Notes to the financial statements
for the year ended 31 March 2015

29 Retirement benefit obligation – consolidated

Defined contribution schemes

The Company operates defined contribution schemes, which are open to all eligible employees. Contributions charged to the income statement in respect of defined contribution schemes amounted to £3.9 million (2014: £3.9 million).

Defined benefit schemes

The principal defined benefit scheme at 31 March 2015 was the Kingston Communications Pension Scheme, which is a funded scheme and provides defined benefits based on final pensionable salary. The assets of the scheme are held separately from the assets of the Group in Trustee administered funds. The Company operates also a second funded defined benefit scheme, the Kingston Communications (Data) Pension Scheme. Both schemes are closed to both new members and future accrual.

The defined benefit schemes are operated in the UK under the same regulatory frameworks. Both of the schemes are final salary pension schemes, which provide benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement. In the schemes, pensions in payment are generally updated in line with the retail price index. In addition to this inflationary risk, the schemes face the same risks, as described below.

All of the benefit payments are from Trustee administered funds. Plan 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. Responsibility for governance of the plans – including investment decisions and contribution schedules – lies jointly with the Group and the Trustees. The Trustees must be composed of representatives of the Group and scheme participants in accordance with the scheme's regulations.

Parent company

KCH (Holdings) Limited, a wholly owned subsidiary of the Parent, 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 2015 (2014: £Nil).

Most recent valuations

The most recent formal valuation for the Kingston Communications Pension Scheme was at 31 March 2014. The main long-term financial assumptions used in that valuation were:

	Per annum %
Rate of return on scheme assets	3.90
Rate of future salary inflation	2.90

The most recent formal valuation for the Kingston Communications (Data) Pension Scheme was at 31 March 2014. The main long-term financial assumptions used in that valuation were:

	Per annum %
Rate of return on scheme assets	4.10
Rate of future salary inflation	2.90

Funding

Asset backed partnership

On 24 March 2014, the Group reached an agreement with the Trustees to provide further funding of the Schemes' current deficit position through the asset-backed Partnership ("the Partnership") that had been previously established during the year ended 31 March 2013.

As part of this agreement, a loan note of £20.0 million was secured over the KC 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 KC network on an insolvency event.

As partner in the Partnership, the pension schemes are entitled to 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. The total value of this income distribution to the Schemes is £16.0 million, which provided an immediate improvement to the funding deficit.

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.

Notes to the financial statements continued

for the year ended 31 March 2015

29 Retirement benefit obligation – consolidated continued

Funding continued

Employer contributions for the year ended 31 March 2015

The disclosures in the table below are for the two schemes combined.

Contributions into the two defined benefit schemes during the year were as follows:

	2015 £'000	2014 £'000
Deficit payments	**4,270**	788

Existing committed deficit recovery payments due over the financial year ending 31 March 2016 are £2.0 million.

Main financial assumptions

	2015 per annum %	2014 per annum %
RPI inflation	**2.95**	3.40
CPI inflation	**1.95**	2.40
Rate of increase to pensions in payment	**2.00**	2.40
Discount rate for scheme liabilities	**3.25**	4.30

Our central approach is to base the discount rate on the AA yield curve published by Merrill Lynch, over an 18-year duration for the schemes.

The mortality assumptions are based on standard mortality tables, which allow for future improvements in life expectancy. The effects of these tables are that:

- a future pensioner aged 65 at retirement will live on average to age 89.4 (2014: 89.0) if they are male and on average to age 91.8 (2014: 91.2) if they are female; and
- a current pensioner aged 65 will live on average to age 87.7 (2014: 87.1) if they are male and on average to age 89.9 (2014: 89.1) if they are female.

The defined benefit obligation reflects the assumption that 20% (2014: 20%) of deferred members will transfer out of the scheme over its life. Where such transfers take place, the value of such transfers is assumed to be 0% (2014: 0%) above the current IAS 19 value for individual members.

The key assumptions used for IAS 19 are discount rate, inflation and mortality. The sensitivity of the retirement benefit obligation deficit to changes in the assumptions is as follows:

	Impact on the retirement benefit obligation		
	Sensitivity	Of increase	Of decrease
RPI inflation	0.1%	7.3%	(7.0%)
Discount rate for scheme liabilities	0.1%	(14.3%)	14.6%
Mortality	1 year	19.7%	(20.0%)

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

Fair value of assets

	Value at 2015 £'000	Value at 2014 £'000
Equities	**37,701**	34,300
Hedge funds	**51,480**	45,000
Index linked gilts	**59,465**	26,200
Corporate bonds	**34,550**	41,300
Other	**25,586**	44,300
Total fair value of assets	**208,782**	191,100

Notes to the financial statements continued

for the year ended 31 March 2015

29 Retirement benefit obligation – consolidated continued

Fair value of assets continued

History of asset values, defined benefit obligation, deficit in scheme and experience gains and losses

	2015 £'000	2014 £'000	Restated[1] 2013 £'000	2012 £'000	2011 £'000
At 31 March					
Present value of defined benefit obligation	**(240,217)**	(217,600)	(203,300)	(199,377)	(175,716)
Fair value of plan assets	**208,782**	191,100	193,542	185,491	168,789
Deficit	**(31,435)**	(26,500)	(9,758)	(13,886)	(6,927)
Experience gains/(losses) on plan assets	**14,407**	(3,130)	7,715	(2,860)	(507)
Experience (losses)/gains on plan liabilities	**(21,670)**	(13,500)	(3,010)	(22,606)	32,011

1. The comparative results have been restated for changes in IAS 19 (Employee benefits).

The Group employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles.

Reconciliation of funded status to balance sheet

	2015 £'000	2014 £'000
Fair value of assets	**208,782**	191,100
Present value of funded defined benefit obligations	**(240,217)**	(217,600)
Liability recognised on the balance sheet	**(31,435)**	(26,500)
Analysis of income and expenditure charge:		
– administration expenses	**500**	500
– finance costs	**1,067**	400
Charge recognised in the income statement	**1,567**	900

	2015 £'000	2014 £'000
Changes to the present value of the defined benefit obligation during the year		
Opening defined benefit obligation	**217,600**	203,300
Finance costs	**9,182**	9,100
Remeasurements arising from changes in financial assumptions	**22,170**	12,400
Remeasurements arising from changes in demographic assumptions	**(500)**	1,100
Net benefits paid out	**(8,235)**	(8,300)
Closing defined benefit obligation	**240,217**	217,600

	2015 £'000	2014 £'000
Changes to the fair value of scheme assets		
Opening fair value of assets	**191,100**	193,542
Finance income	**8,115**	8,700
Administration expenses	**(500)**	(500)
Asset-backed partnership expenses	**(375)**	—
Remeasurements	**14,407**	(3,130)
Contributions by the employer	**2,270**	788
Deficit repair payments	**2,000**	—
Net benefits paid out	**(8,235)**	(8,300)
Closing fair value of assets	**208,782**	191,100