

KCH (HOLDINGS) LIMITED

Annual Report and Financial Statements

for the year ended 31 March 2023

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KCH (HOLDINGS) LIMITED

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

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KCH (HOLDINGS) LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

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

REGISTERED OFFICE

37 Carr Lane
Hull
East Yorkshire
HU1 3RE

BANKERS

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

INDEPENDENT AUDITORS

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

KCH (HOLDINGS) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2023

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

PRINCIPAL ACTIVITIES

The principal activities of the Company are 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 is interest on the Group's external borrowings.

The Company is incorporated in England and Wales and domiciled in England in the United Kingdom.

SALE OF THE NATIONAL BUSINESS

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

Consistent with last year, all income and costs in relation to the National Business are disclosed separately as discontinued operations in the Income Statement.

RESULTS

The loss for the financial year amounts to £8,625,000 (2022: £9,759,000).

REVIEW OF THE BUSINESS

During the year ended 31 March 2023, 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 revenue for continuing operations of £36,881,000 (2022: £40,112,000).

The results for the year show an EBITDA before exceptional items from continuing operations of £317,000 (2022: £2,134,000).

Exceptional costs from continuing operations of £nil (2022: £2,645,000) have been recognised in the year relating to restructuring costs associated with redundancies as a result of organisational changes and termination costs associated with the exit of Executive Directors.

On 29 September 2020 the indirect Parent Company, KCOM Holdco 3 Limited, entered into a new external loan agreement to fund the activities of the Group. Certain statutory entities within the consolidated KCOM Group Limited financial statements, including the Company, act as guarantors for the loan facility. The agreement comprises of four facilities totalling total available funds of £475.0 million with a maturity date in 4 years on 28 September 2025. At 31 March 2023 a combined amount of £390.0 million was drawn down under the agreement, with the remaining being available to draw down upon request over the duration of the loans.

KEY PERFORMANCE INDICATORS

Continuing operations

	2023	2022
	£'000	£'000
Revenue	36,881	40,112
EBITDA	(317)	2,134
Loss before taxation	(6,473)	(6,154)
Loss before taxation and exceptional items as a percentage of revenue (%)	(18%)	(9%)

KCH (HOLDINGS) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2023

KEY PERFORMANCE INDICATORS (CONTINUED)

Discontinued operations

	2023 £'000	2022 £'000
Revenue	—	12,445
Result before taxation	—	—

YEAR END POSITION

As at 31 March 2023, the Company remains in a strong net asset position of £9,435,000 (2022: £45,126,000). The Company has loans from related parties of £165,500,000 (2022: £151,664,000).

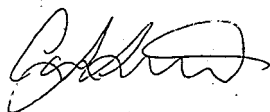
STRATEGIC OBJECTIVES

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 annual report and financial statements on page 3.

PRINCIPAL RISKS AND UNCERTAINTIES

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

Approved by the board, and signed on its behalf.



C Hutchison

Director,

17 November 2023

KCH (HOLDINGS) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2023

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

FUTURE DEVELOPMENTS

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

DIVIDENDS

The Company did not recommend or pay any dividends during the year (2022: £nil).

FINANCIAL RISK MANAGEMENT

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

Further details of the financial risk management policies can be found on page 16 of the Directors' report in the annual report and financial statements of the KCOM Group Limited.

EMPLOYEES

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

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

We recognise employee engagement as a key factor in motivating and retaining people and aim to create an environment where our people can have meaningful input into decisions that affect their working lives.

We consult with our people on planned organisational change on an ongoing basis through our Employee Voice Forum, which has representation from across our business and provides an opportunity for colleagues to give feedback on change programmes.

We conducted a number of surveys through the year to hear opinions about future ways of working as we moved towards hybrid working for some roles. This was in addition to our annual engagement survey which gives employees the opportunity to express their opinions about what it means to work at KCOM.

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

DIRECTORS

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

KCH (HOLDINGS) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2023

SECTION 172 STATEMENT

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.

Stakeholder engagement

Stakeholders	Stakeholders' key interests	Ways we have engaged
Colleagues		
Our most important asset is our people. Our focus is on attracting, engaging, developing and retaining talented individuals, providing opportunities for career-long learning and development and providing safe workplaces within an inclusive culture that values diversity.	<ul style="list-style-type: none"> • Business strategy and plans • Health, safety and wellbeing • Reward and recognition • Learning and development opportunities • Diversity and inclusion 	<ul style="list-style-type: none"> • Senior management monthly updates colleagues • Board member safety walks and participation in wellbeing training • Employee engagement surveys • Employee business improvement ideas programme • Monthly wellbeing calls within teams focusing on physical, mental and financial health • Employee wellbeing month focused on physical, mental and financial health
Customers		
Understanding our customers' needs and behaviours allows us to deliver relevant products and services; retain and attract customers and identify opportunities for growth.	<ul style="list-style-type: none"> • Availability and reliability of services • Value for money • Protection from harms related to the services we provide (such as online threats) 	<ul style="list-style-type: none"> • Net Promoter Score (NPS) surveys • Senior management interaction with key business customers • Senior management involvement in resolution of customer complaints • Cancelling of CPI+ price rise for 2023 • Make social tariff more accessible and affordable

KCH (HOLDINGS) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2023

SECTION 172 STATEMENT (CONTINUED)

Stakeholder engagement (continued)

Stakeholders	Stakeholders' key interests	Ways we have engaged
Community and local government		
KCOM has been at the heart of the Hull and East Yorkshire community since 1904 and we are committed to playing our part in making it a better place to live, work and invest.	<ul style="list-style-type: none"> • Creation of jobs and wealth within the region's economy • Contribution to improving the lives of local residents 	<ul style="list-style-type: none"> • Meetings between Board members / senior management and local civic and business leaders • Community investment programme focused on connecting communities, delivering digital skills and boosting business success • Series of community initiatives and sponsorships
Suppliers		
We rely on the high standards of our carefully selected suppliers to deliver reliable services that meet customer needs.	<ul style="list-style-type: none"> • Long-term relationships • Fair payment terms • Responsible and ethical business practices 	<ul style="list-style-type: none"> • Senior management meetings with key suppliers • Informing suppliers of changes to the business in advance
Regulators and government		
Our main regulatory relationship is with Ofcom.	<ul style="list-style-type: none"> • Protection of consumers, particularly those who are vulnerable • Promotion of competition • Encouraging investment and innovation • Supporting investment in critical digital infrastructure 	<ul style="list-style-type: none"> • Meetings between Board members / senior management and Ofcom • Engagement with DCMS about the Government's gigabit-capable connectivity ambitions

KCH (HOLDINGS) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2023

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Strategic report, Directors' report and the financial statements in accordance with applicable law and regulation.

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

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

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

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

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

STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS

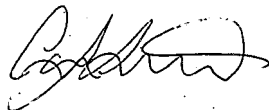
In the case of each Director in office at the date the Directors' report is approved:

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

INDEPENDENT AUDITORS

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

Approved by the board and signed on its behalf



C Hutchison
Director

17 November 2023

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 2023 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, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 March 2023; the income statement, 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

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

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

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

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

Reporting on other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report

KCH (HOLDINGS) LIMITED

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

that fact. We have nothing to report based on these responsibilities. With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

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

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 March 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

KCH (HOLDINGS) LIMITED

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

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

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

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

Use of this report

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

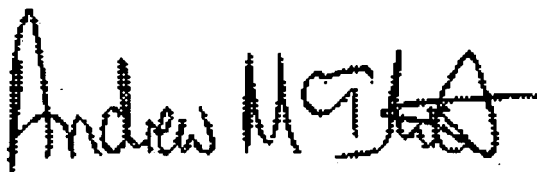
Other required reporting

Companies Act 2006 exception reporting

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

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



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

KCH (HOLDINGS) LIMITED

INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2023

		2023	2022
	Note	£'000	£'000
Continuing operations			
Revenue	2	36,881	40,112
Other operating income	3	662	536
Operating expenses	3	(37,860)	(41,159)
Operating loss	3	(317)	(511)
Income from dividends		35	-
Finance income	6	2,608	2,060
Finance costs	7	(8,799)	(7,703)
Loss before taxation from continuing operations		(6,473)	(6,154)
Taxation	8	(2,152)	(3,151)
Loss for the financial year from continuing operations		(8,625)	(9,305)
Discontinued operations			
Loss from discontinued operations	17	—	(454)
Loss for the financial year		(8,625)	(9,759)

The notes on pages 14 to 31 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2023

		2023	2022
	Note	£'000	£'000
Loss for the financial year		(8,625)	(9,759)
Other comprehensive (expense)/ income			
Remeasurements on retirement benefit asset	16	(36,086)	5,275
Tax on items that will not be reclassified	14	9,020	(1,002)
Total items that will not be reclassified to the income statement		(27,066)	4,273
Total comprehensive expense for the financial year		(35,691)	(5,486)
Total comprehensive expense for the year arises from:			
Continuing operations		(35,691)	(5,032)
Discontinued operations		—	(454)
Total comprehensive expense for the financial year		(35,691)	(5,486)

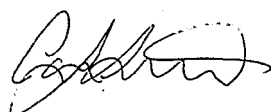
KCH (HOLDINGS) LIMITED

BALANCE SHEET AS AT 31 MARCH 2023

	Note	2023 £'000	2022 £'000
Non-current assets			
Investments	9	126,422	126,422
Retirement benefit asset	16	7,522	40,543
Deferred tax assets	14	2,878	4,150
		136,822	171,115
Current assets			
Trade and other receivables: amounts falling due within one year	10	32,760	42,627
Trade and other receivables: amounts falling due after more than one year	11	11,880	13,485
Cash and cash equivalents		109	209
		44,749	56,321
Total assets		181,571	227,436
Current liabilities			
Creditors: amounts falling due within one year	12	(1,893)	(17,763)
		(1,893)	(17,763)
Non-current liabilities			
Loans from related parties	13	(165,500)	(151,664)
Deferred tax liabilities	14	(4,743)	(12,883)
		(170,243)	(164,547)
Total liabilities		(172,136)	(182,310)
Net assets		9,435	45,126
Equity			
Called up share capital	15	2,000	2,000
Retained earnings		7,435	43,126
Total shareholders' funds		9,435	45,126

The notes on pages 14 to 31 are an integral part of these financial statements.

The financial statements on pages 11 to 31 were approved by the Board of Directors and authorised for issue on 17 November 2023. They were signed on its behalf by:



C Hutchison
Director

KCH (HOLDINGS) LIMITED

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

	Called up share capital £'000	Retained earnings £'000	Total shareholders' funds £'000
At 1 April 2021	2,000	48,612	50,612
Loss for the financial year	—	(9,759)	(9,759)
Other comprehensive income	—	4,273	4,273
Total comprehensive expense for the year	—	(5,486)	(5,486)
At 31 March 2022	2,000	43,126	45,126
Loss for the financial year	—	(8,625)	(8,625)
Other comprehensive expense	—	(27,066)	(27,066)
Total comprehensive expense for the year	—	(35,691)	(35,691)
At 31 March 2023	2,000	7,435	9,435

These financial statements are an integral part of these financial statements.

KCH (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023

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

Basis of accounting

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

The Company is a qualifying entity for the purposes of FRS 101. Note 18 gives details of the Company's ultimate parent and from where its consolidated financial statements prepared in accordance with IFRS may be obtained.

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

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

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

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.

KCH (HOLDINGS) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023

1. ACCOUNTING POLICIES (CONTINUED)

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

Area	Critical 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 	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 16.
Valuation of investments in subsidiary undertakings		
The carrying value of investments held in subsidiary undertakings has to be assessed for impairment at the balance sheet date.	The Directors apply judgement in determining the appropriate discount rate using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the investments.	In order to calculate the value in use, the Directors are required to estimate the amount and timing of cash flows applicable to the subsidiaries to which the investments relate. These are based on current budgets and forecasts and extrapolated for an appropriate period taking into account growth rate and expected changes to selling prices and operating costs.
The impairment assessment is based on the value in use, which is derived from a discounted cash flow model and/or the recoverable amount.	The Directors also apply judgement in determining the budgeted cash flows and a long-term, terminal growth rate.	
The value in use is calculated using the present value of future cash flows expected to arise from the subsidiaries, by applying an appropriate discount rate to the timing and amount of cash flows.	The Directors also apply judgement in the consideration of alternative valuation methodologies, namely, fair value less cost to sell.	

Consolidation

The Company is a wholly owned subsidiary of KCOM Group Limited and of its ultimate parent, Macquarie European Infrastructure Fund 6-SCSp (an investment fund managed by Macquarie Infrastructure and Real Assets (Europe) Limited), registered in Luxembourg.

The parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the Company is a member is KCOM Holdco 1 Limited, registered in England and Wales. Copies of KCOM Group Limited and KCOM Holdco 1 Limited's annual report and financial statements can be obtained from 37 Carr Lane, Hull HU1 3RE. Therefore, the Company is exempt, by virtue of section 400 of the Companies Act 2006, from the requirement to prepare consolidated financial statements.

KCH (HOLDINGS) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023

1. ACCOUNTING POLICIES (CONTINUED)

Going concern

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

The Group's loan facilities, entered into by KCOM Holdco 3 Limited in September 2020, mature in September 2025. Certain statutory entities within the consolidated KCOM Group Limited financial statements, including the Company act as guarantors for the loan facility. The loan facilities require compliance with leverage and interest cover ratios; on both a forward and backward looking 12-month basis, that are submitted on a biannual basis. All covenants have been complied with up to the date of signing the financial statements.

On the 26 October 2020, the Company entered into a new Intercompany Loan Agreement with its indirect parent Company, KCOM Holdco 3 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 has received confirmation of the continued financial support from KCOM Holdco 3 Limited supported by the cash flows of the Group, for a period of at least 12 months from the date of signing.

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

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

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

Assets held for sale and discontinued operations

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

A discontinued operation is a component of the Company's business that represents a separate major line of business or geographical area of operations which has been disposed of or is classified as held for sale. In the prior year, all income and costs in relation to the National Business segment are disclosed separately as discontinued operations in the Group income Statement. As the sale completed prior to the 31 March 2022 year end there were no balance sheet items relating to the National Business in the prior year comparatives. Further information is provided in Note 17.

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.

KCH (HOLDINGS) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023

1. ACCOUNTING POLICIES (CONTINUED)

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.

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.

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.

KCH (HOLDINGS) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023

1. ACCOUNTING POLICIES (CONTINUED)

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 defined as items of income and expenditure which are material and unusual in nature and which are considered to be of such significance that they require separate disclosure in the operating expenses note. Any future movements on items previously classified as exceptional will also be classified as exceptional.

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

Taxation

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

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.

KCH (HOLDINGS) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023

1. ACCOUNTING POLICIES (CONTINUED)

Financial instruments and hedge accounting (continued)

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.

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 and considered against the requirements of IFRIC 14.

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.

KCH (HOLDINGS) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023

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.

3. OPERATING LOSS

Operating loss is stated after charging/(crediting):

	Note	2023 £'000	2022 £'000
Wages and salaries		31,985	32,597
Social security costs		3,009	2,962
Other pension costs		2,865	2,910
Restructuring costs relating to employees	4	—	2,645
Auditors' remuneration for the audit of the financial statements		—	44
Other external charges		1	1
Total operating expenses		37,860	41,159
Distribution received from another group company		(662)	(536)
Total other operating income		(662)	(536)
Total		37,198	40,623

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

	2023 £'000	2022 £'000
Operating loss from continuing operations analysed as:		
EBITDA before exceptional items	(317)	2,134
Exceptional charges	—	(2,645)
Operating loss from continuing operations	(317)	(511)

4. EXCEPTIONAL ITEMS

	2023 £'000	2022 £'000
Restructuring costs	—	2,645
Total	—	2,645

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

In the year ended 31 March 2023, exceptional restructuring costs of £nil were incurred (2022: £2.6 million). Management scrutinises all restructuring costs on a line by line basis to determine whether they meet the criteria for exceptional criteria. During the year, these were incurred in the following two main areas:

- Organisation design change costs of £nil (2022: £0.9 million) across all areas of the business following the application of cost saving measures introduced by the 'Fit for growth project' in the prior 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.
- In the current year £nil (2022: £1.7 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.

KCH (HOLDINGS) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023

5. EMPLOYEES AND DIRECTORS

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

	2023	2022
	Number of employees	
Continued operations	760	791
Discontinued operations	—	458
Total	760	1,249

During the year, the Directors of the Company were Directors of KCOM Group Limited and fellow subsidiary Companies. It is not practicable to ascertain the proportion of emoluments that specifically relate to the Company. Emoluments paid to the Directors for their services as Directors of KCOM Group Limited and fellow subsidiary companies is as follows:

	2023	2022
	£'000	£'000
Remuneration	1,072	915
Aggregate amounts receivable under long term incentive plans	270	—
Company contributions paid to money purchase pensions schemes	65	124
Compensation for loss of office	188	1,742
Total	1,595	2,781

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

The highest paid Director's emoluments were as follows:

	2023	2022
	£'000	£'000
Total remuneration	794	2,399

6. FINANCE INCOME

	2023	2022
	£'000	£'000
Other finance income	1,510	1,406
Net interest on retirement benefit asset (Note 16)	1,098	654
Total	2,608	2,060

7. FINANCE COSTS

	2023	2022
	£'000	£'000
Interest on loans from related parties	8,799	7,703
Total finance costs	8,799	7,703

KCH (HOLDINGS) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023

8. TAXATION

The tax charge for the year comprises:

	2023 £'000	2022 £'000
UK corporation tax:		
– current tax on loss for the year	—	1,883
Total current tax	—	1,883
UK deferred tax:		
Origination and reversal of temporary differences in respect of:		
– loss for the year	(1,363)	(1,598)
– Adjustment in respect of prior years	1,962	—
– rate difference	—	2,230
– deferred tax relating to retirement benefit asset (Note 16)	1,553	1,090
Total deferred tax	2,152	1,722
Total taxation charge for the year	2,152	3,605
Income tax charge attributable to:		
Loss from continuing operations	2,152	3,151
Loss from discontinued operations	—	454
Total taxation charge for the year	2,152	3,605

Factors affecting tax charge for the year:

	2023 £'000	2022 £'000
Loss before taxation	(6,473)	(6,154)
Loss before taxation at the standard rate of corporation tax in the UK of 19% (2022: 19%)	(1,230)	(1,169)
Effects of:		
– income not subject to tax	1,420	(370)
– Effects of group relief	—	1,031
– adjustment in respect of prior years	1,962	1,883
– change in rate reflected in the deferred tax asset	—	2,230
Total taxation charge for the year	2,152	3,605

Factors affecting the current and future tax charges

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

9. INVESTMENTS

	Total £'000
Cost	
At 1 April 2021, 31 March 2022 and 31 March 2023	270,872
Historical impairments	
At 1 April 2021, 31 March 2022 and 31 March 2023	144,450
Net book value	
At 31 March 2023	126,422
At 31 March 2022	126,422
At 31 March 2021	126,422

KCH (HOLDINGS) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023

9. 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
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%	Placed into liquidation June 2022
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%	Liquidated May 2023
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%	Placed into liquidation June 2022
Eclipse Internet Limited*	England and Wales ²	Ordinary shares	100%	Liquidated May 2023
Kingston Communications (Hull) Limited*	England and Wales ²	Ordinary shares	100%	Liquidated May 2023
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%	Placed into liquidation June 2022
Smart421 Solutions Inc*	USA ⁵	Ordinary shares	100%	Dormant
SmartIntegrator Technology Limited	England and Wales ²	Ordinary shares	50.01%	Placed into liquidation June 2022

*Indicates indirect shareholding

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

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

2. 37 Carr Lane, Hull, HU1 3RE

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

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

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
FOR THE YEAR ENDED 31 MARCH 2023

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

	2023 £'000	2022 £'000
Amounts owed by group undertakings	29,593	39,495
Prepayments	3,166	2,995
Other receivables	1	137
Total	32,760	42,627

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

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

	2023 £'000	2022 £'000
Amounts owed by group undertakings	450	450
Prepayments	11,430	13,035
Total	11,880	13,485

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.

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2023 £'000	2022 £'000
Trade payables	—	71
Amounts owed to group undertakings	6	15,805
Other taxes and social security costs	1,883	1,883
Other payables	4	4
Total	1,893	17,763

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

13. 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.

	2023 £'000	2022 £'000
Loans from related parties		
As at 1 April 2022 and 2021	151,664	160,029
Loans advanced	45,000	40,000
Interest charged	8,799	7,703
Loan repayment	(31,029)	(48,500)
Interest paid	(8,934)	(7,568)
As at 31 March 2023 and 2022	165,500	151,664

On 29 September 2020 the indirect parent Company, KCOM Holdco 3 Limited, entered into a new external loan agreement to fund the activities of the Group. As a consequence, on 26 October 2020, the Company entered into a new Intercompany Loan Agreement with the indirect parent Company, KCOM Holdco 3 Limited to receive 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 attracting interest at a fixed rate of 5.5%.

KCH (HOLDINGS) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023

14. DEFERRED TAX

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

	Asset 2023 £'000	Asset 2022 £'000	Liability 2023 £'000	Liability 2022 £'000	Net 2023 £'000	Net 2022 £'000
Losses	2,878	4,150	—	—	2,878	4,150
Retirement benefit obligation	—	—	(1,094)	(8,857)	(1,094)	(8,857)
Asset backed partnership	—	—	(3,649)	(4,026)	(3,649)	(4,026)
Total	2,878	4,150	(4,743)	(12,883)	(1,865)	(8,733)

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

	Losses £'000	Retirement benefit obligation £'000	Asset-backed partnerships £'000	Total £'000
At 1 April 2021	1,865	(4,506)	(3,368)	(6,009)
Credited/ (charged) to the income statement (note 8)	2,285	(3,349)	(658)	(1,722)
Charged to reserves	—	(1,002)	—	(1,002)
At 31 March 2022	4,150	(8,857)	(4,026)	(8,733)
(Charged)/credited to the income statement (note 8)	(1,272)	(1,257)	377	(2,152)
Credited to reserves	—	9,020	—	9,020
At 31 March 2023	2,878	(1,094)	(3,649)	(1,865)

Tax losses have been credited to the income statement in the current financial year. As a Group, management have confirmed that the Group deferred tax assets will be recoverable using the estimated future taxable income. The Group is based on approved forecasts for the Group. The Group is expected to generate taxable income from the year ended 31 March 2025 onwards. The losses are expected to be utilised over the next 5 years.

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.

15. CALLED UP SHARE CAPITAL

	2023 £'000	2022 £'000
Allotted and fully paid		
2,000,000 (2022: 2,000,000) ordinary shares of £1 each	2,000	2,000

KCH (HOLDINGS) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023

16. RETIREMENT BENEFIT ASSET

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 with the Trustees. The Trustees must be composed of representatives of the Company and scheme participants in accordance with each scheme's individual Rules.

The pension schemes are subject to a full actuarial valuation every three years using assumptions agreed between the Trustees and the Company. 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 Company's funding policy is to ensure assets are always sufficient to cover accrued service liabilities. There are no employer contributions scheduled for the future for both schemes. The Scheme's liabilities continue for (approximately 13 years for the Main Scheme and 14 years for the Data Scheme).

The information disclosed below is based on the preliminary results of the latest formal actuarial valuation of the plans, which was undertaken as at 1 April 2022. This has been updated to 31 March 2023 by an independent qualified actuary, using assumptions that are consistent with the requirements of IAS19.

From the preliminary results of the pension valuation changes in mortality of members and commutation factors have resulted in an actuarial gain of £7.4 million recognised within other comprehensive income in the year.

Surplus positions of £6.3 million on the Main scheme and £1.2 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.

There is no employer contributions scheduled for the future for both schemes. The schemes' liabilities continue for (approximately 13 years for the Main Scheme and 14 years for the Data Scheme).

KCH (HOLDINGS) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023

16. RETIREMENT BENEFIT ASSET (CONTINUED)

	Main scheme			Data scheme			Combined schemes		
	Present value of obligation	Fair value of plan assets	Total	Present value of obligation	Fair value of plan assets	Total	Present value of obligation	Fair value of plan assets	Total
Consolidated	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 April									
2021	220,166	(247,477)	(27,311)	41,361	(46,564)	(5,203)	261,527	(294,041)	(32,514)
— Administrative expenses	—	710	710	—	292	292	—	1,002	1,002
Interest expense/(income)	4,203	(4,755)	(552)	796	(898)	(102)	4,999	(5,653)	(654)
Total amount recognised in profit or loss	4,203	(4,045)	158	796	(606)	190	4,999	(4,651)	348
<i>Remeasurements:</i>									
Return on plan assets, excluding amounts included in interest	—	351	351	—	1,865	1,865	—	2,216	2,216
Gains from change in financial assumptions	(4,343)	—	(4,343)	(3,056)	—	(3,056)	(7,399)	—	(7,399)
(Gains)/losses arising from changes in demographic assumptions	(325)	—	(325)	233	—	233	(92)	—	(92)
Total amount recognised in other comprehensive income	(4,668)	351	(4,317)	(2,823)	1,865	(958)	(7,491)	2,216	(5,275)
<i>Employer contributions:</i>									
Contributions via asset-backed partnership	—	(2,729)	(2,729)	—	(373)	(373)	—	(3,102)	(3,102)
Benefit payments	(8,739)	8,739	—	(1,117)	1,117	—	(9,856)	9,856	—
At 31 March 2022	210,962	(245,161)	(34,199)	38,217	(44,561)	(6,344)	249,179	(289,722)	(40,543)

KCH (HOLDINGS) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023

16. RETIREMENT BENEFIT ASSET (CONTINUED)

	Main scheme			Data scheme			Combined schemes		
	Present value of obligation	Fair value of plan assets	Total	Present value of obligation	Fair value of plan assets	Total	Present value of obligation	Fair value of plan assets	Total
Consolidated	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 April 2022	210,962	(245,161)	(34,199)	38,217	(44,561)	(6,344)	249,179	(289,722)	(40,543)
Administrative expenses	—	637	637	—	341	341	—	978	978
Interest expense/(income)	5,470	(6,400)	(930)	971	(1,139)	(168)	6,441	(7,539)	(1,098)
Total amount recognised in profit or loss	5,470	(5,763)	(293)	971	(798)	173	6,441	(6,561)	(120)
Remeasurements:									
Loss on plan assets, excluding amounts included in interest	—	68,798	68,798	—	14,393	14,393	—	83,191	83,191
Gains from change in financial assumptions	(31,715)	—	(31,715)	(7,479)	—	(7,479)	(39,194)	—	(39,194)
Gains arising from changes in demographic assumptions	(6,317)	—	(6,317)	(1,594)	—	(1,594)	(7,911)	—	(7,911)
Total amount recognised in other comprehensive expense	(38,032)	68,798	30,766	(9,073)	14,393	5,320	(47,105)	83,191	36,086
Employer contributions:									
Contributions via asset-backed partnership	—	(2,590)	(2,590)	—	(355)	(355)	—	(2,945)	(2,945)
Benefit payments	(9,339)	9,339	—	(2,950)	2,950	—	(12,289)	12,289	—
At 31 March 2023	169,061	(175,377)	(6,316)	27,165	(28,371)	(1,206)	196,226	(203,748)	(7,522)

Significant estimates: IAS 19 assumptions and sensitivity

The significant IAS 19 assumptions were as follows:

	2023		2022	
	Main scheme	Data scheme	Main scheme	Data scheme
RPI inflation	3.30%	3.30%	3.75%	3.75%
CPI inflation	2.85%	2.85%	3.25%	3.25%
Rate of increase to pensions in payment	2.73%	3.88%	3.00%	3.93%
Discount rate for scheme liabilities	4.75%	4.75%	2.65%	2.65%

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:

	2023		2022	
	Main scheme	Data scheme	Main scheme	Data scheme
Retiring at the end of the reporting year:				
- Male	21	22	22	23
- Female	23	24	23	25
Retiring 20 years after the end of the reporting year:				
- Male	23	24	23	23
- Female	25	26	25	26

KCH (HOLDINGS) LIMITED
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16. RETIREMENT BENEFIT ASSET (CONTINUED)

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

	Increase in assumption				Decrease in assumption			
	2023		2022		2023		2022	
	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 1% change to:								
Discount rate	(10.6%)	(11.4%)	(1.5%)	(1.5%)	12.8%	13.9%	1.5%	1.5%
RPI Inflation	10.3%	3.5%	1.4%	0.6%	(8.3%)	(3.1%)	(1.3%)	(0.4%)
Sensitivity to 1 year change in life expectancy	(3.1%)	(3.3%)	3.9%	4.0%	3.0%	3.3%	(3.9%)	(4.0%)

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.

Balance sheet amounts

The major categories of plan assets are as follows:

	2023				2022			
	Main scheme £'000	Data scheme £'000	Total £'000	%	Main scheme £'000	Data scheme £'000	Total £'000	%
Consolidated								
Leverage gilts (unquoted)	487	5,054	5,541	3%	—	—	—	—
Leveraged gilts (quoted)	—	—	—	0%	—	4,509	4,509	2%
Gilts (quoted)	3,568	—	3,568	2%	—	—	—	0%
Indexed linked gilts (quoted)	27,118	—	27,118	13%	—	—	—	0%
Leveraged index linked gilts (unquoted)	—	4,107	4,107	2%	—	—	—	0%
Leveraged index linked gilts (quoted)	—	—	—	0%	37,370	3,203	40,573	14%
Interest rate-swaps (unquoted)	163	—	163	0%	—	—	—	0%
Inflation swap fund (unquoted)	3,731	896	4,627	2%	—	—	—	0%
Inflation swap fund (quoted)	—	—	—	0%	11,629	804	12,433	4%
Liability matching funds (unquoted)	35,067	10,057	45,124	22%	48,999	8,516	57,515	20%
Diversified growth fund (unquoted)	—	—	—	0%	—	3,618	3,618	1%
Hedge funds (unquoted)	109,777	16,360	126,137	62%	17,112	—	17,112	6%
Hedge funds (quoted)	—	—	—	0%	164,807	29,311	194,118	67%
Illiquid credit (unquoted)	14,798	—	14,798	7%	—	—	—	0%
Cash and cash equivalents (unquoted)	—	—	—	0%	6,936	803	7,739	3%
Cash and cash equivalents (quoted)	15,735	1,954	17,689	9%	7,307	2,313	9,620	3%
Total	175,377	28,371	203,748	100%	245,161	44,561	289,722	100%

KCH (HOLDINGS) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023

16. RETIREMENT BENEFIT ASSET (CONTINUED)

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.

Future benefit payments

KCH (Holdings) Limited, a wholly owned subsidiary of the Parent Company, is responsible for all obligations and liabilities of the schemes. An equivalent liability has been provided in the financial statements.

The Parent Company provides a guarantee to both defined benefit schemes, whereby if KCH (Holdings) Limited is unable to meet its obligations to the schemes, such obligations would be met by the Parent Company. No liability has been recognised in respect of the guarantee at 31 March 2023 (2022: £Nil).

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 £1.8 million (2022: £1.9 million) for continuing operations.

KCH (HOLDINGS) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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17. DISCONTINUED OPERATIONS

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

On 31 March 2021, the Group finalised the sale of the National Business consumer base for £1.2 million. On the 31 July 2021 KCOM Group Limited completed the sale of the trade and net assets of the National ICT business (predominantly the previously disclosed National Business segment) to GCI Network Solutions Limited ("Nasstar") for consideration of £31.4 million. The consideration was comprised of £29.4 million upfront cash and £2.0 million of deferred consideration payable 12 months after the completion date. Financial information relating to the discontinued operation for the period to the date of disposal is set out below.

Financial performance

The financial performance attributable to the discontinued operations for the years ended 31 March 2023 and 31 March 2022:

	2023 £'000	2022 £'000
Revenue	—	12,445
Operating expenses	—	(12,445)
Operating result	—	—
Result before taxation from discontinued operations	—	—
Taxation	—	(454)
Loss for the year from discontinued operations	—	(454)

18. PARENT UNDERTAKING AND CONTROLLING PARTY

The Company's immediate parent undertaking is KCOM Group Limited. 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 2023, the parent undertaking of the smallest group of undertakings for which group financial statements are drawn up and of which the Company is a member is KCOM Group Limited, registered in England and Wales. The parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the Company is a member is KCOM Holdco 1 Limited, registered in England and Wales. Copies of KCOM Group Limited and KCOM Holdco 1 Limited's, annual report and financial statements can be obtained from 37 Carr Lane, Hull, HU1 3RE.

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

19. SUBSEQUENT EVENTS

There are no subsequent events to disclose up to the date of signing the financial statements.

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	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. EBITDA before exceptional items is important to the users of the financial statements as it assists with comparing performance from previous periods. The items classified as exceptional items are described in Note 4. EBITDA before exceptional items is defined as 'profit before tax' before share of profit before associates, finance costs, amortisation, depreciation and exceptional items.	Loss before tax as quoted in the income statement (loss of £6.5 million), add back finance costs (£8.8 million) as quoted on the income statement, less finance income (£2.6 million) as quoted on the income statement, add back exceptional charge of (£nil) as quoted in Note 4.