However, MEIF 6 Fibre Limited has undertaken to continue to support the company and this will enable the company to meet its commitments as they fall due over the next 12 months.

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

On the 26 October 2020, the Company entered into a new Intercompany Loan Agreement with its indirect parent company, MEIF 6 Fibre Limited, to provide a loan of up to £165.0 million on an uncommitted basis for a period of five years from the date of the first advance to fund the activities of the Company and its subsidiaries.

KCH (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (CONTINUED)

Going concern (continued)

The directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial support from MEIF 6 Fibre Limited supported by the cash flows of the Group. The Group management has produced forecasts for the Group that have also been sensitised to reflect plausible downside scenarios as a result of the COVID-19 pandemic and its impact on the global economy, which have been reviewed by the Group directors. These demonstrate the Group is forecast to generate profits and cash and that the Group has sufficient cash reserves to enable the Group to meet its obligations as they fall due for a period of at least 12 months from the date of signing of these financial statements.

The directors of KCH (Holdings) Limited have received confirmation that this support will be for a period of at least 12 months from the date of signing of these financial statements. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

Investments

Investments in subsidiaries are held at cost less accumulated impairment losses. They are reviewed at each reporting date for possible reversal of the impairment.

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Recoverable amount is the higher of fair value less selling costs and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Impairment of non-financial assets (continued)

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units (CGUs) are allocated first to reduce the carrying amount of any goodwill allocated to CGUs and then to reduce the carrying amount of other assets in the unit on a pro-rata basis.

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.

KCH (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (CONTINUED)

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 within borrowings 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.

Share capital

Ordinary shares are classified as equity.

Revenue recognition

Revenue excludes value added tax and comprises the value of services provided. Revenue is recognised in respect of the Company's right to consideration for each performance obligation as it is satisfied.

Finance income

Finance income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Exceptional items

Exceptional items are presented whenever significant expenses are incurred or income is received as a result of events considered to be outside the normal course of business, where the unusual nature and expected frequency merits separate presentation to assist comparisons with previous periods. Items which are always classified as exceptional are:

- Regulatory matters; and
- Termination and recruitment costs associated with Executive Directors.

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 (formerly KCOM Group PLC) Board

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax. The tax payable is currently 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 Group 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.

KCH (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

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

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

Financial instruments and hedge accounting

Financial assets and liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. The Company uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its Treasury Policy, the Company does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are initially and subsequently recognised at fair value. Any gain or loss on remeasurement to fair value is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of the resultant gain or loss depends on the nature of the item being hedged.

The fair value of the interest rate swaps is the estimated amount that the Company would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in other comprehensive income and the ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in other comprehensive income are included in the initial measurement of the asset or liability. For hedges that do not result in recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement in the period.

Foreign currency translation

These financial statements are presented in Pounds Sterling which is the currency of the primary economic environment in which the Company operates. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

Pensions

Defined contribution

Obligations for contributions to the defined contribution (money purchase) scheme are charged to the income statement in the period they fall due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

KCH (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (CONTINUED)

Pensions (continued)

Defined benefit

For defined benefit retirement schemes, the cost of providing benefits is determined using a building block approach, with IAS 19 actuarial valuations being carried out at each balance sheet date. Remeasurements are recognised in full in the period in which they occur and are recognised in equity and presented in the Statement of comprehensive income.

The current and past service costs of the scheme (the increase in the present value of employees' future benefits attributable to the current or prior periods) are charged to the income statement in the period. The cost or benefit of committed settlements and curtailments is recognised immediately in the income statement. The interest cost of the scheme is recognised in the income statement in the period to which it relates.

The retirement benefit obligation recognised on the balance sheet represents the present value of the defined benefit obligation as reduced by the fair value of scheme assets. Should an IAS 19 actuarial valuation result in a net asset position then the amount recognised will be limited to the recoverable amount. The recoverable amount shall be determined with reference to the agreements made between the Company and the Trustees within the pension scheme rules.

Share-based payments

The Company has applied the requirements of IFRS 2 Share-based payments. The parent undertaking, KCOM Group Limited (formerly KCOM Group PLC), issues equity-settled share-based payments to certain employees. Other equity-settled share-based payments arise where payment for goods and services is settled in shares or other equity instruments.

Equity-settled employee schemes, including employee share options, discretionary long-term incentive schemes and save as you earn schemes, provide employees the option to acquire shares of KCOM Group Limited (formerly KCOM Group PLC). Employee share options and long-term incentive schemes are generally subject to performance or service conditions.

The fair value of equity-settled share-based payments relating to KCH (Holdings) Limited employees is measured at the date of grant and charged to the profit and loss account over the period during which performance or service conditions are required to be met, or immediately where no performance or service criteria exist. The fair value of equity-settled share-based payments granted is measured using either the Black-Scholes or Monte Carlo model, depending on the terms under which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of employee share options that vest, except where forfeiture is only due to market-based performance criteria not being met.

At the end of each reporting period, the Company revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The parent undertaking, KCOM Group Limited (formerly KCOM Group PLC), also operated a Share Incentive Plan (SIP) under which employees have the option to purchase shares in KCOM Group Limited (formerly KCOM Group PLC) each month and offers employees free matching and partnership shares on a sliding scale of between 1:3 to 2:1. The free shares relating to employees of KCH (Holdings) Limited are recognised as an expense over the period of any applicable service condition, or immediately when no service condition exists.

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.

2. REVENUE

Revenue is generated wholly within the UK. All revenue is generated by one class of business, being principally the provision of services to other group companies. Revenue is related to the provision of payroll related services.

KCH (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3. OPERATING (LOSS)/PROFIT

Operating profit is stated after charging/(crediting):

	Note	2020 £'000	2019 £'000
Wages and salaries		62,927	69,593
Social security costs		6,458	6,932
Other pension costs		4,649	5,237
Share based payments	10	336	1,104
Restructuring costs relating to employees	4	7,060	2,728
Auditors' remuneration for the audit of the financial statements		54	39
Settlement of share schemes	4	1,948	-
Other external credit		(5)	-
Bad debt release		(2)	-
Total operating expenses		83,425	85,633
Dividends received from subsidiary companies		-	(25,830)
Distribution received from another group company		(363)	(306)
Total other operating income		(363)	(26,136)
Total		83,062	59,497

4. EXCEPTIONAL ITEMS

	Note	2020 £'000	2019 £'000
Restructuring costs		7,060	2,728
GMP equalisation		-	789
Settlement of share schemes (LTIP & MyShare)	10	1,948	-
Total		9,008	3,517

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 2020, exceptional restructuring costs of £7.1 million were incurred (2019: £2.7 million). Management scrutinises all restructuring costs on a line by line basis to determine whether they meet the exceptional criteria. During the year, these were incurred in the following three main areas:

- Organisation design changes (£6.1 million) across all areas of the business following the application of cost saving measures introduced by the strategic business review in the prior period and built on by the 'Fit for growth project' in the current year. These costs predominantly relate to redundancy and associated exit costs for employees to reduce the size and complexity of our workforce and better align to our new operating model.
- £1.0 million of costs have been incurred for termination costs associated with the exit of Executive Directors. These are treated as exceptional in line with our Group accounting policy.

In the year £1.9 million of share scheme costs for the LTIP and Employee SIP scheme ("MyShare") were incurred linked to the acquisition. These are both considered to be significant expenses outside of the normal course business.

During the prior year, the Company recognised an exceptional charge of £0.8 million due to the crystallisation of additional liabilities in the Group's defined benefit pension schemes. This was as a result of the equalisation of pension benefits for men and women in relation to guaranteed minimum pension benefits.

5. EMPLOYEES AND DIRECTORS

The average monthly number of employees (including Executive Directors) was 1,453 (2019: 1,527).

During the year, Mr D Raneberg, Mr G Sutherland and Ms A Bielby were the Directors of KCOM Group Limited (formerly KCOM Group PLC), and fellow subsidiary companies. Mr A Tong 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 (formerly KCOM Group PLC) and fellow subsidiary companies is as follows:

KCH (HOLDINGS) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

5. EMPLOYEES AND DIRECTORS (CONTINUED)

	2020 £'000	2019 £'000
Remuneration	706	668
Aggregate amounts receivable under long term incentive plans	1,661	-
Company contributions paid to money purchase pensions schemes	99	118
Compensation for loss of office	950	-
Total	3,416	786

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:

	2020 £'000	2019 £'000
Total remuneration (including amounts receivable under long term incentive plans)	2,133	325

6. FINANCE INCOME

	2020 £'000	2019 £'000
Other finance income	1,518	1,551
Net interest on retirement benefit obligation (note 19)	192	-
	1,710	1,551

7. FINANCE COSTS

	2020 £'000	2019 £'000
On bank loans, overdrafts and other loans	1,874	2,412
Amortisation of loan arrangement fees	238	308
Interest on loans from related parties	3,372	-
Net interest on retirement benefit obligation (note 19)	-	76
Total finance costs (excluding exceptional charge)	5,484	2,796
Exceptional finance charge	615	-
Total finance costs	6,099	2,796

Subsequent to the acquisition of KCOM Group Limited (formerly KCOM Group PLC) by MEIF 6 Fibre Limited and due to the trigger of a change in control clause in the external revolving credit facility agreement, the full outstanding amount of the external loan was settled in October 2019. Consequently, £0.6 million of unamortised loan arrangement fees were written off when the loan was repaid. These have been separated from the underlying finance costs as they are one off in nature.

KCH (HOLDINGS) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

8. TAX ON (LOSS)/PROFIT

The tax charge for the year comprises:

	2020 £'000	2019 £'000
UK corporation tax:		
– current tax on loss for the year	(1,661)	(2,130)
– adjustment in respect of prior years	-	-
Total current tax	(1,661)	(2,130)
UK deferred tax:		
Origination and reversal of temporary differences in respect of:		
– profit for the year	(1,234)	59
– rate difference	(444)	(144)
– adjustment in respect of prior years	-	(58)
– deferred tax relating to retirement benefit obligation (note 20)	1,779	1,313
Total deferred tax	101	1,170
Total taxation charge for the year	(1,560)	(960)

Factors affecting tax charge for the year:

	2020 £'000	2019 £'000
(Loss)/profit before taxation	(7,015)	22,429
(Loss)/profit before taxation at the standard rate of corporation tax in the UK of 19% (2019: 19%)	(1,333)	4,262
Effects of:		
– income not subject to tax	(671)	(5,020)
– adjustment in respect of prior years	-	(58)
– change in rate reflected in the deferred tax asset	444	(144)
Total taxation charge for the year	(1,560)	(960)

Factors affecting the current and future tax charges

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

9. DIVIDENDS

	2020 £'000	2019 £'000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 March 2019 of £13.14 per share	-	26,280
Final dividend for the year ended 31 March 2020 of £Nil	-	-
	-	26,280

10. SHARE-BASED PAYMENTS

The Company participated in two share-based payment schemes during the year ended 31 March 2020 (2019: two), the Long-Term Incentive Plan (LTIP) and the Share Incentive Plan (SIP) which is operated by the Company's parent undertaking, KCOM Group Limited (formerly KCOM Group PLC). The Company recognised a total charge of £2,284,000 (2019: £1,381,000) in the year relating to equity-settled share-based payment transactions. The total amount recognised in reserves was £1,693,000 (2019: £1,381,000).

On 30 July 2019, MEIF 6 Fibre Limited acquired 100% of the ordinary share capital of KCOM Group Limited (formerly KCOM Group PLC) via a Scheme of Arrangement. It became effective on 1 August 2019 and KCOM Group Limited (formerly KCOM Group PLC) was de-listed from the premium list of the London Stock Exchange on 2 August 2019. As part of the acquisition, MEIF 6 Fibre Limited acquired all shares that were in issue, leading to the cessation of both the SIP and LTIP schemes and acceleration of the costs upon vesting.

KCH (HOLDINGS) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

10. SHARE-BASED PAYMENTS (CONTINUED)

Share Incentive Plan (SIP)

The SIP was open to all employees. Under the SIP scheme, employees entered into an agreement to purchase shares in the Company each month. For each share purchased by an employee the Company awarded matching shares on a sliding scale of between 1:3 to 2:1. The matching shares were held in trust and passed to the employee after five years' service. During this vesting period both shares purchased by the employees and matching shares were entitled to receive dividends which are used to buy additional shares.

Matching shares were allocated each month at market value with this fair value charge being recognised in the income statement over the vesting period. The cost recognised in the income statement relating to matching shares during the year was £1,033,000 (2019: £621,000). The charge up to the date of acquisition of £203,000 is recognised in operating expenses. The acceleration of £830,000, arising as a consequence of the acquisition, is included in exceptional charges. Under the scheme rules, a change in control event allows for the shares in issue to vest in full, with no penalty for not reaching the 5 years of service normally required to retain the matching shares. The total amount recognised in reserves was £1,033,000 (2019: £621,000).

The number of matching shares granted by the Company during the year was 127,221 (2019: 703,185). The cash transferred by the Company in order to purchase these shares was £150,000 (2019: £450,000).

Long-Term Incentive Plan (LTIP)

The LTIP was an equity-settled share-based payment scheme open to the Executive Directors and selected senior employees at the discretion of the Remuneration Committee. The awards were granted at £Nil cost and vested dependent on TSR performance over a three year performance period relative to the TSR performance of each company within a comparator group. For Executive Directors only, the awards granted in the year ended 31 March 2019 were also subject to a two year holding period after the vesting date. No options were granted during the year as a result of the acquisition of KCOM Group Limited (formerly KCOM Group PLC) by MEIF 6 Fibre Limited. During the year certain options lapsed due to employees leaving the business prior to the acquisition and the scheme with the grant date of 8 July 2016 also lapsed due to the vesting conditions not being met. All remaining options outstanding at the beginning of the year vested upon acquisition.

	Number	Weighted average exercise price (pence)
Outstanding at the beginning of the year	4,787,062	Nil
Lapsed during the year	(1,168,442)	Nil
Vested during the year	(3,618,620)	Nil
Outstanding at the end of the year	—	Nil

The expense recognised in the year in relation to the LTIP scheme was £1,251,000 (2019: £760,000). The charge up to the date of acquisition of £133,000 is recognised in operating expenses. The acceleration of £1,118,000, arising as a consequence of the acquisition, is included in exceptional charges. The total amount recognised in reserves was £660,000 (2019: £760,000).

Share options outstanding at the year-end have the following expiry dates and exercise prices:

Grant date	Expiry date	Exercise price	Share options at 31 March 2020	Share options at 31 March 2019
8 July 2016	7 July 2019	Nil	—	880,377
17 January 2017	16 January 2020	Nil	—	405,049
7 July 2017	6 July 2020	Nil	—	1,230,976
18 December 2017	17 December 2020	Nil	—	28,808
11 July 2018	10 July 2021	Nil	—	920,649
30 November 2018	29 November 2021	Nil	—	916,709
15 February 2019	14 February 2022	Nil	—	404,494
Total			—	4,787,062
Weighted average contractual life of options outstanding at period end			—	1.64 years

KCH (HOLDINGS) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

11. INVESTMENTS

	Total £'000
Cost	
At 1 April 2018 and 31 March 2019 and 31 March 2020	270,872
Historical impairments	
At 1 April 2018 and 31 March 2019 and 31 March 2020	144,450
Net book value	
At 31 March 2020	126,422
At 31 March 2019	126,422
At 31 March 2018	126,422

KCH (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

11. INVESTMENTS (CONTINUED)

Details of the principal subsidiary undertakings of the Company are as follows:

Name of company	Place of registration	Holding	Proportion held (%)	Nature of business
Network Holdco 3 BV	Holland ¹	Ordinary shares	100%	Dormant
Smart421 Technology Group Limited	England and Wales ²	Ordinary shares	100%	Dormant holding company
Kingston Network Holdings Limited	England and Wales ²	Ordinary shares	100%	Dormant holding company
Kingston Service Holdings Limited	England and Wales ²	Ordinary shares	100%	Dormant holding company
KCOM International Limited	England and Wales ²	Ordinary shares	100%	Dormant
KCOM (General Partner) Limited	Scotland ³	Ordinary shares	100%	Intermediate holding company
KCOM Central Asset Reserve Limited Partnership	Scotland ³	Ordinary shares	100%	Partnership
KCOM Contact Centres Limited	England and Wales ²	Ordinary shares	100%	Provision of call centre facilities
Kingston Communications (Data) Trustees Limited	England and Wales ²	Ordinary shares	100%	Dormant
Kingston Communications (Hull) Trustees Limited	England and Wales ²	Ordinary shares	100%	Dormant
Affiniti Integrated Solutions Limited*	England and Wales ²	Ordinary shares	100%	Dormant
Kingston Information Services Limited*	England and Wales ²	Ordinary shares	100%	Dormant
KCOM Holdings Limited	England and Wales ²	Ordinary shares	100%	Design and delivery of communication and integration services
Eclipse Networking Limited	England and Wales ²	Ordinary shares	100%	Dormant
Eclipse Internet Limited*	England and Wales ²	Ordinary shares	100%	Dormant
Kingston Communications (Hull) Limited*	England and Wales ²	Ordinary shares	100%	Dormant
Omnetica Investment Limited*	England and Wales ²	Ordinary shares	100%	Dormant Holding Company
Omnetica Inc*	USA ⁴	Ordinary shares	100%	Dormant
Smart421 Limited*	England and Wales ²	Ordinary shares	100%	Dormant
Smart421 Solutions Inc*	USA ⁵	Ordinary shares	100%	Dormant
SmartIntegrator Technology Limited	England and Wales ²	Ordinary shares	50%	Software development

*Indicates indirect shareholding

1. Prins Bernhardplein 200, 1097 JB Amsterdam, The Netherlands

2. 37 Carr Lane, Hull, HU1 3RE

3. 50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ

4. 200 Knickerbocker Avenue, Bohemia, New York, 11716, USA.

5. 9 East Lookerman Street, Dover, Delaware, 19901, USA.

The Directors believe the values of the investments are supported by the higher of value in use and fair value less costs to sell. Both of these valuation methodologies have been considered in the year when assessing the carrying value of investments for potential impairment.

KCH (HOLDINGS) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

12. TRADE AND OTHER RECEIVABLES: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2020 £'000	2019 £'000
Amounts owed by group undertakings	54,749	32,422
Prepayments	2,918	2,863
Other receivables	177	168
Group relief debtor	1,661	2,130
Total	59,505	37,583

Amounts owed by group undertakings within one year are unsecured, have no fixed date of repayment, bear no interest and are repayable on demand.

13. TRADE AND OTHER RECEIVABLES: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2020 £'000	2019 £'000
Amounts owed by group undertakings	450	450
Prepayments	16,238	17,639
Total	16,688	18,089

Amounts owed by group undertakings are unsecured and bear no interest. There are no formal arrangements for the repayment of amounts owed by group undertakings greater than one year. However, they have been confirmed as not due for repayment within one year.

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2020 £'000	2019 £'000
Trade payables	107	120
Amounts owed to group undertakings	3	2
Other payables	-	176
Accruals	-	90
Total	110	388

Amounts owed to group undertakings within one year are unsecured, have no fixed date of repayment, bear no interest and are repayable on demand.

15. BANK LOANS

	2020 £'000	2019 £'000
Bank borrowings		
Amount falling due:		
- between two and five years	-	115,000
	-	115,000
Loan issue costs		(871)
Total	-	114,129

The loan facility was secured by guarantees given by all material subsidiaries of KCOM Group Limited (formerly KCOM Group PLC), including KCH (Holdings) Limited, in favour of the banks.

The bank borrowings were fully repayable in December 2021 and attract an interest rate of LIBOR plus a margin dependent on specific covenants.

KCH (HOLDINGS) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

15. BANK LOANS (CONTINUED)

Following the acquisition by MEIF 6 Fibre Limited, a change in control clause was triggered in the loan agreement, leading to the loan becoming fully repayable. The loan was settled in full, including any outstanding interest, on 31 October 2019. It was settled using funds from a loan from the immediate parent undertaking. The outstanding loan issue costs were released to the income statement as an exceptional finance charge, as disclosed in Note 7.

16. LOANS FROM RELATED PARTIES

This section sets out an analysis of loans from related parties and the movements for each of the financial years presented.

Consolidated	2020 £'000	2019 £'000
Loans from related parties		
Beginning of year	—	—
Loans advanced	145,289	—
Interest charged	3,372	—
End of year	148,661	—

On 31 October 2019 the Group entered into an Intercompany Loan Agreement with its indirect parent undertaking to facilitate the settlement of our external revolving credit facility. See note 19 for further details.

17. DEFERRED TAX

Deferred tax assets/(liabilities) are attributable to the following:

	Asset 2020 £'000	Asset 2019 £'000	Liability 2020 £'000	Liability 2019 £'000	Net 2020 £'000	Net 2019 £'000
Other timing differences	-	313	-	-	-	313
Losses	2,092	-	-	-	2,092	-
Retirement benefit obligation	-	404	(7,365)	(1,007)	(7,365)	(603)
Asset backed partnership	-	-	(3,639)	(3,485)	(3,639)	(3,485)
Total	2,092	717	(11,004)	(4,492)	(8,912)	(3,775)

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

	Losses	Retirement benefit obligation £'000	Asset- backed partnerships £'000	Other timing differences £'000	Total £'000
At 1 April 2018	-	1,276	(3,696)	301	(2,120)
Charged/(credited) to the income statement (note 8)	-	(1,386)	211	5	(1,170)
Charged to reserves	-	(493)	-	7	(486)
At 31 March 2019	-	(603)	(3,485)	313	(3,775)
Charged/(credited) to the income statement (note 8)	2,092	(1,850)	(154)	(189)	(101)
Charged to reserves	-	(4,912)	-	(124)	(5,036)
At 31 March 2020	2,092	(7,365)	(3,639)	-	(8,912)

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.

18. CALLED UP SHARE CAPITAL

	2020 £'000	2019 £'000
Allotted and fully paid		
2,000,000 (2019: 2,000,000) ordinary shares of £1 each	2,000	2,000

KCH (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's principal financial instruments during the year comprised bank loans, cash on short-term deposits and forward foreign exchange contracts. The main purpose of these financial instruments is to finance KCOM Group Limited (formerly KCOM Group PLC)'s operations and to minimise the impact of fluctuations in exchange rates on future cash flows. The Company has various other financial instruments such as short-term receivables and payables which arise directly from its operations.

The Company regularly reviews its exposure to interest, liquidity and foreign currency risk. Where appropriate the Company will take action, in accordance with a Board approved Treasury Policy, to minimise the impact on the business of movements in interest rates and currency rates.

The Company only enters into derivative instruments with members of the banking group to ensure appropriate counterparty credit quality.

Liquidity Risk

KCOM Group Limited (formerly KCOM Group PLC) keeps its short, medium and long-term funding requirements under constant review. Its policy is to have sufficient committed funds available to meet medium-term requirements, with flexibility and headroom to make minor acquisitions for cash if the opportunity should arise.

On 31 October 2019 the Group settled the outstanding amount of £145.3 million on the external £180.0 million multi-currency revolving credit facility. This was replaced with a loan from MEIF 6 Fibre Limited, and indirect parent company, of £145.3 million. The loan is denoted in Pounds Sterling and has a maturity date 360 days from the date of advance unless agreed otherwise. Interest is accrued on an annual basis and is payable upon settlement of the principal amount. The accrued interest is disclosed as part of the outstanding loan amount at the year end, with a total of £148.6 million outstanding.

On 29 September 2020 the indirect parent company, MEIF 6 Fibre Limited, entered into a new external loan agreement. Certain statutory entities within the consolidated KCOM Group Limited (formerly KCOM Group PLC) accounts, including the Company act as guarantors for the loan facility. See note 21 for further details.

On the 26 October 2020, the Company entered into a new Intercompany Loan Agreement with its indirect parent company, MEIF 6 Fibre Limited, to provide a loan of up to £165.0 million on an uncommitted basis for a period of five years from the date of the first advance.

	Less than one year £'000	One to three years £'000	Over three years £'000
At 31 March 2019			
Overdraft	108	-	-
Trade payables and other payables	388	-	-
Borrowings	2,839	119,967	-
Total	3,335	119,967	-
At 31 March 2020			
Trade payables and other payables	110	-	-
Loans from related parties	148,661	-	-
Total	148,771	-	-

KCH (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Foreign currency risk

Cash flow exposure

The Group's only major foreign currency risk arises due to the purchase of equipment invoiced in US dollars. Whenever possible the Group resells this equipment in US dollars. The remaining exposure is managed by the Company principally through the use of forward foreign exchange contracts in order to minimise the impact of fluctuations in exchange rates on future cash flows and gross margin. The Group also has some euro cash flows but these are not material on a net basis and are not hedged.

Net asset exposure

The Dollar-denominated trading described above results in a balance sheet exposure since debtor days are longer than creditor days. It is the Group's policy not to hedge this exposure.

Credit risk

Risk management

Credit risk arises from cash and cash equivalents and derivative financial instruments, as well as credit exposures to business and retail customers.

Credit ratings of institutions which hold the Group's financial assets are regularly monitored to ensure they meet the minimum credit criteria set by the Board through the Group Treasury Policy.

The credit quality of customers is assessed by taking into account their financial position, past experience and other factors. Individual risk limits are set and the utilisation of credit limits monitored regularly.

Currency and interest rate risk profile of financial assets and financial liabilities

Financial assets

The Company had net financial assets of £57.5 million (2019: £35.2 million) at the year-end of which £0.5 million (2019: £Nil) comprised cash on overnight money market deposits and cash at bank. This attracts floating rates of interest.

The currency profile of the Company's cash and cash equivalents at 31 March 2020 and 31 March 2019 was:

	2020	2019
Currency	£'000	£'000
Sterling	455	-
Total	455	-

Foreign currency cash balances are held on a short-term basis to fund cash flow requirements in these currencies.

Financial liabilities

The currency and interest rate risk profile of the Company's financial borrowings at 31 March 2020 and 31 March 2019 was:

	2020			2019		
	Floating	Fixed	Total	Floating	Fixed	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Sterling	-	148,661	148,661	115,000	-	115,000

Undrawn committed borrowing facilities at the year-end were £Nil (2019: £65.0 million).

Interest on amounts owed to related parties is based on a fixed rate of 5.5%. All trade payable balances bear no interest and are held in Sterling. There is no currency risk associated with these balances.

Capital risk management

The Company's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, support the growth of the business and maintain an optimal capital structure to reduce the cost of capital.

KCH (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

IFRS 7 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

All of the Company's financial instruments fall into hierarchy level 2.

Up to the date of settlement, under the Group's £180.0 million revolving credit facility the Group was required to comply annually with certain financial and non-financial covenants. The Group was required to maintain a minimum interest cover ratio and a maximum net debt to EBITDA ratio. Both financial covenants were tested and complied with throughout the year and up to the date of settlement. The Board monitors both covenant compliance and net debt performance on a regular basis. The loan from Parent Company does not have any financial covenants in place.

20. RETIREMENT BENEFIT ASSET AND OBLIGATION

Defined benefit schemes

The Company operates two defined benefit schemes, the Kingston Communications Pension Scheme ('Main scheme') and the Kingston Communications (Data) Pension Scheme ('Data scheme'). Both schemes are closed to both new members and future benefit accrual.

The defined benefit schemes are operated in the UK under the same regulatory frameworks. Both schemes are final salary pension schemes which provide benefits to members in the form of a guaranteed level of pension payable for life at retirement. The level of benefits provided depends on the members' length of service and their final pensionable salary at the date they left the scheme.

In both cases, the schemes are funded and the assets of the schemes are held separately from the assets of the Company in Trustee administered funds.

All of the benefit payments are made from these Trustee administered funds. Scheme assets held in trusts are governed by local regulations and practice, as is the nature of the relationship between the Company and the Trustees (or equivalent) and their composition. The schemes are also offered additional security and funded, in part, via asset-backed partnerships. Details on this can be found below.

Responsibility for governance of the schemes – lies jointly with the Company and the Trustees. The Trustees must be composed of representatives of the Company and scheme participants in accordance with each scheme's individual Rules.

Funding

The pension schemes are subject to a full actuarial valuation every three years using assumptions agreed between the Trustees and the Group. The purpose of this valuation is to design funding plans to ensure that the pension schemes have sufficient funds available to meet future benefit payments. The most recent valuations were carried out by independent professionally qualified actuaries as at 1 April 2019 and resulted in a funding deficit at this date of £4.2 million (1 April 2016: £25.4 million deficit) for the main scheme and a deficit of £4.0 million (1 April 2016: £9.4 million deficit) for the data scheme.

When determining the recovery plan as a result of these funding valuations, a partial allowance was made in respect of the deterioration in the funding position due to market movements between the valuation date and 30 April 2020. This resulted in a partial allowance of £7.6 million for the main scheme and £2.6 million for the data scheme. As a result of the funding valuations, the Group and the Trustees agreed to put in place plans to eliminate the deficits over 2.5 years (main scheme) and 2.75 years (data scheme).

KCH (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

20. RETIREMENT BENEFIT ASSET AND OBLIGATION (CONTINUED)

Contributions agreed as part of these plans were as follows:

- Main scheme deficit repair payments from 1 April 2019 to 30 September 2021 of £4.7 million per annum to be paid in equal monthly instalments, increasing in line with CPI inflation from 1 April 2021.
- Data scheme deficit repair payments from 1 April 2019 to 31 December 2021 of £2.4 million per annum to be paid in equal monthly instalments, increasing in line with CPI inflation from 1 April 2021.

The deficit repair payments are in addition to contributions made to the schemes via the Asset-backed partnership (see below).

Taking into account deficit repair payments and contributions via the asset-backed partnership the expected total contributions for the year ended 31 March 2021 are £7.4 million (main scheme) and £2.8 million (data scheme) (2020: £7.3 million (main scheme) and £2.7 million (data scheme)).

Subsequent to the agreement of these funding valuations, on 25th November 2020, the Group reached agreement with the Trustees to fully fund both schemes immediately on a low dependency valuation basis. Under this agreement, the remaining outstanding contributions due under the recovery plan at this date of £18 million (less contributions since 1 August 2020) for both schemes became payable within 30 days of the agreement date. In compliance with this agreement, the Group has paid in full the entire outstanding contributions due to both schemes on 21st December 2020.

Asset-backed partnership

On 31 March 2013, the Group reached an agreement with the Trustees to provide the Group with an efficient mechanism of funding the schemes' deficit positions.

The Group established a general partner, KCOM (General Partner) Limited, and a partnership, KCOM Central Asset Reserve Limited Partnership ('the Partnership'), which are both consolidated within these financial statements. The Group takes advantage of the exception conferred by Regulation 7 of the Partnership (Accounts) Regulations 2008 and has therefore not appended the accounts of the Partnership to these accounts. Separate accounts for the Partnership are not required to be filed at Companies House. The Group provided sufficient capital to the Partnership to enable it to procure freehold property assets, with a market value of £12.6 million from fellow Group subsidiaries. These properties were immediately leased back and continue to be operated by the Company and not by the Partnership. The Company retains control over these properties including the flexibility of substituting the freehold property assets with other assets. As partners in the Partnership, the pension schemes are entitled to an annual income distribution of £1.1 million, rising in line with the Consumer Price Index (CPI) over a potential period of 15 years.

On 24 March 2014, the Company reached an agreement with the Trustees to provide further funding of the schemes' current deficit position through the Partnership.

As part of this agreement, a loan note of £20.0 million was secured over the Hull and East Yorkshire network asset. 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 Hull and East Yorkshire network on an insolvency event.

As partners in the Partnership, the pension schemes are entitled an annual income distribution of £1.6 million, rising in line with the Consumer Price Index (CPI) (capped at 5%) over a potential period of 15 years.

Under IAS 19, the investment held by the pension schemes in the Partnership does not represent a plan asset for the purpose of the Group's consolidated accounts. The distribution of the Partnership's profits to the pension schemes is reflected as pension contributions in these Company accounts on a cash basis.

KCH (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

20. RETIREMENT BENEFIT ASSET AND OBLIGATION (CONTINUED)

Risk

The cost of the schemes to the Company depend upon a number of assumptions about future events. Future contributions may be higher (or lower) than those currently agreed if the assumptions are not borne out in practice or if different assumptions are agreed in the future.

Specific risks include:

Changes in future expectations of price inflation: The scheme's benefit obligations are linked to inflation and higher inflation will lead to higher liabilities. Hence, an increase in inflation will increase the deficit. This is offset in part by the Trustee's liability matching investment strategy as detailed below.

Changes in the discount rate used to value pension liabilities: A lower discount rate will lead to a higher present value being placed on future pension payments. Hence, a reduction in discount rate will increase the deficit. This is offset in part by the Trustee's liability matching scheme detailed below.

Unanticipated increase in life expectancy leading to an increase in the scheme's liabilities: An increase in life expectancy would mean pensions are expected to be paid for a longer period, so increasing the liability and the scheme's deficit. This is offset in part by the scheme applying a Life Expectancy Adjustment Factor, whereby future pensions coming into payment are adjusted to allow for increases in life expectancy.

Balance sheet amounts

The amounts recognised in the balance sheet (the "accounting valuation") and the movements in the net defined obligation over the year are calculated in accordance with IAS 19 and detailed below.

Differences between the funding valuation and the accounting valuation are mainly due to the use of different valuation assumptions and changes in market conditions between the two valuation dates of 31 March 2016 and 31 March 2019.

For funding valuation purposes the liabilities are determined based on assumptions used by the Trustees following consultation with the Company and scheme actuaries. In the financial statements the liabilities are determined in accordance with IAS 19.

As a result of the difference in the valuation methods used and also possible differences in the dates of the respective valuations, it is possible, and not unusual, for there to be large differences in the two valuations to the extent that the accounting measure could result in a surplus whilst the actuarial valuation could result in a deficit requiring additional contributions to be made.

The IAS 19 position, even if in surplus, has no bearing on cash requirements to the schemes and the Company remains legally obliged to pay contributions to the schemes.

Surplus positions of £35.8 million on the Main scheme and £3.0 million on the data scheme have been recognised. This is recognised on the basis that, in line with the scheme rules, any excess funds are recoverable upon winding up of the scheme. This is consistent for both the schemes and supports the application that there are no additional liabilities from minimum funding requirements under IFRIC 14.

KCH (HOLDINGS) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

20. RETIREMENT BENEFIT ASSET AND OBLIGATION (CONTINUED)

	Main Scheme			Data Scheme			Combined Schemes		
	Present value of obligation £'000	Fair value of plan assets £'000	Total £'000	Present value of obligation £'000	Fair value of plan assets £'000	Total £'000	Present value of obligation £'000	Fair value of plan assets £'000	Total £'000
Consolidated									
At 31 March 2018	221,282	(218,563)	2,719	40,502	(35,714)	4,788	261,784	(254,277)	7,507
Past service cost	213	—	213	576	—	576	789	—	789
Administrative expenses	—	586	586	—	159	159	—	745	745
Interest expense/(income)	5,407	(5,420)	(13)	989	(900)	89	6,396	(6,320)	76
Total amount recognised in profit or loss	5,620	(4,834)	786	1,565	(741)	824	7,185	(5,575)	1,610
Remeasurements									
Return on plan assets, excluding amounts included in interest	—	(7,464)	(7,464)	—	(1,175)	(1,175)	—	(8,639)	(8,639)
Loss from change in financial assumptions	9,468	—	9,468	1,494	—	1,494	10,962	—	10,962
Gains arising from changes in demographic assumptions	(4,321)	—	(4,321)	(903)	—	(903)	(5,224)	—	(5,224)
Total amount recognised in other comprehensive income	5,147	(7,464)	(2,317)	591	(1,175)	(584)	5,738	(8,639)	(2,901)
Employer contributions:									
Contributions via asset-backed partnership	—	(2,456)	(2,456)	—	(336)	(336)	—	(2,792)	(2,792)
Deficit repair payments	—	(4,656)	(4,656)	—	(2,314)	(2,314)	—	(6,970)	(6,970)
Benefit payments	(10,080)	10,080	—	(1,877)	1,877	—	(11,957)	11,957	—
At 31 March 2019	221,969	(227,893)	(5,924)	40,781	(38,403)	2,378	262,750	(266,296)	(3,546)

	Main scheme			Data scheme			Combined schemes		
	Present value of obligation £'000	Fair value of plan assets £'000	Total £'000	Present value of obligation £'000	Fair value of plan assets £'000	Total £'000	Present value of obligation £'000	Fair value of plan assets £'000	Total £'000
Consolidated									
At 31 March 2019	221,969	(227,893)	(5,924)	40,781	(38,403)	2,378	262,750	(266,296)	(3,546)
Administrative expenses	—	543	543	—	258	258	—	801	801
Interest expense/(income)	5,100	(5,319)	(219)	942	(915)	27	6,042	(6,234)	(192)
Total amount recognised in profit or loss	5,100	(4,776)	324	942	(657)	285	6,042	(5,433)	609
Remeasurements									
Return on plan assets, excluding amounts included in interest	—	(535)	(535)	—	(2,250)	(2,250)	—	(2,785)	(2,785)
Gains from change in financial assumptions	(11,982)	—	(11,982)	(414)	—	(414)	(12,396)	—	(12,396)
Experience losses (gains) arising on liabilities	(12,197)	—	(12,197)	(1,525)	—	(1,525)	(13,722)	—	(13,722)
Gain arising from changes in demographic assumptions	1,815	—	1,815	1,234	—	1,234	3,049	—	3,049
Total amount recognised in other comprehensive income	(22,364)	(535)	(22,899)	(705)	(2,250)	(2,955)	(23,069)	(2,785)	(25,854)
Employer contributions:									
Contributions via asset-backed partnership	—	(2,518)	(2,518)	—	(345)	(345)	—	(2,863)	(2,863)
Deficit repair payments	—	(4,740)	(4,740)	—	(2,370)	(2,370)	—	(7,110)	(7,110)
Benefit payments	(9,871)	9,871	—	(1,354)	1,354	—	(11,225)	11,225	—
At 31 March 2020	194,834	(230,591)	(35,757)	39,664	(42,671)	(3,007)	234,498	(273,262)	(38,764)

KCH (HOLDINGS) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

20. RETIREMENT BENEFIT ASSET AND OBLIGATION (CONTINUED)

Significant estimates: IAS 19 assumptions and sensitivity

The significant IAS 19 assumptions were as follows:

	2020		2019	
	Main scheme	Data scheme	Main scheme	Data scheme
RPI inflation	2.60%	2.60%	3.20%	3.20%
CPI inflation	1.70%	1.70%	2.20%	2.20%
Rate of increase to pensions in payment	1.65%	3.71%	2.02%	3.79%
Discount rate for scheme liabilities	2.25%	2.25%	2.35%	2.35%

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics.

The assumptions translate into an average life expectancy in years for a pensioner retiring at age 65 as follows:

	2020		2019	
	Main scheme	Data scheme	Main scheme	Data scheme
Retiring at the end of the reporting year:				
- Male	22	23	21	22
- Female	23	25	23	24
Retiring 20 years after the end of the reporting year:				
- Male	23	24	23	24
- Female	25	26	25	26

The sensitivity of the defined benefit obligation to changes in the significant weighted principal assumptions is:

	Increase in assumption				Decrease in assumption			
	2020		2019		2020		2019	
	Main scheme £'000	Data scheme £'000	Main scheme £'000	Data scheme £'000	Main scheme £'000	Data scheme £'000	Main scheme £'000	Data scheme £'000
Sensitivity to 0.1% change to:								
Discount rate	(1.5%)	(1.5%)	(1.7%)	(1.7%)	1.5%	1.8%	1.8%	2.0%
RPI Inflation	1.4%	0.8%	1.6%	0.7%	(1.5%)	(0.5%)	(1.6%)	(0.5%)
Sensitivity to 1 year change in life expectancy	3.4%	3.8%	3.2%	3.4%	(3.4%)	(3.8%)	(3.2%)	(3.4%)

The above sensitivity analyses are based on a change in a single assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and the changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting year) has been applied as when calculating the defined benefit liability recognised on the balance sheet.

The methods used to determine the liabilities and types of assumptions used in preparing the disclosed results and sensitivity analysis has not changed compared to the prior year.

KCH (HOLDINGS) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

20. RETIREMENT BENEFIT ASSET AND OBLIGATION (CONTINUED)

Balance sheet amounts

The major categories of plan assets are as follows:

	2020				2019			
	Main scheme £'000	Data scheme £'000	Total £'000	%	Main scheme £'000	Data scheme £'000	Total £'000	%
Consolidated								
Index linked gilts	—	—	—	0%	—	—	—	0%
Leveraged gilts	23,600	10,545	34,145	13%	18,429	6,482	24,911	9%
Leveraged index linked gilts	54,081	2,913	56,994	21%	59,841	3,275	63,116	24%
Inflation swap fund	—	—	—	0%	—	—	—	0%
Liability matching funds (unquoted)	77,681	13,458	91,139	34%	78,270	9,757	88,027	33%
Equities (quoted)	—	—	—	0%	—	—	—	0%
Property (unquoted)	—	—	—	0%	—	—	—	0%
Diversified growth fund (unquoted)	119,374	23,563	142,937	52%	115,932	22,010	137,942	52%
Corporate bonds (quoted)	—	—	—	0%	—	—	—	0%
Hedge funds (unquoted)	14,386	—	14,386	5%	15,317	—	15,317	6%
Cash and other (quoted)	19,150	5,650	24,800	9%	18,374	6,636	25,010	9%
Total	230,591	42,671	273,262	100%	227,893	38,403	266,296	100%

Liability Matching Funds

Part of the investment objective of the Schemes is to minimise fluctuations in the Schemes' funding levels due to relative changes in the value of the Schemes' assets and liabilities. This is primarily achieved through "liability matching funds", whose main goal is to align movements in the value of assets with movements in the schemes' liabilities arising from changes in market conditions. The schemes have hedging that covers a proportion of the interest rate movements and inflation movements, as measured on the Trustees' funding assumptions which use a discount rate derived from gilt yields.

Liability matching funds primarily involve the use of government and corporate bonds. Derivatives such as interest rate and inflation swaps may also be used. There are no annuities or longevity swaps currently held by the Schemes.

The value of the liability matching fund assets are determined based on the latest market bid price for the underlying investments, which are traded daily/weekly on liquid markets.

Diversified Growth Funds

The schemes employ diversified growth funds to reduce volatility in the Schemes' asset values (compared to traditional equity investments), whilst maintaining an appropriate level of return. These funds typically invest in a range of public and private market assets, including equities, bonds, commodities, property and other assets.

Unquoted securities, consisting of pooled investment vehicles, are stated at fair value at year end as provided by the investment managers. Pooled investment vehicles are stated at bid price for funds with bid/offer spreads, or single price where there are no bid/offer spreads.

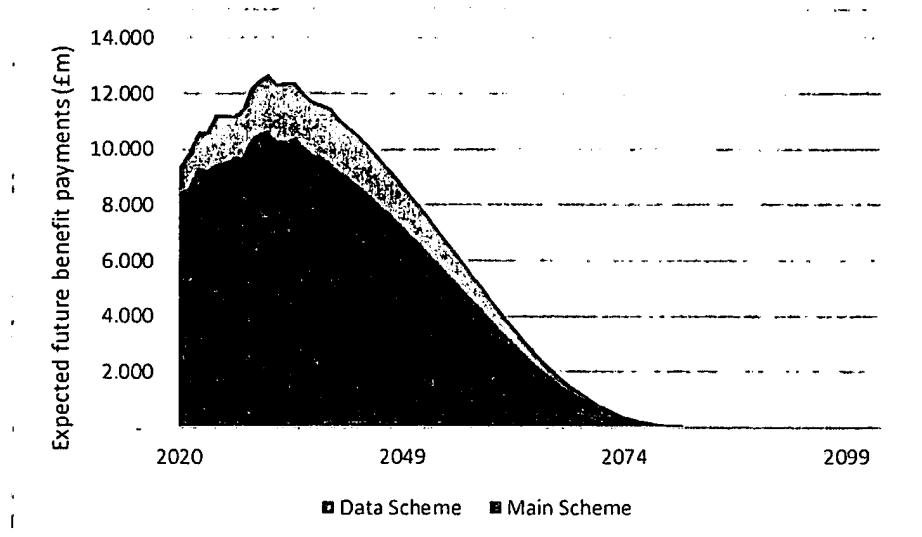
KCH (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

20. RETIREMENT BENEFIT ASSET AND OBLIGATION (CONTINUED)

Future benefit payments

The graph below shows the estimated undiscounted benefit payments expected to be paid from the funds over their lives, derived from the data used in the triennial valuations of the funds as at 31 March 2019:



Defined contribution schemes

The Company operates defined contribution schemes, which are open to all eligible employees. Contributions charged to the income statement in respect of defined contribution schemes amounted to £3.8 million (2019: £3.7 million).

20. PARENT UNDERTAKING AND CONTROLLING PARTY

The Company's immediate parent undertaking is KCOM Group Limited (formerly KCOM Group PLC). Copies of KCOM Group Limited's annual report and financial statements can be obtained from 37 Carr Lane, Hull, HU1 3RE.

As at 31 March 2020, 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 MEIF 6 Holdings Limited, registered in England and Wales. Copies of KCOM Group Limited and MEIF 6 Holding Limited's annual report and financial statements can be obtained from 37 Carr Lane, Hull, HU1 3RE.

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

21. SUBSEQUENT EVENTS

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

The agreement comprises of four facilities totalling total available funds of £475.0 million with a maturity date in 5 years.

On 30 September 2020 a combined amount of £320.0 million was drawn down under the agreement, with the remaining being available to draw down upon request over the duration of the loans.

KCH (HOLDINGS) LIMITED

GLOSSARY - UNAUDITED

ALTERNATIVE PERFORMANCE MEASURES

The Directors use the APM listed below as they are critical to understanding the financial performance of the Company. As it is not defined by IFRS, it 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 Group. 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 accounts 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>	Profit/(loss) before tax as quoted in the income statement (loss of £7.0 million), add back finance costs (£6.1 million) as quoted on the income statement, less finance income (£1.7 million) as quoted on the income statement, add back exceptional charge of (£9.0 million) as quoted in Note 4.