KCOM Group Limited
(formerly KCOM Group PLC)
Annual report and accounts
2019/20

Company number

2150618

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Company information

Registered office
KCOM Group Limited (formerly KCOM Group PLC)
37 Carr Lane
Hull HU1 3RE
Registered in England and Wales

Company number
2150618

Independent auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
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London
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United Kingdom

Our business at a glance

KCOM is a leading provider of communications and IT services to consumers and businesses across the UK.

We are one of the UK's longest-established communications companies, connecting customers since 1904 and staying at the forefront of technology and communications in the decades since then. Our principal activities are:

1. The provision of internet and voice services to over 145,000 consumers and businesses in Hull and East Yorkshire
2. The provision of connectivity services and technology solutions nationally to UK-based private and public sector organisations

Our business was previously organised into three market-facing segments – Hull and East Yorkshire; Enterprise; and National Network Services.

During the year we merged our Enterprise and National Network Services segments to create a single Business segment serving all our national business and public sector customers with connectivity and technology services.

We also renamed our Hull and East Yorkshire segment Consumer & Regional Business and announced plans to expand our retail services for consumers and small to medium-sized businesses beyond our traditional heartland, and to develop our wholesale business.

On 24 April 2019, Humber Bidco Limited, a wholly-owned indirect subsidiary of Universities Superannuation Scheme Limited, announced a recommended cash offer for the entire issued and to be issued ordinary share capital of KCOM for 97.0 pence per share. On 3 June 2019, MEIF 6 Fibre Limited, a wholly-owned indirect subsidiary of Macquarie European Infrastructure Fund 6 SCSp (an investment fund managed by Macquarie Infrastructure and Real Assets (Europe) Limited), announced a recommended cash offer for the entire issued and to be issued ordinary share capital of KCOM for 108.0 pence per share. Both offers were to be effected by way of a Scheme of Arrangement.

As a result of the competitive situation, and in order to provide an orderly framework, the Takeover Panel ruled that the auction procedure set out in Appendix 8 of the Takeover Code would apply. The auction process ended on 12 July 2019 after which the KCOM Board recommended unanimously the revised MEIF 6 Fibre Limited offer of 120.3 pence per share.

The Court Meeting and General Meeting relating to the MEIF 6 Fibre Limited offer took place on 26 July 2019 at which 99.48 per cent and 99.52 per cent respectively of shares voted were in favour of the Scheme. KCOM obtained Court approval for the Scheme on 30 July 2019, resulting in the Scheme becoming effective and KCOM shares being de-listed from the London Stock Exchange on 2 August 2019 and the acquisition finalised with the settlement of shares on 19 August 2019. KCOM Group PLC re-registered as KCOM Group Limited on 22 October 2019.

Read more – Our Strategy on page 13

Chairman's statement

The last year has been a defining period for KCOM in its 116-year history. Through the acquisition of the business by MEIF 6 Fibre Limited, delisting from the London Stock Exchange, focus on transformation initiatives, and the onset of the COVID-19 global pandemic, KCOM has continued to deliver for its customers and stakeholders – ensuring the people and businesses of Hull and East Yorkshire are connected to the things that matter.

New ownership

Following the recommendation of the then Board that shareholders accept the offer of 120.3 pence per share from MEIF 6 Fibre Limited, shareholders voted overwhelmingly in favour of the acquisition during the period. KCOM was subsequently de-listed from the London Stock Exchange and began its journey as a private company.

Macquarie Infrastructure and Real Assets (MIRA) is the world's largest infrastructure manager with extensive experience driving the development of essential telecommunications infrastructure businesses. We are delighted to see KCOM join the MIRA portfolio via MEIF 6 Fibre Limited and are looking forward to building on its service offering, local heritage, and high-quality network.

Board and leadership changes

The transition to new ownership resulted in the appointment of a new Board and changes to the leadership team during the year as outlined below:

- On 1 August 2019, with the acquisition of KCOM complete, Non-Executive Chairman Patrick De Smedt and Non-Executive Directors Elizabeth Barber and Peter Smith resigned from the Board.
- On 18 October 2019 I joined the Board as Chairman and John Fitzgerald and Richard Greenleaf joined as Non-executive Directors.
- On 22 October 2019 Chief Executive Officer Graham Sutherland and Chief Financial Officer Anna Bielby resigned from the Board and the Group. Dale Raneberg joined the Board and the Group in the role of Chief Executive Officer. Sally Jones resigned from the Board as Company Secretary.
- On 28 January 2020 Jaap Postma joined the Board as a Non-Executive Director.

We would like to thank the former Board members for their contribution to KCOM and in particular Graham Sutherland, Anna Bielby and Sally Jones for steering the Group through the acquisition process to its next phase of development.

Strategic focus

Since the transition of the Group to new ownership the Board and Executive Leadership Team have focused on executing the investment strategy.

Among our first priorities was a review of the strategy of the retail and wholesale businesses in the East Yorkshire region. We have made good progress in our stated goals of establishing opportunities to expand our full fibre network beyond its traditional footprint in Hull and surrounding areas and maximising network utilisation and consumer choice.

In January 2020 we announced plans to invest up to £100 million to expand our Fibre to the Premises network to additional towns and villages in East Yorkshire and North Lincolnshire. The first phase of the build programme is well underway and planning for subsequent phases is in development.

In parallel with our network expansion and to maximise the benefits of our investment we have begun to strengthen our wholesale capabilities in the regional market. A new team and management structure are in place to drive and support the growth of our wholesale customer base and the development of our service offerings for both direct and indirect customers.

A further area of strategic focus since the acquisition of the Group has been an in-depth review of the Business segment, covering operating performance, the viability of its offerings, opportunities and requirements for development, and the long-term fit in relation to KCOM's overall strategy.

Strategic report – Chairman's statement

The Board is committed to making decisions that support the long-term success of the Group and each Director has contributed significantly to ensure the Board fulfils its obligations effectively.

In line with the priorities of MIRA, the KCOM Board undertook an external audit of Health and Safety at KCOM and have established a Board Health and Safety committee to review internal practices and work closely with management on monitoring and evaluating the activities of the health and safety function. This committee is chaired by John Fitzgerald and meets every two months.

COVID-19

I wanted to reflect on the commitment shown by all of KCOM's teams to keeping our customers and community connected and safe during COVID-19.

With the global outbreak of the pandemic in March 2020, people across the world shifted their work, study, and entertainment towards the home. The situation was of course no different in the Hull and East Yorkshire region, with both households and businesses relying more than ever before on KCOM's services to stay connected with their families, friends, and colleagues.

The UK's lockdown put significant pressure on telecommunications networks and served to underline the importance of secure, resilient, and fast broadband services. I was proud to see KCOM step up to the challenges posed by the pandemic and demonstrate the value of its ongoing work to upgrade and expand its network infrastructure.

I was also pleased to see KCOM continue in its long history of giving back to the community. From targeted initiatives designed to support customers facing challenging circumstances, to the donation of both time and money through its Community Grant scheme, KCOM has shown how its customers are at the centre of everything it does.

Looking ahead

As we continue through this period of transition and change I want to thank colleagues across KCOM for their ongoing efforts in support of our customers and our business. Their passion and enthusiasm in addressing challenges and opportunities is clear and we are confident that the combination of their energy and capabilities with long-term investment will result in a stronger and more sustainable KCOM in the future.

Nathan Luckey

Chairman

13 April 2021

CEO's statement

I was delighted to join the business after the acquisition by MEIF 6 Fibre Limited (managed by Macquarie Infrastructure and Real Assets, MIRA), in October 2019, to take on the role of Chief Executive Officer and feel privileged to have the opportunity to lead such a long-established and successful business at this exciting stage of its development.

MIRA's ownership of other assets in the UK, and in the sector abroad, brought in an experienced investor in infrastructure. I believe this private ownership approach creates a favourable environment to transform KCOM, securing its long-term future and delivering sustainable value to investors and customers, as well as benefits to colleagues and the wider community.

Joining the business part way through a difficult year presented immediate challenges and required considerable effort from the new executive team. Despite changes to the structure of the Business segment and cost reduction initiatives across the business, performance in the first half of the year was below revised expectations, due to a continued decline in revenue, inefficiencies in our operating model and a cost base that had grown out of line with the size of our business.

In November 2019 we put in place a programme of activities to turnaround our financial performance and transform the business. Before the end of the year this programme already had a significant impact in addressing the trends and issues, with the measures taken and the resulting improved performance laying the foundations for further transformation and future growth.

Turnaround work focused on an immediate improvement in performance over all areas of the business including the regional business activities in Hull and East Yorkshire, our Business, Technology, and Central Support functions and included both options for improving revenue quality and reducing cost.

The results of this effort can be seen in the significant outperformance against mid-year EBITDA forecasts by over 10 per cent, putting the business back into growth with performance improvements which will continue to be implemented and realise further benefits over the next years.

Transformation work set the future direction of the company through a plan for focused development of a reorganised Business, expansion of our regional network, development of our wholesale capability, and attention to values and culture.

Reforming Business, in particular, required extensive work to set the strategy for the coming years and prepare a business plan which involves ongoing work to implement.

This project reviewed operations, performance and market potential of Business including a review of the attractiveness of its products and services and customer segments, identifying opportunities for development, and understanding the needs of the business to realise these opportunities.

This refocusing arrested a long-term deterioration and changed the priorities of the segment, its structure and its way of working. Employees in this part of the business have since shown the full strength of their collective capabilities responding quickly in the early days of COVID-19 to support a number of our largest customers to adapt to new needs, deliver new services and move to large-scale working from home.

Expanding our regional network is a strategic priority and during the year we announced the decision to invest c. £100 million to expand our full fibre network beyond our traditional heartlands of Hull and surrounding areas. Operationally this has required our networks team to launch and scale a build programme and our retail business unit to deploy new go-to-market approaches to address competitive markets in our fibre expansion areas. These activities have been supported by new systems and processes as part of our digital transformation and backed up by customer care improvements to improve responsiveness. This work has progressed in line with the plan up to year end.

Reinforcing the commercial strength of our wholesale business involved structural changes to create a new distinct commercial unit with resources from across the business consolidated within a single team. Several new senior roles and investment in new systems are now underway, this will allow the wholesale business to take advantage of the scale provided by our network build.

Foundations for our new values and culture are being set by our People team to promote employee engagement, improve career development options and move to a performance culture with greater alignment between reward, individual contribution and results. The scope of the team has expanded to include coordination of our sustainability initiatives and increased contribution to the community.

Elsewhere in the business we have prioritised health and safety as a core focus, introducing closer coordination with contractors, improved review management and new incident identification and escalation processes. This has involved collaboration between our networks team and our health and safety team and has benefited from the Board's Health and Safety sub-committee oversight.

Beyond our turnaround and transformation programme we integrated our legal and regulatory teams and appointed a Chief Legal and Regulatory Officer to give regulatory matters a direct voice on the Executive Leadership Team.

All these changes have had strong support and commitment within KCOM, which continues to be recognised as an innovator and champion of customer service in the sector, having being named during the year as Best Consumer Broadband Provider by the Internet Service Providers' Association and receiving the award for Quality and Affordability of Services at the European Broadband Awards.

Outlook

As we continue to deploy our full fibre network within Yorkshire and North Lincolnshire and build the commercial capabilities of our wholesale operations I am confident of our ability to maximise the returns on the investment we are making and increase our revenue and profitability while making a positive contribution to the communities in which we operate.

I look forward to working with the Board and with colleagues across KCOM in the year ahead to continue to keep our customers connected and deliver services that improve their lives and businesses.

Dale Raneberg

Chief Executive Officer

13 April 2021

Performance review

Basis of preparation

IFRS 16 “Leases” accounting standard has been applied for the first time for the year ending 31 March 2020. IFRS 16 replaces IAS 17 “Leases” and has a material impact on KCOM’s financial statements. The accounting standard requires lease payment obligations to be discounted and recognised as lease liabilities. These are financial liabilities that increase total liabilities and net debt. At the same time, a right of use (“ROU”) asset is recognised, increasing total assets. Operating expenses previously recognised in connection with operating leases are now recognised as depreciation of ROU assets within depreciation and amortisation expense and interest charges within finance costs. This significantly increases EBITDA and reduces comparability between periods. In the cash flow statement, the principal repayment portion of the lease payments from existing operating leases reduces net cash from/used in financing activities and no longer affects net cash generated from operations.

Transition to IFRS 16 for the Group took place on 1 April 2019 and, in accordance with the transitional provisions of IFRS 16, we have adopted IFRS 16 using the modified retrospective approach. Consequently, the prior year comparatives have not been restated. To allow comparability with our previous performance indicators we have moved to measuring performance using EBITDA after leases (“EBITDAaL”). EBITDAaL is calculated by adjusting EBITDA for depreciation of the ROU assets and for interest expenses on recognised lease liabilities. We will also measure ‘net debt excluding leases’ as a key metric. This is calculated by removing the lease liabilities from net debt.

EBITDAaL reconciliation

A reconciliation of the definitions of the former financial performance indicator, EBITDA, with the new “after leases” indicator can be found in the following table:

	Consumer & Regional Business £'m	Business £'m	Central £'m	Total £'m
EBITDA (Note 4)	**56.5**	**10.9**	**(5.3)**	**62.1**
Depreciation of right of use assets (Note 16)	(1.6)	(13.4)	(0.2)	(15.2)
Interest expense on recognised lease liabilities (Note 9)	(0.1)	(0.9)	(0.0)	(1.0)
EBITDAaL (Note 4)	**54.8**	**(3.4)**	**(5.5)**	**45.9**

The difference between EBITDAaL calculated from the reported numbers prepared under IFRS 16 and EBITDA calculated under the old leasing standard (IAS 17) is £0.5 million for the year ended 31 March 2020. The published figures for the year ended 31 March 2019 have not been adjusted because the impact of doing so is not considered material.

Change in segments

The segmental results have been prepared and presented on a new basis in the year ended 31 March 2020 to reflect changes in our organisational design and the way in which we report results to the Board. The Hull and East Yorkshire segment has been renamed Consumer & Regional Business. National Network Services (“NNS”) and Enterprise have combined to form Business. There have also been changes to the cost base, with an increase in costs being incurred directly by the segments, rather than being recharged from Central functions.

Group performance

The results for the year show an anticipated decline in Group revenue of £18.8 million (7 per cent) and a decline in EBITDAaL of £11.2 million (20 per cent), compared to the prior year. Loss before tax on a reported basis has reduced significantly from a loss of £31.6 million in the year ended 31 March 2019 to a loss of £9.1 million in the year ended 31 March 2020. This is predominantly due to lower exceptional charges and depreciation and amortisation costs in the current year.

Our Consumer & Regional Business segment continued to perform well with increasing overall customer numbers and more customers taking our fibre broadband products. Consumer revenue remained in line with last year at £60.1 million, with modest growth in our fibre broadband ARPUs (average revenue per user) being offset by a reduction in ADSL ARPUs. This is driven by the top end ADSL customers typically transitioning to the entry point fibre products, leaving ADSL with a lower residual revenue generating customer base on average.

EBITDAaL in the Consumer & Regional Business segment has declined by £4.1 million. Underlying growth in Consumer EBITDAaL driven by higher fibre rentals and calls was partly offset by lower voice rentals as customers trend away from landlines and the impact of IFRS 15 which meant we recognised higher router sales in the year ended 31 March 2019. The reduction in Wholesale revenues and EBITDAaL is the largest contributor to the year on year reduction, this is largely due to lower volumes with existing customers and regulatory price decreases during the year. Regional Business has also declined year-on-year, predominantly due to lower voice revenues. In the year ended 31 March 2020 we have incurred £1.0 million of costs in relation to our fibre expansion plans, this is offset by lower salary costs from organisational design changes.

As in the year ended 31 March 2019, the performance of our Business segment has significantly declined year-on-year. Revenue has continued to fall, with this decline reflecting the final year of deferred income unwind on the segment's largest customer contract in the prior year, continued churn and a decline in projects revenue due to a strategic decision to reduce risk from bespoke one-off activity. EBITDAaL has consequently declined by £10.6 million. Several cost transformation initiatives were established in the second half of the year which started to reverse the trend of declining profitability.

Exceptional costs of £25.3 million include direct acquisition costs of £11.8 million with a further £1.9 million of related costs arising on the accelerated vesting of share schemes. Remaining exceptional costs of £11.6 million relate to an extensive restructuring programme which includes cost reduction programmes, onerous lease charges and associated third-party consulting fees.

Net debt excluding leases increased from £107.2 million at 31 March 2019 to £133.5 million at 31 March 2020, largely as a result of the cash impact of the exceptional costs noted above and a working capital outflow.

Segmental analysis

The KCOM Group Limited (formerly KCOM Group PLC) Board makes decisions and manages the business in line with the segmental analysis set out below. This information is presented before exceptional items to provide a better understanding of underlying performance. A reconciliation of the Group's pre-exceptional results is set out in Note 4.

Consumer & Regional Business

	2020 £'m	2019 £'m *Restated*
Revenue		
Consumer	**60.1**	60.1
Business	**26.6**	27.1
Wholesale	**10.6**	12.2
Non-core – Media and Contact Centres	**1.2**	1.7
Total revenue	**98.5**	101.1
EBITDAaL	**54.8**	58.9

Restatement: Two customers have been reclassified from Business to Wholesale to better align with the nature of services sold to those customers and additional costs have been allocated from Central – further detail included in Note 4.

Revenue has declined by £2.6 million compared to the prior year and EBITDAaL has reduced by £4.1 million. Flat results in Consumer, but a decline in Business, Wholesale and non-core areas.

Consumer revenue has remained flat compared to the prior year due to an increase in overall customer numbers and migration to fibre offset by lower residual ADSL ARPU mix noted above, lower voice rentals as customers trend away from landlines and the impact of IFRS 15 from higher router sales in the year ended 31 March 2019. Our fibre rollout continues to deliver new broadband customers, with overall broadband customers increasing by 3 per cent to 124,300 (31 March 2019: 121,000). The proportion of customers within this broadband base taking a fibre service has increased to 82 per cent at 31 March 2020 (31 March 2019: 71 per cent).

Business revenue has declined by 2 per cent but is stabilising with continued growth in its fibre base with a further 697 business sites connected in the year and bandwidth increasing, helped by four public sector WAN wins. The decline reflects a reduction in voice rentals due to a migration from analogue lines to internet-based communication or VoIP, and a decline in project activity when compared to the prior year.

Wholesale revenue has declined by 13 per cent. This reflects a reduction in voice revenues, in addition to a regulated price decrease on bandwidth and one large customer downgrading their service in year.

During the year, we announced the decision to invest approximately £100 million to expand our full fibre network to surrounding areas and as at 31 March 2020 we had passed 7,200 premises. Excluded from this amount is 1,500 of engineering exceptions, that require further work.

EBITDAaL has declined by 7 per cent in the year driven by the revenue decline and also due to cost investment to support the full fibre network expansion plans into surrounding areas.

The key metrics for our Consumer & Regional Business segment is as follows:

	2020	2019
Total Consumer customers (‘000s of voice lines)	**141.1**	139.9
Total Consumer broadband customers (fibre and copper – ‘000s)	**124.3**	121.0
Total Consumer fibre broadband customers (‘000s)	**102.6**	85.5
Total Business fibre broadband sites (‘000s)	**6.6**	5.9
Total fibre availability (‘000s premises passed)	**203**	195
Brand net promoter score	**-3**	-21

Business

	2020 £’m	**2019 £’m** *Restated*
Revenue		
Connectivity	**58.5**	61.5
Hosting	**6.5**	7.1
Managed Service	**15.1**	17.2
Projects	**33.7**	36.0
Voice	**32.0**	36.4
Other	**20.8**	25.4
Total revenue	**166.6**	183.6
EBITDAaL	**(3.4)**	7.2

Restated: The National Network Services (“NNS”) and Enterprise segments were combined during the year and additional costs were allocated from Central – further details available in Note 4.

Although we anticipated a decline in Business revenue in the year, delayed implementation of cost transformation initiatives in the first half of the year meant that EBITDAaL was below expectation with the segment reporting a loss in the year. In the second half of the year an extensive cost transformation programme was launched to provide the foundations for future growth.

Revenue has reduced by £17.0 million and EBITDAaL has decreased by £10.6 million compared to the prior year. The revenue decline reflects the final year of deferred income unwind on the segment’s largest customer contract in the prior year, continued churn and a decline in projects revenue due to a strategic decision to reduce risk from bespoke one-off activity.

The decrease in EBITDAaL reflects the flow through from the revenue items noted above offset partially by cost transformation initiatives undertaken in the second half of the year. The action taken on cost reversed the trend of declining profitability in the second half of the year and the segment exited the year in a profitable position.

Central

Central costs include corporate costs where allocation to the underlying segments would not improve understanding of those segments. These costs include pensions, along with the residual Group cost of executive costs, finance, HR, risk, legal and communications, once appropriate recharges have been made to the two business segments.

Central costs have decreased from £9.0 million (restated due to allocating additional costs to the segments to be on a consistent basis with FY20) in the year ended 31 March 2019 to £5.5 million (after adjusting for the impact of IFRS 16) in the current year. This is predominantly driven by the cease of costs associated with being a listed company and the termination of the share-based payment schemes.

Exceptional items

The Group incurred exceptional charges totalling £25.3 million in the year. This comprises:

- direct acquisition related costs of £11.8 million with a further £1.9 million for accelerated vesting of share schemes; and
- strategic cost transformation programme leading to restructuring costs of £8.4 million and an onerous contract charge and ROU asset impairment combined of £3.1 million. The £8.4 million comprises of £6.1 million of redundancy costs, £1.0 million of Executive Director exit costs and £1.3 million of advisor fees.

The acquisition costs predominately comprise of advisor and associated fees related to the sale of KCOM to MEIF 6 Fibre Limited. The acquisition resulted in an accelerated vesting of share schemes and the change of control resulted in the repayment of outstanding third-party debt causing the accelerated amortisation of outstanding prepaid arrangement fees. The £0.6 million acceleration of the loan arrangement fees is treated as an exceptional finance charge and therefore does not impact operating profit.

The transformation costs are the completion of activity which began in the prior year with the strategic business review preceding a fundamental re-organisation of the Group's operating model, which lead to a reduction in organisation complexity, duplication and costs. This was complemented by a further programme of cost transformation that incurred third party consultant costs performing the review and led to further organisational savings, closure of our London office and a full procurement review. The treatment of the termination and recruitment costs associated with Executive Directors is in line with the Group's accounting policy.

Net debt and cash flow

As expected, net debt excluding leases at 31 March 2020 is higher than the prior year, at £133.5 million (31 March 2019: £107.2 million), representing a net debt to EBITDAaL ratio of 2.9 times (2019: 1.9 times). Due to the settlement of the external debt, there are no undrawn committed borrowing facilities at 31 March 2020, however we have sufficient cash flows to meet our capital expenditure and working capital requirements.

The anticipated increase in net debt compared to the prior year end position arises as a result of exceptional costs, a working capital outflow and continued investment in connecting customers to our fibre network. During the year ended 31 March 2020 we also commenced our fibre build into surrounding areas. The working capital outflow mainly relates to permanent differences arising from the reduction in trade creditors as we focus on payment performance metrics. Underlying working capital continues to be well controlled. Both Days' Sales Outstanding and Days' Purchases Outstanding are consistent with the prior year end on an underlying basis. Alternative performance measures, used throughout the Annual report, are defined and reconciled to statutory measures in the Glossary on page 91.

On 29 September 2020 the direct Parent Company, MEIF 6 Fibre Limited, entered into a new external loan agreement to fund the activities of the Group, see Note 37 for further details.

Pensions

The IAS 19 pension position at 31 March 2020 is a combined net asset of £38.8 million (31 March 2019: £3.5 million net asset). The movement from 31 March 2019 arises as a result of a £7.0 million increase in the fair value of the schemes' assets combined with a £28.3 million reduction in the net present value of the schemes' liabilities. The increase in the value of assets reflects employer contributions into the schemes and an increase in the expected return of the schemes' assets.

The reduction in the value of the schemes' liabilities is predominantly due to the impact of the 1 April 2019 actuarial valuations and a reduction in inflation expectations over the year and contributions into the Schemes.

During the year we made contributions of £7.3 million to the Main Scheme and £2.7 million to the Data Scheme through deficit repair payments as well as contributions made via the Asset-backed partnership.

On 30 September 2020 the updated funding agreements were signed off, based on the data from the updated triennial valuation as at 1 April 2019. The valuations resulted in a funding deficit at this date of £4.2 million (1 April 16: £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).

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.

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) (2019: £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 £18.0 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 paid in full the entire outstanding contributions due to both schemes on 21st December 2020.

Capital investment

Cash capital expenditure during the year was £27.5 million (2019: £37.5 million). The major project in the year was the continued deployment of fibre, the full fibre expansion into surrounding areas and the transformation of the network in our Consumer & Regional Business segment.

The Group's depreciation and amortisation charge for the year was £23.9 million (2019: £29.9 million), excluding the depreciation of right-of-use assets under IFRS 16. The decline is due to software on several major customer contracts being fully amortised during the years ended 31 March 2019 and 31 March 2020.

Tax

The Group's tax credit was £1.4 million (2019: £2.3 million charge). The effective tax rate was 15 per cent.

COVID-19

COVID-19 has had no significant financial impact for the year ended 31 March 2020.

Our strategy

During the year there has been significant focus on reviewing and defining our strategy. An initial review commenced in the prior year, before the Group's acquisition by MEIF 6 Fibre Limited. This review was triggered principally by declining revenues and performance below expectations in our Business segment. The review sought to identify how to maximise shareholder value and improve overall business performance. Since the Group's acquisition by MEIF 6 Fibre Limited there has been increased focus and urgency on an expanded strategic review with additional emphasis on stabilising the cost base, turning around areas of underperformance and accelerating growth through fibre expansion.

Turnaround and transformation

Given the trend in recent performance the most urgent task for the business was a broad programme of work to turn around the decline as quickly as possible and prepare the foundations for longer-term transformation.

This work has included implementing cost efficiencies, reducing the range of products we offer our customers and simplifying delivery processes. We have also continued work to restructure the segments into standalone business units.

Consumer & Regional Business

Our strategy in relation to our Consumer & Regional Business is centred on maximising network utilisation in our existing full fibre footprint and investing to expand our full fibre network further within East Yorkshire and to North Lincolnshire.

In addition to increasing take-up of our retail services in our traditional market in Hull and the surrounding areas by developing offerings that better meet the needs of underserved audience segments and marketing to these groups more effectively, we have strengthened the commercial capabilities of the Group's wholesale function to develop its role as a supplier of services to third-party internet service providers.

Having successfully completed our full fibre deployment across our core Hull and surrounding areas network in the last financial year, we are seeking to build upon our strong market position in the region to expand our network further. With full fibre broadband available to just 15 per cent of UK homes we believe we have a strong opportunity to leverage our capability and experience in building full fibre networks to achieve growth.

A revised and expanded first phase of the expansion programme was announced in January, and, supported by new systems and processes, the first customers were connected in the final quarter.

The development of the Group's wholesale function will enable us to maximise the benefits of the significant investment we are making in our regional expansion, supporting our retail growth while increasing opportunities to do business with other communications providers.

Business

Shortly after the acquisition by MEIF 6 Fibre Limited a strategic review was initiated to improve the performance of our Business segment in order to enhance customer experience, provide relevant and profitable services and improve platform efficiency.

The review also included a detailed analysis of the product portfolio, plans for the development of the business, and an assessment of the investment needs to support the business plan.

Key performance indicators

Financial key performance indicators (KPIs)

Revenue[1]

FY2020: £262.8m FY2019: £281.6m FY2018: £301.9m	This statutory measure reflects the total amount the Group recognises from the sale of goods and services net of applicable sales, taxes and discounts. Revenue is a key measure of the Group's growth and progression. The target is growth in the Consumer & Regional Business segment and to manage decline with focused renewal/retention in Business. Revenue has reduced for the past three years principally as a result of the challenges in our Business segment. In Consumer & Regional Business, decline in Wholesale and Business is partially offset by marginally higher Consumer sales.

1. KPIs are shown on a reported basis and therefore after the impact of new accounting standards in 2019 (IFRS 15,9).

EBITDAaL[1, 2]

FY2020: £45.9m FY2019: £57.1m FY2018: £68.3m	Earnings before exceptional items, interest, tax, depreciation and amortisation and after the impact of the new leasing accounting standard, IFRS 16 ("EBITDAaL"). EBITDAaL is the key profit indicator used by the Group to track and assess underlying performance. This is reported monthly to the Executive Leadership Team ("ELT") and the Board. Group EBITDAaL has continued to decline year on year. This is primarily due to trading weakness in Business driven by lower than expected order intake and continued customer churn.

1. 2018 and 2019 are shown on a reported basis, including the impact of new accounting standards in 2019 (IFRS 15,9). 2020 includes the impact of new accounting standards in 2019 (IFRS 15,9) but excludes the impact of IFRS 16.
2. Alternative performance measures, used throughout the Annual report, are defined and reconciled to statutory measures in the Glossary on page 91.

(Loss)/Profit before tax

FY2020: (£9.1m) FY2019: (£31.6m) FY2018: £34.0m	This statutory measure reflects the profitability of the business before corporation tax.The Directors believe profit before tax is an important metric as it is a statutory measure of profitability, directly comparable with other companies. In the year ended 31 March 2020 there has been a reduction in the loss before tax to £9.1 million. The improvement is driven by lower exceptional charges reducing from £56.0 million in the year ended 31 March 2019 to £25.3 million in the year ended 31 March 2020. Of the £56.0 million exceptional charges in the prior year, £51.4 million related to the non-cash impairment of goodwill relating to the Enterprise and National Network Services segments (now the Business segment). The main element of this year's exceptional charge is acquisition related costs of £11.8 million. There was a further £1.9 million of costs from the acceleration of charges relating to share schemes that vested due to the acquisition. In addition we incurred £8.4 million of costs relating to restructuring and redundancy costs and £3.1 million of onerous lease and Right of Use ("ROU") asset impairment charges. Depreciation (excluding the depreciation of right-of-use assets under IFRS 16) has reduced by £1.2 million. Increases in our full fibre rollout programme are offset by a reduction in depreciation from assets supporting customer projects. Amortisation has declined by £4.8 million due to software assets on several major customer contracts being fully amortised during the years ended 31 March 2019 and 31 March 2020.

Net debt[1, 2]

FY2020: £133.5m FY2019: £107.2m FY2018: £62.6m	Net debt is a measure of indebtedness of the business and includes cash and overdraft balances and bank borrowings. The measures as at 31 March 2019 and 31 March 2018 include amounts owing under finance leases, however these have been excluded from the amount at 31 March 2020 due to the transition to IFRS 16. This is to allow comparability across the years and to align with how the Board and ELT review them internally. Further details are provided in Note 26. In October 2019 we settled our external loan facility after the triggering of the change in control clause following the acquisition by MEIF 6 Fibre Limited. This was settled and replaced with a loan from a parent company ('loan from related parties'). See Notes 24 and 25 for more details on our loan facility. The level of net debt is important as it shows how much headroom there is within the Group's borrowing facilities to fund working capital requirements and capital expenditure. The Group has a number of obligations around pensions and capital expenditure and therefore it is important that we generate cash and manage working capital effectively in order to remain comfortably within our facilities and be able to support strategic investments such as the rollout of full fibre in the Consumer & Regional Business segment. This year net debt has increased due to cash exceptional items of £19.0 million, payments to the defined benefit pension plans of £10.0 million and capital expenditure investment of £27.5 million.

1. Alternative performance measures, used throughout the Annual report, are defined and reconciled to statutory measures in the Glossary on page 91.
2. 2020 net debt is shown excluding lease liabilities which were recognised for the first time from the application of IFRS 16. 2019 and 2018 are shown on a reported basis, including finance leases under the IAS 17 definition.

Cash capex[1]

2020: £27.5m 2019: £37.5m 2018: £43.9m	This reflects the amount of cash that has been paid out of the business in the year in relation to capital expenditure projects. Cash capex this year has reduced from the high levels in the past few years as we substantially completed the rollout of full fibre in the existing Hull and East Yorkshire area in the year ended 31 March 2019. This year we have continued addressing exceptions and have commenced our 'full fibre expansion' into the surrounding areas. It is important that we monitor and control our level of capex in order to manage the impact on the Group's performance (profit before tax) alongside our net debt. We also need to ensure that we invest appropriately in order to generate a strong return on investment and drive business performance.

1. Alternative performance measures, used throughout the Annual report, are defined and reconciled to statutory measures in the Glossary on page 91.

Strategic report – Key performance indicators

Non-financial key performance indicators (KPIs)

CO_2e emissions

2020: 10.6* 2019: 12.9* 2018: 16.2* * Thousands of tonnes	This is a new KPI presented in the year. It is the number of tonnes of CO_2e produced from electricity usage by KCOM. We believe all businesses have a responsibility to minimise any negative impact they have on the environment and consequently we make decisions with environmental sustainability in mind. Our carbon emissions from combustion of fuel and operation of facilities has fallen in the year by 23.6 per cent predominantly due to a reduction in business travel. Our electricity usage has decreased by 9.6 per cent due to energy efficiency initiatives and investment such as LED lighting and changes to air conditioning and transformation efforts to update legacy systems and remove obsolete platforms. Further detail is included in our Sustainability section on pages 30 and 31. Our target is to reduce 2019/20 levels by 50 per cent.

Total premises passed

2020: 203,000 2019: 195,000 2018: 164,000	This is the cumulative number of premises that have been ‘passed’ by our full fibre deployment and are now able to take services over fibre rather than copper lines. In January 2020 we announced our plans to extend the full fibre network beyond our existing footprint into further towns and villages in East Yorkshire and North Lincolnshire. As at the end of March 2020, we have passed 7,200 properties in our new expansion areas. Full fibre broadband provides a higher quality of service to our customers than broadband delivered over copper cables and will allow us to transform our underlying network in Hull and East Yorkshire as copper lines and the associated infrastructure can be retired. In the year ended 31 March 2019 we completed the rollout of fibre across our existing network in Hull and East Yorkshire to all properties that we were able to pass. There were c. 9,000 premises where we required third-party permissions to gain access. During 2020 we reduced this number to c. 8,000. In total there are c. 10,000 properties requiring third-party access permissions in our traditional network area and our new expansion areas.

Strategic report – Key performance indicators

Consumer & Regional Business total consumer customers

2020: 141,100 2019: 140,000 2018: 138,700	This is the total number of consumer customers in the Consumer & Regional Business segment that take either, or both, a voice and broadband service. This is a new KPI in the year and considered important as increasing the number of consumer customers is one of the key drivers of increasing revenue and profitability in our Consumer & Regional Business segment. This also links in with our strategy to lay more fibre as part of the full fibre expansion project. See Our Strategy on page 13 for more details. Consumer customer numbers have slowly increased over the last three years and as we expand into new areas with our full fibre broadband, we expect further growth. Our target is to increase this number to support our strategy to grow revenue and EBITDAaL.

Consumer & Regional Business total consumer customers connected to fibre

2020: 102,600 2019: 85,500 2018: 63,700	This is the total number of consumer customers in the Consumer & Regional Business segment that take a fibre broadband service from us. The majority are fibre to the premises with a small minority of fibre to the cabinet. This is a new KPI in the year as it supports our strategy to transition customers from ADSL products on our copper network to fibre products on our fibre network, which offer better speeds for customers and higher ARPUs. It will also allow us to focus on enhancing the fibre network and planning the decommissioning of the copper network over time. The total number of customers taking a fibre product has increased year on year over the three-year period, this is linked with our rollout of full fibre in the Hull and surrounding areas. We expect this number to continue to grow as customers taking ADSL transition to more affordable Fibre packages and as we expand in the full fibre expansion areas. Our target is to move all broadband customers to fibre products.

Days' Sales Outstanding (DSO)

2020: 36 2019: 28 2018: 30	DSO is calculated on the countback method based on underlying ledgers. DSO is a measure of how quickly cash is received after an invoice is raised. Unlike the payment of trade creditors which is largely within our control, managing the receipt of cash from debtors requires significant effort on the part of the business. The varied nature of revenue streams within the Group means this is an aggregated figure which will not individually apply to each of our market segments. The increase in our DSO as at 31 March 2020 was driven predominantly by several large outstanding customer balances. The underlying DSO has remained broadly consistent across the last three years, demonstrating our focus on managing our underlying working capital. While we do not set a specific quantified target for DSO, and fluctuation occurs during the year as a result of business cycles, we expect year end DSO to be relatively stable year on year.

Managing risk in our business

As with all businesses, we are affected by a number of risks and uncertainties. The tables on pages 18 to 22 shows the principal risks and uncertainties, some of which are beyond our control, that could have a material adverse effect on the business and have been identified through our risk management framework. This list is not exhaustive and there may be risks and uncertainties of which we are currently unaware, or which are believed to be immaterial, that could have an adverse effect on the business.

Risks reported in the prior year

Wellbeing, health and safety

Why is it important?

The wellbeing, health and safety of our people is of paramount importance to us. We have a number of people who undertake high risk activities, such as climbing telegraph poles, working in confined spaces, working alone or working next to roads. In addition, our full fibre expansion project has introduced increased risk during the year, involving civil engineering work.

It is important to us to mitigate wellbeing, health and safety risk as far as possible to try to prevent incidents from occurring.

Change in level of risk

The inherent level of risk has increased during the year due to the civil engineering work involved in our full fibre deployment project.

What are we doing to mitigate the risk?

We have an in-house wellbeing, health and safety team with significant experience of wellbeing, health and safety issues specific to our industry. We have increased this team during the year to reflect the expanded scope of our operations. We have a comprehensive training programme in place which provides general training to all our people, through mandatory e-learning, and specific training to those who undertake higher risk activities, which is then followed up by on-the-job checks.

Contractors involved in the fibre deployment project are observed via safety walks which are routinely attended by Board members. A new Health and Safety Committee has been established to monitor performance against expected safety standards and ensure that policies are kept up to date and adhered to.

Number of new initiatives to improve management and work practices through introduction of new incident review and reporting process, started a system of ‘good spots’ to record near misses, and red and yellow cards to bring attention to where improvement is needed.

Accuracy, security and confidentiality of customer data

Why is it important?

The security, confidentiality and accuracy of our customer data is of paramount importance to us and to our customers.

There is an increased inherent risk from the constantly evolving nature of cyber-attacks, particularly for those businesses that operate in technological sectors.

Change in level of risk

The risk is increasing as the volume and nature of cyber-attacks continues to grow and evolve, which threatens the security of data.

What are we doing to mitigate the risk?

We have clear and comprehensive policies in place for the management of data and run mandatory e-learning training in this area for all employees. Specific roles are in place that focus entirely on data to help ensure our ongoing compliance with the General Data Protection Regulation (GDPR).

An internal Cyber Security team has been established in the year to identify and address vulnerabilities. We keep updated on emerging cyber risks through involvement in information sharing forums.

Risks reported in the prior year continued

Customer Service and Delivery

Why is it important?

Our aim is to provide exceptional service wherever we can. The risk of not achieving this is therefore a key risk for the business.

Change in level of risk

The level of risk remains the same.

What are we doing to mitigate the risk?

During the year we have continued our focus on improving the customer experience in all parts of our business. We have sought regular feedback from customer satisfaction metrics such as Net Promoter Score (NPS) where we have seen significant improvement in the last two years. A specialist team has also been established that is dedicated to optimising the Wi-Fi experience in customers' homes and a more focused and personalised approach to sales and customer service has been introduced.

Substitute technologies entering the consumer market

Why is it important?

Much of our business in Hull and East Yorkshire is currently based on the provision of services over a fixed-line network. If substitute technologies such as 5G were developed to the extent where similar services could be provided without the use of a fixed-line network, then this would present a competitive threat to the consumer part of our business.

Change in level of risk

The level of risk remains unchanged from the prior year.

What are we doing to mitigate the risk?

We are always seeking to improve our services to our consumers and to provide a speed and quality of service that would not be achievable over a wireless network. Our fibre deployment is part of this aim and this has been expanded beyond our traditional network area into other parts of East Yorkshire during the year.

We offer bundles of products and services that we believe offer our customers value for money.

Risks reported in the prior year continued

Security and resilience of our networks and IT systems

Why is it important?

We need our networks and IT systems to continue operating in order to continue to provide service to our customers. It is therefore essential that we have secure systems and networks in place that are resilient to network upgrades, malicious activity and physical factors (e.g. risk of flooding).

Change in level of risk

The level of risk remains unchanged from the prior year.

What are we doing to mitigate the risk?

We hold certifications in several standards that relate to security and resilience, including ISO 27001, the Information Security Management standard, and ISO 22301, the Business Continuity Management standard. We regularly test our resilience plans and feedback any lessons learnt from such tests into the resilience planning process, which in turn is continually reviewed and updated on an ongoing basis. Such tests have assisted our readiness to provide continued service during the COVID-19 pandemic.

An internal Cyber Security team has been established in the year to identify and address vulnerabilities. We keep updated on emerging cyber risks through involvement in information sharing forums.

We monitor flood risk closely and are always alert to increased risks caused by extreme weather and high tides, so that we can activate our defences as required.

Regulatory obligations

Why is it important?

As a telecommunications provider, we are regulated by Ofcom and there are multiple conditions and regulations with which we need to comply. A failure to meet our regulatory obligations may impact our ability to operate effectively, result in financial penalties, and lead to reputational damage.

Change in level of risk

The level of risk remains the same.

What are we doing to mitigate the risk?

We have an in-house regulatory team which is responsible for ensuring we understand our obligations and that these are communicated to the appropriate people across the business so that we can ensure the necessary controls are in place.

We continue to work closely with our suppliers to make sure that our obligations are passed on and complied with in the areas where we are reliant on third parties for the provision of services.

Risks reported in the prior year continued

Ability to attract and retain talent within the business

Why is it important?

Many of the services that we provide are technically complex and require skills that are hard to find. Attracting and retaining the right skills is key to being able to deliver the services that our customers require.

Following the change in ownership, we are undergoing a period of change and transformation, which naturally creates some uncertainty among employees. Attracting and retaining talent within the business is key to navigating that period of change.

Change in level of risk

The level of risk has increased during the year due to the level of change and transformation.

What are we doing to mitigate the risk?

Colleague feedback has been obtained from satisfaction surveys in the year and acted upon where appropriate. This has been supported by colleague roundtable discussions with senior management. We will be reviewing our ways of working in conjunction with employee feedback to realise the desired organisational culture. Salary benchmarking has been refreshed to provide greater transparency regarding reward.

Risks reported for the first time this year

The impact of COVID-19 on our operations

Why is it important?

As previously mentioned, the wellbeing, health and safety of our colleagues is of paramount importance. We also recognise that customer service needs to be maintained, potentially in periods of increased demand. There is a risk that either colleague health or customer service will be adversely affected if a balanced approach is not taken. The economic impact of COVID-19 may reduce customers' ability to pay and adversely affect working capital and cash flow.

Change in level of risk

This is a new risk during the year.

What are we doing to mitigate the risk?

KCOM has followed government guidelines with the majority of employees working from home. Our engineers have been provided with appropriate PPE and calls have been screened to identify risks prior to appointments. Customer and employee feedback on our COVID-19 approach has been positive, however we still need to remain vigilant.

Corporate communications have also included support regarding physical and mental health issues as there is an increased risk from prolonged home working.

We have looked to support customers who may be struggling in these times through the temporary removal of over usage and late payment charges and by offering payment holidays and plans.

Sustainability

We are committed to operating in a sustainable way. When making key business decisions we consider their potential impact on:

- the communities in which we operate;
- our people;
- our customers and supply chain; and
- the environment.

Our sustainability strategy is underpinned by three objectives:

1) To use our communications technology expertise and services to create a positive impact on stakeholders and minimise our impact on the environment;
2) To promote our values, both as an employer and in our dealings with external stakeholders; and
3) To engage and empower our people to make a positive contribution to our sustainability strategy.

Community

We aim to operate in a way that benefits local communities as well as supporting our strategic business aims. Our significant presence in Hull and East Yorkshire – both as a major employer and as the region's main communications provider – means we consider the impact on this community when making certain business decisions. Our community relations programme is focused on activities which support the growth and sustainability of the region's economy and which increase life opportunities for residents.

Playing our part in the local business community

During the year we continued to be an active member of local business organisations. We are a Principal Partner of Humber Bondholders, which promotes the region as a destination for inward investment; a Key Partner of For Entrepreneurs Only, a community interest company that helps local entrepreneurs create jobs and wealth; and a Partner of C4DI (Centre For Digital Innovation), a technology hub that is helping to drive the development of the region's digital sector.

We also supported Humber Business Week, the region's flagship event for business and entrepreneurship; and the inaugural Tech Expo Humber, a two-day exhibition and conference to highlight and grow the local technology scene.

Supporting the region's young people

As a major employer and supplier of services in the region we are committed to inspiring the next generation and helping local young people reach their full potential by giving them the skills and confidence to excel in a digital world.

During the year – through the keen participation of our Hull-based employees – we supported learning activities across the region, increasing both the number of schools and colleges we engaged with and the number of activities we delivered compared to the previous year. More than half of the 1,655 volunteering hours our employees spent supporting the community during the year were in schools and colleges.

We engaged with 26 primary schools through 74 separate events or activities. These included 41 sessions of our "Simnet Challenge", an interactive session that teaches children how the internet works; and 26 sessions of our increasingly popular and relevant day-long "KCOM Key Skills" programme, through which pupils learn about effective communication, staying safe online and spotting fake news.

We supported 25 secondary schools and colleges, taking part in 52 events or activities including 22 careers fairs and events and 20 employability skills sessions covering areas including interview techniques and responsible use of social media.

We continued our partnership with Ron Dearing University Technical College, through which we provide learning support for STEM subjects (science, technology, engineering and maths). Other STEM activities we supported included the STEM 2019 event, Teen Tech 2019 and the regional WiME (Women into Manufacturing and Engineering) exhibition.

Charity and community support

During the year we supported over 60 community groups and charities in Hull and East Yorkshire by donating funds, employee time and business services.

We relaunched our long-established KCOM Community Grants scheme, through which we award 12 grants each year to local charities seeking funding for projects or events. In addition to doubling the value of each grant to £1,000, we have increased community involvement and engagement in the scheme by introducing an online voting process that enables members of the public to vote for the charity or community group they feel most deserves our support from a shortlist of six.

In addition to our grants scheme, we supported local charities and community groups by providing employee volunteering time; free use of our city centre Learning Zone for meetings and events; and raffle prizes for fundraising activities.

In the early weeks of the COVID-19 pandemic we made our employees and vehicles available to local community hubs to help with the delivery of essential supplies to vulnerable residents across East Yorkshire. We also made donations to local foodbanks at that time to support their efforts in responding to peaks in demand caused by increased financial hardship.

The desire of our people to make a positive difference in the communities we serve was demonstrated through employee collections of food and other items for Hull Foodbank and homeless charities and our annual Christmas appeal for gifts for children from disadvantaged communities.

Beyond Hull and East Yorkshire, charity committees at our main offices continued to coordinate employee support for community groups and projects local to them, combining social activities with fundraising opportunities. Through activities organised by the committees our employees donated more than £5,000 during the year to regional branches of charities including Mind, RSPCA, Shelter and Macmillan Cancer Care.

We continued our patronage of The Prince’s Trust, the UK’s leading youth charity, which changes young lives by offering training, personal development, business start-up support, advice and mentoring.

People

Much of the value we deliver to customers is through the expertise and experience of our people. Our sustainability relies on our ability to attract people with the right skills and behaviours and to motivate, develop, support and reward them appropriately.

Employee wellbeing

Through our wellbeing programme we aim to encourage the physical and mental health and wellbeing of our people by providing information, self-help tools and support.

During the year we increased our focus on raising awareness of mental health issues and support for employees experiencing poor mental health. As well as regularly promoting the support available from our fully trained Mental Health First Aiders many of our people managers took part in a two-day learning programme to help them identify and support team members and other colleagues who may be experiencing a mental health issue.

We continued to use national awareness platforms such as Time To Talk Day and Mental Health Awareness Week to put a spotlight on and help reduce the stigma surrounding mental health problems, running activities in conjunction with charities Mind and RSPCA to help our people manage their own mental wellbeing. We recognise that organisational change can be a source of stress and during the year offered half-day learning sessions to all employees to help them manage themselves and support others through change.

We worked with a new provider of health screening sessions to improve the employee experience of these annual confidential tests, which aim to help employees identify potential health problems. Of the 27 per cent of employees who attended a session, 99 per cent rated it excellent or very good and 71 per cent said they intended to make positive lifestyle changes following the session.

Having begun to monitor and plan for the impact of the COVID-19 pandemic in January, we were well prepared with measures to protect the health and safety of our employees as soon as they were required, in line with all the relevant government guidance. With the vast majority of our people able to work effectively from home we implemented this in advance of official government advice to do so, assisting them to settle into new ways of working and helping them adapt to home schooling.

For employees who remained in our offices we put in place measures including social distancing and deep cleaning to limit the risk of infection.

Measures to protect our field engineers, who are classed as key workers, included the provision of high-quality personal protective equipment and clear guidance regarding safe working practices.

Throughout the pandemic we have continued to provide advice and support to our people relating to their health, safety and wellbeing.

Employee engagement

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.

The regular employee engagement surveys we conduct highlight opportunities to make improvements and address any areas of concern at a business-wide level, as well as giving people managers timely feedback and insight into how they can support and increase engagement among their teams.

Throughout the process of being acquired by new owners we supplemented existing communications and engagement channels with additional face-to-face briefings to update employees on developments and answer their questions.

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. Our employee ideas scheme, Brainwaves, gives our people the opportunity to make suggestions aimed at improving our business.

Recruitment, selection and onboarding

During the year we reviewed our recruitment, selection and onboarding processes and began a programme of improvements to enhance our ability to recruit the best people and introduce them to our business in a way that enables them to make the most of their capabilities as early as possible.

We have:

- Sought to widen the pool of potential candidates for our roles by highlighting our commitment to inclusiveness and diversity: for example, by promoting that we are registered as a 'disability confident' employer throughout the advertising and application process;
- Carried out direct recruitment wherever possible to improve engagement with candidates and better convey the benefits we offer;
- Enhanced the onboarding process to improve the experience of new starters at every touchpoint of their early relationship with us, from their acceptance of our employment offer through to their extended induction period; and
- Placed increased focus on building a pipeline of potential future applicants for roles where we are likely to face future demand. Ongoing activities to support this include regular attendance at careers events and the creation of 'talent pools' for entry-level roles in areas such as field engineering.

Learning and development

To make it easier for our people to gain access to and make the most of all the learning opportunities available to them we have introduced the Academy, a new learning and development platform that brings together content, e-learning and workshops on areas including health and safety, regulation and compliance, finance and leadership.

In recognition of the importance of developing future leaders throughout the business, during the year we introduced two new leadership programmes.

- Our 'Aspire' programme is a 12 to 14-month team leader / supervisor apprenticeship designed to build a pipeline of early career technical and leadership talent with the potential to progress to more senior roles in the business.
- 'Inspire' is a 4-month foundation level leadership programme covering the core skills required for leading people, including performance management and change management.

41 employees took part in these programmes during the year.

Reward and recognition

Our overall approach to reward is to pay our people appropriately for the role they perform, using market rates that are based on robust, externally validated benchmarking data and reviewed annually.

We aim to pay people the median of the market rate, recognising their level of development in the role.

We introduced a more structured approach to the pay review process during the year to drive greater consistency and fairness and provide more transparency for employees in how their pay is determined.

As part of our commitment to recognising and valuing the contribution our people make to our business, we continue to pay the real living wage as the minimum salary for employees and apply any increases to it as early as is feasible.

Our peer-to-peer recognition platform, through which our people can acknowledge and reward the efforts and contribution of their colleagues through a thankyou message or by nominating them to receive a shopping voucher, continues to be well-used. During the year 565 employees gave a total of 2,327 acknowledgments to colleagues.

Gender diversity and pay

We have clear policies in place to ensure men and women are given equal opportunities throughout their careers with us.

We are committed to providing equal opportunities and will not tolerate discrimination of any kind. We do this by making sure everyone has the same opportunities to grow and succeed.

Our people are expected to embrace a culture of diversity and to act respectfully and with consideration for others. We are always exploring how we can help every member of our team make the most of their talents through:

- Fair and equal promotion and pay policies
- Transparent recruitment processes
- Individual career development
- Ensuring a healthy work/life balance

As at 31 March 2020 the gender diversity of the business was as set out below:

	Male	Female	Female %
Board Directors	5	0	0%
Executive Leadership Team (ELT)[1.]	6	1	14%
Other employees	927	417	31%

1. The ELT is defined as the senior leaders who have overall responsibility for key functional areas. It includes Board member Dale Raneberg.

Our most recent gender pay gap report, based on the snapshot date of 5 April 2019, showed a mean pay gap of 29.8 per cent and a median pay gap of 36.8 per cent. The long-term nature of the work we need to do to bring greater balance to our business is reflected in the minimal shift in our pay gap.

As the current pay gap is principally driven by the ratio of male to female employees within certain specific functional areas of our business, such as the traditionally male-dominated technical and engineering workstreams, we are placing significant focus on encouraging more diverse participation in these areas. Our efforts include participation in schools-based activities to encourage more girls and young women to consider careers in technology and engineering.

Human rights

We respect fundamental human rights consistent with the United Nations Universal Declaration of Human Rights and we ensure that all of our internal policies are consistent with this. We do not have any current human rights issues.

Customers and suppliers

Sustainable relationships with customers and suppliers are vital to our success.

Relationships with customers

We have a responsibility to treat customers fairly, with the highest ethical standards, and to do business in a way that has a positive effect on them and society more widely. We also believe we have a responsibility to our customers to tackle issues that are important to them in relation to the products and services they buy from us.

To address the barriers to digital inclusion in our Hull and East Yorkshire market we have continued to run monthly "IT and Biscuits" drop-in sessions in our city centre learning zone where local residents can develop their online skills at their own pace with one-to-one support from our employee volunteers.

We have also supported the efforts of local authorities to increase digital inclusion. In addition to working with Hull City Council to provide training for "digital champions" who have gone on to volunteer at community centres to help others who wish to do more online, our employee volunteers have staffed 34 digital skills sessions at East Riding of Yorkshire Council libraries during the year.

Online safety remains a key concern for many of our customers and we have continued to raise awareness of online safety issues. As part of our KCOM Key Skills programme we regularly talk to primary-aged children about staying safe online. To mark Safer Internet Day 2020 we brought together 100 children and staff from 18 local primary schools for a programme of online safety education and activities, supported by footballers from Hull City Association Football Club. The learning materials created for and during the day were used to reinforce the online safety message long after the event.

We recognise the vital role of parents and carers in helping their children use the internet safely. We make the most of our support of leading online safety organisation Internet Matters to raise awareness of online risks among parents and carers and share expert advice and resources to address them.

We are committed to treating all our customers with understanding and respect, including those who are in a vulnerable situation, whether caused by age, injury, physical or mental illness, physical or learning disability or by events such as bereavement. We aim to provide extra help and assistance to vulnerable consumers wherever we can.

Towards the end of the year the COVID-19 pandemic created challenges for our customers across Hull and East Yorkshire, disproportionately affecting many of those already vulnerable and creating vulnerability among others.

We participated in government forums set up to coordinate the response of the communications industry to the pandemic and put in place measures to support customers in need of extra help to stay connected. These included removing broadband data caps for customers on fixed data packages, establishing a dedicated helpline and priority engineer visits for vulnerable customers and NHS workers, and flexible payment plans for those experiencing financial difficulties. We also offered free increased broadband speeds for clinicians to enable access to files while working from home.

We also expanded the eligibility for our low-cost social access package to include care home residents, customers using a "Lifeline" phone alarm service, care leavers and individuals on the government's COVID-19 Shielded Patients List.

Relationships with suppliers

As well as treating our suppliers fairly and doing business with them in a sustainable way, we have a responsibility to make sure that our suppliers operate with high ethical standards.

We expect suppliers to sign up to our Supplier and Partner Code of Conduct and we work closely with key suppliers to ensure we understand their approach to sustainability and the way in which their business operates. We also carry out regular credit checks on all suppliers.

Our most recent economic impact study found our Hull and East Yorkshire operations support almost 1,600 full-time equivalent jobs in the region with a total value to the local economy of £187 million annually. While a large proportion of this value is attributable to our direct employment of approximately 800 people in Hull and East Yorkshire, almost all of whom live and spend much of their income in the region, it is also a result of our 'buy local' approach. This approach contributes significantly to the success of the 82 Hull and East Yorkshire businesses on our preferred supplier list and has a positive trickle-down effect on the wider local economy.

During the year we increased our focus on proactive vendor management, categorising our suppliers based on spend level and risk and prioritising our efforts accordingly.

Our business continuity planning activities place significant attention on ensuring that in the event that key suppliers are affected by a business disruption we are able to continue supplying services to our customers. This approach stood us in good stead when the COVID-19 pandemic began and we have continued to manage closely the supply of key goods and services.

We are committed to doing all we can to assist in the eradication of slavery and human trafficking. We have a zero-tolerance approach to any slavery or human trafficking activity within our business or in our supply chain. Our most recent Modern Slavery Act Transparency Statement is available on our website www.kcom.com.

Environment

We believe all businesses have a responsibility to minimise any negative impact they have on the environment and consequently we make decisions with environmental sustainability in mind. In accordance with the Streamlined Energy Carbon Reporting requirements we are disclosing our environmental impact both in terms of CO_2e tonnage and energy consumed in kWh. However, the commentary below refers to CO_2e tonnage as this is considered the key internal metric for measuring performance. Any items marked A denotes that the metric has been subject to PwC assurance under ISAE 3000 and ISAE 3410. Their report and our reporting criteria used to prepare these numbers can be found on our website: https://www.kcom.com/responsibility/corporate-governance/reporting/.

Our biggest environmental impact comes from the electricity we use in our offices, data centres and various network sites, both nationally and in the Hull and East Yorkshire region. During the year 79.5 per cent of our CO_2e emissions came from our electricity usage.

Each year we seek to reduce our emissions wherever possible through various energy-saving schemes. In the year the CO_2e tonnes produced from our electricity usage has fallen by 1,888 tonnes or 18.3 per cent. This reflects a 9.6 per cent reduction in the number of kilowatt hours of electricity used as compared to the prior year and a lower carbon factor published by the Department for Business, Energy and Industrial Strategy, which are the factors we use each year to calculate the conversion of our electricity usage and other carbon emissions into CO_2e tonnes.

We continually review and improve the recycling facilities we have in place at our offices, with the aim of making it as easy as possible for our people to recycle any waste we produce. Over 97 per cent of our waste is recycled, with the actual tonnage of waste that has gone to landfill falling from 6.2 tonnes to 5.5 tonnes. The current amount of our waste going to landfill should be representative of levels in future years.

Breakdown of our emissions based on CO_2e tonnes

Premises – electricity	79.5%
Premises – other fuel and waste	10.5%
Business travel	10.0%

Emissions in the year – tonnes of CO_2e

The table below sets out our annual emissions in tonnes of CO_2e.

		Year ended 31 March 2020 CO_2e	Year ended 31 March 2019 CO_2e (restated)
Combustion of fuel and operation of facilities		2,162	2,599
Purchase of electricity		8,408	10,296
Total		10,570	12,895
Tonnes of CO_2e per £'000 of revenue	A	0.040	0.046

The prior year comparative for 'combustion of fuel and operation of facilities' has been restated downwards by 126 tonnes due to a revision of the conversion factor for fuel.

Our carbon emissions from combustion of fuel and operation of facilities has fallen in the year by 16.8 per cent due to a reduction in business travel.

Information for our carbon emissions reporting comes from our own internal systems, third-party travel companies, suppliers of fuel, waste collection and recycling services and from our electricity supplier.

Energy consumed in the year – kWh

The table below sets out our annual energy consumed in kWh:

	Year ended 31 March 2020 kWh (000's)	Year ended 31 March 2019 kWh (000's)
Combustion of fuel and operation of facilities	4,942	6,472
Purchase of electricity	32,895	36,371
Total	37,837	42,843
kWh (000's) per £'000 of revenue	0.144	0.152

Emissions in tonnes of CO_2e and kWh

The table below sets out our annual emissions in tonnes of CO_2e and kWh by Scope:

		Year ended 31 March 2020 Tonnes CO_2e	Year ended 31 March 2019 Tonnes CO_2e (restated)	Year ended 31 March 2020 kWh (000's)	Year ended 31 March 2019 kWh (000's)
Combustion of fuel and operation of facilities		1,570	1,646	3,215	3,611
Scope 1 Emissions	A	1,570	1,646	3,215	3,611
Purchase of electricity		6,822	8,049	26,691	28,433
Scope 2 Emissions	A	6,822	8,049	26,691	28,433
Combustion of fuel and operation of facilities		592	954	1,727	2,861
Purchase of electricity		1,586	2,247	6,204	7,938
Scope 3 Emissions		2,178	3,201	7,931	10,799
Total Emissions (Scope 1,2 and 3)		10,570	12,896	37,837	42,843

Where subsidiaries, sites or joint ventures are deemed not to be under operational control of the Group or are not material to the Group, their energy and fuel usage have not been included within the scope of the GHG emissions reported.

Performance against targets

Area	Actual	Target for the year under review	Target met?	Future target for 2020/2021
Total CO_2e	10,570 tonnes	Not to exceed 2018/2019 levels of 12,895 tonnes	Yes	Reduce 2019/2020 levels by 50 per cent[1]
Waste sent to landfill	5.5 tonnes	Maintain current levels of waste to landfill	Yes	Maintain current levels of waste to landfill
Energy efficiency in transport	1,022 tonnes	Not to exceed 2018/2019 levels of 1,365 tonnes	Yes	Not to exceed 2019/2020 levels of 1,022 tonnes

[1] As a result of renewable energy purchase backed by REGO certificate for scope 2.

Strategic report – Sustainability

Non-financial information statement

In order to comply with the requirements of the Companies Act Sections 414CA and CB, we have disclosed the following information in the places referenced below:

- Information on environmental matters is shown in our Sustainability report on pages 30 and 31.
- Information on our employees is also shown in our Sustainability report on pages 25 to 27 and as part of Other disclosures on page 42.
- Information on social matters is shown in the community section of our Sustainability report on pages 23 and 24.
- Our respect for human rights is set out in the People section on page 27.
- Our approach to anti-corruption and anti-bribery matters is set out in Other disclosures on page 42.
- Our business at a glance is described on page 3.
- Our principal risks, and how we manage them, are described on pages 18 to 22.
- Other non-financial key performance indicators are shown on pages 16 to 17.

Section 172 statement
A statement in accordance with the matters set out in section 172 of the Companies Act 2006 has been included in the Directors report on page 41.

Signed by order of the Board

Dale Raneberg

Chief Executive Officer

13 April 2021

Board of Directors

The directors of the company who were in office during the year and up to the date of signing the audited financial statements of the Group were as follows:

Name of Director	Date of appointment	Date of resignation
Elizabeth Marian Barber	07/04/2015	01/08/2019
Anna Catherine Bielby	01/07/2018	22/10/2019
Patrick Jean-Marie De Smedt	28/01/2016	01/08/2019
John Bernard Fitzgerald	18/10/2019	N/A
Richard Greenleaf	18/10/2019	N/A
Nathan Andrew Luckey	18/10/2019	N/A
Jaap Postma	28/01/2020	N/A
Dale Wayne Raneberg	22/10/2019	N/A
Peter Labreque Smith	05/01/2015	01/08/2019
Graham Sutherland	15/10/2018	22/10/2019

Read more information about our Board on our website www.kcom.com.

Read more – Corporate Governance on pages 34 to 39.

Corporate governance

Oversight by Macquarie Infrastructure and Real Assets (Europe) Limited (“MIRA”).

The Company forms part of the assets managed by MIRA.

The individual mangers at MIRA with responsibility for oversight of the Company are:

- Nathan Luckey
- Richard Greenleaf

Nathan Luckey and Richard Greenleaf are also Directors of the Company.

Composition of the Board

The composition of the Board is as follows:

- Nathan Luckey and Richard Greenleaf have contracts of employment with MIRA and have been appointed to the Board at the request of MIRA. Both are Non-Executive Directors. Nathan Luckey is Chairman of the Board.
- John Fitzgerald and Jaap Postma are independent Non-Executive Directors. John Fitzgerald is Chairman of the Health and Safety Committee of the Board.
- Dale Raneberg is an Executive Director and has a service contract with the Company. Dale Raneberg is the Company’s Chief Executive Officer.

Company Secretary

Sally Jones resigned as Company Secretary on 22 October 2019 following the acquisition of the Company by MEIF 6 Fibre Limited. The Board has chosen not to appoint a replacement and the Company currently operates without a Company Secretary.

Matthew Pearson was appointed Chief Legal and Regulatory Officer on 26 March 2020. The Chief Legal and Regulatory Officer takes responsibility for organising Board meetings and related administrative matters.

Appointment and replacement of Directors

The Articles of Association allow the Board to appoint a new Director at any time by resolution. The Articles of Association do not require the periodic re-election of Directors. Once appointed, Directors serve indefinitely.

The Articles of Association allow the Board to remove Directors at any time by resolution. The Company’s shareholders may also remove a Director at any time by ordinary resolution.

Board Committees

The Board has established a Health and Safety Committee with delegated responsibility for overseeing matters of employee health, safety and wellbeing. Nathan Luckey, Dale Raneberg and John Fitzgerald sit on the Committee, with John Fitzgerald acting as Committee Chairman. The Committee meets up to six times a year; generally, on the day before a scheduled Board meeting. As Chairman of the Committee, John Fitzgerald provides a verbal report to the Board after each Committee meeting.

The Health and Safety Committee is the only committee that has been established by the Board.

How the Board operates

The Board has ten or eleven scheduled meetings a year, with other ad hoc meetings held as needed.

The Board agenda is set for each meeting by the Chairman with input from the Executive Director. In addition, any of the Non-Executive Directors can request a matter to be added to the agenda at any time. At each meeting the Board considers business performance, which includes reviewing past performance but also looking at the future long-term success of the business. There is considerable focus at each meeting on the strategy of the business and updates on the progress in each of the key strategic areas are provided at each meeting, which form the basis for discussion and debate around all aspects of strategy.

The Board receives monthly reports on financial performance, technical performance, cyber risks, and health and safety matters. There are also regular updates on risk registers, key projects and strategic programmes. The Board utilises external experts when it is believed useful to do so.

Board meetings are held at various KCOM offices throughout the year and the Board seeks to regularly meet both formally and informally with senior management from across the business to gain further insight into day-to-day operations and the key risks and opportunities facing each part of the business.

Members of the Executive Leadership Team ("ELT") and other key senior managers are regularly invited to attend Board meetings to provide updates and give the Non-Executive Board members regular direct access to the management team.

There is a Scheme of Delegated Authority ("SODA") which details those matters reserved for the Board and is reviewed and updated on a regular basis. The SODA requires that specific matters relating to budgets, strategy, performance against objectives, financial reporting, internal controls, communications, remuneration and governance, along with any proposed changes to business operations or the structure and capital of the Company, are referred to the Board for consideration and approval.

The Board has decided not to appoint a Company Secretary as this is no longer a statutory requirement. However, many of the administrative and governance functions traditionally carried out by a Company Secretary are carried out by the Company's Chief Legal and Regulatory Officer.

Executive Leadership Team

Operational management of the Company is carried out by an Executive Leadership Team, which meet every week for a roundtable discussion and to consider papers on relevant topics.

Read more information about our Executive Leadership Team on our website www.kcom.com.

Powers of the Directors

The business of the Company is managed by the Directors, who may exercise all the powers of the Company, subject to the provisions of the Articles of Association, relevant statutes and any special resolution of the Company.

The Articles of Association give the Directors the power to authorise conflicts of interest in relation to transactions or arrangements with the Company, in accordance with the Companies Act 2006. Conflicts of interest are a standing agenda item at Board meetings and each Director proposes any potential conflicts for consideration as soon as they become aware of them. The Director with the potential conflict is excluded from the vote to authorise the transaction or arrangement.

Any conflicts that are authorised are logged on a register, along with details of any specific terms imposed upon authorisation. Internal controls are in place to ensure that transactions or arrangements which may lead to a potential conflict of interest are conducted on an arm's length basis.

Directors' responsibilities statement

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 Group and Company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 ('IFRS') 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 group and Parent Company and of the profit or loss of the group and Parent Company for that period..

In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether for the group and parent company, international accounting standards in conformity with the requirements of the Companies Act 2006, have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

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

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

The Directors are responsible for the maintenance and integrity of the Group's website, www.kcomgroupltd.com. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

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

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

Conclusion on the Annual report

The Board is responsible for reviewing the Annual report and, after consideration, has concluded that the Annual report, taken as a whole, is fair, balanced and understandable and that it provides the necessary information for shareholders to assess the Group's position, performance, business model and strategy.

Amendments to the Company's Articles of Association

Any amendments to the Company's Articles of Association may be made by passing a special resolution at a general meeting of the shareholders.

Going concern

The Directors confirm that, having reviewed the Group's budget and forecasts along with the principal risks and uncertainties facing the Group, they are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Group continues to adopt the going concern basis in preparing the financial statements.

Our risk management framework

For us, risk management is about taking the right amount of risk to support our business strategy and to align with our risk appetite.

We seek to understand our risks so that informed decisions can be taken from a risk perspective and so that risks can be either managed or mitigated as appropriate. We have controls in place to mitigate risk to an appropriate level but we recognise that our internal control systems can provide only reasonable and not absolute assurance against material misstatement or loss.

We have a risk management framework in place to help us to identify, assess, measure, manage and monitor our key risks in a consistent way. We define key risks to be anything that may prevent us from meeting our objectives.

The framework has been in place throughout the year under review, and up to the date of approval of this Annual report.

Risk management responsibilities

The Board

The Board has overall responsibility for setting the risk appetite for the business and for ensuring that the overall risk profile is aligned with this. It is also responsible for ensuring that the business maintains sound internal control and risk management systems, as well as reviewing the effectiveness of those systems.

In order to do this, the Board has regular meetings with members of senior management and receives regular reports from each business area and the external auditors on the effectiveness of the systems of internal control and risk management.

The Company's internal risk team produces a Corporate Risk Register that is reviewed by the Board every six months. The Corporate Risk Register consolidates risks that are recorded in local registers maintained by individual teams and business units throughout the Company.

The Board is satisfied that these systems and processes are embedded within the day-to-day activities of the business and cover all material controls, including financial, operational and compliance controls.

Executive Leadership Team

The risk registers produced by the Company's internal risk team are also reviewed by the ELT before they are presented to Board. The ELT is responsible for reviewing the risks that have been recorded, to ensure completeness and accuracy, as well as assessing the suitability of the mitigations in place and any proposed timescales for further controls to be implemented.

Financial risk management

Each business area produces an annual budget which is reviewed by senior management and ultimately approved by the Board. A longer-term plan is also in place which is updated annually and approved by the Board to enable it to have a clear longer-term view of financial projections.

We also prepare a monthly rolling forecast; performance against budget is monitored at monthly ELT meetings and reviewed by the Board each month. Further information about the financial risk management policies in place, and, in particular, the way in which credit risk, liquidity risk, interest rate risk and foreign currency risk are managed, is in Note 31 to the financial statements.

The principal risks and uncertainties facing the business are set out on pages 18 to 22 of the Strategic report.

Controls around consolidation

The basis of consolidation for the financial statements is detailed in Note 2 to the financial statements. Strong controls are in place around the process for preparing consolidated accounts. The work of consolidation is performed by experienced, qualified accountants and a review of the consolidation forms part of the audit work performed by our external auditors.

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.	• Business strategy and plans • Health, safety and wellbeing • Reward and recognition • Learning and development opportunities • Diversity and inclusion	• Senior management round table / briefing sessions with colleagues • Board member safety walks • Board attendance at induction events • Employee engagement surveys • Employee business improvement ideas programme
Customers Understanding our customers' needs and behaviours allows us to deliver relevant products and services, retain and attract customers and identify opportunities for growth.	• Availability and reliability of services • Value for money • Protection from harms related to the services we provide (such as online threats)	• Net Promoter Score (NPS) surveys • Board / senior management interaction with key business customers • Board / senior management involvement in resolution of customer complaints
Community and local government KCOM has been at the heart of the Hull and East Yorkshire community since 1904 and we are committed to playing our part in making it a better place to live, work and invest.	• Creation of jobs and wealth within the region's economy • Contribution to improving the lives of local residents	• Meetings between Board members / senior management and local civic and business leaders including local authorities, MPs and the Humber Local Enterprise Partnership • Community investment programme focused on connecting communities, delivering digital skills and boosting business success
Suppliers We rely on the high standards of our carefully selected suppliers in order to deliver reliable services that meet customer needs.	• Long-term relationships • Fair payment terms • Responsible and ethical business practices	• Board member / senior management meetings with key suppliers
Regulators and government Our main regulatory relationship is with Ofcom.	• Protection of consumers, particularly those who are vulnerable • Promotion of competition • Encouraging investment and innovation • Supporting investment in critical digital infrastructure	• 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

Read more – Sustainability on pages 23 to 32.

Read more – KPIs on pages 14 to 17.

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 KCOM's employees;
- the need to foster KCOM's business relationships with suppliers, customers and others;
- the impact of KCOM's 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.

Information about key stakeholder groups, their interests and how KCOM engages with them and takes their views and concerns into account is shown on page 40.

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'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. For information about how the Board operates and the way it reaches decisions, including matters discussed during the year, see pages 33 to 37.

Read more – Stakeholder engagement on page 40.

Other disclosures

Disclosure of all relevant information to auditors

The Directors who approve this report are satisfied that, as far as they are aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditors are unaware. Each of the Directors has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Directors

The names of the Directors who served during the year are on page 33.

Indemnification of Directors

The Company has indemnified each Director who served during the year against potential liabilities incurred in connection with any claim brought against him or her, to the fullest extent permitted by the Companies Act 2006. The indemnity deed also obliges KCOM to maintain Directors' and Officers' insurance throughout the directorship and for six years after an individual ceases to be a Director.

Employees

Our people make the difference to our customers and our workplace and enable us to differentiate ourselves from our competitors. We therefore want our employment strategies to help our people develop to their full potential while also driving our business performance. Our employment policies are designed to provide equal opportunities irrespective of age, disability, ethnicity, gender, gender reassignment, marital and civil partnership status, nationality, pregnancy, maternity and paternity, race, religion and belief, and sexual orientation, as detailed on our website at www.kcom.com/careers/.

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

As well as an intranet we have internal communications tools that allow our people to post messages, share content and provide feedback to others across the business. We have a weekly round-up email which keeps everyone informed of activities and developments across the Group.

The Company's Share Incentive Plan (SIP) closed in July 2019 following the acquisition of the Company by MEIF 6 Fibre Limited. The Company has no current plans to offer share-based incentives to employees.

Anti-corruption and anti-bribery

We have an Ethics and Anti-fraud policy which sets out our zero-tolerance approach to corruption and bribery and the conduct expected of all our employees and contractors. We also have a Gifts and Hospitality policy, which defines the process that must be followed before any gifts or hospitality are offered or accepted, and a panel which has to give approval of any such gifts or hospitality. Regular reminders are sent to all employees to maintain awareness of these policies and processes.

Directors' report – Other disclosures

Acquisition of own shares

During the year, the Company did not purchase any of its own shares.

The Company funded the Kingston Communications All Employee Share Trusts (EST) to meet its obligations under the Company's Share Incentive Plan. During the year the EST purchased 152,493 (2019: 703,135) shares on the London Stock Exchange with a nominal value of £15,249 (2019: £70,319), for which the Company provided funding of £150,000 (2019: £450,000). The purchased shares represented 0.02 per cent of the called-up share capital and were held in trust until they vested; therefore the purchase of these shares did not reduce the share capital in issue.

All shares were acquired as part of the acquisition by MEIF 6 Fibre Limited and all outstanding shares to employees vested unconditionally to employees, meaning that no shares are held in trust as at 31 March 2020.

The total number of shares held in trust, which have not vested unconditionally to employees' participation share schemes, is:

	000s of shares
As at 1 April 2019	5,230
As at 31 March 2020	-

Further details around the purchase of shares in the year are set out in Note 30 to the financial statements.

Shares held by trusts

No shares are held by the trustees of the Kingston Communications 2000 EST or the KCOM Group PLC Employee Benefit Trust 2007 in relation to the KCOM Group PLC Long Term Incentive Plan 2007 in relation to the Long Term Incentive Plan.

Subsequent to the acquisition of KCOM Group Limited (formerly KCOM Group PLC) by MEIF 6 Fibre Limited, the trusts are in the process of being closed.

Allotted shares

On 30 July 2019, KCOM allotted and fully paid up 3,618,620 shares at the nominal value of £0.10 per share. The shares were issued in relation to the vesting of shares for the Long-Term Incentive Plan ("LTIP"). These shares were subsequently acquired by MEIF 6 Fibre Limited as part of the acquisition.
Dividend

The Group did not declare or pay any dividends during the year (2019: full year dividend 1 pence per share). The Board does not recommend the payment of a dividend for the year ended 31 March 2020.

Strategic report

Pursuant to Section 414c of the Companies Act 2006 the Strategic report on pages 23 to 32 contains disclosures in relation to environmental matters, the Company's employees, social issues and gender diversity.

Proposal to re-appoint the external auditors

PricewaterhouseCoopers LLP have advised of their wiliness to continue in office and have confirmed their continues independence. Following consideration of the relationship with the external auditors, it has been recommended to the Board that PricewaterhouseCoopers LLP are re-appointed. They have provided an independent audit opinion which can be found on pages 44 to 46.

This report has been reviewed and approved by the Board of KCOM Group Limited (formerly KCOM Group PLC).

Signed by order of the Board

Dale Raneberg

Chief Executive Officer

13 April 2021

Independent auditors' report to the members of KCOM Group Limited

Report on the audit of the financial statements

Opinion

In our opinion, KCOM Group Limited's group financial statements and parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2020 and of the group's loss and the group's and the parent company's cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; 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 accounts (the "Annual Report"), which comprise: the consolidated and parent company balance sheets; the consolidated income statement and consolidated statement of comprehensive income; the consolidated and parent company cash flow statements; and the consolidated and parent company statements 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 group 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 group's and parent 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 group's and parent 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.

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 group and parent company and their 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 Directors' responsibilities statement, 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 group's and the parent 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 group or the parent 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 parent 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 parent 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 parent company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

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

Consolidated income statement

for the year ended 31 March 2020

	Notes	**2020 £'000**	2019 £'000
Revenue	4	**262,847**	281,637
Operating expenses	5	**(265,085)**	(310,459)
Operating loss		**(2,238)**	(28,822)
Finance income	9	**192**	—
Finance costs	9	**(7,096)**	(2,837)
Share of profit of associate	17	**16**	16
Loss before taxation	4	**(9,126)**	(31,643)
Taxation	10	**1,367**	(2,260)
Loss for the year attributable to owners of the Parent		**(7,759)**	(33,903)

Operating loss analysed as:			
EBITDAaL before exceptional items		**45,893**	57,062
Depreciation of right of use assets	16	**15,151**	—
Interest of lease liabilities	9	**1,031**	—
EBITDA before exceptional items	4	**62,075**	57,062
Impairment of goodwill	7	**—**	(51,372)
Right-of-use asset impairment	7	**(1,939)**	—
Other exceptional charges	7	**(23,344)**	(4,588)
Depreciation of property, plant and equipment	15	**(15,664)**	(16,913)
Amortisation of intangible assets	14	**(8,215)**	(13,011)
Depreciation of right of use assets	16	**(15,151)**	—
Operating loss		**(2,238)**	(28,822)

The Company has elected to take the exemption under Section 408 of the Companies Act 2006 not to present the Parent Company income statement or statement of comprehensive income.

The profit for the Parent Company for the year was £150,000 (2019: £26,275,000).

Consolidated statement of comprehensive income

for the year ended 31 March 2020

	Notes	**2020 £'000**	2019 £'000
Loss for the year		**(7,759)**	(33,903)
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurements of retirement benefit obligations	33	**25,854**	2,901
Tax on items that will not be reclassified	29	**(4,912)**	(493)
Total items that will not be reclassified to profit or loss		**20,942**	2,408
Total comprehensive income/(expense) for the year attributable to owners of the Parent		**13,183**	(31,495)

The Notes on pages 52 to 90 are an integral part of these consolidated financial statements.

Balance sheets

as at 31 March 2020

	Notes	Consolidated 2020 £'000	Consolidated 2019 £'000	Parent Company 2020 £'000	Parent Company 2019 £'000
Assets					
Non-current assets					
Goodwill	13	**—**	—	**—**	—
Other intangible assets	14	**34,030**	32,051	**—**	—
Property, plant and equipment	15	**134,235**	132,548	**—**	—
Right-of-use assets	16	**45,641**	—	**—**	—
Investments	17	**68**	62	**494,461**	494,461
Retirement benefit asset	33	**38,764**	5,924	**—**	—
Deferred tax assets	29	**5,811**	4,539	**—**	—
Contract costs	18	**5,129**	5,313	**—**	—
		263,678	180,437	**494,461**	494,461
Current assets					
Inventories	19	**4,638**	3,080	**—**	—
Contract assets	20	**3,318**	2,903	**—**	—
Trade and other receivables	21	**55,182**	55,257	**—**	—
Cash and cash equivalents	26	**15,126**	7,347	**—**	—
		78,264	68,587	**—**	—
Total assets		**341,942**	249,024	**494,461**	494,461
Liabilities					
Current liabilities					
Trade and other payables	22	**(42,306)**	(56,233)	**—**	—
Contract liabilities	23	**(20,158)**	(18,264)	**—**	—
Lease liabilities	27	**(14,086)**	(418)	**—**	—
Loans from related parties	25	**(148,661)**	—	**—**	—
Provisions for other liabilities and charges	28	**(3,580)**	(182)	**—**	—
		(228,791)	(75,097)	**—**	—
Non-current liabilities					
Trade and other payables	22	—	—	**(450)**	(450)
Bank loans	24	—	(114,129)	**—**	—
Retirement benefit obligation	33	—	(2,378)	**—**	—
Deferred tax liabilities	29	**(16,589)**	(9,109)	**—**	—
Lease liabilities	27	**(32,875)**	—	**—**	—
Provisions for other liabilities and charges	28	**(3,944)**	(3,160)	**—**	—
		(53,408)	(128,776)	**(450)**	(450)
Total liabilities		**(282,199)**	(203,873)	**(450)**	(450)
Net assets		**59,743**	45,151	**494,011**	494,011
Equity					
Capital and reserves attributable to owners of the Parent					
Share capital	30	**52,022**	51,660	**52,022**	51,660
Share premium account		**353,231**	353,231	**353,231**	353,231
(Accumulated losses)/retained earnings[1]		**(345,510)**	(359,740)	**88,758**	89,120
Total equity		**59,743**	45,151	**494,011**	494,011

1. Included within consolidated accumulated losses is a loss after tax of £7.8 million (2019: £33.9 million) for the Group and profit after tax of £0.2 million (2019: £26.3 million) for the Parent Company.

The Notes on pages 52 to 90 are an integral part of these consolidated financial statements.

The financial statements on pages 47 to 90 were approved by the Board of Directors and authorised for issue on 6 April 2021.

They were signed on its behalf by:

Dale Raneberg
Chief Executive Officer
13 April 2021

KCOM Group Limited (formerly KCOM Group PLC)
Registered number: 2150618

Consolidated statement of changes in shareholders' equity
for the year ended 31 March 2020

	Notes	Share capital £'000	Share premium account £'000	Accumulated losses £'000	Total equity £'000
At 1 April 2018		51,660	353,231	(303,353)	101,538
Loss for the year		—	—	(33,903)	(33,903)
Other comprehensive income		—	—	2,408	2,408
Total comprehensive expense for the year ended 31 March 2019		—	—	**(31,495)**	**(31,495)**
Purchase of ordinary shares	30	—	—	(450)	(450)
Employee share schemes	12	—	—	1,381	1,381
Deferred tax credit relating to share schemes	29	—	—	7	7
Dividends	11	—	—	(25,830)	(25,830)
Transactions with owners		—	—	(24,892)	(24,892)
At 31 March 2019		**51,660**	**353,231**	**(359,740)**	**45,151**
Loss for the year		—	—	(7,759)	(7,759)
Other comprehensive income		—	—	20,942	20,942
Total comprehensive income for the year ended 31 March 2020		—	—	**13,183**	**13,183**
Purchase of ordinary shares	30	—	—	(150)	(150)
Employee share schemes	12	—	—	1,683	1,683
Deferred tax charge relating to share schemes	29	—	—	(124)	(124)
Issue of ordinary shares	30	362	—	(362)	—
Transactions with owners		362	—	1,047	1,409
At 31 March 2020		**52,022**	**353,231**	**(345,510)**	**59,743**

The Notes on pages 52 to 90 are an integral part of these consolidated financial statements.

Parent Company statement of changes in shareholders' equity

for the year ended 31 March 2020

	Notes	Share capital £'000	Share premium account £'000	Retained earnings £'000	Total equity £'000
At 1 April 2018		51,660	353,231	89,125	494,016
Profit for the year		—	—	26,275	26,275
Total comprehensive income for the year ended 31 March 2019		—	—	**26,275**	**26,275**
Purchase of ordinary shares	30	—	—	(450)	(450)
Dividends	11	—	—	(25,830)	(25,830)
Transactions with owners		—	—	(26,280)	(26,280)
At 31 March 2019		**51,660**	**353,231**	**89,120**	**494,011**
Profit for the year		—	—	150	150
Total comprehensive income for the year ended 31 March 2020		—	—	**150**	**150**
Purchase of ordinary shares	30	—	—	(150)	(150)
Issue of ordinary shares		362	—	(362)	—
Transactions with owners		362	—	(512)	(150)
At 31 March 2020		**52,022**	**353,231**	**88,758**	**494,011**

The Notes on pages 52 to 90 are an integral part of these consolidated financial statements.

Cash flow statements

for the year ended 31 March 2020

	Notes	Consolidated 2020 £'000	Consolidated 2019 £'000	Parent Company 2020 £'000	Parent Company 2019 £'000
Cash flows from operating activities					
Operating loss		**(2,238)**	(28,822)	**—**	(5)
Adjustments for:					
– depreciation and amortisation	14,15	**23,879**	29,924	**—**	—
– right of use asset depreciation	16	**15,151**	—	**—**	—
– impairment of goodwill	13	**—**	51,372	**—**	—
– (increase)/decrease in working capital		**(10,764)**	(24,057)	**—**	5
– loss on sale of property, plant and equipment	5	**—**	17	**—**	—
– non-employee-related pension charges	33	**801**	1,534	**—**	—
– share-based payment charge	12	**1,685**	1,381	**—**	—
Payments made to defined benefit pension schemes	33	**(9,973)**	(9,762)	**—**	—
Tax received/(paid)		**3,399**	(1,852)	**—**	—
Net cash generated from operations		**21,940**	19,735	**—**	—
Cash flows from investing activities					
Purchase of property, plant and equipment		**(18,068)**	(27,540)	**—**	—
Purchase/generation of intangible assets		**(9,115)**	(8,309)	**—**	—
Proceeds from sale of property, plant and equipment		**133**	451	**—**	—
Dividends received		**—**	—	**150**	26,280
Net cash (used in)/generated from investing activities		**(27,050)**	(35,398)	**150**	26,280
Cash flows from financing activities					
Dividends paid	11	**—**	(25,830)	**—**	(25,830)
Interest paid		**(3,008)**	(2,315)	**—**	—
Capital element of finance lease repayments	26	**(14,242)**	(1,618)	**—**	—
Repayment of bank loans	26	**(150,000)**	(10,000)	**—**	—
Drawdown of bank loans	26	**35,000**	50,000	**—**	—
Loans from related parties		**145,289**	—	**—**	—
Purchase of ordinary shares	30	**(150)**	(450)	**(150)**	(450)
Net cash generated from/(used in) financing activities		**12,889**	9,787	**(150)**	(26,280)
Increase/(Decrease) in cash and cash equivalents		**7,779**	(5,876)	**—**	—
Cash and cash equivalents at the beginning of the year		**7,347**	13,223	**—**	—
Cash and cash equivalents at the end of the year	26	**15,126**	7,347	**—**	—

The Notes on pages 52 to 90 are an integral part of these consolidated financial statements.

Notes to the financial statements

for the year ended 31 March 2020

01 General information

KCOM Group Limited (formerly KCOM Group PLC) is a private company limited by shares and is incorporated and domiciled in England in the United Kingdom. The address of the registered office is 37 Carr Lane, Hull HU1 3RE. The nature of the Group's operations is described within the Strategic report on pages 3 to 32.

02 Accounting policies

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

Basis of preparation

The consolidated and Parent Company financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss. The financial statements have been prepared on a going concern basis.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

Going concern

The company meets its day-to-day working capital requirements through its cash reserves and borrowings. The current economic conditions, including Brexit and the impact of COVID-19 continue to create uncertainty in the market. The company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company should be able to operate within the level of its current cash reserves and borrowings. 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 Directors have also received a support letter from MEIF 6 Fibre Holdings Limited stating that continued financial support will be available for a period of at least 12 months from the date of signing these accounts. The company therefore continues to adopt the going concern basis in preparing its financial statements.

Initial application of new accounting standards, interpretations and amendments

The following amendments to standards published by the International Accounting Standards Board (IASB) were effective for the first time for the financial year beginning 1 April 2019:

- IFRS 9 "Prepayment features with negative compensation"
- IFRS 16 "Leases"
- IFRIC 23 "Uncertainty of income tax treatments"
- Amendments to the following standards as part of "Improvements to IFRS 2015-2018":
    - IFRS 3 "Business combinations"
    - IFRS 11 "Joint arrangements"
    - IAS 12 "Income taxes"
    - IAS 23 "Borrowing costs"

The above new and amended standards do not have a material effect on the Group except as described below:

IFRS 16

In January 2016, the IASB issued IFRS 16 "Leases" which replaces IAS 17 "Leases". Application of the standard is mandatory for annual accounting periods starting on or after 1 January 2019. Transition to IFRS 16 for the Group took place on 1 April 2019 and, in accordance with the transitional provisions of IFRS 16, we have adopted IFRS 16 using the modified retrospective approach. Consequently, the prior year comparatives have not been restated.

Lessor accounting under IFRS 16 is similar to IAS 17, however for lessees the distinction between a finance lease and an operating lease no longer exists. On adoption of IFRS 16, the Group recognised lease liabilities of £53.4 million in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17. These liabilities were measured at the present value of the remaining minimum lease payments, discounted using the lessee's incremental borrowing rate as of 1 April 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 1.9%.

Notes to the financial statements

for the year ended 31 March 2020

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application.

The Group has elected to apply the following practical expedients to facilitate the application of the new standard:

- use of hindsight to determine the lease term if the contract contains options to extend or terminate upon transition;
- provisions for onerous leases will be used to approximate the impairment of right-of-use assets at the date of initial application;
- initial direct costs will be excluded from the measurement of the right-of-use asset at the date of initial application;
- a single discount rate will be applied to a portfolio of leases with reasonably similar characteristics such as lease term, class of underlying asset, currency and economic environment;
- low value and short-term leases will continue to be treated as operating leases. However, we have not applied the practical expedient which allows leases which have 12 months or less remaining at the date of initial application to remain off balance sheet as we believe this could reduce future comparability; and
- leases for intangible assets will be accounted for under IAS 38 rather than under IFRS 16.

The Group has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date we have relied on the assessment made when applying IAS 17 previously.

Measurement of lease liabilities

	£'000
Operating lease commitments disclosed as at 31 March 2019	44,253
Discounted using the lessee's incremental borrowing rate	(3,456)
Add finance lease liabilities recognised at 31 March 2019	418
Less short-term leases not recognised as a liability	(1,306)
Less low-value asset leases not recognised as a liability	(2,223)
Adjustment resulting from the change in definition of lease term	16,057
Lease liability recognised as at 1 April 2019	**53,743**
Of which are:	
Current lease liabilities	12,411
Non-current lease liabilities	41,332
Total	**53,743**

Measurement of right-of-use assets

Right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 March 2019.

Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of IFRS 16.

Comparative figures for the items of the financial statements affected by the first-time adoption of IFRS 16

The following tables present extracts from the consolidated balance sheet as at 1 April 2019 and 31 March 2020, and the consolidated income statement and consolidated cash flow statement for the year ended 31 March 2020 showing the impact of applying IFRS 16 on financial statement line items. The tables present balances prepared in accordance with IFRS 16 as well as the previous accounting treatment in accordance with IAS 17:

Consolidated balance sheet impact

The change in accounting policy affected the following items on the balance sheet as at 1 April 2019 and 31 March 2020:

	1 April 2019			31 March 2020		
Consolidated balance sheet (extract)	IAS 17 (as reported) £'000	Change in accounting policy £'000	**IFRS 16 £'000**	IAS 17 £'000	Change in accounting policy £'000	**IFRS 16 (as reported) £'000**
Assets						
Non-current assets						
Right-of use assets	—	54,596	**54,596**	—	45,641	**45,641**
Current assets						
Trade and other receivables	55,257	(1,407)	**53,850**	56,513	(1,331)	**55,182**
Total assets	249,024	53,189	**302,213**	297,632	44,310	**341,942**
Liabilities						
Current liabilities						
Trade and other payables	(56,233)	136	**(56,097)**	(42,345)	39	**(42,306)**
Lease liabilities	(418)	(11,993)	**(12,411)**	(107)	(13,979)	**(14,086)**
Provisions for other liabilities and charges	—	—	—	(4,056)	476	**(3,580)**
Non-current liabilities						
Lease liabilities	—	(41,332)	**(41,332)**	—	(32,875)	**(32,875)**
Provisions for other liabilities and charges	—	—	—	(5,423)	1,479	**(3,944)**
Total liabilities	(203,873)	(53,189)	**(257,062)**	(237,339)	(44,860)	**(282,199)**
Net assets	45,151	—	**45,151**	60,293	(550)	**59,743**
Accumulated losses	(359,740)	—	**(359,740)**	(344,960)	(550)	**(345,510)**
Total equity	45,151	—	**45,151**	60,293	(550)	**59,743**

Consolidated income statement impact

The following table presents the consolidated income statement for the year ended 31 March 2020 in accordance with IFRS 16 as well as the previous accounting treatment in accordance with IAS 17:

	2020		
Consolidated income statement (extract)	IAS 17 £'000	Change in accounting policy £'000	**IFRS 16 (as reported) £'000**
Revenue	262,847	—	**262,847**
Operating expenses	(265,565)	480	**(265,085)**
Operating loss	(2,718)	480	**(2,238)**
Finance income	192	—	**192**
Finance costs	(6,066)	(1,030)	**(7,096)**
Share of profit of associate	16	—	**16**
Loss before taxation	(8,576)	(550)	**(9,126)**

Operating loss analysed as:			
EBITDA before exceptional items	46,459	15,616	**62,075**
Other exceptional charges	(25,298)	15	**(25,283)**
Depreciation of property, plant and equipment	(15,664)	—	**(15,664)**
Amortisation of intangible assets	(8,215)	—	**(8,215)**
Depreciation of right of use assets	—	(15,151)	**(15,151)**

Consolidated cash flow statement impact

The table below shows the consolidated cash flow statement financial line items for the year ended 31 March 2020 affected by the application of IFRS 16:

	2020		
Consolidated cash flow statement (extract)	IAS 17 £'000	Change in accounting policy £'000	**IFRS 16 (as reported) £'000**
Net cash generated from operations	6,978	14,962	21,940
Interest paid	(1,978)	(1,030)	(3,008)
Capital element of finance lease repayments	(310)	(13,932)	(14,242)
Net cash generated from/(used in) financing activities	27,851	(14,962)	12,889

New accounting standards, amendments and interpretations effective for annual periods beginning after 1 April 2020

The following accounting standards, amendments and interpretations have been issued by the IASB but are not yet effective and have not been applied in preparing these financial statements:

Standards and amendments	Description	Date of mandatory application: annual periods beginning	Expected impact on consolidated financial statements
IFRS 17	Insurance contracts	1 April 2021	No significant impact expected

None of these new standards, interpretations and amendments are expected to have a material impact on the Group's financial statements.

Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The consolidated financial statements include the financial statements of the Company and its undertakings made up to 31 March 2020. The results of new subsidiary undertakings are included from the dates of acquisition using the purchase method of consolidation. Where a company has ceased to be a subsidiary undertaking during the year, its results are included to the date of cessation.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the income statement in the period of acquisition.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's share of its associates' profits or losses is recognised in the income statement. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

Partnerships are controlled when the Group has the power, directly or indirectly, to govern the financial and operating policies of the partnership so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The consolidated financial statements include the financial statements of the KCOM Central Asset Reserve Limited Partnership and its undertakings made up to 31 March 2020. The results of new partnership undertakings are included from the dates of acquisition using the purchase method of consolidation. Where a company has ceased to be a partnership undertaking during the year, its results are included to the date of cessation.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the KCOM Group Limited (formerly KCOM Group PLC) Board of Directors.

Revenue recognition

The Group's product and service offerings include service only contracts, product only contracts and contracts which combine the provision of equipment and services as described in more detail below. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services supplied, stated net of discounts, returns and value-added taxes.

Standalone service offerings

The Group offers a range of fixed telephone, internet access and hosting services. Service revenue is recognised as the service is provided, based on usage (e.g. minutes of traffic or bytes of data used) or the period (e.g. monthly service costs). Service obligations which are substantially the same and have the same pattern of transfer to the customer are treated as a single performance obligation.

Service only offerings may include an initial service connection fee. In general, this is not deemed to be a separate performance obligation and thus the connection fee is deferred as a contract liability and recognised over the enforceable term of the contract.

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

The Group also generates revenue for the sale of advertising space both online and in a paper directory distributed to consumers. Revenue from the sale of advertising space in the paper directory is recognised at the point in time that the directory is delivered to the consumers. Revenue from online advertising is recognised over time as the advert is available online.

Standalone product sales

Equipment sales may be separate from, or bundled with, a service offer. When equipment sales are separate to a service offer, the amount invoiced is recognised in revenue upon delivery of the equipment, at the point that control is deemed to transfer to the customer.

Bundled equipment and service offerings

The Group often enters into contracts with customers which comprise equipment (e.g. a router) and services (e.g. an internet access contract).

Equipment revenue is recognised separately if the two components are deemed to be distinct (i.e. the customer can benefit from each component of the contract separately). Where one of the components is provided at a reduced selling price, revenue is allocated to each component in proportion to their individual selling prices.

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

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

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

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

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

Contract modifications

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

Variable consideration

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

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;
- onerous property leases;
- impairment of goodwill;
- recruitment and termination costs associated with Executive Directors; and
- costs relating to acquisitions and disposals.

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 Board.

Intangible assets

Goodwill

Goodwill represents amounts arising on acquisition of subsidiary undertakings and is the difference between the cost of the acquisition and the fair value of the net identifiable assets at the date of acquisition.

Goodwill is stated at cost less any accumulated impairment losses and is tested annually or more frequently if events or changes in circumstances indicate potential impairment. Impairment losses on goodwill are not reversed.

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

Development costs

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

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

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

Customer and supplier relationships

Contractual customer and supplier relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer and supplier relations have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the relationship.

Technology and brand

Technology and brand acquired through business combinations are recorded at fair value at the date of acquisition. Assumptions are used in estimating the fair values of acquired intangible assets and include management's estimates of revenue and profits to be generated by the acquired businesses. These intangible assets are amortised on a straight-line basis over their useful lives.

Software

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

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

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

Assets under construction (AUC)

AUC relates to costs incurred in the construction of an intangible asset. Once the asset is available for use it is transferred to the appropriate asset class and amortisation commences.

Amortisation

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

The estimated useful lives are as follows:

Customer and supplier relationships	up to 8 years
Technology and brand	up to 10 years
Software	up to 10 years
Development costs	3 years

Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and any provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Network infrastructure and related equipment (included within exchange equipment and external plant) is recorded at cost including labour costs directly attributable to the cost of the network construction. Depreciation is provided so as to write off the cost of assets to residual values on a straight-line basis over the assets' useful estimated lives as follows:

Freehold buildings	40 years
Leasehold buildings and improvements	period of lease
Exchange equipment	10 years
External plant	10 to 40 years
Vehicles, other apparatus and equipment	1 to 10 years

Freehold land is not depreciated.

Exchange equipment includes assets and equipment which relate to the network. External plant relates to assets which connect the network to our customers.

Similar to AUC in Intangible Assets detailed above, AUC relates to costs incurred during the construction of an item of property, plant and equipment. Once the asset is available for use it is transferred to the appropriate asset class and depreciation commences.

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

Fixed asset investments

Fixed asset investments are shown at cost less provision for impairment. 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 – for example, goodwill – 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 CGU on a pro-rata basis.

Contract costs

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

Costs of obtaining a contract

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

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

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

Costs to fulfil a contract

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

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

Contract costs are subject to impairment testing if the facts and circumstances of the contract change during the term. The amortisation of contract costs is included as an operating expense.

Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined using the weighted average cost method. Costs include raw materials and, where appropriate, direct overhead expenses. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Provision is made for obsolete, slow moving or defective items where appropriate.

Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are initially recognised at the amount of consideration that is unconditional. We do not have any material significant financing components. The Group 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 Group 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 Group 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 Group 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 Group’s procedures for recovery of amounts due. Any subsequent recoveries of amounts previously written off are credited against operating expenses in the income statement.

Contract assets

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

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

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

- Milestone billing in the “installation phase” of a contract
  Between performance milestones the Group does not have an unconditional right to receive consideration for performance completed to date, therefore a contract asset is recognised. Upon completion of the milestone, the contract asset is transferred to trade receivables.
- Bundled offerings combining the sale of a router and a fibre service for a fixed period
  The router is provided at a reduced price leading to reallocation of a proportion of the amounts invoiced for the fibre service to the supply of the router. The excess of the amount allocated to the router is recognised as a contract asset and transferred to trade receivables as the fibre service is invoiced.

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

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Cash and cash equivalents

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

Trade payables

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

Contract liabilities

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

Share capital

Ordinary shares are classified as equity.

Taxation

The tax expense represents the sum of the current tax and deferred tax expense.

The current tax is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and/or items that are never taxable or deductible. The Group'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 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.

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

Financial instruments and hedge accounting

Financial assets and liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

The Group uses derivative financial instruments to reduce its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its Treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are initially and subsequently recognised at fair value. Certain derivative financial instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are 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 Group 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 Group operates.

Transactions in foreign currencies are recorded at the rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated using the exchange rate at the balance sheet date.

Leasing

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

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

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

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

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

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

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

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

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

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

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

- restoration costs.

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

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

Bank borrowings and issue costs

Bank borrowings are stated at the amount of proceeds after deduction of issue costs, which are amortised over the period of the loan. Any issue costs remaining on settlement of bank borrowings will be repaid at the date of repayment. Finance charges, including direct issue costs are accounted for in the income statement on an accruals basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Borrowings are carried subsequently at amortised cost and any differences between the proceeds (net of transaction costs) and the redemption value are recognised in the income statement over the period of the borrowings using the effective interest method.

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 Consolidated 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 Group and the Trustees within the pension scheme rules.

Employee share schemes and share-based payments

The Group has applied the requirements of IFRS 2. Prior to the acquisition by MEIF 6 Fibre Limited, the Group issued equity-settled share-based payments to certain employees.

Equity-settled employee schemes, including employee share options and discretionary long-term incentive schemes, provided employees with the option to acquire shares of the Company. Employee share options and long-term incentive schemes were generally subject to performance or service conditions.

The fair value of equity-settled share-based payments were measured at the date of grant and charged to the income statement over the period during which performance or service conditions were required to be met, or immediately where no performance or service criteria exist. The fair value of equity-settled share-based payments granted was measured using either the Black-Scholes or Monte Carlo model, depending on the terms under which the options were granted. When determining the fair value of share options with a two-year holding period, a Chaffe protected put method was used to apply a discount for the lack of marketability of the options. The amount recognised as an expense was 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 Group 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 Group also operated a Share Incentive Plan (SIP) under which employees had the option to purchase shares in the Company each month and offered employees free matching and partnership shares on a sliding scale of between 1:3 to 2:1. The Group recognised the free shares as an expense over the period of any applicable service condition, or immediately when no service condition exists.

Dividends

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or, in the case of interim dividends, paid.

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

Provisions

A provision is recognised in the balance sheet when the Group has a present, legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Certain provisions are treated as exceptional items, in line with the treatment set out in our exceptional items accounting policy.

Provisions for onerous contracts are recognised should the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The estimated onerous element of the contract is recognised in full in the period in which the contract is identified as onerous. The assessment of whether a multi-element customer contract is onerous is undertaken separately for the installation and in-life phases should the revenues for that contract also be recognised on that basis.

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03 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 accounts, 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 judgements	Key sources of estimation uncertainty
Post-employment benefits		
The Group 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 Consolidated statement of comprehensive income.	Accounting for defined benefit pension schemes requires judgement over areas such as: • 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 33.
Significant contracts		
The Group, at times enters into significant and complex contracts with customers. These contracts may contain multiple elements including, but not limited to, an "installation" or "project phase" and an "in-life" or "managed service". In accordance with IFRS 15, the number of performance obligations must be identified and the transaction price allocated to each of them based on their standalone selling price. Provided the "installation" phase represents a performance obligation, revenue is recognised on a stage of completion basis if there is an enforceable right to payments. Otherwise costs are capitalised on the balance sheet and subject to impairment during the "installation" phase and upon completion revenue is recognised and the costs are released.	The Directors are required to make judgements when identifying the number of performance obligations within a contract and, due to the bespoke nature of the contracts, when allocating the transaction price between performance obligations. For performance obligations satisfied over time, the Directors are required to make judgements in determining the total costs to complete.	In determining revenue and cost recognition on ongoing contracts, and the associated carrying value of assets and liabilities at the balance sheet date, the Directors are required to estimate total contract costs to complete. Taking into account the number of contracts entered into the Directors do not consider there to be any individual estimates made which could have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.
Leases		
Lease accounting requires determination of the lease term, which is defined as the noncancellable period of the lease adjusted for the impact of any reasonably certain extension, termination and purchase options. The lease term and the discount rate are key determinants of the size of the lease liability and right-of-use asset recognised where the Group acts as lessee.	Determining the lease term requires judgement to evaluate whether the lessee is reasonably certain to exercise any options available. The Directors also apply judgement in determining the appropriate incremental borrowing rate that reflects the risks specific to leases.	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.
Valuation of investments in subsidiary undertakings (Parent Company)		
The carrying value of investments held in subsidiary undertakings has to be assessed for impairment at the balance sheet date. Consistent with goodwill, 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 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 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. The Directors also apply judgement in determining the budgeted cash flows and a long-term, terminal growth rate. The Directors also apply judgement in the consideration of alternative valuation methodologies, namely, fair value less cost to sell.	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.

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04 Segmental analysis

The Group's operating and reportable segments are based on the reports reviewed by the KCOM Group Limited (formerly KCOM Group PLC) Board which are used to make strategic decisions. The chief operating decision-maker of the Group is the KCOM Group Limited (formerly KCOM Group PLC) Board.

For the year ended 31 March 2020, the Board considered three segments in assessing the performance of the Group and making decisions in relation to the allocation of resources. These three segments are:

- Consumer & Regional Business – providing communication and internet-based services to consumer and business customers within Hull and East Yorkshire;
- Business – providing network connectivity and related services to business customers nationally; consulting, design, implementation and managed services related to the collaborative systems and cloud markets; and
- Central – holding the PLC costs up to the date of acquisition and corporate costs, where allocation to the underlying segments would not improve understanding of these segments. These include costs associated with our defined benefit pension obligations and share schemes, alongside the residual cost of finance, HR, risk, legal and communications once appropriate recharges have been made to the segments.

The segmental results have been prepared and presented on a new basis in the year ended 31 March 2020 to reflect the way in which we report results to the Board. This hasn't had a material impact on the comparability of segmental EBITDA due to the nature of the changes.

The Hull and East Yorkshire segment has been renamed Consumer & Regional Business. National Network Services ("NNS") and Enterprise have combined to form Business. There has been a further change to move certain costs to be incurred directly by a segment rather than being recharged from the Central functions. The net impact is to allocate a further £2.2 million of costs from Central to the trading segments. Segmental results for the year ended 31 March 2019 have been restated to be on a comparable basis.

The results for the year ended 31 March 2020 and for the year ended 31 March 2019, are as follows:

		Revenue		EBITDA		EBITDAaL	
			Restated		*Restated*		*Restated*
Consolidated	Notes	**2020 £'000**	2019 £'000	**2020 £'000**	2019 £'000	**2020 £'000**	2019 £'000
Before exceptional items							
Consumer & Regional Business		**98,531**	101,054	**56,477**	58,905	**54,765**	58,905
Business		**166,599**	183,566	**10,867**	7,205	**(3,389)**	7,205
Central		**(2,283)**	(2,983)	**(5,269)**	(9,048)	**(5,483)**	(9,048)
Total before exceptional items		**262,847**	281,637	**62,075**	57,062	**45,893**	57,062
Exceptional items							
Consumer & Regional Business		**—**	—	**(1,138)**	(52)	**(1,138)**	(52)
Business		**—**	—	**(4,765)**	(52,782)	**(4,765)**	(52,782)
Central		**—**	—	**(19,380)**	(3,126)	**(19,380)**	(3,126)
Total	7	**—**	—	**(25,283)**	(55,960)	**(25,283)**	(55,960)
Total after exceptional items		**262,847**	281,637	**36,792**	1,102	**20,610**	1,102

A reconciliation of EBITDA pre-exceptional items to EBITDAaL pre-exceptional items is provided as follows:

Consolidated	Notes	**2020 £'000**	2019 £'000
EBITDA pre-exceptional items		**62,075**	57,062
Depreciation of right of use assets	16	**(15,151)**	—
Interest on lease liabilities	9	**(1,031)**	—
EBITDAaL pre-exceptional items		**45,893**	57,062

A reconciliation of EBITDA post-exceptional items to profit before tax is provided as follows:

Consolidated	Notes	**2020 £'000**	2019 £'000
EBITDA post-exceptional items		**36,792**	1,102
Depreciation of property, plant and equipment	15	**(15,664)**	(16,913)
Depreciation of right of use assets	16	**(15,151)**	—
Amortisation	14	**(8,215)**	(13,011)
Finance income	9	**192**	—
Finance costs	9	**(7,096)**	(2,837)
Share of profit of associate	17	**16**	16
Loss before tax		**(9,126)**	(31,643)

The table below shows revenue disaggregated by segment and nature:

Consolidated	2020 £'000	*Restated* 2019 £'000
Revenue		
Consumer & Regional Business:		
Consumer	**60,117**	60,103
Business	**26,615**	27,057
Wholesale	**10,558**	12,181
Other	**1,241**	1,713
Total Consumer & Regional Business	**98,531**	101,054
Business:		
Connectivity	**58,543**	61,509
Hosting	**6,473**	7,054
Managed Service	**15,074**	17,249
Projects	**33,750**	36,021
Voice	**31,988**	36,379
Other	**20,771**	25,354
Total Business	**166,599**	183,566
Central	**(2,283)**	(2,983)
Group total	**262,847**	281,637

In the Consumer & Regional Business segment, the revenue from two customers has been moved from 'Business' to 'Wholesale' to better align with the nature of services sold to those customers. The year ended 31 March 2020 is presented on the updated basis and the results for the year ended 31 March 2019 have been restated to move £2.5 million of revenue from Business to Wholesale to allow for comparability.

Disclosure of segmental assets and liabilities has not been presented. This is in accordance with IFRS 8 as this information is not provided regularly to the KCOM Group Limited (formerly KCOM Group PLC) Board.

The split of total revenue between external customers and inter-segment revenue is as follows:

Consolidated	2020 £'000	*Restated* 2019 £'000
Revenue from external customers		
Consumer & Regional Business	**96,196**	98,065
Business	**166,599**	183,566
Central	**52**	6
Total	**262,847**	281,637
Inter-segment revenue		
Consumer & Regional Business	**2,335**	2,989
Central	**(2,335)**	(2,989)
Total	**—**	—
Group total	**262,847**	281,637

Inter-segment sales are charged at prevailing market prices.

No material revenue, operating profit or net operating assets arises outside the United Kingdom. No revenue from transactions with one customer exceeded 10% of Group revenue. In the year ended 31 March 2019 revenue of £29.1 million from transactions with one customer in the Business segment exceeded 10% of Group revenue.

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

Consolidated	2020 £'000	2019 £'000
Sale of goods	**5,850**	4,864
Provision of services	**256,997**	276,773
Group total	**262,847**	281,637

Notes to the financial statements

for the year ended 31 March 2020

05 Operating expenses

Operating expenses incurred in the year included the following items charged/(credited):

Consolidated	Notes	2020 £'000	2019 £'000
Staff costs[1]		**74,370**	83,214
Restructuring costs relating to employees	7,8	**7,060**	2,672
Settlement of share schemes	7,8	**1,948**	—
Total staff costs	8	**83,378**	85,886
Own work capitalised	8	**(7,468)**	(7,514)
Other external charges[2]		**132,362**	119,780
Auditors' remuneration	6	**339**	423
Amortisation of intangible assets	14	**8,215**	13,011
Depreciation of property, plant and equipment	15	**15,664**	16,913
Depreciation of right-of use assets	16	**15,151**	—
ROU asset impairment	16	**1,939**	—
Operating lease rentals	2	**—**	28,735
Impairment of goodwill	13	**—**	51,372
Non-employee-related restructuring costs	7	**1,370**	1,127
Acquisition related costs	7	**11,790**	—
Onerous contract costs	7	**1,176**	—
Impairment loss on trade receivables and contract assets	31	**1,169**	709
Loss on disposal of property, plant and equipment		**—**	17
Total		**265,085**	310,459

1. Included within staff costs are redundancy costs of £nil (2019: £0.9 million) which are not related to restructuring activities.
2. Other external charges mainly relate to costs from key partners. These external charges include managed service and maintenance contract costs along with product costs (for example, ethernet and broadband).

06 Auditors' remuneration

During the year the Group obtained the following services from the Company's auditors:

Consolidated	2020 £'000	2019 £'000
Fees payable to the Company's auditors for the audit of the Company's annual financial statements and the consolidated financial statements	**66**	47
Fees payable to the Company's auditors and their associates for other services:		
– the audit of the Company's subsidiaries	**239**	175
– audit-related assurance services[3]	**28**	71
– other non-audit services	**6**	130
Total	**339**	423

3. Relates to half year review and regulatory audit.

07 Exceptional items

Consolidated	Notes	2020 £'000	2019 £'000
Impairment of goodwill	13	**—**	51,372
Restructuring costs		**8,430**	3,799
GMP equalisation		**—**	789
Acquisition related costs		**11,790**	—
Settlement of share schemes (LTIP & MyShare)	12	**1,948**	—
Onerous contract costs		**1,176**	—
ROU asset impairment	16	**1,939**	—
Total charge to the income statement		**25,283**	55,960

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 £8.4 million were incurred (2019: £3.8 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.
- Fit for growth project costs (£1.3 million) in relation to third-party consultant costs incurred as part of the post-acquisition business review.
- £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, £11.8 million of acquisition related costs were incurred, primarily relating to external consultant and advisor fees associated with the purchase of all the ordinary share capital by MEIF 6 Fibre Limited in July 2019. Linked to the acquisition, £1.9 million of share scheme costs for the Long-Term Incentive Plan (LTIP) and Employee SIP scheme (MyShare) were incurred. Further details are provided in Note 12. These are both considered to be significant expenses outside of the normal course business.

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

In the year ended the 31 March 2019 all of the Group's goodwill of £51.4 million was impaired. This was a non-cash item and was treated as exceptional in line with our accounting policy. See Note 13 for further details.

During the prior year, the Group also 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.

The combined effect of exceptional items is a credit of £2.2 million (2019: credit of £0.9 million) in respect of current tax and £0.2 million (2019: £1.6 million) in respect of deferred tax.

Cash flow impact of exceptional items was an outflow of £19.0 million (2019: outflow of £3.4 million). The impact on working capital of exceptional items was an outflow of £1.0 million (2019: inflow of £0.1 million).

08 Employees and remuneration

The average monthly numbers (including Executive Directors) employed by the Group during the year were as follows:

	Number of employees	
	2020	2019
Consumer & Regional Business	**454**	161
Business	**223**	137
Central	**777**	1,230
Total	**1,454**	1,528

Included within the Central segment are employees who work in central functions (e.g. technology, finance, legal, risk, etc). The costs are recharged to the applicable market segments as appropriate. As discussed in the segmental analysis in Note 4, during the year we have changed our reported segments and moved certain costs, and therefore employees, to sit directly in the Consumer & Regional Business and Business segments. These costs and employees are no longer recharged from a Central function.

The costs incurred in respect of these employees were:

Consolidated	Notes	**2020 £'000**	2019 £'000
Wages and salaries[1]		**62,927**	69,618
Social security costs		**6,458**	6,975
Other pension costs	33	**4,649**	5,240
Share scheme costs	12	**336**	1,381
Settlement of share scheme costs	7,12	**1,948**	—
Restructuring costs relating to employees	7	**7,060**	2,672
Total		**83,378**	85,886
Less own work capitalised	14,15	**(7,468)**	(7,514)
Charged to the income statement		**75,910**	78,372

1. Included within staff costs are redundancy costs of £Nil (2019: £0.9 million) which are not related to restructuring activities.

All of the Group's employees were employed by KCOM Group Limited (formerly KCOM Group PLC) during the year ended 31 March 2020. During the prior year one employee was employed by KCOM Contact Centres Limited. No employee costs are borne by the Parent Company.

With the exception of administrative expenses and interest costs, the expenses relating to the defined benefit pension schemes are recognised within other comprehensive income, see Note 33 for further details.

Remuneration of Directors

Consolidated	Notes	2020 £'000	2019 £'000
Remuneration		**758**	1,049
Aggregate amounts receivable under long term incentive plans		**1,661**	—
Company contributions paid to money purchase pensions schemes		**90**	132
Compensation for loss of office	7	**950**	366
Total		**3,459**	1,547

Consolidated	2020 No.	2019 No.
Members of money purchase pension schemes	**3**	4

The amounts in respect of the highest paid Director are as follows:

Consolidated	2020 £'000	2019 £'000
Total remuneration (including amounts receivable under long term incentive plans)	**2,133**	457

09 Finance income and costs

Consolidated	Notes	2020 £'000	2019 £'000
Finance income:			
Retirement benefit obligations	33	(192)	—
Finance income		**(192)**	—
Finance costs:			
Bank loans, overdrafts and other loans		**1,840**	2,383
Retirement benefit obligations		—	76
Interest paid on loans from related parties	25	**3,372**	—
Interest on lease liabilities	27	**1,031**	—
Finance lease and hire purchase contracts		**—**	29
		6,243	2,488
Amortisation of loan arrangement fees		**238**	308
Exceptional finance charge		**615**	—
Provision: unwind of discount	28	**—**	41
Finance costs		**7,096**	—
Total		**6,904**	2,837

Subsequent to the acquisition 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 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.

10 Taxation

Analysis of tax (credit)/charge in the year

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

Consolidated	Notes	2020 £'000	2019 £'000
UK corporation tax:			
– current tax on loss for the year		**(1,022)**	1,925
– adjustment in respect of prior years		**(1,517)**	(86)
Total current tax		**(2,539)**	1,839
UK deferred tax:			
Origination and reversal of timing differences in respect of:			
– profit/(loss) for the year		**2,912**	(462)
– change in rate		**564**	(90)
– adjustment in respect of prior years		**(525)**	(340)
– (credit)/charge in respect of retirement benefit obligation		**(1,779)**	1,313
Total deferred tax	29	**1,172**	421
Total taxation (credit)/charge for the year		**(1,367)**	2,260

Factors affecting tax (credit)/charge for the year

Consolidated	2020 £'000	2019 £'000
Loss before taxation	**(9,126)**	(31,643)
Loss before taxation at the standard rate of corporation tax in the UK of 19% (2019: 19%)	**(1,734)**	(6,012)
Effects of:		
– expenses not deductible for tax purposes	**1,845**	8,788
– adjustment is respect of prior years	**(2,042)**	(426)
– change in rate reflected in the deferred tax asset	**564**	(90)
Total taxation (credit)/charge for the year	**(1,367)**	2,260

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%.

11 Dividends

	2020 £'000	2019 £'000
Amounts recognised as distributions to equity holders in the financial year:		
– final dividend for the year ended 31 March 2019 of 4.00 pence per share	**—**	20,664
– interim dividend for the year ended 31 March 2019 of 1.00 pence per share	**—**	5,166
Total	**—**	25,830

Following the takeover by MEIF 6 Fibre Limited and the delisting from the London Stock Exchange in August 2019, no final dividend was declared for the year ended 31 March 2019. No dividends have been declared or paid for the year ended 31 March 2020.

12 Share-based payments

The Group had two share-based payment schemes (2019: two) in existence during the year ended 31 March 2020. The Group 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 £1,683,000 (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.

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 Total Shareholder Return (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 £650,000 (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

13 Goodwill

Consolidated	Total £'000
Cost	
At 1 April 2018, 31 March 2019 and 31 March 2020	**85,272**
Provisions for impairment	
At 1 April 2018	33,900
Charge for the year	51,372
At 31 March 2019 and 31 March 2020	85,272
Net book value	
At 31 March 2020	**—**
At 31 March 2019	—
At 1 April 2018	51,372

Goodwill acquired in a business combination is allocated at the date of acquisition to the cash generating unit (CGU) that is expected to benefit from that business combination.

CGUs represent the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other groups of assets. As in previous years, KCOM's CGUs are based on customer type and geographic service location.

Goodwill is tested annually for impairment, or more frequently if there are indications that goodwill may be impaired. In the year ended 31 March 2019 we wrote off all remaining goodwill in the Group. The information below is disclosed in relation to the comparative period.

The key assumptions for the value in use calculation relate to forecast cash flows, discount rate and growth rate. The Directors estimated the discount rate using a pre-tax rate that reflects current market assessments of the time value of money and the level of risk. The growth rate reflects the long-term growth rate prospects for the UK economy. The estimates used within the value in use calculation takes into account historical experience and the Board's estimate of future events.

The discount rate and growth rate (in perpetuity) used for value in use calculations are as follows:

	2020	2019
Discount rate (pre-tax) Enterprise %	—	9.6
Discount rate (pre-tax) National Network Services %	—	8.2
Growth rate (in perpetuity) %	—	2.0

The discount rate was a pre-tax measure based on the rate of 10-year UK Government bonds, being the relevant market and in the same currency as the cash flows, adjusted for a risk premium to reflect both the increased risk of investing in equities generally and the systematic risk of KCOM and the relevant CGU.

Three years of cash flows were included in the discounted cash flow models. A long-term growth rate into perpetuity had been determined as the lower of the nominal gross domestic product (GDP) rate for the UK and the long-term compound annual EBITDA growth rate estimated by management.

Budgeted EBITDA was based on expectations of future outcomes taking into account past experience and our anticipation of future growth. The cash flow forecast was prepared by using the latest Board approved operating budget. The forecast covered a three-year period and an appropriate extrapolation of cash flows beyond this point into perpetuity based on the above assumptions.

Revenue in the Group's National Network Services segment, now part of the Business segment, had continued to fall. This decline reflected continued churn and a performance well below the underlying market for its services. This performance led to the Directors' decision to impair the full carrying value of goodwill, of £32.2 million for this CGU in the year ended 31 March 2019.

An impairment charge of the full value of the goodwill allocated to the Enterprise CGU, now part of the Business CGU, of £19.1 million, had also been recorded in the year ended 31 March 2019. At 30 September 2018, the carrying value of KCOM's Enterprise CGU goodwill balance was supported by the Group's medium/ long- term cashflow forecasts. In the second half of the year however, as part of the Group's strategic review, the Group's cashflow forecasts were updated to reflect a reduction in Enterprise's growth expectations due to the long term cashflows expected from major customers and change in the Group's national focus towards core connectivity. As a result of the updated cashflow forecasts the Group's Enterprise CGU goodwill balance was fully impaired.

Management also considered the carrying value of goodwill in the context of the acquisition of KCOM, including whether on a fair value less cost to sell basis this would impact the impairment decision. This did not change the conclusion that there was a full impairment of both the Enterprise and National Network Services (now combined to be the Business CGU) goodwill.

Following both impairments, the Group reassessed the depreciation policies of its property, plant and equipment in both CGUs and estimated that their useful lives would not be affected following this decision. No class of asset other than goodwill was impaired. This assessment has been reconsidered in the current year, again with no proposed impairment to any other class of assets. The combined impairment charge of £51.4 million in the year ended 31 March 2019 was treated as an exceptional item in line with the Group accounting policies.

Following the Group's impairment charge, the carrying amount of goodwill is £Nil (31 March 2019: £Nil).

14 Other intangible assets

Consolidated	Notes	Development costs[1] £'000	Software £'000	Customer and supplier relationships £'000	Technology and brand £'000	Assets under construction £'000	Total £'000
Cost							
At 1 April 2018		34,699	58,921	49,257	6,294	—	149,171
Additions		591	3,006	—	—	—	3,597
Own work capitalised	8	4,599	289	—	—	—	4,888
Disposals		(543)	(2,487)	—	—	—	(3,030)
Transfers		(1,561)	1,548	—	—	—	(13)
Assets under construction		(2,133)	(1,841)	—	—	3,974	—
At 31 March 2019		35,652	59,436	49,257	6,294	3,974	154,613
Additions		21	2,972	—	—	1,348	4,341
Own work capitalised	8	2,543	964	—	—	1,033	4,540
Disposals		(7)	(52)	—	—	—	(59)
Transfers		1,241	5,838	—	—	(3,682)	1,369
At 31 March 2020		**39,450**	**67,130**	**49,257**	**6,294**	**2,673**	**164,804**
Accumulated amortisation							
At 1 April 2018		21,541	35,263	49,257	6,294	—	112,355
Charge for the year		4,690	8,321	—	—	—	13,011
Disposals		(523)	(2,281)	—	—	—	(2,804)
At 31 March 2019		25,708	41,303	49,257	6,294	—	122,562
Charge for the year		3,567	4,648	—	—	—	8,215
Disposals		(3)	—	—	—	—	(3)
At 31 March 2020		**29,272**	**45,951**	**49,257**	**6,294**	**—**	**130,774**
Carrying amount							
At 31 March 2020		**10,178**	**21,179**	**—**	**—**	**2,673**	**34,030**
At 31 March 2019		9,944	18,133	—	—	3,974	32,051
At 1 April 2018		13,158	23,658	—	—	—	36,816

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

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for the year ended 31 March 2020

15 Property, plant and equipment

Consolidated	Notes	Land and buildings £'000	Exchange equipment £'000	External plant £'000	Vehicles, other apparatus and equipment £'000	Assets Under construction £'000	Total £'000
Cost							
At 1 April 2018		14,530	109,101	179,113	57,275	—	360,019
Additions		—	8,227	10,834	6,570	—	25,631
Own work capitalised	8	—	679	1,868	79	—	2,626
Disposals		—	(909)	(93)	(3,919)	—	(4,921)
Transfers		—	2,102	(2,584)	495	—	13
Assets under construction		—	(6,117)	(2,090)	(2,762)	10,969	—
At 31 March 2019		14,530	113,083	187,048	57,738	10,969	383,368
Additions		—	580	6,293	3,065	5,932	15,870
Own work capitalised	8	—	185	1,831	9	903	2,928
Disposals		—	—	(50)	(431)	-—	(481)
Transfers		—	60	1,782	2,265	(5,477)	(1,370)
At 31 March 2020		**14,530**	**113,908**	**196,904**	**62,646**	**12,327**	**400,315**
Accumulated depreciation							
At 1 April 2018		11,191	76,623	108,815	41,957	—	238,586
Charge for the year		353	3,116	6,233	7,211	—	16,913
Disposals		—	(901)	(2)	(3,776)	—	(4,679)
At 31 March 2019		11,544	78,838	115,046	45,392	—	250,820
Charge for the year		353	3,499	6,587	5,225	—	15,664
Disposals		—	—	—	(404)	—	(404)
At 31 March 2020		**11,897**	**82,337**	**121,633**	**50,213**	—	**266,080**
Net book value							
At 31 March 2020		**2,633**	**31,571**	**75,271**	**12,433**	**12,327**	**134,235**
At 31 March 2019		2,986	34,245	72,002	12,346	10,969	132,548
At 1 April 2018		3,339	32,478	70,298	15,318	—	121,433

16 Right-of-use assets

Consolidated	Notes	Land and buildings £'000	Exchange equipment £'000	External plant £'000	Vehicles, other apparatus and equipment £'000	Total £'000
Carrying amount						
At 1 April 2019 (on transition)	2	10,935	12,650	30,453	558	54,596
Additions		258	565	7,607	548	8,978
Disposals		(220)	(43)	(1,107)	(8)	(1,378)
At 31 March 2020		**10,973**	**13,172**	**36,953**	**1,098**	**62,196**
Accumulated depreciation						
At 1 April 2019 (on transition)	2	—	—	—	—	—
Charge for the year		2,252	2,704	9,759	436	15,151
Disposals		(59)	(43)	(429)	(4)	(535)
Impairment loss		1,939	—	—	—	1,939
At 31 March 2020		**4,132**	**2,661**	**9,330**	**432**	**16,555**
Net book value at 31 March 2020		**6,841**	**10,511**	**27,623**	**666**	**45,641**
Net book value at 1 April 2019 (on transition)	2	10,935	12,650	30,453	558	54,596

Upon transition to IFRS 16, right-of-use assets of £54.6 million were initially recognised as a result of the change in accounting treatment for operating leases. For further information on new accounting standards, see Note 2.

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

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

Consolidated	**2020 £'000**	2019 £'000
Short-term leases	**10,930**	—
Low-value asset leases	**346**	—
Total	**11,276**	—

Notes to the financial statements

for the year ended 31 March 2020

17 Investments

Consolidated	Shares in associate £'000
Cost	
At 1 April 2018	46
Share of net profit for the year	16
At 31 March 2019	62
Share of net profit for the year	16
Dividends received from associate	(10)
At 31 March 2020	**68**
Amounts written off	
At 1 April 2018, 31 March 2019 and 31 March 2020	**—**
Net book value	
At 31 March 2020	**68**
At 31 March 2019	62
At 1 April 2018	46

Parent Company	Shares in subsidiary undertakings £'000
Cost	
At 1 April 2018, 31 March 2019 and 31 March 2020	**494,511**
Amounts written off	
At 1 April 2018, 31 March 2019 and 31 March 2020	**50**
Net book value	
At 1 April 2018, 31 March 2019 and 31 March 2020	**494,461**

Subsidiary undertakings (as at 31 March 2020)

Name of company	Place of registration	Holding	Proportion held	Nature of business
KCH (Holdings) Limited	England and Wales[1]	Ordinary shares	100%	Intermediate holding company
Network Holdco 3 BV*	Holland[2]	Ordinary shares	100%	Dormant
Smart 421 Technology Group Limited*	England and Wales[1]	Ordinary shares	100%	Dormant holding company
Kingston Network Holdings Limited*	England and Wales[1]	Ordinary shares	100%	Dormant holding company
Kingston Service Holdings Limited*	England and Wales[1]	Ordinary shares	100%	Dormant holding company
KCOM International Limited*	England and Wales[1]	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[1]	Ordinary shares	100%	Provision of call centre facilities
Kingston Communications (Data) Trustees Limited*	England and Wales[1]	Ordinary shares	100%	Dormant
Kingston Communications (Hull) Trustees Limited*	England and Wales[1]	Ordinary shares	100%	Dormant
Affiniti Integrated Solutions Limited*	England and Wales[1]	Ordinary shares	100%	Dormant
Kingston Information Services Limited*	England and Wales[1]	Ordinary shares	100%	Dormant
KCOM Holdings Limited*	England and Wales[1]	Ordinary shares	100%	Design and delivery of communication and integration services
Eclipse Networking Limited*	England and Wales[1]	Ordinary shares	100%	Dormant
Eclipse Internet Limited*	England and Wales[1]	Ordinary shares	100%	Dormant
Kingston Communications (Hull) Limited*	England and Wales[1]	Ordinary shares	100%	Dormant
Omnetica Investment Limited*	England and Wales[1]	Ordinary shares	100%	Dormant holding company
Omnetica Inc*	USA[4]	Ordinary shares	100%	Dormant
Smart421 Limited*	England and Wales[1]	Ordinary shares	100%	Dormant
Smart421 Solutions Inc*	USA[5]	Ordinary shares	100%	Dormant
Smartintegrator Technology Limited*	England and Wales[1]	Ordinary shares	50%	Software development

* Indicates indirect shareholding.

1. 37 Carr Lane, Hull HU1 3RE.
2. Prins Bernhardplein 200, 1097 JB Amsterdam, The Netherlands.
3. 50 Lothian Road, Festival Square, Edinburgh EH3 9WJ.
4. 200 Knickerbocker Avenue, Bohemia, New York, 11716, USA.
5. 9 East Loockerman 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.

Associates

The Group's associate is Smartintegrator Technology Limited, in which the Company indirectly holds 50% of the ordinary shares. Under an agreement between the shareholders of Smartintegrator Technology Limited, neither the Group nor the shareholders are able to exercise control over the operational and financial policies of Smartintegrator Technology Limited. The associate is registered in England and its main business activity is software development.

18 Contract costs

Consolidated	**2020 £'000**	2019 £'000
Costs of obtaining a contract	**1,996**	1,909
Costs of fulfilling a contract	**3,133**	3,404
Total	**5,129**	5,313

The costs of obtaining a contract are comprised of sales commissions paid to employees. The costs of fulfilling a contract relate primarily to set-up activities that are not deemed to represent a performance obligation or in circumstances where it has been determined that there is no enforceable right to payment during the project phase and thus revenue cannot be recognised until project completion. The asset is amortised on a straight-line basis over the term of the specific contract it relates to, consistent with the pattern of recognition of the associated revenue. Capitalised contract costs of £3.6 million (2019: £3.8 million) were amortised and included in operating expenses.

19 Inventories

Consolidated	**2020 £'000**	2019 £'000
Raw materials and consumables	**3,794**	2,607
Equipment for resale	**844**	473
Total	**4,638**	3,080

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

Write-downs of inventories to net realisable value amounted to £219,208 (2019: £19,052). These were recognised as an expense during the year ended 31 March 2020 and were included in 'operating expenses' in the consolidated income statement.

20 Contract assets

Consolidated	**2020 £'000**	2019 £'000
Contract assets	**3,318**	2,903

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

The carrying amount of contract assets has increased by £0.4 million to £3.3 million.

21 Trade and other receivables

	Consolidated		Parent Company	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
Trade receivables (net)	**24,263**	23,302	**—**	—
Other receivables	**3,589**	3,183	**—**	—
Prepayments	**18,869**	18,877	**—**	—
Unbilled receivables (net)	**8,461**	9,895	**—**	—
Total	**55,182**	55,257	**—**	—

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

All of the Group's receivables are due within one year in both the year ended 31 March 2020 and the year ended 31 March 2019. An allowance has been made for estimated irrecoverable amounts from the sale of goods and services of £1,360,000 (2019: £706,000). Note 31 provides further disclosures regarding the allowance for irrecoverable amounts and the credit risk of the Group's trade receivables.

22 Trade and other payables

	Consolidated		Parent Company	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
Current				
Trade payables	**18,715**	28,226	**—**	—
Other taxes and social security costs	**7,488**	7,213	**—**	—
Other payables	**1,019**	1,898	**—**	—
Accruals	**15,084**	18,896	**—**	—
Total	**42,306**	56,233	**—**	—
Non-current				
Amounts due to subsidiary undertakings	**—**	—	**450**	450
Total	**—**	—	**450**	450

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs.

Amounts owed to subsidiary undertakings are unsecured and have no fixed date of repayment. However, the subsidiary undertakings have confirmed that none of the amounts are due within one year. Interest at market rates is charged on amounts due to subsidiary undertakings after more than one year, except for amounts due to dormant entities where Nil interest is charged.

23 Contract liabilities

Consolidated	**2020 £'000**	2019 £'000
Contract liabilities	**20,158**	18,264

During the year revenue of £14.1 million has been recognised in relation to the contract liability at the beginning of the period. The carrying amount has increased by £1.8 million to £20.2 million as of 31 March 2020.

24 Bank loans

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

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

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

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, which is disclosed in Note 26. The outstanding loan issue costs were released to the income statement as an exceptional finance charge, as disclosed in Note 9.

25 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	Notes	**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 immediate parent undertaking to facilitate the settlement of our external revolving credit facility, as disclosed in Note 24. The loan is repayable, along with any accrued interest, 360 days from the date of advance, or at such date that may be agreed otherwise between the company and the parent undertaking.

26 Net Debt

This section sets out an analysis of net debt and the movements in net debt for each of the financial years presented.

Consolidated	Notes	2020 £'000	2019 £'000
Cash and cash equivalents		**15,126**	7,347
Borrowings	24	**—**	(114,129)
Loan from related parties	25	**(148,661)**	—
Finance leases (IAS 17 definition)		**—**	(418)
Total net debt excluding lease liabilities		**(133,535)**	(107,200)
Lease liabilities (IFRS 16 definition)	27	**(46,961)**	—
Total net debt		**(180,496)**	(107,200)

Net debt has been presented before and after the impact of lease liabilities from the application of the new leasing accounting standard, IFRS 16. This is to allow comparability year on year and to aid reconciliation to the KPIs disclosed in the Strategic report.

Cash and cash equivalents, which are presented as a single class of assets on the face of the balance sheet, comprise cash at bank, short-term deposits and other short-term, highly liquid investments with maturity of three months or less.

	Other assets	Liabilities from financing activities				
Consolidated	Cash/bank overdraft £'000	Lease liabilities due within 1 year £'000	Lease liabilities due after 1 year £'000	Bank loans £'000	Loans from related parties £'000	Total £'000
Net debt at 1 April 2018	13,223	(1,722)	(285)	(73,821)	—	(62,605)
Cash flows	(5,876)	1,618	—	(40,000)	—	(44,258)
Other non-cash movements	—	(314)	285	(308)	—	(337)
Net debt at 31 March 2019	7,347	(418)	—	(114,129)	—	(107,200)
Change in accounting standards (Note 2)	—	(11,993)	(41,332)	—	—	(53,325)
Net debt at 1 April 2020	7,347	(12,411)	(41,332)	(114,129)	—	(160,525)
Cash flows	7,779	15,271	—	115,000	(145,289)	(7,239)
Other non-cash movements	—	(16,946)	8,457	(871)	(3,372)	(12,732)
Net debt at 31 March 2020	**15,126**	**(14,086)**	**(32,875)**	**—**	**(148,661)**	**(180,496)**

27 Lease liabilities

Consolidated	2020 £'000	2019 £'000
Lease liabilities:		
Minimum lease payments:		
– within 12 months	**14,719**	418
– in 1 to 5 years	**35,301**	—
– after 5 years	**355**	—
	50,375	418
Future finance charges	**(3,414)**	—
Present value of finance lease liabilities	**46,961**	418
The present value of finance lease liabilities is as follows:		
– within 12 months	**14,086**	418
– in 1 to 5 years	**32,523**	—
– after 5 years	**352**	—
Total	**46,961**	418

An interest expense of £1,031,000 (2019: £29,000) was recognised in the year in relation to lease liabilities.

The total cash outflow for leases during the year was £26.9 million including £11.6 million relating to short-term and low-value asset leases which have not been included in the finance lease liability.

28 Provisions for other liabilities and charges

Consolidated	Dilapidations £'000	Onerous Contracts £'000	Restructuring £'000	Total £'000
At 1 April 2019	3,305	37	—	3,342
Established in the year	256	1,134	2,983	4,373
Unwind of discount	—	—	—	—
Utilised in the year	(158)	(33)	—	(191)
At 31 March 2020	**3,403**	**1,138**	**2,983**	**7,524**
Total provisions for other liabilities and charges 2020				
Included in current liabilities	331	266	2,983	3,580
Included in non-current liabilities	3,072	872	—	3,944
At 31 March 2020	**3,403**	**1,138**	**2,983**	**7,524**
Total provisions for other liabilities and charges 2019				
Included in current liabilities	150	32	—	182
Included in non-current liabilities	3,155	5	—	3,160
At 31 March 2019	**3,305**	**37**	**—**	**3,342**

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

Provision has been made for the estimated fair value of unavoidable incremental contract costs on unoccupied buildings. It is expected that these payments will arise over the next 4.5 years. This cost excludes the lease rental payments that are included as a lease liability under IFRS 16.

The restructuring provision as at 31 March 2020 relates to organisation design changes as referenced in Note 7. The provision relates to redundancies announced at the balance sheet date but not enacted.

29 Deferred taxation assets and liabilities

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

	Assets		Liabilities		Net	
Consolidated	**2020 £'000**	2019 £'000	**2020 £'000**	2019 £'000	**2020 £'000**	2019 £'000
Property, plant and equipment	—	—	**(5,565)**	(4,617)	**(5,565)**	(4,617)
Tax losses	**2,092**	—	—	—	**2,092**	—
Other timing differences	**—**	346	**(20)**	—	**(20)**	346
Retirement benefit obligation	**—**	404	**(7,365)**	(1,007)	**(7,365)**	(603)
Intangible assets on acquisition	**3,719**	3,789	**—**	—	**3,719**	3,789
Asset-backed partnership	**—**	—	**(3,639)**	(3,485)	**(3,639)**	(3,485)
	5,811	4,539	**(16,589)**	(9,109)	**(10,778)**	(4,570)

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

Consolidated	Notes	Property, plant and equipment £'000	Tax losses £'000	Other timing differences £'000	Retirement benefit obligation £'000	Intangible assets arising on acquisition £'000	Asset-backed partnerships £'000	Total £'000
At 1 April 2018		(4,066)	—	146	1,276	2,677	(3,696)	(3,663)
(Charged)/credited to the income statement	10	(551)	—	193	(1,386)	1,112	211	(421)
(Charged)/credited directly to equity and other comprehensive income		—	—	7	(493)	—	—	(486)
At 31 March 2019		**(4,617)**	—	**346**	**(603)**	**3,789**	**(3,485)**	**(4,570)**
(Charged)/credited to the income statement	10	(948)	2,092	(242)	(1,850)	(70)	(154)	(1,172)
Charged directly to equity and other comprehensive income		—	—	**(124)**	**(4,912)**	—	—	**(5,036)**
At 31 March 2020		**(5,565)**	**2,092**	**(20)**	**(7,365)**	**3,719**	**(3,639)**	**(10,778)**

There are £Nil deferred tax assets in the Parent Company (2019: £Nil).

The analysis of deferred tax assets is as follows:

Consolidated	**2020 £'000**	2019 £'000
Deferred tax assets to be recovered after more than 12 months	**716**	481
Deferred tax assets to be recovered within 12 months	**5,095**	4,058
	5,811	4,539

The analysis of deferred tax liabilities is as follows:

Consolidated	**2020 £'000**	2019 £'000
Deferred tax liabilities to be recovered after more than 12 months	**(16,300)**	(8,868)
Deferred tax liabilities to be recovered within 12 months	**(289)**	(241)
	(16,589)	(9,109)

The major components of the deferred taxation asset not recognised are as follows:

	Not recognised	
	2020 £'000	2019 £'000
Losses	**462**	580

Deferred tax assets of £5.8 million (2019: £4.5 million) have been recognised in those subsidiary companies in which there is sufficient available evidence that suitable taxable profits will arise against which these assets are expected to reverse. There are additional deferred tax assets of £0.5 million (2019: £0.6 million) which have not been recognised, as there is insufficient evidence as to the generation of suitable profits against which these assets can be offset. The utilisation of these assets would reduce the Group's tax charge in future periods. Deferred tax has been provided at the rate at which it is expected to unwind.

30 Called-up share capital

	2020 £'000	2019 £'000
Allotted, called up and fully paid		
520,222,530 (2019: 516,603,910) ordinary shares of 10 pence each	**52,022**	51,660

During the financial year, the Company did not purchase any of its own shares (2019: Nil). However, the Company funds Employee Share Trusts to meet its obligations under the Company's share schemes. During the year the Trusts purchased 152,493 (2019: 703,135) of the Company's ordinary shares through purchases on the London Stock Exchange for a total cash consideration of £150,000 (2019: £450,000) in order to meet the Company's obligations under the SIP and LTIP schemes. The total amount paid to acquire the shares, net of expenses and cash received for the exercise of share options, of £150,000 (2019: £450,000) has been deducted from retained earnings.

On 1 August 2019, MEIF 6 Fibre Limited acquired all issued share capital of KCOM Group Limited (formerly KCOM Group PLC), including all shared held by trusts for the SIP. Therefore, as of 31 March 2020, the total number of ordinary shares held by the Trusts to meet the Company's obligations under the share schemes was nil (2019: 5,230,194).

On the 30 July 2019, 3,618,620 ordinary shares were allotted and fully paid up, to settle the obligations arising upon vesting of the LTIP schemes. These shares were acquired by MEIF 6 Fibre Limited as part of the acquisition.

At 31 March 2019, the Group had 4,787,062 share options outstanding. Of these options outstanding 3,618,620 vested at the point of acquisition and were settled on 1 August 2019. The remainder have lapsed.

31 Financial instruments and risk management

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

The Group regularly reviews its exposure to interest, liquidity and foreign currency risk. Where appropriate the Group 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 Group only enters into derivative instruments with members of the banking group to ensure appropriate counterparty credit quality.

Liquidity risk

The Group 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, including the ability to fund planned capital expenditure.

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, the immediate 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 as disclosed in Note 25.

On 29 September 2020 the direct 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 act as guarantors for the loan facility. See Note 37 for further details.

As at the 31 March 2020, the Group has £15.1 million of available cash which is considered sufficient funding to meet our working capital requirements. Subsequent to the year end, on 27 May 2020, KCOM entered into an agreement with Lloyds Bank to provide a £12.0 million revolving credit facility to fund working capital requirements and a further £18.0 million facility available to fund capital expenditure.

The net debt position of £107.2 million at the beginning of the financial year has increased during the year to £133.5 million on a like for like basis and £180.5 million including lease liabilities. The Group experienced a cash inflow of £7.8 million for the year (2019: negative cash outflow £5.9 million).

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Notional interest is included for the period from the year end up to the contractual maturity date of the debt, calculated on the amount of debt drawn down at the year end.

Consolidated	Less than one year £'000	One to three years £'000	Over three years £'000
At 31 March 2019			
Borrowings	2,839	119,967	—
Trade and other payables	49,020	—	—
Finance leases	418	—	—
Total	52,277	119,967	—
At 31 March 2020			
Borrowings	—	—	—
Loans from related parties	**152,667**	—	—
Trade and other payables	**34,744**	—	—
Lease liabilities	**14,713**	**19,914**	**15,727**
Total	**202,124**	**19,914**	**15,727**

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Rental contracts typically have a fixed term ranging from 12 months for assets such as fibres and cables up to 25 years for some network properties. Once the fixed term is complete, leases enter a rolling period which can be terminated by both parties upon giving notice of 12 months or less. Generally, there are no specific extension options included in the contracts.

Some property lease contracts include termination options which are exercisable by the Group either with or without an early termination penalty. At lease commencement the Group assesses whether it is reasonably certain to exercise these options when determining the contract term and consequently the lease liabilities which arise. The lease term is reassessed if there is a significant event or change in circumstances which affected the previous assessment.

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 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.

Market risk

The Group is exposed to market risk with respect to foreign currency fluctuations, as detailed above, and regarding the valuation of the pension assets. IAS 19 assumptions and sensitivity analysis are detailed in Note 33.

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 is monitored regularly.

The Group's exposure to credit risk is spread over a large number of customers.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

Impairment of financial assets

The group has three types of financial assets that are subject to the expected credit loss model:

- Trade receivables;
- Unbilled receivables; and
- Contract assets.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables, unbilled receivables and contract assets.

Receivables and contract assets have been grouped based on shared credit risk characteristics and days past due. A provision rate matrix derived from historical information has been applied to estimate the expected credit losses. The unbilled receivables and contract assets relating to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the unbilled receivables and contract assets.

On that basis, the loss allowance as at 31 March 2020 and 31 March 2019 was determined as follows for both trade receivables and contract assets:

	Days past due					
At 31 March 2020	Current	1–30	31-60	61-120	120+	Total
Weighted average expected loss rate	**0.8%**	**2.6%**	**5.0%**	**17.1%**	**44.8%**	**4.0%**
Gross carrying amount of trade receivables	**16,012**	**4,679**	**2,108**	**1,007**	**1,817**	**25,623**
Gross carrying amount of unbilled receivables	**8,543**	**—**	**—**	**—**	**—**	**8,543**
Gross carrying amount of contract assets	**3,324**	**—**	**—**	**—**	**—**	**3,324**
Loss allowance	**(235)**	**(122)**	**(105)**	**(172)**	**(813)**	**(1,447)**

	Days past due					
At 31 March 2019	Current	1–30	31-60	61-120	120+	Total
Weighted average expected loss rate	0.7%	2.5%	3.8%	13.7%	42.7%	2.2%
Gross carrying amount of trade receivables	17,803	2,628	1,809	1,005	763	24,008
Gross carrying amount of unbilled receivables	9,965	—	—	—	—	9,965
Gross carrying amount of contract assets	2,933	—	—	—	—	2,933
Loss allowance	(209)	(64)	(69)	(138)	(326)	(806)

Movements in the Group's provision for impairment of receivables and contract assets is as follows:

Consolidated	**Notes**	**Trade receivables £'000**	**Unbilled receivables £'000**	**Contract assets £'000**	**Total £'000**
At 1 April 2019		(706)	(70)	(30)	(806)
Written off in the year		528	—	—	528
Amounts provided for in the year		(1,182)	(11)	24	(1,169)
At 31 March 2020		**(1,360)**	**(81)**	**(6)**	**(1,447)**

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

Financial assets

The Group had net financial assets of £54.8 million at the year end (2019: £46.6 million), of which £15.1 million (2019: £7.3 million) comprised cash on overnight money market deposits and cash at bank. This attracts floating rates of interest.

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

Consolidated	**2020 £'000**	2019 £'000
Currency		
Sterling	**14,582**	5,984
US Dollar	**374**	1,261
Euro	**170**	102
Total	**15,126**	7,347

Foreign currency cash balances are held on a short-term basis to fund cash flow requirements in these currencies. All trade receivable balances bear no interest and are held in Sterling with the exception of a combined equivalent amount of £0.5 million (31 March 2019: £0.1 million) held in Euros and US Dollars.

At the year-end £1.3 million (2019: £1.3 million) of cash collateral was held by Barclays in respect of a bank guarantee given under Ofcom's "Funds for Liabilities" regulations.

Financial liabilities

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

	2020			2019		
Consolidated	**Floating £'000**	**Fixed £'000**	**Total £'000**	Floating £'000	Fixed £'000	Total £'000
Sterling	**—**	**148,617**	**148,617**	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 with the exception of an equivalent of £1.3 million (31 March 2019: £1.5 million) which is held in US Dollars. There is no currency risk associated with these balances.

Capital risk management

The Group'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.

Consistent with others in the industry, the Group monitors capital on the basis of its gearing ratio. This ratio is calculated as net debt divided by total capital. For the definition and reconciliation of net debt to the closest equivalent IFRS measure see the definitions on page 91.

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 Group's financial instruments fall into hierarchy level 2.

Total capital is shown in the table below and is calculated as "equity" as shown in the consolidated balance sheet plus net debt.

Consolidated	**2020 £'000**	2019 £'000
Net debt	**180,496**	107,200
Total equity	**59,753**	45,151
Total capital	**240,249**	152,351

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.

32 Financial commitments

Authorised future capital expenditure and financial investment amounted to:

Consolidated	**2020 £'000**	2019 £'000
Property, plant and equipment	**3,517**	2,768
Intangible assets	**1,207**	1,835
Total	**4,724**	4,603

The Group as lessee

The future aggregate minimum lease rental commitments under non-cancellable operating leases were as follows:

Consolidated	**2020 £'000**	2019 £'000
– within 12 months	**—**	16,545
– in 1 to 5 years	**—**	23,594
– after 5 years	**—**	4,114
Total	**—**	44,253

As a consequence of adopting IFRS 16, the current year financial commitments relate to short-term and low value leases only. The prior period comparatives include all leases which were previously classified as operating leases under IAS 17 but which are now recognised as finance lease liabilities under IFRS 16. Refer to Note 2 for further details.

None of the Group's lease arrangements include any contingent rent payments and there are no renewal or purchase options or escalation clauses. There are also no restrictions imposed by the Group's lease arrangements.

33 Retirement benefit obligation – Consolidated

Defined benefit schemes

The Group 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 Group 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 Group 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 Group 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).

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 those Group companies and not by the Partnership. The Group 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 Group 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 Group accounts on a cash basis.

Risk

The cost of the schemes to the Group 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 Group 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.

	Main Scheme			Data Scheme			Combined Schemes		
Consolidated	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
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)**

Consolidated	Main scheme: Present value of obligation £'000	Main scheme: Fair value of plan assets £'000	Main scheme: Total £'000	Data scheme: Present value of obligation £'000	Data scheme: Fair value of plan assets £'000	Data scheme: Total £'000	Combined schemes: Present value of obligation £'000	Combined schemes: Fair value of plan assets £'000	Combined schemes: Total £'000
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)**

Significant estimates: IAS 19 assumptions and sensitivity

The significant IAS 19 assumptions were as follows:

	2020 Main scheme	**2020 Data scheme**	2019 Main scheme	2019 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 Main scheme	**2020 Data scheme**	2019 Main scheme	2019 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.

Balance sheet amounts

The major categories of plan assets are as follows:

	2020				2019			
Consolidated	**Main scheme £'000**	**Data scheme £'000**	**Total £'000**	**%**	Main scheme £'000	Data scheme £'000	Total £'000	%
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.

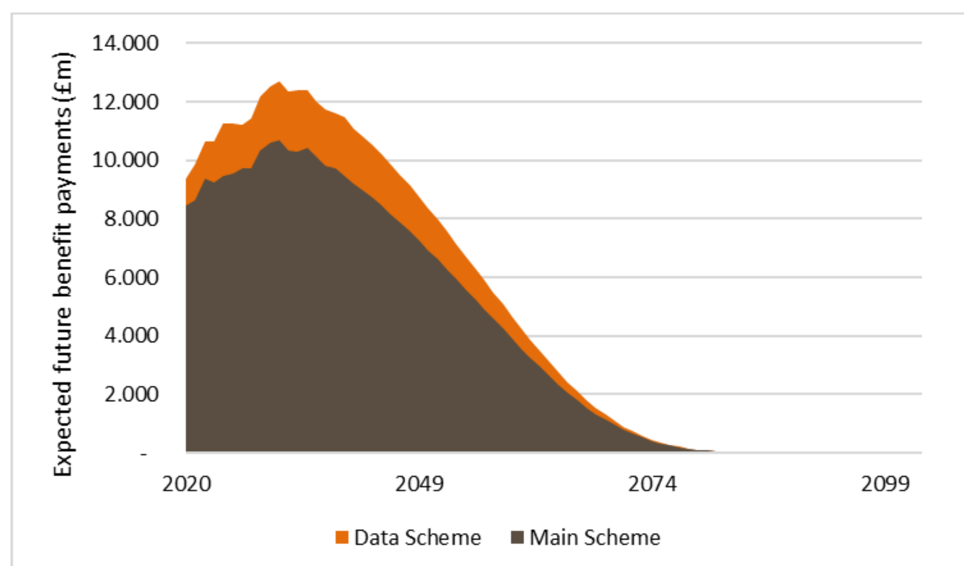
Diversified Growth Funds

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.

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:



Parent Company

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 accounts of KCH (Holdings) Limited.

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 2020 (2019: £Nil).

Defined contribution schemes

The Group 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).

34 Other commitments and contingent liabilities

Contingent liabilities existed at 31 March 2020 and at 31 March 2019 in respect of guarantees given by the Parent Company on behalf of subsidiary undertakings. None of these guarantees are considered material in the context of the net assets of the Group.

On 29 September 2020 the direct Parent Company, MEIF 6 Fibre Limited, entered into a new loan agreement. Certain statutory entities within the consolidated KCOM Group Limited (formerly KCOM Group PLC) accounts act as guarantors for the loan facility. See Note 37 for further details.

35 Related party transactions

Remuneration of key management personnel

Consolidated	Notes	**2020 £'000**	2019 £'000
Remuneration		**917**	743
Aggregate amounts receivable under long term incentive plans		**1,661**	—
Company contributions paid to money purchase pensions schemes		**99**	132
Compensation for loss of office		**950**	366
Total		**3,627**	1,241

Consolidated	Notes	**2020 No.**	2019 No.
Members of money purchase pension schemes		**4**	4

See Note 8 for disclosure of the directors' remuneration.

Intra-Group transactions

Amounts payable by the Company to subsidiaries totalled £0.5 million (2019: £0.5 million) as at 31 March 2020.

36 Ultimate controlling party

The immediate parent undertaking is MEIF 6 Fibre Limited.

The ultimate UK parent company is MEIF 6 Fibre Holdings Limited, a wholly-owned indirect subsidiary of Macquarie European Infrastructure Fund 6 SCSp (an investment fund managed by Macquarie Infrastructure and Real Assets (Europe) Limited), registered in Luxembourg. MEIF 6 Fibre Holdings Limited is the largest group to consolidate these financial statements in the UK. Copies of MEIF 6 Fibre Holdings Limited accounts can be obtained from 37 Carr Lane, Hull, HU1 3RE.

The ultimate parent and controlling party is Macquarie European Infrastructure Fund 6 SCSp.

37 Subsequent events

On 29 September 2020 the direct 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 act as guarantors for the loan facility.

The agreement is comprised 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.

Glossary – Unaudited

Alternative Performance Measures ("APMs")

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

Measure	Closest equivalent IFRS measure	Definition and purpose	Reconciliation to closest equivalent IFRS measure
Profit measures			
EBITDAaL before exceptional items and after leases ("EBITDAaL")	Profit before tax	EBITDAaL before exceptional items and after leases is the key measure used by management to monitor the underlying performance of the Group. The impact of the new leasing standard (IFRS 16) has been largely removed as it allows for greater comparability in the numbers. EBITDAaL before exceptional items and after leases is also reported to the Board and is an important measure for setting remuneration. It is important to the users of the accounts as it assists with comparing performance from previous periods. The items classified as exceptional items are described in Note 7 and the impacts of the application of IFRS 16 can be seen in Note 2. EBITDAaL before exceptional items and after leases is defined as "profit before tax" before share of profit before associates, finance costs, amortisation of intangibles, depreciation of PPE, exceptional items, but leaving in depreciation of ROU asset and adding back interest on lease liabilities.	Loss before tax as quoted in the consolidated income statement (£9.1 million), add back finance income and finance costs (net £6.9 million cost) as quoted on the consolidated income statement, less share of profit of associate (£0.0 million) as quoted on the consolidated income statement, add back depreciation and amortisation (£23.9 million), but excluding depreciation of ROU assets (£15.2 million) as quoted on the consolidated cash flow statement, add back exceptional charge (£25.3 million) as quoted in Note 7, deduct the interest on lease liabilities (£1.0 million) as shown in Note 27.
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 accounts as it assists with comparing performance from previous periods. The items classified as exceptional items are described in Note 7. 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 consolidated income statement (£9.1 million), add back finance income and finance costs (net £6.9 million cost) as quoted on the consolidated income statement, less share of profit of associate (£0.0 million) as quoted on the consolidated income statement, add back depreciation and amortisation (£23.9 million) and depreciation of ROU assets (£15.2 million) as quoted on the consolidated cash flow statement, add back exceptional charge (£25.3 million) as quoted in Note 7.
Cash flows and net debt measures			
Net debt before leases	Cash and cash equivalents, bank overdrafts, bank loans and loans from related parties	Net debt before leases is important as it allows management to assess available funds by calculating how much headroom there is within the Group's borrowing facilities. It is used in the monitoring, reporting and planning of cash flows. Net debt before leases is cash and cash equivalents, bank overdrafts, bank loans and loans from related parties. It excludes the impact of lease liabilities.	A reconciliation of this measure is provided in Note 26 of the financial statements.
Cash capital expenditure	Net cash used in investing activities	A proportion of our capital expenditure is obtained under financing arrangements therefore, compared to capital additions, this measure allows management to monitor, report and plan the cash flows relating to capital projects. This measure is important to the users of the accounts as it provides the outflow of cash expenditure in the current year relating to assets purchased in the current and prior years. Cash capital expenditure is net cash used in investing activities before proceeds from sale of property, plant and equipment plus capital element of finance lease repayments.	Reported in the consolidated cash flow statement: Net cash used in investing activities (£27.1 million) add back proceeds from sale of property, plant and equipment (£0.1 million) plus capital element of finance lease repayments (£0.3 million) excluding the impact of IFRS 16.