

CEO's statement

Execution of our strategy

- > Sustainable momentum established across the business
- > Future focus on:
 - completing our fibre deployment in Hull & East Yorkshire
 - building further market opportunities to maximise the value of our Enterprise capability

Dear Shareholder

As stated by our Chairman, in his statement, our primary goal remains that of creating value, through attractive investment returns for our shareholders, together with continuing to develop an equally attractive and compelling prospect for all other key stakeholders in the business: our employees, customers, partners, public bodies, regulators and the communities in which we operate. I believe that thanks to the dedication and commitment of our employees, we have, despite the challenging conditions to which our Chairman refers, continued to make commendable progress on all fronts.

We have continued to execute against our operating plans – progressing our fibre deployment in Hull & East Yorkshire, improving brand awareness, market position and margins in Enterprise, and managing National Network Services for value. The respective segment strategies and plans were outlined at the Capital Markets Day on 1 February 2018, where we highlighted also the strengths of the Group and areas of focus. We provided further detail on our plans to invest in, and transform KCOM's network and other key assets and capabilities.

We have continued to establish sustainable momentum across the business:

- > Overall Group profit performance was resilient, reflecting the strength of our Hull & East Yorkshire segment. EBITDA was £68.3 million (2017: £67.6 million) and statutory profit before tax was £34.0 million (2017: £30.5 million).
- > Revenue (£301.9 million) was held back mainly by the anticipated decline in legacy activities within National Network Services. Enterprise experienced an unexpected slowdown in government spend and was affected also by previously disclosed software contract issues, but succeeded in delivering a strengthened margin performance, while achieving important new wins and renewals.



Bill Halbert
Chief Executive




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In order to maximise opportunities and returns in our Enterprise segment, the Board has adopted a higher appetite for risk than in our other go-to-market segments. From time to time risks will materialise. This year we have incurred contract losses of £5.3 million (2017: £3.7 million) with one particular customer. We have performed a review of both the factors which led to the issues encountered on these contracts, and the lessons learnt. This has resulted in a number of targeted improvements to the governance of our Enterprise contracts and a specific and ongoing transformation project to strengthen our project delivery capability.

Moving into the next financial year, we look forward to completing our fibre deployment in Hull & East Yorkshire and are focused on building further market opportunities to maximise the value of our growing Enterprise capability, particularly as customers continue the trend to move business applications into the cloud environment, an area of significant strength for our Enterprise team.

The operating segments we established in the prior year allow for a better understanding of segmental performance and clearer communication of their individual strategies through to performance. We will continue activity that will allow us to show greater granularity of segmental performance and value and to support further reductions in operating costs. As part of this, we will continue the investment in the transformation of our network as well as accelerating the simplification and upgrading of our IT estate. Those activities will incur further exceptional costs.

The combined output from those activities should enhance our ability to deliver long-term sustainable cash generation alongside future opportunities to maximise shareholder value.

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Outlook

We remain confident about our prospects in the medium-term. Our investment in network, systems and processes will underpin long-term sustainable value, greater understanding of segmental performance and a simplified operating model.

As we make fibre available to 100 per cent of our addressable Hull & East Yorkshire market over the next year, we will evaluate and develop the next wave of services to maximise returns on that investment.

In Enterprise, the investment we have made in management, key skills and partnerships is expected to generate growth in the medium-term adding to the already growing proportion of recurring revenues. We continue to manage National Network Services for value having tightened its strategic focus over the last year.

Bill Halbert
Chief Executive
8 June 2018