

**KCOM GROUP PLC (KCOM.L)**

**UNAUDITED PRELIMINARY RESULTS ANNOUNCEMENT FOR YEAR ENDED 31 MARCH 2016**

KCOM Group PLC (KCOM.L) announces its unaudited full year results for year ended 31 March 2016.

**Highlights**

- Progress in all key focus areas leads to year on year growth
- Important progress with our enterprise customers, increasing our services to HMRC and securing further new business including ATOC, BUPA and Shoosmiths
- Accelerated fibre deployment and strong take-up, making ultra-fast broadband available in Hull and East Yorkshire. Approximately 150,000 premises will be passed by December 2017
- Successful launch of single business under new KCOM brand
- National network asset disposal for £90.0 million strengthening the balance sheet, supporting accelerated investment and underpinning medium term dividend commitment
- Pre-exceptional EBITDA ahead of prior year at £74.9 million. Depreciation and amortisation from increased investment reduces pre-exceptional operating profit to £50.9 million (2015: £57.2 million). Reported operating profit is £91.8 million (2014: £22.4 million)
- Adjusted basic EPS 7.54 pence (2015: 7.91pence)
- Proposed final dividend of 3.94 pence (2015: 3.58 pence), resulting in full year dividend of 5.91 pence (2015: 5.37 pence). Dividend guidance of no less than 6.00 pence per annum for each of the next two financial years reiterated
- Strong year end net funds position of £7.4 million, reflecting network sale proceeds and increase in net cash inflow from operations

	<b>Unaudited Year ended 31 March 2016 (£ million)</b>	<b>Audited Year ended 31 March 2015 (£ million)</b>	<b>Change over prior year (%)</b>
<b>Results from continuing operations before exceptional items</b>			
Revenue	349.2	348.0	0.3
EBITDA	74.9	74.3	0.8
Operating profit	50.9	57.2	(11.0)
Profit before tax	47.9	51.5	(7.0)
Adjusted basic earnings per share (pence) <sup>1</sup> (Note 4)	7.54	7.91	(4.7)
<b>Reported results</b>			
Net cash inflow from operations	80.4	50.8	58.3
Net funds/(debt) (Note 6)	7.4	(99.3)	(107.5)
Cash capital expenditure	(31.3)	(33.4)	(6.3)
Operating profit	91.8	22.4	309.8
Profit before tax	88.7	16.7	431.1
Basic earnings per share (pence) (Note 4)	13.96	2.47	465.6
Proposed final dividend (pence)	3.94	3.58	10.1
Proposed full year dividend per share (pence)	5.91	5.37	10.1

<sup>1</sup> Adjusted basic EPS is basic EPS adjusted for exceptional items (including the tax impact of exceptional items).

Commenting on the results, Chief Executive Bill Halbert says:

*"We have made important progress with our strategic objectives in the current year, including the consolidation of our activities under a single brand, KCOM.*

*In Hull and East Yorkshire, we continued our fibre to the premises deployment, reaching 78,000 premises by 31 March 2016 and committing to reach 150,000 premises by December 2017. Level of take-up remains high with 26,000 premises connected by March 2016. We had a very successful year with our enterprise customers, developing our existing relationships as well as securing new contracts; of particular note are BUPA, ATOC and Shoosmiths (preferred supplier). The disposal of our national network assets has strengthened our balance sheet and advanced very substantially our options for longer term transformation.*

*The combination of the strength of our balance sheet and the progress we have made this year will see us accelerate investment over the course of the next few years. Alongside acceleration of our fibre programme, we will invest in new services and capabilities, in particular to support our enterprise customers.*

*We see greatest opportunity for further material shareholder value creation being derived from the successful continued development of our enterprise customers and our Hull and East Yorkshire consumer and small business customers. Our increased investment in, and focus on, those areas will in turn will lead to an accelerated decline in revenue in the SMB area over time.*

*In accordance with our previously stated dividend commitment, the Board is recommending a final dividend of 3.94 pence per share, giving a full year dividend of 5.91 pence per share; representing a growth in full year dividends of at least 10% for each of the past six years".*

#### **Board changes**

In a separate statement released this morning, we have announced that Paul Simpson, Chief Financial Officer, will be leaving the business in September 2016.

#### **Business update**

Our position as a trusted technology partner is becoming increasingly recognised in the market place. This is particularly relevant to our enterprise customers, where the successful implementation of our largest ever contract win, HMRC, has contributed to us winning similar additional new business. We continue to develop that relationship and provide additional services in relation to debt management, tax credits and multi-channel contact. Key new contract wins include BUPA, ATOC and Shoosmiths (preferred supplier).

Our partnerships with the likes of Cisco, Amazon Web Services, Nuance, Verint and eGain have been essential in this success. Alongside this, we have invested in differentiating intellectual property, such as our IP-based 'Workplaces' platform, to pursue the growth opportunities available to us.

Within Hull and East Yorkshire, data usage continues to grow, justifying our ongoing investment in fibre and related services. Unlike many national providers, we continue primarily to invest in fibre direct to the premises, giving us the capability to deliver high speeds that can satisfy both current and future demand.

We continue to see declining revenue in certain products and services across the business, particularly in the national SMB market. Our decision to focus on the growth opportunities in our national enterprise market and with our consumers and small business customers in Hull and East Yorkshire will see, in some cases, that decline accelerate in the short to medium term. However, we are very confident that this represents the right approach to sustainable value creation.

At the end of the financial year, we consolidated our four operating brands into a single KCOM brand in order to provide the best outcomes for our customers and to enable a true progression to an efficient single unified business operation.

Reflecting the move to a single business, our reporting segments will change for the current financial year, as we move away from reporting the three historic brand-centric segments. As a single, integrated business, we will report the revenue and contribution generated from the Enterprise, Hull and East Yorkshire and SMB National segments with the unallocated shared services costs deducted, to show the overall KCOM EBITDA. The financials on a comparable basis are presented in Note 1.

## **Outlook**

Our level of investment will increase in the year ending 31 March 2017, as we exploit the market opportunities outlined above. Over the next three to four years, in addition to accelerated fibre deployment, we will continue to invest in our systems capability to facilitate our journey towards an efficient single business focused on the right markets. We anticipate investing also in appropriate transformation of our existing network technologies, which will see us retire legacy network platforms. This will reduce very substantially the associated overall operating cost, even after taking into account the impact of our national network disposal.

The decision to increase focus on the growth opportunities within our Hull and East Yorkshire market and with our national enterprise customers will lead to revenue decline in other areas. As a result, EBITDA is likely to be slightly below the current year proforma number of approximately £70.0 million (predominantly adjusted for the full year impact of our national network disposal for proceeds of £90.0 million).

For the next two financial years, capital expenditure will be greater than £40.0 million per annum reflecting the increased fibre investment. Additional strategic investment plans remain under consideration. Given the increased investment and the associated higher depreciation and amortisation charge, some operating metrics in the near term may be lower on a like for like basis. The Board is confident that this is the right approach to ensure that greater sustainable value is created in the medium and longer term. Our confidence in this regard is reflected in our commitment to pay a minimum 6.00 pence dividend in each of the next two financial years.

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## Review of the year

KCOM's transformation continued during the year, characterised by:

- the move towards a single KCOM brand, with different areas of the business working together to deliver greater value for our customers;
- growth in revenue and EBITDA;
- simplification, including consolidating activities where we can achieve efficiencies and cost savings, facilitated by continuing investment in IT systems; and
- the sale of our national network for £90.0 million, achieving a profit of £44.5 million and strengthening our balance sheet position.

## Segmental analysis

The following analysis relates to KCOM's operating segments in the year ended 31 March 2016. All results are pre-exceptional. Our reported segments until 1 April 2016 were:

- **KC** - Communication services for consumers and SMBs within Hull and East Yorkshire;
- **Kcom** - Communication and collaboration services across the enterprise and SMB markets (excluding Hull and East Yorkshire), from our former Kcom, Eclipse and Smart421 brands; and
- **PLC** - Shared service functions, share scheme expenses and certain pension costs.

	<b>31 Mar 2016 Revenue £m</b>	31 Mar 2015 Revenue £m	<b>31 Mar 2016 EBITDA £m</b>	31 Mar 2015 EBITDA £m
KC	<b>104.5</b>	104.8	<b>56.3</b>	56.4
Kcom	<b>249.9</b>	248.6	<b>26.1</b>	25.7
PLC	<b>(5.2)</b>	(5.4)	<b>(7.5)</b>	(7.8)
<b>Total Group</b>	<b>349.2</b>	348.0	<b>74.9</b>	74.3

For comparison, the following analysis is presented based on the Group's new operating segments which changed on 1 April 2016. From this date KCOM has one Group EBITDA, with segment profitability reported at Contribution level (see Note 1). Our revised segments from this date are as follows:

- **Hull and East Yorkshire** - Communication services for consumers and small local businesses within Hull and East Yorkshire;
- **Enterprise** - Communication and collaboration services provided to the largest customers from our former Kcom brand, plus our former Smart 421 brand;
- **SMB National** - Services provided to smaller business customers by our former Eclipse and Kcom brands; and
- **Shared** - Technical and engineering support, IT, Finance, Estates, Legal and HR costs plus PLC costs which include share scheme expenses and certain pension costs.

	<b>31 Mar 2016 Revenue £m</b>	31 Mar 2015 Revenue £m	<b>31 Mar 2016 Contribution £m</b>	31 Mar 2015 Contribution £m
Hull and East Yorkshire	<b>104.5</b>	104.8	<b>71.2</b>	71.3
Enterprise	<b>147.7</b>	141.6	<b>29.8</b>	25.9
SMB National	<b>102.2</b>	107.0	<b>24.3</b>	25.9
			<b>125.3</b>	123.1
Shared	<b>(5.2)</b>	(5.4)	<b>(50.4)</b>	(48.8)
			<b>EBITDA £m</b>	EBITDA £m
<b>Total</b>	<b>349.2</b>	348.0	<b>74.9</b>	74.3

Key features of the year include:

*The success of fibre across Hull and East Yorkshire*

- Accelerated deployment: At 31 March 2016, approximately 78,000 premises had been reached. We expect to pass approximately 150,000 premises by December 2017, representing more than two thirds of our customer base;
- High level of fibre take-up: 26,000 premises connected by March 2016 which includes 1,700 businesses. Strong B2B take-up was stimulated by the government's Superfast Britain initiative; and
- Consumer demand and success in upselling: An increase in Average Revenue Per User (ARPU) of 2%.

*The convergence of IT and cloud communications services for our enterprise customers*

- Continuing to build on our cloud-based contact centre capability: A successful ongoing relationship with HMRC and recent similar contract wins with BUPA and Shoosmiths (preferred supplier);
- Strong progress in our consultancy and project delivery capability: Recent contract wins with ATOC which, together with the current Live Sales Management Service, allows us to deliver significant innovations to the rail industry; and
- Extension of services provided to Staffordshire Council Public Services Network and the NHS Business Services Authority for voice biometrics.

*A focus on core capabilities and cost control*

- The continued convergence of our teams and capabilities to support a single KCOM brand, reduce cost and increase efficiency;
- A managed decline in non-core revenue streams, including:
  - o the refocusing of technology partners and consequent non-renewal of related contracts;
  - o the exit of certain legacy contracts, including, BA, Ford and wholesale broadband customers;
  - o certain products and services across our national SMB customers; and
- An anticipated decline in contact centre and publishing services within Hull and East Yorkshire.

**Exceptional items**

The net exceptional credit is £40.9 million (see Note 2). Significant items include:

- £44.5 million profit relating to the disposal of our national network to CityFibre;
- £2.8 million profit relating to regulatory settlements; offset by
- £4.1 million restructuring costs relating to rebranding, cost reduction, strategic IT investment and the move towards a single KCOM brand; and
- £2.3 million increase in onerous lease provision.

**Net funds and cash flow**

The disposal of our national network strengthens our balance sheet significantly and our year end net funds are £7.4 million (2015: £99.3 million net debt). This includes an £18.0 million benefit relating to the timing of the associated VAT payment to HMRC. The Group recorded a working capital inflow during the year due to strong cash collection reducing our days' sales outstanding to 32 days (2015: 38 days).

**Dividend**

The Board is proposing a final dividend of 3.94 pence per share (2015: 3.58 pence), representing a total dividend for the year of 5.91 pence per share (2015: 5.37 pence), a 10% year on year growth in the total dividend, consistent with the Board's previously stated commitment. The board reconfirms a dividend of no less than 6 pence per annum for each of the next two financial years.

Subject to shareholder approval at the KCOM Group PLC Annual General Meeting on 22 July 2016, the final dividend will be paid on 2 August 2016 to shareholders registered on 24 June 2016. The ex-dividend date is 23 June 2016.

**Pensions**

The year-end IAS 19 pension liability is £14.4 million (2015: £31.4 million). The year on year decrease arises as a result of a £12.7 million decrease in liabilities, principally due to a 0.2 percentage point increase in the discount rate and a £4.3 million increase on assets, due to company contributions and higher investment returns.

The agreed level of deficit repair payment (across both schemes) for the year ending 31 March 2017 is £6.7 million (2016: £2.0 million).

**Capital investment**

The Group's investment during the year is consistent with previous guidance. Cash capital expenditure during the year was £31.3 million (2015: £33.4 million). Specific projects include the continued deployment of fibre, investments in our IT infrastructure and targeted customer specific investment. Capital expenditure in the year to 31 March 2017 will be at least £40.0 million, which will have an ongoing impact on profit before tax.

The Group's depreciation and amortisation charge for the year is £24.0 million (2015: £17.1 million), the increase representing higher investment in recent years.

**Tax**

The Group's tax charge is £17.6 million (2015: £4.1 million), the year on year increase reflecting the impact of our national network disposal. The current year effective tax rate is 20.4%, broadly in line with the prevailing rate of corporation tax. The overall effective tax rate is 19.8% reflecting the impact of prior year items.

## Consolidated income statement

	Note	Unaudited Year ended 31 Mar 2016 £'000	Audited Year ended 31 Mar 2015 £'000
Revenue	1	349,222	347,984
Operating expenses		(257,438)	(325,579)
<b>Operating profit</b>		<b>91,784</b>	22,405
<b>Analysed as:</b>			
EBITDA before exceptional items	1	74,937	74,304
Exceptional credits	2	47,331	6,658
Exceptional charges	2	(6,445)	(41,446)
Depreciation of property, plant and equipment		(13,744)	(12,033)
Amortisation of intangible assets		(10,295)	(5,078)
Finance costs		(3,057)	(5,725)
Share of profit of associates		16	13
<b>Profit before taxation</b>	1	<b>88,743</b>	16,693
Taxation	3	(17,609)	(4,149)
<b>Profit for the year attributable to owners of the parent</b>		<b>71,134</b>	12,544
<b>Earnings per share</b>			
Basic	4	13.96p	2.47p
Diluted	4	13.82p	2.44p

## Consolidated interim statement of comprehensive income

	Unaudited Year ended 31 Mar 2016 £'000	Audited Year ended 31 Mar 2015 £'000
<b>Profit for the year</b>	<b>71,134</b>	12,544
<b>Other comprehensive income</b>		
Items that will not be reclassified to profit or loss		
Remeasurements of retirement benefit obligations	12,130	(7,263)
Tax on items that will not be reclassified	(2,426)	1,528
<b>Total items that will not be reclassified to profit or loss</b>	<b>9,704</b>	(5,735)
Items that may be reclassified subsequently to profit or loss		
Cash flow hedge fair value movements	(442)	1,428
Tax on items that may be reclassified	(569)	(285)
<b>Total items that may be reclassified subsequently to profit or loss</b>	<b>(1,011)</b>	1,143
<b>Total comprehensive income for the year attributable to owners of the parent</b>	<b>79,827</b>	7,952

## Consolidated balance sheet

	Note	Unaudited as at 31 March 2016 £'000	Audited as at 31 March 2015 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Goodwill		51,372	51,372
Other intangible assets		44,637	41,903
Property, plant and equipment		93,592	127,078
Investments		49	33
Deferred tax assets		8,356	16,292
		<b>198,006</b>	236,678
<b>Current assets</b>			
Inventories		2,638	2,235
Trade and other receivables		65,431	78,790
Cash and cash equivalents	6	14,857	11,701
Derivative financial instruments		—	328
		<b>82,926</b>	93,054
<b>Total assets</b>		<b>280,932</b>	329,732
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		(126,235)	(112,969)
Current tax liabilities		(5,459)	(2,500)
Bank overdrafts	6	(1,645)	(691)
Derivative financial instruments		(11)	(706)
Finance leases	6	(3,271)	(1,743)
Provisions for other liabilities and charges		(738)	(2,579)
<b>Non-current liabilities</b>			
Bank loans	6	—	(103,460)
Retirement benefit obligation		(14,350)	(31,435)
Deferred tax liabilities		(6,875)	(4,589)
Finance leases	6	(3,680)	(5,155)
Provisions for other liabilities and charges		(2,401)	(26)
<b>Total liabilities</b>		<b>(164,665)</b>	(265,853)
<b>Net assets</b>		<b>116,267</b>	63,879
<b>Equity</b>			
<b>Capital and reserves attributable to owners of the parent</b>			
Share capital		51,660	51,660
Share premium account		353,231	353,231
Hedging and translation reserve		—	442
Accumulated losses		(288,624)	(341,454)
<b>Total equity</b>		<b>116,267</b>	63,879



## Consolidated statement of changes in shareholders' equity

	Note	Share Capital £'000	Share premium account £'000	Hedging and translation reserve £'000	Accumulated Losses £'000	Total £'000
<b>At 1 April 2014 (audited)</b>		<b>51,660</b>	<b>353,231</b>	<b>(986)</b>	<b>(318,752)</b>	<b>85,153</b>
Profit for the year		—	—	—	12,544	12,544
Other comprehensive income/(expense)		—	—	1,428	(6,020)	(4,592)
<b>Total comprehensive income for the year ended 31 March 2015 (audited)</b>		<b>—</b>	<b>—</b>	<b>1,428</b>	<b>6,524</b>	<b>7,952</b>
Deferred tax charge relating to share schemes		—	—	—	(270)	(270)
Current tax credit relating to share schemes		—	—	—	184	184
Purchase of ordinary shares		—	—	—	(4,058)	(4,058)
Employee share schemes		—	—	—	975	975
Dividends	5	—	—	—	(26,057)	(26,057)
Transactions with owners		—	—	—	(29,226)	(29,226)
<b>At 31 March 2015 (audited)</b>		<b>51,660</b>	<b>353,231</b>	<b>442</b>	<b>(341,454)</b>	<b>63,879</b>
Profit for the year		—	—	—	71,134	71,134
Other comprehensive (expense)/income		—	—	(442)	9,135	8,693
<b>Total comprehensive income for the year ended 31 March 2016 (unaudited)</b>		<b>—</b>	<b>—</b>	<b>(442)</b>	<b>80,269</b>	<b>79,827</b>
Deferred tax charge relating to share schemes		—	—	—	125	125
Current tax credit relating to share schemes		—	—	—	90	90
Purchase of ordinary shares		—	—	—	(450)	(450)
Employee share schemes		—	—	—	1,468	1,468
Dividends	5	—	—	—	(28,672)	(28,672)
Transactions with owners		—	—	—	(27,439)	(27,439)
<b>At 31 March 2016 (unaudited)</b>		<b>51,660</b>	<b>353,231</b>	<b>—</b>	<b>(288,624)</b>	<b>116,267</b>

## Consolidated cash flow statement

		Unaudited Year Ended 31 Mar 2016 £'000	Audited Year Ended 31 Mar 2015 £'000
	Note		
<b>Cash flows from operating activities</b>			
Operating profit		91,784	22,405
<b>Adjustments for:</b>			
- depreciation and amortisation		24,039	17,111
- impairment of goodwill	2	—	33,900
- decrease/(increase) in working capital		23,385	(15,661)
- restructuring cost and onerous lease payments		533	(62)
- (profit)/loss on sale of property, plant and equipment		(47,065)	429
- profit on sale of investments		—	(624)
- share based payment charge		1,468	975
Pension deficit payments		(6,565)	(4,270)
Tax paid		(7,206)	(3,424)
Net cash generated from operations	6	80,373	50,779
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(16,959)	(17,356)
Purchase of intangible assets		(11,467)	(14,666)
Proceeds from sale of property, plant and equipment		90,000	—
Proceeds from sale of investments		—	429
Net cash used in investing activities		61,574	(31,593)
<b>Cash flows from financing activities</b>			
Dividends paid	5	(28,672)	(26,057)
Dividends equivalent paid to participants of the share schemes	6	—	(561)
Interest paid	6	(2,794)	(5,574)
Capital element of finance lease repayments		(2,829)	(1,367)
Repayment of bank loans		(175,000)	(45,000)
Drawdown of bank loans		70,000	65,000
Purchase of ordinary shares	6	(450)	(4,058)
Net cash used in financing activities		(139,745)	(17,617)
Increase in cash and cash equivalents		2,202	1,569
Cash and cash equivalents at the beginning of the year		11,010	9,441
Cash and cash equivalents at the end of the year	6	13,212	11,010

The 2016 working capital decrease includes the impact of a VAT creditor of £18.0 million arising from the exceptional gain on the sale of the Group's infrastructure relating to its national telecommunications network.

## Notes to the unaudited financial information

### 1. Segmental analysis

The Group's operating segments are based on the reports reviewed by the KCOM Group PLC Board that are used to make strategic decisions. The chief operating decision-maker of the Group is the KCOM Group PLC Board.

For the year ended 31 March 2016 the Board considered the performance of the four brands and the PLC function in assessing the performance of the Group and making decisions about the allocation of resources. The Group's segmental information for the year ended 31 March 2016 has been prepared on a basis consistent with previous years, however, this segmental information will change from 1 April 2016 following the move to a single brand.

For the year ended 31 March 2016, the KC brand addresses the needs of our Hull and East Yorkshire customers and the Eclipse, Kcom and Smart421 brands serve enterprise, public sector organisations and small business markets across the UK.

The Board assessed that the Eclipse, Kcom and Smart421 brands have similar profiles, offering similar products and services, and similar production and distribution processes, and are operating in a consistent regulatory environment. In line with IFRS 8, the Eclipse, Kcom and Smart421 brands are aggregated together and reported as the 'Kcom' segment for the year ended 31 March 2016. The remaining brands of KC and the PLC function are reported respectively in the 'KC' segment and the 'PLC' segment.

The segment information provided to the KCOM Group PLC Board for the reportable segments, for the year ended 31 March 2016 and for the year ended 31 March 2015, is as follows:

	<b>Unaudited Year ended 31 Mar 2016 £'000</b>	Audited Year ended 31 Mar 2015 £'000
<b>Revenue</b>		
KC	<b>104,515</b>	104,751
Kcom	<b>249,947</b>	248,593
PLC <sup>1</sup>	<b>(5,240)</b>	(5,360)
<b>Total</b>	<b>349,222</b>	347,984
<b>Group EBITDA</b>		
KC	<b>56,343</b>	56,368
Kcom	<b>26,112</b>	25,687
PLC <sup>1</sup>	<b>(7,518)</b>	(7,751)
Total – before exceptional items	<b>74,937</b>	74,304
Exceptional items:		
KC	<b>(326)</b>	5,027
Kcom	<b>44,019</b>	(37,435)
PLC <sup>1</sup>	<b>(2,807)</b>	(2,380)
Total exceptional items	<b>40,886</b>	(34,788)
<b>EBITDA post exceptional items</b>	<b>115,823</b>	39,516

<sup>1</sup> PLC comprises shared service functions, share scheme expenses, and administration costs associated with the Group's defined benefit pension scheme.

Notes to the unaudited financial information continued

1. Segmental analysis (continued)

A reconciliation of total EBITDA to total profit before tax is provided as follows:

	<b>Unaudited Year ended 31 Mar 2016 £'000</b>	Audited Year ended 31 Mar 2015 £'000
EBITDA post exceptional items	<b>115,823</b>	39,516
Depreciation	<b>(13,744)</b>	(12,033)
Amortisation	<b>(10,295)</b>	(5,078)
Finance costs	<b>(3,057)</b>	(5,725)
Share of profit of associates	<b>16</b>	13
<b>Profit before tax</b>	<b>88,743</b>	16,693

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

	<b>Unaudited Year ended 31 Mar 2016 £'000</b>	Audited Year ended 31 Mar 2015 £'000
<b>Revenue from external customers</b>		
KC	<b>98,911</b>	99,597
Kcom	<b>249,803</b>	248,033
PLC <sup>1</sup>	<b>508</b>	354
<b>Total</b>	<b>349,222</b>	347,984
<b>Inter-segment revenue</b>		
KC	<b>5,604</b>	5,154
Kcom	<b>144</b>	560
PLC <sup>1</sup>	<b>(5,748)</b>	(5,714)
<b>Total</b>	<b>-</b>	-
	<b>349,222</b>	347,984

Neither revenue nor operating profit arising outside the United Kingdom is material to the Group.

<sup>1</sup> PLC comprises shared service functions, share scheme expenses, and administration costs associated with the Group's defined benefit pension scheme.

**Notes to the unaudited financial information** continued

**1. Segmental analysis (continued)**

On 1 April 2016, the Group's four individual brands were consolidated and our operating segments were updated to reflect this change. The new operating segments continue to be based on customer type and geographic service location. The new operating segments are as follows:

**Hull and East Yorkshire** - Communication services for consumers and small local businesses within Hull and East Yorkshire;

**Enterprise** - Communication and collaboration services provided to the largest customers from our former Kcom brand, plus our former Smart 421 brand;

**SMB National** - Services provided to smaller business customers by our former Eclipse and Kcom brands; and

**Shared** - Technical and engineering support, IT, Finance, Estates, Legal and HR costs plus PLC costs which include share scheme expenses and certain pension costs.

The consolidation of brands means that from 1 April 2016 KCOM has one business-wide EBITDA and EBITDA will no longer be reported to the Board as a measure of segment performance.

The profitability metric used to assess segmental performance will be contribution, which represents gross margin plus certain costs, directly attributable to that segment.

From 1 April 2016 the Group will no longer allocate its shared costs to the operating segments as this will no longer represent the Group's organisational structure, the financial information used to make decisions or the way the Group incentivises and rewards its people. These changes will result in significantly higher costs in the new "Shared" segment (than reported previously as PLC).

The additional disclosures below show our pre-exceptional results on a new segment basis:

	<b>Unaudited 31 Mar 2016 Revenue £'000</b>	Unaudited 31 Mar 2015 Revenue £'000	<b>Unaudited 31 Mar 2016 Contribution £'000</b>	Unaudited 31 Mar 2015 Contribution £'000
Hull and East Yorkshire	<b>104,515</b>	104,751	<b>71,220</b>	71,317
Enterprise	<b>147,666</b>	141,608	<b>29,770</b>	25,914
SMB National	<b>102,281</b>	106,985	<b>24,338</b>	25,908
			<b>125,328</b>	123,139
Shared	<b>(5,240)</b>	(5,360)	<b>(50,391)</b>	(48,835)
			<b>EBITDA £'000</b>	<b>EBITDA £'000</b>
<b>Total Group</b>	<b>349,222</b>	347,984	<b>74,937</b>	74,304

## Notes to the unaudited financial information continued

### 2. Exceptional items

Exceptional items are separately disclosed by virtue of their size or incidence to improve the understanding of the Group's financial performance.

	<b>Unaudited</b>	Audited
	<b>Year ended</b>	Year ended
	<b>31 Mar</b>	31 Mar
	<b>2016</b>	2015
	<b>£'000</b>	£'000
<hr/>		
Exceptional items:		
- Profit on sale of national network	<b>44,486</b>	-
- Restructuring costs	<b>(4,130)</b>	(7,546)
- Ofcom determined settlement	<b>2,845</b>	-
- Onerous lease costs	<b>(2,315)</b>	-
- Impairment of goodwill	-	(33,900)
- Network rates rebate	-	5,278
- Recovery of previously provided debt	-	756
- Profit on sale of investments	-	624
Credited/(charged) to operating profit	<b>40,886</b>	(34,788)

In January 2016, the Group sold the infrastructure relating to its national telecommunications network for a consideration of £90.0 million.

- The profit on sale (£44.5 million) includes the NBV of assets disposed (£42.4 million) as well as other associated costs (net £3.1 million);
- The proceeds were used to repay the Group's revolving credit facility; and
- The VAT associated with the sale (£18.0 million) was not be paid to HMRC until April 2016 and is included within trade and other payables.

Ofcom determined settlement relates to a settlement of claims relating to an industry-wide regulatory ruling; treated as exceptional in accordance with our accounting policy.

The Group incurred £4.1 million restructuring costs including £0.8 million in relation to the KCOM rebranding and £3.3 million supporting the Group's move towards a single operating model. As set out in our accounting policy, restructuring costs are shown as exceptional items.

Onerous lease costs arose as a result of continued rationalisation of the Group's property portfolio.

The Group's Kcom brand goodwill balance was impaired by £33.9 million during the prior year.

Network rates rebate related to a settlement agreed during the prior year.

Recovery of previously provided debt relates to a settlement of the Group's written off debt due from Lehman Brothers, which was previously charged as an exceptional item.

The profit on sale of investments related to the sale of the Group's previously impaired shareholding in Spectrum Venture Management Fund.

Taxation on exceptional items is £8.2 million.

Notes to the unaudited financial information continued

**3. Tax**

The charge based on the profit for the year comprises:

	Unaudited Year ended 31 Mar 2016 £'000	Audited Year ended 31 Mar 2015 £'000
<b>UK corporation tax:</b>		
– current tax on profits for the year	10,569	4,938
– adjustment in respect of prior years	(314)	(409)
<b>Total current tax</b>	<b>10,255</b>	<b>4,529</b>
<b>UK deferred tax:</b>		
Origination and reversal of timing differences in respect of:		
– profit for the year	7,128	4,154
– change in rate	—	56
– adjustment in respect of prior years	(224)	(497)
– charge in respect of retirement benefit obligation	450	87
– recognition of previously unrecognised deferred tax asset	—	(4,180)
<b>Total deferred tax</b>	<b>7,354</b>	<b>(380)</b>
<b>Total taxation charge for the year</b>	<b>17,609</b>	<b>4,149</b>

**Factors affecting tax charge for the year**

	Unaudited Year ended 31 Mar 2016 £'000	Audited Year ended 31 Mar 2015 £'000
Profit before taxation	88,743	16,693
Profit before taxation at the standard rate of corporation tax in the UK of 20% (2015: 21%)	17,749	3,505
Effects of:		
– income not subject to tax	—	(131)
– expenses not deductible for tax purposes	398	5,805
– recognition of previously unrecognised deferred tax asset	—	(4,180)
– adjustments relating to prior year tax	(538)	(906)
– change in rate reflected in the deferred tax asset	—	56
<b>Total taxation charge for the year</b>	<b>17,609</b>	<b>4,149</b>

#### 4. Earnings per share

	<b>Unaudited</b>	Audited
	<b>Year ended</b>	Year ended
	<b>31 Mar</b>	31 Mar
	<b>2016</b>	2015
<b>Weighted average number of shares</b>	<b>No.</b>	<b>No.</b>
For basic earnings per share	<b>509,543,003</b>	508,619,479
Share options in issue	<b>5,225,401</b>	5,169,178
For diluted earnings per share	<b>514,768,404</b>	513,788,657
<b>Earnings</b>	<b>£'000</b>	<b>£'000</b>
Profit attributable to equity holders of the company	<b>71,134</b>	12,544
<b>Adjustments:</b>		
Exceptional items	<b>(40,886)</b>	34,788
Tax on exceptional items	<b>8,177</b>	(7,101)
<b>Adjusted profit attributable to equity holders of the company</b>	<b>38,425</b>	40,231
<b>Earnings per share</b>		
	<b>Pence</b>	Pence
Basic	<b>13.96</b>	2.47
Diluted	<b>13.82</b>	2.44
Adjusted basic	<b>7.54</b>	7.91
Adjusted diluted	<b>7.46</b>	7.83



Notes to the unaudited financial information continued

**5. Dividends**

	Unaudited Year ended 31 Mar 2016 £'000	Audited Year ended 31 Mar 2015 £'000
Final dividend for the year ended 31 March 2014 of 3.25 pence per share	-	16,810
Interim dividend for the year ended 31 March 2015 of 1.79 pence per share	-	9,247
Final dividend for the year ended 31 March 2015 of 3.58 pence per share	<b>18,494</b>	-
Interim dividend for the year ended 31 March 2016 of 1.97 pence per share	<b>10,178</b>	-
<b>Total</b>	<b>28,672</b>	26,057

The proposed final dividend for the year ended 31 March 2016 is 3.94 pence per share. In accordance with IAS 10 (Events after the balance sheet date), dividends declared after the balance sheet date are not recognised as a liability in this financial information.

**6. Movement in net funds/(debt)**

	Unaudited Year ended 31 Mar 2016 £'000	Unaudited Year ended 31 Mar 2015 £'000
Opening net debt	<b>(99,348)</b>	(74,976)
Closing net funds/(debt)	<b>7,412</b>	(99,348)
Decrease/(increase) in net debt in the year	<b>106,760</b>	(24,372)

**Reconciliation of movement in the year**

Net cashflow from operations	<b>80,373</b>	50,779
Capital expenditure	<b>(31,255)</b>	(33,389)
Proceeds on sale of property, plant and equipment	<b>90,000</b>	-
Interest	<b>(2,794)</b>	(5,574)
Dividends	<b>(28,672)</b>	(26,057)
Dividends equivalent paid to participants of the share schemes	-	(561)
Purchase of ordinary shares	<b>(450)</b>	(4,058)
Finance leases	<b>(53)</b>	(6,898)
Other	<b>(389)</b>	1,386
Decrease/(increase) in net debt in the year	<b>106,760</b>	(24,372)

Notes to the unaudited financial information continued

6. Movement in net funds/(debt) (continued)

Net funds/(debt) comprises:

	<b>Unaudited Year ended 31 Mar 2016 £'000</b>	Audited Year ended 31 Mar 2015 £'000
Cash and cash equivalents (including bank overdrafts)	<b>13,212</b>	11,010
Bank loans	<b>1,151</b>	(103,460)
Finance leases	<b>(6,951)</b>	(6,898)
Total net funds/(debt)	<b>7,412</b>	(99,348)

Bank facilities comprise a multi-currency revolving credit facility of £200.0 million, provided by a group of five core relationship banks. The facility matures in June 2019. The Group considers that this facility will provide sufficient funding to support the Group's growth. In addition, short-term flexibility of funding is available under the £10.0 million overdraft facility provided by the Group's clearing bankers.

During the year the Group repaid all outstanding loan borrowings. On repayment, the associated outstanding loan issue costs (included within bank loans above) were reclassified to other receivables.

**Notes to the unaudited financial information** continued

## **7. Basis of preparation and publication of unaudited results**

### **General information**

KCOM Group PLC is a company domiciled in the United Kingdom. The Group has its primary listing on the London Stock Exchange.

### **Basis of preparation**

The Group prepares its annual consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations endorsed by the European Union (EU) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial information contained within this preliminary announcement is unaudited and has been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value through reserves. The financial information included in this preliminary announcement does not include all the disclosures required by IFRS or the Companies Act 2006 and accordingly it does not itself comply with IFRS or the Companies Act 2006.

The unaudited consolidated financial information in this report has been prepared in accordance with the accounting policies disclosed in the Group's 2015 Annual report and accounts, except as disclosed in Note 8.

The financial information set out in this announcement does not constitute the company's statutory accounts within the meaning of Section 434 of the Companies Act 2006 for the years ended 31 March 2016 or 2015. The financial information for the year ended 31 March 2015 is derived from the statutory accounts for that year, which have been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain a statement under Section 498 of the Companies Act 2006. The statutory accounts for the year ended 31 March 2016 will be finalised on the basis of the financial information presented by the Directors in this unaudited preliminary announcement and will be delivered to the Registrar of Companies following the Annual General Meeting.

The financial information contained within this preliminary announcement was approved by the Board on 27 May 2016 and has been agreed with the Company's auditors for release.

This preliminary announcement will be published on the Company's website. The maintenance and integrity of the website is the responsibility of the directors. The work carried out by the auditors does not involve consideration of these matters. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### **Going concern basis**

The Group meets its day-to-day working capital requirements through its bank facilities. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities. After making enquires, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

## **8. Accounting policies**

The accounting policies adopted are consistent with those published in the Group's 2015 Annual report and accounts.

## **9. Principal risks and uncertainties**

As with all businesses, the Group is affected by a number of risks and uncertainties, some of which are beyond its control. The key risks that we have identified will be disclosed within the Annual report and accounts.

## **10. Related party transactions**

The remuneration of the Directors who are key management personnel of KCOM Group PLC will be disclosed in the audited part of the Directors' Remuneration report in the Annual report and accounts.

There are no other material related party transactions.

Signed by Order of the Board on 27 May 2016 by: