

To: Humber Bidco Limited (the "**Offeror**")
60 Threadneedle Street
London
EC2R 8HP

23 April 2019

Dear Sirs,

PROPOSED ACQUISITION OF KCOM Group plc (THE "TARGET")

1. Introduction

- 1.1. We refer to the proposed Acquisition (as defined below) of the Target by the Offeror. We understand that the Acquisition will be substantially on the terms and subject to the conditions set out in the draft announcement, a copy of which is contained in the appendix hereto, to be made by the Offeror (the "**Announcement**") in accordance with Rule 2.7 of the City Code on Takeovers and Mergers (the "**Code**").
- 1.2. All references in this letter to the "**Acquisition**" shall mean the proposed acquisition by or on behalf of the Offeror or any of its subsidiaries of the entire issued and to be issued share capital of the Target in accordance with the Announcement, which acquisition may be by way of takeover offer within the meaning of section 974 of the Companies Act 2006 (referred to in this letter as the "**Offer**") or a scheme of arrangement under Part 26 of the Companies Act 2006 (referred to in this letter as the "**Scheme**") and, if made by or on behalf of a subsidiary, all references to the "**Offeror**" shall be deemed to include that subsidiary. We understand that it is intended that the Acquisition will be implemented by way of a Scheme.
- 1.3. In order to implement the Acquisition (by way of a Scheme) we intend to exercise the voting rights attached to the Shares in favour of such Scheme once (the "**Acquisition Shareholder Vote**").

2. Warranties and undertakings

- 2.1. We irrevocably and unconditionally warrant and undertake to the Offeror that:
 - 2.1.1. we have investment discretion over and are able to procure the exercise of the voting rights attaching to 48,631,344 ordinary shares in the capital of the Target as set out in Schedule 1 (the "**Shares**", which expression shall include any other shares in the Target issued after the date hereof and attributable to or derived from such shares) all of which are registered in the name of our respective nominee(s) (the "**Nominee**") free of all liens, charges or encumbrances and beneficially owned by our underlying discretionary managed clients (the "**Funds**");
 - 2.1.2. we are able to procure the transfer of the Shares free from all liens, equities, charges, encumbrances, options, rights of pre-emption, and any other third party rights and interests of any nature;
 - 2.1.3. subject to paragraph 2.2 and prior to the Acquisition Shareholder Vote, we shall only carry out the following acts if the recipient of such Shares warrants and

undertakes to the Offeror on substantially the same terms as are contained within this letter:

- (a) sell, transfer, charge, encumber, grant any option over or otherwise dispose of or permit the sale, transfer, charging or other disposition or creation or grant of any other encumbrance or option of or over all or any of such Shares or interest in such Shares except pursuant to the Acquisition, or accept any other offer in respect of all or any of the Shares; or
- (b) (other than pursuant to the Acquisition) enter into any agreement or arrangement or permit any agreement or arrangement to be entered into or incur any obligation or permit any obligation to arise:
 - (i) to do all or any of the acts referred to in paragraph (a) above; or
 - (ii) which would preclude us from complying with our obligations under paragraph,

and references in this paragraph 2.1.3 to any agreement, arrangement or obligation shall include any such agreement, arrangement or obligation whether or not subject to any conditions or which is to take effect upon or following the Acquisition becoming wholly unconditional in all respects or, as the case may be, effective or lapsing or being withdrawn or upon or following this letter ceasing to be binding or upon or following any other event; and

- 2.1.4. subject to paragraphs 2.2 and 4.1.5 and prior to the Acquisition Shareholder Vote, we shall not accept or give any undertaking in respect of any other offer or similar transaction in respect of any of the Shares which might frustrate the Acquisition or any part of it;
- 2.1.5. we have full power and authority and the right (free from any legal or other restrictions) to enter into and perform our obligations under this letter in accordance with its terms; and
- 2.1.6. we have no rights to exercise, or procure the exercise of, any rights attaching to any shares or securities in the capital of the Target other than the Shares and the shares set out in Schedule 2 (the shares set out in Schedule 2 being the “**Excluded Shares**”).

2.2. Notwithstanding any other term in this letter:

- 2.2.1. we may procure the transfer of all or any of the Shares to:
 - (a) any third party following the Acquisition Shareholder Vote;
 - (b) another client which is a discretionary managed client of us and which does not otherwise prevent compliance with the terms of this letter;
 - (c) shareholders, corporations, partnerships or other investment or business entities that are our direct or indirect affiliates, or partners (general or limited), as applicable, or to another corporation, partnership or other investment or business entity that controls, is controlled by or is under common control with us, or, if the Shares are held by a Nominee, to the beneficial owner of such Shares or to another nominee and or custodian

shareholder that has been engaged by us to provide nominee and or custodian services,

provided that, in the case of (b) and (c) above no such transfer shall take place unless the relevant transferee of all of any of the Shares has executed and delivered a letter to the Offeror on terms that are substantially similar and no less favourable to the Offeror than the terms contained in this letter;

(d) any other person who has executed and delivered a letter to the Offeror on terms that are substantially similar and no less favourable to the Offeror than the terms contained in this letter; and

(e) the extent required by law or regulation including, without limitation, any transfer or disposal required or requested pursuant to regulations applicable to investment funds that have been established in accordance with the UCITS (Undertaking for Collective Investment in Transferable Securities) Directive, or to ensure compliance with the Financial Conduct Authority's Collective Investment Schemes Sourcebook or otherwise pursuant to any order or ruling by a Court of competent judicial body, or by any competent authority (under Part VI of the Financial Services and Markets Act 2000),

2.2.2. if a client has terminated or given notice to terminate its professional relationship with us in circumstances where such client is no longer bound to honour any pre-existing obligations or undertaking in respect of any of the Shares that it beneficially owns, then we and the relevant registered holder shall retain the right to transfer such Shares to any replacement fund manager/custodian appointed by such client, in which case our obligations in this letter will lapse in respect of the Shares transferred upon the time and date of the completion of such transfer. We agree to inform the Offeror as soon as reasonably practicable should the provisions of this paragraph 2.2.2 apply in relation to any Shares and any subsequent references to the Shares will be read as excluding any such transferred shares.

3. Acquisition

3.1. Subject to your announcing by 7.00 a.m. (GMT) on 25 April 2019 (the "**Announcement Deadline**"), a firm intention to make an offer to the shareholders of the Target pursuant to Rule 2.7 of the Code in order to implement the Acquisition, we irrevocably and unconditionally undertake that:

3.1.1. if the Acquisition is implemented by way of the Offer we shall, within 14 days after the posting of the formal document containing the Offer (the "**Offer Document**"), procure acceptance of the Offer in respect of the Shares in accordance with the terms of the Offer and, in respect of any Shares held in certificated form, procure the forwarding of the relevant share certificate(s) to the Offeror or its nominated representative (or a form of indemnity reasonably acceptable to the directors of the Target in respect of any lost certificate(s)) at the time of acceptance and, in respect of any Shares held in uncertificated form, shall take any action which may be set out in the Offer Document to effect the acceptance of the Offer and the transfer to you of such Shares, provided that we shall be entitled to withdraw or procure the withdrawal of any acceptance of the Offer in respect of the Shares or any of them in accordance with the rights of withdrawal conferred under the terms

of the Offer Document or by the Panel on Takeovers and Mergers (the "**Takeover Panel**").

3.1.2. if the Acquisition is implemented by way of the Scheme and after the posting of the circular to be sent to shareholders of the Target containing an explanatory statement in respect of the Scheme (the "**Scheme Document**"), we shall procure that the signed forms of proxy enclosed with the Scheme Document are returned completed and signed and voting the Shares in favour of the resolutions to implement the Acquisition (the "**Resolutions**") in accordance with the instructions printed on those forms of proxy and, in respect of any Shares held in uncertificated form, procure the taking of any action which may be reasonably required by the Target to make a valid proxy appointment and give valid proxy instructions (voting in favour of the Resolutions), so that the forms of proxy are received not later than 7 days before the time of the relevant meeting.

3.2. The undertaking given in paragraph 3.1.2 is without prejudice to any right we have to attend and vote in person at any general meeting of the Target, including any adjournment thereof, or at any meeting of holders of shares in the Target convened by the Court, including any adjournment thereof.

4. **Miscellaneous**

4.1. This letter shall not oblige the Offeror to announce or proceed with the Acquisition and shall automatically cease to have any effect if:

4.1.1. the Offeror shall not have released the Announcement on or before the Announcement Deadline;

4.1.2. we have cast our Acquisition Shareholder Vote in relation to the Acquisition and the Court Meeting of shareholders of the Target to approve the Scheme has taken place;

4.1.3. the Offer Document or Scheme Document has not been posted within 28 days of the date of the Announcement, or within such longer period as the Offeror, with the consent of the Takeover Panel, determines, provided that, subject to paragraph 4.2, if the Acquisition was initially being implemented by way of the Offer and the Offeror exercises its right, in accordance with the Code, to switch to a Scheme, or vice versa, the time period in this paragraph 4.1.3 shall be extended to refer to within 28 days of the issue of the press announcement announcing the change in structure (or such other date for the posting of the relevant document as the Takeover Panel may require);

4.1.4. the Acquisition, whether implemented by way of the Offer or the Scheme, is withdrawn or lapses or does not become wholly unconditional or effective in accordance with its terms, provided that, subject to paragraph 4.2, this paragraph 4.1.4 shall not apply where the Acquisition is withdrawn or lapses as a result of the Offeror exercising its right, in accordance with the Code, to implement the Offer by way of a Scheme, or vice versa;

4.1.5. an announcement of a competing offer in respect of the Target is made in accordance with Rule 2.7 of the Code, whether made by way of an offer or a scheme of arrangement or any other transaction which constitutes an Offer for the

purposes of the Code, and the consideration payable to Target shareholders under such competing offer is, in our reasonable opinion, at least 10% higher than that payable pursuant to the Acquisition;

- 4.1.6. the Offeror announces, with the consent of the Panel, and before the Offer Document or Scheme Document is published, that it does not intend to proceed with the Acquisition and no, new revised or replacement Offer or Scheme (as applicable) is announced by the Offeror in accordance with Rule 2.7 of the Code; and
 - 4.1.7. by 4 June 2019, or such other date as is agreed in writing between the Offeror and the Target, the Acquisition shall not have been completed (whether implemented by way of an Offer or a Scheme).
- 4.2. For the avoidance of doubt, notwithstanding that the Code allows an offeror, with the consent of the Takeover Panel, to switch between an Offer and a Scheme, this letter shall automatically cease to be binding in the event of any such switch unless:
- 4.2.1. we are satisfied, in our absolute discretion, that such switch will not result in an extension of the period during which this letter will be binding on us or result in any consequences adverse to our interests or to those of the Funds and we provide written confirmation of the same to the Offeror; or
 - 4.2.2. the Offeror obtains our prior written agreement to the contrary.
- 4.3. For avoidance of doubt, nothing in this letter shall inhibit any of our rights in respect to the Excluded Shares.
- 4.4. We consent to the issue of an announcement incorporating references to us and to this letter substantially in the terms set out in the Announcement. We understand that, if the Acquisition proceeds, this letter will be made available for inspection during the offer period (as defined in the Code) and that particulars of it will be contained in the Offer Document or the Scheme Document, as the case may be. We undertake to provide you with all such further information in relation to our interest and that of the beneficial owners of any the Shares as you may reasonably require in order to comply with the rules and requirements of the UK Listing Authority, the London Stock Exchange, the Takeover Panel, the Financial Conduct Authority, the Prudential Regulatory Authority, the Competition and Markets Authority and the Companies Act 2006 and any other legal or regulatory requirement (the “**Requirements**”) for inclusion in the Offer Document or the Scheme Document or any other document reasonably required by applicable law or regulation in connection with the Acquisition.
- 4.5. We shall as soon as is reasonably practicable:
- 4.5.1. supply you with all information at our disposal reasonably required by you in connection with the Acquisition in order for you to comply with the Requirements; and
 - 4.5.2. notify you in writing of any material change in the accuracy or import of any information previously supplied to you by us.
- 4.6. We understand that the information you have given to us in relation to the Acquisition must be kept confidential until the Announcement is released or the information has

otherwise become generally available (the “**Release Date**”). To the extent any of the information is inside information for the purposes of the Criminal Justice Act 1993 or the EU Market Abuse Regulation No 596/2014, are aware of the applicable restrictions contained therein on dealing in securities and disclosing inside information. Save to the extent that disclosure is required to comply with any applicable law or regulation, we shall keep confidential the possibility, terms and conditions of the Acquisition and the existence and terms of this letter until the Release Date.

- 4.7. You acknowledge that we are acting at all times as investment manager and agent for and on behalf of the Funds of whom we have discretionary management authority, that we shall have no liability as principal in respect of the Funds’ obligations under the terms of this letter and that all warranties and undertakings are given by us as agent on behalf of the Funds and not as principal.
- 4.8. Time is of the essence in relation to the undertakings in this letter and in particular, as regards any time, date or period specified in this undertaking or subsequently substituted as a time, date or period by agreement in writing between the parties.
- 4.9. This letter does not give rise to any rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this letter.
- 4.10. This letter shall be governed by and construed in accordance with English law. Any matter, claim or dispute, whether contractual or non-contractual, arising out of or in connection with this letter is to be governed by and determined in accordance with English law and shall be subject to the exclusive jurisdiction of the English courts.

This letter is executed as a deed and is delivered and takes effect at the date at the beginning of this deed.

EXECUTED and DELIVERED
as a **DEED** by **INVESCO ASSET**
MANAGEMENT LIMITED, acting
as agent for and on behalf of its
discretionary managed clients



in the presence of:

Witness signature:



Witness name:

Laura Ladd
.....

Witness occupation:



Witness address:



SCHEDULE 1

THE SHARES

Number of shares	Portfolio Name
14,921,841	Edinburgh Investment Trust
16,093,445	Invesco UK Growth Fund (UK)
14,724,851	Perpetual Inc & Growth Invesco TST
373,800	SJP MA Income Fund
2,517,407	Invesco UK Equity Fund
48,631,344	TOTAL

SCHEDULE 2

THE EXCLUDED SHARES

Number of shares	Portfolio Name
573,114	Invesco GTR Income Fund
1,710,455	Invesco GTR Fund (UK)
2,283,569	TOTAL

APPENDIX

DRAFT ANNOUNCEMENT

NOT FOR RELEASE, PUBLICATION OR DISTRIBUTION IN WHOLE OR IN PART, IN, INTO OR FROM ANY JURISDICTION WHERE TO DO SO WOULD CONSTITUTE A VIOLATION OF THE RELEVANT LAWS OR REGULATIONS OF SUCH JURISDICTION

THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION

FOR IMMEDIATE RELEASE

24 April 2019

RECOMMENDED CASH ACQUISITION

of

KCOM Group Public Limited Company (KCOM)

by

Humber Bidco Limited (Bidco)

a wholly-owned indirect subsidiary of Universities Superannuation Scheme Limited (USSL) (acting in its capacity as sole corporate trustee of Universities Superannuation Scheme (USS))

to be implemented by means of a scheme of arrangement under Part 26 of the Companies Act 2006

Summary

- The boards of Bidco and KCOM are pleased to announce that they have reached agreement on the terms of a recommended cash acquisition by Bidco, a wholly-owned indirect subsidiary of USSL, of the entire issued and to be issued ordinary share capital of KCOM (the **Acquisition**). It is intended that the Acquisition will be implemented by means of a scheme of arrangement under Part 26 of the Companies Act (the **Scheme**).
- Under the terms of the Acquisition, KCOM Shareholders will be entitled to receive:
for each KCOM Share 97 pence in cash (the Acquisition Price)
- The Acquisition Price represents an attractive premium of approximately:
 - 33.8 per cent. to the Closing Price of 72.5 pence for each KCOM Share on the Last Practicable Date;
 - 36.1 per cent. to the volume-weighted average price of 71.2 pence for each KCOM Share for the one month period prior to the Last Practicable Date; and
 - 38.0 per cent. to the volume-weighted average price of 70.3 pence for each KCOM Share for the three month period prior to the Last Practicable Date.
- The Acquisition values the entire issued and to be issued ordinary share capital of KCOM at approximately £504 million.
- If any dividend or other distribution is authorised, declared, made or paid in respect of KCOM Shares on or after the date of this Announcement, Bidco reserves the right to reduce the Acquisition Price by an amount up to the amount of such dividend or other distribution for each KCOM Share, in which case eligible KCOM Shareholders will be entitled to receive and retain such dividend or other distribution.

KCOM recommendation

- The KCOM Directors, who have been so advised by Rothschild & Co as to the financial terms of the Acquisition, consider the terms of the Acquisition to be fair and reasonable. In providing its advice to the KCOM Directors, Rothschild & Co has taken into account the commercial assessments of the KCOM Directors. Rothschild & Co is providing independent financial advice to the KCOM Directors for the purposes of Rule 3 of the Takeover Code.
- Accordingly, the KCOM Directors intend to recommend unanimously that KCOM Shareholders vote in favour of the Scheme at the Court Meeting, and in favour of the General Meeting Resolution to be proposed at the General Meeting, as the KCOM Directors who are interested in KCOM Shares have irrevocably undertaken to do in respect of their own beneficial holdings of 317,016 KCOM Shares representing, in aggregate, approximately 0.06 per cent. of KCOM's issued ordinary share capital on the Last Practicable Date.

Irrevocable undertakings and letter of intent

- Bidco has also received irrevocable undertakings to vote in favour of the Scheme at the Court Meeting, and in favour of the General Meeting Resolution to be proposed at the General Meeting, from Teleios Capital Partners and Invesco Asset Management in respect of 131,758,930 KCOM Shares representing, in aggregate, approximately 25.5 per cent. of KCOM's issued ordinary share capital on the Last Practicable Date.
- Bidco has also received a non-binding letter of intent from Majedie Asset Management to vote in favour of the Scheme at the Court Meeting and in favour of the General Meeting Resolution at the General Meeting in respect of 17,006,505 KCOM Shares representing approximately 3.3 per cent. of KCOM's issued ordinary share capital on the Last Practicable Date.
- Bidco has therefore received irrevocable undertakings and a letter of intent in respect of a total number of 149,082,451 KCOM Shares representing, in aggregate, approximately 28.9 per cent. of KCOM's issued ordinary share capital on the Last Practicable Date.
- Further details of these irrevocable undertakings and the letter of intent (and the circumstances in which the irrevocable undertakings will cease to be binding or otherwise fall away) are set out in Appendix 3.

Information on Bidco, USSL and USSIM

- Bidco is a wholly-owned indirect subsidiary of USSL (acting in its capacity as sole corporate trustee of USS). USSL is the corporate trustee of one of the largest private sector pension funds in the UK with assets under management of £64 billion as at 31 March 2018.
- USSL, through its investment manager, USS Investment Management Limited (**USSIM**), is a long-term owner of assets with a track record of investing in UK infrastructure and infrastructure-like businesses.
- USSIM's Private Markets Group has experience of investing around the world and in the UK across a wide range of private asset classes. As at 31 March 2018, it managed over £15 billion of private market assets, including investments in Heathrow Airports Holdings, L1 Renewables, Moto Hospitality, NATS and Thames Water.

Information on KCOM

- KCOM, a leading provider of IT and communications solutions to consumers and businesses across the UK, is one of the UK's longest-established communications companies, helping customers get connected since 1904. Throughout the decades, KCOM has stayed at the forefront of technology and communications. KCOM is focussed on three markets:
 - Hull and East Yorkshire: KCOM provides voice and internet-based services to 140,000 consumers and businesses in the region;
 - Enterprise: KCOM serves large enterprise and public sector organisations that need complex technology solutions to serve customers better and adapt to an ever-changing competitive and regulatory environment; and
 - National Network Services: KCOM serves UK-based multi-site organisations that rely on connectivity as part of their business operations.
- Further information on KCOM is available at www.kcomplc.com.

General

- It is intended that the Acquisition will be implemented by means of a Court-approved scheme of arrangement under Part 26 of the Companies Act. However, Bidco reserves the right to elect (with the consent of the Panel and subject to the terms of the Co-operation Agreement) to implement the Acquisition by way of a Takeover Offer.
- The Acquisition will be subject to the approval of KCOM Scheme Shareholders at the Court Meeting and the passing of the General Meeting Resolution by KCOM Shareholders at the General Meeting. In order to become Effective, the Scheme must be approved by a majority in number of KCOM Scheme Shareholders, representing at least 75 per cent. in value of the KCOM Scheme Shares voted by those KCOM Scheme Shareholders present and voting, either in person or by proxy, at the Court Meeting. In addition, the General Meeting Resolution required to implement certain matters in connection with the Scheme must be passed by KCOM Shareholders representing at least 75 per cent. of votes cast at the General Meeting.
- The Acquisition is subject to the Conditions and further terms set out in Appendix 1 and to be set out in the Scheme Document. It is expected that the Scheme will become Effective in mid-2019.
- It is expected that the Scheme Document, containing further information about the Acquisition and notices of the Court Meeting and the General Meeting, will be published as soon as practicable and, in any event, within 28 days of this Announcement.
- In light of this Announcement, the KCOM presentation currently scheduled for 26 April 2019 will not be taking place. The KCOM Board's consideration of KCOM's Strategy Review within the context of the Acquisition is provided later in this Announcement.

Commenting on the Acquisition, Patrick De Smedt, Interim Non-executive Chairman of KCOM, said:

"The Board believes that USSL's offer for KCOM provides, on completion, both meaningful, guaranteed cash returns for shareholders as well as a strong, supportive partner in our endeavours to take the business forward to new successes. The Board believes that the offer of 97p per share represents a compelling opportunity for shareholders to realise an attractive cash value in respect of their shares and recognises the quality of KCOM's businesses and the strength of their future prospects. For all these reasons, the Board unanimously recommends that shareholders accept the offer."

Commenting on the Acquisition, Mike Powell, Head of the Private Markets Group at USSIM, said:

"We believe that KCOM is a high-quality business that is well-placed to grow and thrive under private ownership and that is why we have made this compelling offer to shareholders at an attractive premium. With the right capital support and assistance, we believe that KCOM's management will be able to enhance the quality of its offering, delivering benefits for customers as well as sustainable, long-term returns. USSL's track record as a long-term and supportive shareholder with extensive experience in regulated sectors makes us an ideal partner for KCOM."

This summary should be read in conjunction with, and is subject to, the full text of this Announcement and its Appendices. The Acquisition will be made subject to the Conditions and further terms set out in Appendix 1. The bases and sources of certain financial information contained in this Announcement are set out in Appendix 2. Details of the irrevocable undertakings and the letter of intent given in relation to the Acquisition are set out in Appendix 3. Certain definitions and terms used in this Announcement are set out in Appendix 4.

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Allen & Overy LLP is retained as legal adviser to USSL and Bidco. Addleshaw Goddard LLP is retained as legal adviser to KCOM.

Further information

This Announcement is for information purposes only and is not intended to, and does not, constitute or form part of any offer or invitation to purchase, otherwise acquire, subscribe for, sell or otherwise dispose of, any securities or the solicitation of any vote or approval in any jurisdiction pursuant to the Acquisition or otherwise. The Acquisition will be made solely through the Scheme Document (and the accompanying Forms of Proxy), which will contain the full terms and conditions of the Acquisition, including details of how to vote in respect of the Acquisition. Any vote or other response to the Acquisition should be made only on the basis of the information in the Scheme Document.

Bidco reserves the right to elect, with the consent of the Panel and subject to the terms of the Co-operation Agreement, to implement the Acquisition by way of a Takeover Offer. In such event, the Takeover Offer will be implemented on substantially the same terms, so far as applicable, as those which would apply to the Scheme, subject to the Takeover Code and to any appropriate amendments to reflect the change in method of implementing the Acquisition.

Important notices relating to financial advisers

Arma Partners LLP (Arma Partners), which is authorised and regulated in the United Kingdom by the FCA, is acting exclusively for USSL and Bidco and for no one else in connection with the Acquisition and/or any other matter set out in this Announcement and will not be responsible to anyone other than USSL and Bidco for providing the protections afforded to clients of Arma Partners or for providing advice in connection with the Acquisition, the contents of this Announcement or any other matter referred to herein.

Gleacher Shacklock LLP (Gleacher Shacklock), which is authorised and regulated in the United Kingdom by the FCA, is acting exclusively for USSL and Bidco and no one else in connection with the Acquisition and/or any other matters set out in this Announcement and will not be responsible to anyone other than USSL and Bidco for providing the protections afforded to clients of Gleacher Shacklock or for providing advice in connection with the Acquisition, the contents of this Announcement or any other matter referred to herein.

N.M. Rothschild & Sons Limited (Rothschild & Co), which is authorised by the PRA and regulated in the United Kingdom by the FCA and the PRA, is acting exclusively for KCOM and no one else in relation to the

Acquisition and/or other matters set out in this Announcement and will not be responsible to anyone other than KCOM for providing the protections afforded to clients of Rothschild & Co or for providing advice in relation to the Acquisition, the contents of this Announcement or any other matter or arrangement referred to herein.

Peel Hunt LLP (Peel Hunt), which is authorised and regulated in the United Kingdom by the FCA, is acting for KCOM and no-one else in connection with the Acquisition and/or other matters set out in this Announcement and will not be responsible to anyone other than KCOM for the protections offered to its clients nor for providing advice in relation to the Acquisition or any matters referred to in this Announcement.

Investec Bank plc (Investec), which is authorised by the PRA and regulated in the United Kingdom by the FCA and the PRA, is acting exclusively for KCOM and no one else in relation to the Acquisition and/or other matters set out in this Announcement and will not be responsible to anyone other than KCOM for providing the protections afforded to the clients of Investec or for providing advice in relation to the Acquisition, the contents of this Announcement or any other matter or arrangement referred to herein.

Overseas Shareholders

The release, publication or distribution of this Announcement in jurisdictions other than the United Kingdom and the ability of KCOM Shareholders who are not resident in the United Kingdom to participate in the Acquisition may be restricted by laws and/or regulations in those jurisdictions and therefore any persons who are not resident in the United Kingdom or who are subject to the laws of any jurisdiction other than the United Kingdom (including Restricted Jurisdictions) should inform themselves about, and observe, any applicable legal or regulatory requirements. In particular, the ability of persons who are not resident in the United Kingdom or who are subject to the laws of another jurisdiction to vote their KCOM Scheme Shares in respect of the Scheme at the Court Meeting or with respect to the General Meeting Resolution at the General Meeting, or to execute and deliver Forms of Proxy appointing another to vote at the Court Meeting and/or the General Meeting on their behalf, may be affected by the laws of the relevant jurisdictions in which they are located or to which they are subject. Any failure to comply with applicable legal or regulatory requirements of any jurisdiction may constitute a violation of securities laws in that jurisdiction. To the fullest extent permitted by applicable law, the companies and persons involved in the Acquisition disclaim any responsibility or liability for the violation of such restrictions by any person.

Unless otherwise determined by Bidco or required by the Takeover Code, and permitted by applicable law and regulation, the Acquisition will not be made available, directly or indirectly, in, into or from a Restricted Jurisdiction where to do so would violate the laws in that jurisdiction and no person may vote in favour of the Acquisition by use of the mails or any other means or instrumentality (including, without limitation, facsimile, e-mail or other electronic transmission, telex or telephone) of interstate or foreign commerce of, or any facility of a national, state or other securities exchange of, or from within, a Restricted Jurisdiction or any other jurisdiction if to do so would constitute a violation of the laws of that jurisdiction.

The Acquisition will be subject to the applicable requirements of English law, the Takeover Code, the Panel, the London Stock Exchange and the FCA.

Copies of this Announcement and any formal documentation relating to the Acquisition are not being, and must not be, directly or indirectly, mailed or otherwise forwarded, distributed or sent in or into or from any Restricted Jurisdiction or any jurisdiction where to do so would constitute a violation of the laws of such jurisdiction and persons receiving such documents (including custodians, nominees and trustees) must not mail or otherwise forward, distribute or send them in or into or from any Restricted Jurisdiction. Doing so may render invalid any related purported vote in respect of acceptance of the Acquisition.

If the Acquisition is implemented by way of a Takeover Offer (unless otherwise permitted by applicable law and regulation), the Takeover Offer may not be made, directly or indirectly, in or into or by use of the mails

or any other means or instrumentality (including, without limitation, facsimile, e-mail or other electronic transmission, telex or telephone) of interstate or foreign commerce of, or any facility of a national, state or other securities exchange of, any Restricted Jurisdiction and the Takeover Offer will not be capable of acceptance by any such use, means, instrumentality or facilities or from within any Restricted Jurisdiction.

Further details in relation to Overseas Shareholders will be contained in the Scheme Document.

Additional information for US investors in KCOM

KCOM Shareholders in the United States should note that the Acquisition relates to the securities of a UK company and is proposed to be implemented pursuant to a scheme of arrangement provided for under English company law. A transaction implemented by means of a scheme of arrangement is not subject to the tender offer rules or the proxy solicitation rules under the US Exchange Act. Accordingly, the Acquisition will be subject to UK procedural and disclosure requirements and practices applicable to a scheme of arrangement involving a target company in England, which are different from the disclosure requirements of the US tender offer and proxy solicitation rules. The financial information included in this Announcement and other documentation relating to the Acquisition has been or will have been prepared in accordance with International Financial Reporting Standards and thus may not be comparable to financial information of US companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the US. If Bidco exercises its right, in the circumstances provided for in this Announcement, to implement the Acquisition by way of a Takeover Offer, such Takeover Offer will only be made in the United States if an exemption from the registration requirements of the US Securities Act is available.

None of the securities referred to in this Announcement have been approved or disapproved by the SEC, any state securities commission in the United States or any other US regulatory authority, nor have such authorities passed upon or determined the adequacy or accuracy of the information contained in this document. Any representation to the contrary is a criminal offence in the United States.

It may be difficult for US holders of KCOM Shares to enforce their rights and claims arising out of the US federal securities laws, since Bidco and KCOM are located in countries other than the United States, and some or all of their officers and directors may be residents of countries other than the United States. US holders of KCOM Shares may not be able to sue a non-US company or its officers or directors in a non-US court for violations of US securities laws. Further, it may be difficult to compel a non-US company and its affiliates to subject themselves to a US court's judgement.

Forward-looking statements

This Announcement contains certain forward-looking statements with respect to Bidco and KCOM. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as, without limitation, "anticipate", "target", "expect", "estimate", "intend", "plan", "goal", "believe", "aim", "will", "may", "hope", "continue", "would", "could" or "should" or other words of similar meaning or the negative thereof. Forward-looking statements include, but are not limited to, statements relating to the following: (a) future capital expenditures, expenses, revenues, economic performance, financial conditions, dividend policy, losses and future prospects, (b) business and management strategies and the expansion and growth of the operations of Bidco or KCOM, and (c) the effects of government regulation on the business of Bidco or KCOM. There are many factors which could cause actual results to differ materially from those expressed or implied in forward looking statements. Among such factors are changes in the global, political, economic, business, competitive, market and regulatory forces, future exchange and interest rates, changes in tax rates and future business combinations or disposals. Such statements are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations.

These forward-looking statements are based on numerous assumptions regarding the present and future business strategies of such persons and the environment in which each will operate in the future. Except as expressly provided in this document, they have not been reviewed by the auditors of Bidco or KCOM. By their nature, these forward-looking statements involve known and unknown risks, uncertainties because they relate to events and depend on circumstances that will occur in the future. The factors described in the context of such forward-looking statements in this Announcement may cause the actual results, performance or achievements of any such person, or industry results and developments, to be materially different from any results, performance or achievements expressed or implied by such forward-looking statements. No assurance can be given that such expectations will prove to have been correct and persons reading this Announcement are therefore cautioned not to place undue reliance on these forward-looking statements which speak only as at the date of this Announcement. Neither Bidco nor KCOM, nor their respective members, directors, officers or employees, advisers or any person acting on their behalf, provides any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this announcement will actually occur.

None of Bidco, KCOM or their respective members, directors, officers, employees, advisers and any person acting on behalf of one or more of them undertakes any intention or obligation to update publicly or revise forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required. All subsequent oral or written forward-looking statements attributable to Bidco or KCOM or any persons acting on their behalf are expressly qualified in their entirety by the cautionary statement above.

Neither Bidco nor the KCOM Group, nor any of their respective associates, directors, officers, employees or advisers, provides any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this Announcement will actually occur.

No profit forecasts or estimates

Nothing in this Announcement is intended, or is to be construed, as a profit forecast or to be interpreted to mean that earnings for each KCOM Share, for the current or future financial years, will necessarily match or exceed the historical published earnings for each KCOM Share.

Disclosure requirements of the Takeover Code

Under Rule 8.3(a) of the Takeover Code, any person who is interested in one per cent. or more of any class of relevant securities of an offeree company or of any securities exchange offeror (being any offeror other than an offeror in respect of which it has been announced that its offer is, or is likely to be, solely in cash) must make an Opening Position Disclosure following the commencement of the Offer Period and, if later, following the Announcement in which any securities exchange offeror is first identified. An Opening Position Disclosure must contain details of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s). An Opening Position Disclosure by a person to whom Rule 8.3(a) applies must be made by no later than 3.30 pm on the 10th Business Day following the commencement of the Offer Period and, if appropriate, by no later than 3.30 pm on the 10th Business Day following the Announcement in which any securities exchange offeror is first identified. Relevant persons who deal in the relevant securities of the offeree company or of a securities exchange offeror prior to the deadline for making an Opening Position Disclosure must instead make a Dealing Disclosure.

Under Rule 8.3(b) of the Takeover Code, any person who is, or becomes, interested in one per cent. or more of any class of relevant securities of the offeree company or of any securities exchange offeror must make a Dealing Disclosure if the person deals in any relevant securities of the offeree company or of any securities exchange offeror. A Dealing Disclosure must contain details of the dealing concerned and of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s), save to the extent that these details have previously

been disclosed under Rule 8. A Dealing Disclosure by a person to whom Rule 8.3(b) applies must be made by no later than 3.30 pm on the Business Day following the date of the relevant dealing.

If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire or control an interest in relevant securities of an offeree company or a securities exchange offeror, they will be deemed to be a single person for the purpose of Rule 8.3.

Opening Position Disclosures must also be made by the offeree company and by any offeror and Dealing Disclosures must also be made by the offeree company, by any offeror and by any persons acting in concert with any of them (see Rules 8.1, 8.2 and 8.4).

Details of the offeree and offeror companies in respect of whose relevant securities Opening Position Disclosures and Dealing Disclosures must be made can be found in the Disclosure Table on the Panel's website at www.thetakeoverpanel.org.uk, including details of the number of relevant securities in issue, when the Offer Period commenced and when any offeror was first identified. You should contact the Panel's Market Surveillance Unit on +44 (0)20 7638 0129 if you are in any doubt as to whether you are required to make an Opening Position Disclosure or a Dealing Disclosure.

Publication on a website

This Announcement and the documents required to be published pursuant to Rule 26 of the Takeover Code will be available, subject to certain restrictions relating to persons resident in Restricted Jurisdictions, on USSL's website at www.uss.co.uk and on KCOM's website at www.kcomplc.com promptly and in any event by no later than 12 noon on 25 April 2019.

Neither the content of the websites referred to in this Announcement nor the content of any website accessible from hyperlinks is incorporated into, or forms part of, this Announcement.

Request for hard copies

KCOM Shareholders may, subject to applicable securities laws, request a hard copy of this Announcement (and any information incorporated into it by reference to another source) by contacting Link Asset Services on 0371 664 0321 or by submitting a request in writing to Link Asset Services, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TH, with an address to which the hard copy may be sent. Calls are charged at the standard geographic rate and will vary by provider. Calls from outside of the United Kingdom will be charged at the applicable international rate. The helpline is open between 9.00 a.m. and 5.30 p.m., Monday to Friday, excluding public holidays in England and Wales. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. The helpline cannot provide advice on the merits of the Acquisition or give any financial, legal or tax advice. KCOM Shareholders may, subject to applicable securities laws, also request that all future documents, announcements and information to be sent in relation to the Acquisition should be in hard copy form.

Information relating to KCOM Shareholders

Please be aware that addresses, electronic addresses and certain information provided by KCOM Shareholders, persons with information rights and other relevant persons for the receipt of communications from KCOM may be provided to Bidco during the Offer Period as required under section 4 of Appendix 4 to the Takeover Code.

Rounding

Certain figures included in this Announcement have been subjected to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

Rule 2.9 of the Takeover Code

For the purposes of Rule 2.9 of the Takeover Code, KCOM confirms that, as at 23 April 2019, it had 516,603,910 ordinary shares of 10 pence each in issue and admitted to trading on the London Stock Exchange. The International Securities Identification Number for KCOM Shares is GB0007448250.

General

If you are in any doubt about the contents of this Announcement or the action you should take, you are recommended to seek your own independent financial advice immediately from your stockbroker, bank manager, solicitor, accountant or independent financial adviser duly authorised under the Financial Services and Markets Act 2000 (as amended) if you are resident in the United Kingdom or, if not, from another appropriately authorised independent financial adviser.

Time

All times shown in this Announcement are London times, unless otherwise stated.

NOT FOR RELEASE, PUBLICATION OR DISTRIBUTION IN WHOLE OR IN PART, IN, INTO OR FROM ANY JURISDICTION WHERE TO DO SO WOULD CONSTITUTE A VIOLATION OF THE RELEVANT LAWS OR REGULATIONS OF SUCH JURISDICTION

THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION

FOR IMMEDIATE RELEASE

24 April 2019

**RECOMMENDED CASH ACQUISITION
of
KCOM Group Public Limited Company (KCOM)
by
Humber Bidco Limited (Bidco)**

**a wholly-owned indirect subsidiary of USSL (acting in its capacity as sole corporate trustee of USS)
to be implemented by means of a scheme of arrangement under Part 26 of the Companies Act 2006**

1. Introduction

The boards of Bidco and KCOM are pleased to announce that they have reached agreement on the terms of a recommended cash acquisition by Bidco, a wholly-owned indirect subsidiary of USSL, of the entire issued and to be issued ordinary share capital of KCOM (the **Acquisition**). It is intended that the Acquisition will be implemented by means of a scheme of arrangement under Part 26 of the Companies Act (the **Scheme**).

In light of this Announcement, the KCOM presentation currently scheduled for 26 April 2019 will not be taking place. The KCOM Board's consideration of KCOM's Strategy Review within the context of the Acquisition is provided later in this Announcement.

2. The Acquisition

Under the terms of the Acquisition, which shall be subject to the Conditions and further terms set out in Appendix 1 and to be set out in the Scheme Document, KCOM Shareholders who are on the register of members of KCOM at the Scheme Record Time will be entitled to receive:

for each KCOM Share 97 pence in cash

The Acquisition Price represents an attractive premium of approximately:

- (a) 33.8 per cent. to the Closing Price of 72.5 pence for each KCOM Share on the Last Practicable Date;
- (b) 36.1 per cent. to the volume-weighted average price of 71.2 pence for each KCOM Share for the one month period prior to the Last Practicable Date; and

- (c) 38.0 per cent. to the volume-weighted average price of 70.3 pence for each KCOM Share for the three month period prior to the Last Practicable Date.

The Acquisition values the entire issued and to be issued ordinary share capital of KCOM at approximately £504 million.

If any dividend or other distribution is authorised, declared, made or paid in respect of KCOM Shares on or after the date of this Announcement, Bidco reserves the right to reduce the Acquisition Price by an amount up to the amount of such dividend or other distribution for each KCOM Share, in which case eligible KCOM Shareholders will be entitled to receive and retain such dividend or other distribution.

It is expected that the Scheme Document, containing further information about the Acquisition and notices of the Court Meeting and the General Meeting, will be published as soon as practicable and, in any event, within 28 days of this Announcement. It is further expected that the Scheme will become Effective in mid-2019.

3. Background to and reasons for the Acquisition

USSL is the corporate trustee of one of the largest private sector pension funds in the UK with assets under management of £64 billion as at 31 March 2018 and over 400,000 members across more than 350 universities and other higher education and associated institutions in the UK.

USSL, through its investment manager, USSIM, is a long-term owner of assets with a track record of investing in UK infrastructure and infrastructure-like businesses.

Bidco believes that the acquisition of KCOM represents an attractive opportunity to become the owner of a well-established business with a strong local heritage. Further, Bidco believes that it would be an ideal partner for KCOM to continue to develop its Hull & East Yorkshire (HEY) business and to review options for its National Network Services and Enterprise businesses.

The specific attractions of KCOM to USSL include:

- (a) HEY's ownership of its critical infrastructure and the significant investment made to-date in its fibre network to give Hull the highest level of fibre-to-the-premises penetration in the UK, well ahead of the UK Government's target of national rollout of fibre by 2033;
- (b) the opportunity for further capital investment to support new business strategies and new network buildout in and beyond the areas covered by the HEY business; and
- (c) long-term stable and predictable cash flows, stemming from the critical services that the HEY business provides its customers.

4. Recommendation

The KCOM Directors, who have been so advised by Rothschild & Co as to the financial terms of the Acquisition, consider the terms of the Acquisition to be fair and reasonable. In providing its advice to the KCOM Directors, Rothschild & Co has taken into account the commercial assessments of the KCOM Directors. Rothschild & Co is providing independent financial advice to the KCOM Directors for the purposes of Rule 3 of the Takeover Code.

Accordingly, the KCOM Directors intend to recommend unanimously that KCOM Shareholders vote in favour of the Scheme at the Court Meeting, and in favour of the General Meeting Resolution to be proposed at the General Meeting, as the KCOM Directors who are interested in KCOM Shares

have irrevocably undertaken to do in respect of their own beneficial holdings of KCOM Shares, as more fully described in paragraph 6 below and in Appendix 3.

5. **Background to and reasons for the KCOM Directors' recommendation**

Graham Sutherland joined the KCOM Board as Chief Executive Officer of KCOM on 15 October 2018.

On 20 November 2018, following Graham's initial review of the business, the KCOM Board published a trading update and a revised annual dividend commitment from six pence to three pence per share following weaker than expected trading performance in the year ended 31 March 2019.

In the interim statement of results for the six months ended 30 September 2018 released on 27 November 2018, KCOM announced an in-depth review of its businesses and strategy to identify how to create the best value for shareholders and improve its overall business performance (**Strategy Review**).

Whilst undertaking the Strategy Review, KCOM received an approach from USSIM, on behalf of USSL. Following a period of initial negotiations, KCOM agreed the principal terms of USSL's offer in early March 2019.

The results and recommendations of the Strategy Review have yet to be formally adopted by the KCOM Board. A high-level summary of the recommendations of the Strategy Review is as follows:

- (a) grow HEY through increasing its addressable market through the further roll-out of fibre across selected areas of East Yorkshire and the Humber;
- (b) transform the operating model of the Company, reducing costs through a simplified operational structure that removes both duplication and complexity;
- (c) grow the core business of connectivity and collaboration through sales focus, improved customer experience and the launch of new products and services; and
- (d) focus the cloud business within Enterprise on the corporate mid-market with services that leverage connectivity.

Whilst the KCOM Directors are confident of KCOM's ability to meet the required levels of capital expenditure for the further roll-out of fibre as detailed above, the investment to deliver future growth may need to be phased over time to balance KCOM's current balance sheet leverage and dividend payments with cash generation from operations.

After careful consideration of the Acquisition Price and the deliverability of the Acquisition, the KCOM Directors believe that USSL's offer represents compelling value given the balance of longer term opportunities and risks to the near term financial performance of the business following the implementation of the new strategy. The KCOM Directors also acknowledge the benefits of KCOM being a private company, including creating a favourable environment to effect its transformation and enabling it to obtain finance from private capital. The Acquisition allows KCOM Shareholders to crystallise in cash the value of their holdings at a premium of 33.8 per cent. to the Closing Price for each KCOM Share on the Last Practicable Date. The Board believes that the offer of 97 pence per share recognises the quality of KCOM's assets and capability, and the strength of its future prospects, as a well-established and well-invested business with a strong heritage in the Hull and East Yorkshire region.

Accordingly, the KCOM Directors intend to recommend unanimously the Acquisition to KCOM Shareholders as set out in paragraph 4 above.

6. Irrevocable undertakings and letter of intent

Bidco has received irrevocable undertakings from KCOM Directors who are interested in KCOM Shares to vote in favour of the Scheme at the Court Meeting, and in favour of the General Meeting Resolution to be proposed at the General Meeting, in respect of their own beneficial holdings of 317,016 KCOM Shares representing, in aggregate, approximately 0.06 per cent. of KCOM's issued ordinary share capital on the Last Practicable Date.

Bidco has also received irrevocable undertakings to vote in favour of the Scheme at the Court Meeting, and in favour of the General Meeting Resolution to be proposed at the General Meeting, from Teleios Capital Partners and Invesco Asset Management in respect of a total of 131,758,930 KCOM Shares representing, in aggregate, approximately 25.5 per cent. of KCOM's issued ordinary share capital on the Last Practicable Date.

Bidco has also received a non-binding letter of intent from Majedie Asset Management to vote in favour of the Scheme at the Court Meeting and in favour of the General Meeting Resolution at the General Meeting in respect of 17,006,505 KCOM Shares representing approximately 3.3 per cent. of KCOM's issued ordinary share capital on the Last Practicable Date.

Bidco has therefore received irrevocable undertakings and a letter of intent in respect of a total number of 149,082,451 KCOM Shares representing, in aggregate, approximately 28.9 per cent. of KCOM's issued ordinary share capital on the Last Practicable Date.

Further details of these irrevocable undertakings and the letter of intent (and the circumstances in which the irrevocable undertakings will cease to be binding or otherwise fall away) are set out in Appendix 3.

7. Information on USSL, USSIM and Bidco

USS was established in 1974 and is the principal pensions scheme provided by more than 350 universities and other higher education and associated institutions in the UK. As at 31 March 2018, it had over 400,000 members and had assets under management of £64 billion.

USSL has appointed its wholly-owned subsidiary, USSIM, as the scheme's principal investment manager and adviser. USSIM's Private Markets Group comprised of 38 employees as at 31 March 2018 and has experience of investing around the world and in the UK across a wide range of private asset classes. As at 31 March 2018, it managed over £15 billion of private market assets, including investments in Heathrow Airports Holdings, L1 Renewables, Moto Hospitality, NATS and Thames Water.

Bidco is a wholly-owned indirect subsidiary of USSL (acting in its capacity as sole corporate trustee of USS), incorporated for the specific purpose of making the Acquisition.

8. Information on KCOM

KCOM, a leading provider of IT and communications solutions to consumers and businesses across the UK, is one of the UK's longest-established communications companies, helping customers get connected since 1904. Throughout the decades, KCOM has stayed at the forefront of technology and communications. KCOM is focussed on three markets:

- (a) Hull and East Yorkshire: KCOM provides voice and internet-based services to 140,000 consumers and businesses in the region;
- (b) Enterprise: KCOM serves large enterprise and public sector organisations that need complex technology solutions to serve customers better and adapt to an ever-changing competitive and regulatory environment; and
- (c) National Network Services: KCOM serves UK-based multi-site organisations that rely on connectivity as part of their business operations.

Further information is available at www.kcomplc.com.

9. Intentions of Bidco

Bidco believes that the acquisition of KCOM represents an attractive opportunity to become the owner of a well-established business with a strong local heritage. Bidco is confident in the overall prospects of KCOM's businesses and is excited about partnering with the KCOM management team to grow the value of the business in the long-term.

Prior to this Announcement, and consistent with market practice, Bidco has been granted access to certain KCOM information for the purposes of conducting a confirmatory due diligence exercise. Bidco has, however, not yet had access to sufficiently detailed information from KCOM management's Strategy Review (as described in paragraph 5 above) to formulate detailed plans or intentions regarding the impact of the Acquisition on KCOM and its businesses.

Following completion of the Acquisition, Bidco intends to work with KCOM's management team to undertake a detailed strategic evaluation of KCOM and its businesses, which will include an assessment of the work recently carried out under the KCOM management team's Strategy Review. The evaluation is expected to focus on:

- (a) assessing the KCOM operating model that KCOM's management team has been developing since the appointment of Graham Sutherland as Chief Executive with the objective of reducing costs through simplifying KCOM's operational structure;
- (b) reviewing the strategy of the HEY business, including the markets and customers served, its product and service offerings, pricing and the cost structure within the business including headcount and other costs;
- (c) identifying new opportunities for additional investment to drive profitable growth within the HEY business, in particular the potential to offer new services and meaningfully expand and accelerate the fibre network build-out and develop employee capabilities within the business;
- (d) initiatives to improve the existing performance of the National Network Services and Enterprise businesses including the level of alignment with the HEY business, the level of headcount and other costs, the allocation of shared costs and opportunities to take actions to

enhance customer experience, accelerate growth and improve platform efficiency to enhance margins; and

- (e) reviewing strategic options for the National Network Services and Enterprise businesses, following the analysis in (d) above, including the potential for disposal of these businesses to a third party.

Bidco has not yet begun to carry out the detailed evaluation referred to above or made any decisions in relation to specific actions that may be taken as a result of this evaluation. This evaluation is expected to take up to six months and Bidco will seek to implement the resulting actions as soon as possible.

As part of its evaluation, as referred to above, Bidco will review the level of costs in the HEY, National Network Services and Enterprise businesses to ensure that the level of headcount, capabilities and cost structure are consistent with the strategy that will be decided upon for each part of the KCOM business. It is anticipated that material cost savings and efficiencies may be achievable reflecting KCOM management's ongoing review aimed at reducing costs, but these are unquantified at this stage. Once KCOM ceases to be a listed company, some central management, corporate and support functions, including PLC-related functions, may be reduced in scope, which is likely to require reduced headcount. Bidco has not yet had access to sufficient information to determine how many headcount changes could occur across the KCOM Group, or how any changes to the cost structure would be implemented. Any headcount changes, additional investments referred to in (c) above and business disposals referred to in (e) above could change the balance of the skills and functions of the remaining employees and management.

Bidco intends to safeguard the existing employment rights of the management and employees of KCOM in accordance with applicable law and does not envisage any material change in the conditions of employment of the management and employees of KCOM, other than the possible implementation of incentivisation arrangements for certain members of management as described below.

The non-executive directors of KCOM intend to resign as KCOM Directors with effect from completion of the Acquisition.

Bidco recognises the importance of the KCOM pension schemes to their members. Bidco confirms that it has no intention of changing members' pension rights under the schemes and that the current level of employer contributions under the schemes' existing funding arrangements will continue. Prior to this Announcement, Bidco engaged in an initial discussion with the chair of the trustees of KCOM's defined benefit pension schemes in relation to the upcoming triennial valuation process and the Acquisition. Following completion of the Acquisition, Bidco intends to continue such discussions with the trustees of KCOM's defined benefit pension schemes in respect of the triennial valuation, the Acquisition and the funding position of the schemes. The KCOM defined benefit pension schemes are closed to new members and to future accrual.

Following the Scheme becoming Effective, Bidco intends to review the management incentive arrangements of KCOM. Bidco has not entered into, and has not had discussions on proposals to enter into, any form of incentivisation arrangements with members of KCOM's management team, but plans to put in place incentive arrangements for certain members of the KCOM management team following completion of the Acquisition.

Bidco intends to maintain KCOM's corporate headquarters and headquarters' functions in Hull. Bidco does not intend to change the locations of the places of business of the National Network Services and Enterprise businesses; however, these may be impacted by the review of strategic options for those businesses including any potential disposal of these businesses (as referenced in (e)

above). Bidco has no intention to redeploy the fixed assets of KCOM. KCOM has no dedicated research and development function.

KCOM is currently listed on the Official List and, as set out in paragraph 14, an application will be made to the London Stock Exchange to cancel trading in KCOM Shares and de-list KCOM from the Official List, in each case to take effect on or shortly after the Effective Date.

10. KCOM LTIP

The Scheme will extend to any KCOM Shares unconditionally allotted, issued or transferred prior to the Scheme Record Time to satisfy the exercise of options granted under the KCOM LTIP.

Participants in the KCOM LTIP will receive a letter explaining the effects of the Acquisition on their options and the actions they may take in respect of their options.

The Scheme will not extend to KCOM Shares issued after the Scheme Record Time. However, it is proposed to amend KCOM's articles of association at the General Meeting to provide that, following completion of the Acquisition, any KCOM Shares issued to any person other than Bidco or its nominees after the Scheme Record Time (including in satisfaction of an option exercised under the KCOM LTIP) will be automatically transferred to Bidco in consideration for the payment by Bidco to such persons of an amount equal to the Acquisition Price for each KCOM Share so transferred.

11. Financing of the Acquisition

Bidco is providing the cash consideration payable to KCOM Shareholders pursuant to the terms of the Acquisition through a combination of equity financing to be provided by USSL and third party debt. The third party debt will be provided under a Senior Facilities Agreement provided by Lloyds Bank plc and National Westminster Bank plc.

Arma Partners and Gleacher Shacklock, as financial advisers to Bidco, are satisfied that sufficient cash resources are available to Bidco to enable it to satisfy in full the cash consideration payable to KCOM Shareholders under the terms of the Acquisition.

Further details of the financing of the Acquisition will be set out in the Scheme Document.

12. Offer-related arrangements

Confidentiality Agreement

USSIM and KCOM entered into a confidentiality agreement on 4 March 2019 (the **Confidentiality Agreement**) pursuant to which USSIM has undertaken to keep confidential information relating to KCOM and not to disclose it to third parties (other than permitted recipients) unless required by applicable law or regulation. These confidentiality obligations shall remain in force notwithstanding the completion or termination of discussions concerning the Acquisition between the parties.

USSIM has also agreed to customary standstill arrangements pursuant to which USSIM has agreed that, without the prior written consent of KCOM, for a period of 12 months from the date of the Confidentiality Agreement, USSIM and its connected persons (including USSL) will not acquire KCOM Shares or any interest in any KCOM Shares. These restrictions fall away immediately following the making of this Announcement.

The Confidentiality Agreement also contains undertakings from USSIM to KCOM and from KCOM to USSIM that, for a period of 12 months from the date of the Confidentiality Agreement, neither

party will solicit, employ or offer to employ officers, managers or senior employees of the other party.

Co-operation Agreement

Bidco and KCOM have entered into the Co-operation Agreement, which records the intention of Bidco and KCOM to implement the Acquisition by way of the Scheme. However, Bidco may with the consent of the Panel implement the Acquisition by way of a Takeover Offer if: (a) KCOM consents; (b) a third party announces a firm intention to make an offer for KCOM; or (c) the KCOM Directors withdraw, adversely qualify or adversely modify their unanimous and unconditional recommendation of the Acquisition.

Pursuant to the Co-operation Agreement, Bidco and KCOM have agreed to co-operate in relation to any clearances and/or approvals as may be required from any relevant regulatory authority in connection with the Acquisition.

The Co-operation Agreement will terminate (a) if agreed in writing between Bidco and KCOM; (b) if any condition to the Acquisition is or becomes incapable of satisfaction by the Long Stop Date (and Bidco serves notice of termination); (c) if a third party announces a firm intention to make an offer which is recommended by the KCOM Directors (and Bidco serves notice of termination); (d) if the KCOM Directors do not recommend, or withdraw, or adversely qualify or adversely modify the recommendation of, the Acquisition (and either party serves notice of termination); or (e) unless the parties otherwise agree, if the Effective Date has not occurred by the Long Stop Date and in certain other circumstances specified in the Co-operation Agreement.

13. Structure of and conditions to the Acquisition

It is intended that the Acquisition will be implemented by means of a Court-approved scheme of arrangement between KCOM and KCOM Scheme Shareholders under Part 26 of the Companies Act.

The purpose of the Scheme is to provide for Bidco to become the holder of the entire issued and to be issued ordinary share capital of KCOM. This is to be achieved by the transfer of the KCOM Shares to Bidco, in consideration for which the KCOM Shareholders who are on the register of members at the Scheme Record Time will receive the Acquisition Price for each KCOM Share they hold.

Conditions to the Acquisition

The Scheme is subject to the Conditions and further terms set out in Appendix 1 and to be set out in the Scheme Document and will only become Effective if, among other things, the following events occur on or before the Long Stop Date or such later date as may be agreed in writing by Bidco and KCOM (with the Panel's consent and as the Court may approve (if such approval(s) are required)):

- (a) the approval of the Scheme by a majority in number of KCOM Scheme Shareholders, representing at least 75 per cent. in value of the KCOM Scheme Shares voted by those KCOM Scheme Shareholders present and voting, either in person or by proxy, at the Court Meeting;
- (b) the General Meeting Resolution being duly passed by KCOM Shareholders representing 75 per cent. or more of votes cast, whether in person or by proxy, at the General Meeting;
- (c) the approval of the Scheme by the Court (with or without modification but subject to any modification being on terms acceptable to KCOM and Bidco);

- (d) the delivery of a copy of the Court Order to the Registrar of Companies; and
- (e) all other Conditions to the Scheme, as set out in Appendix 1, being satisfied or (where applicable) waived.

The Acquisition will lapse if:

- (a) the Court Meeting and the General Meeting are not held by the 22nd day after the expected date of such meetings as to be set out in the Scheme Document in due course (or such later date as may be agreed between Bidco and KCOM and, in the case of the Court Meeting, as the Court may allow);
- (b) the Court Hearing to approve the Scheme is not held by the 22nd day after the expected date of such hearing as to be set out in the Scheme Document (or such later date as may be agreed between Bidco and KCOM and as the Court may allow); or
- (c) the Scheme does not become Effective by the Long Stop Date,

provided however that the deadline for the Scheme to become Effective may be extended by agreement between KCOM and Bidco.

Upon the Scheme becoming Effective, it will be binding on all KCOM Scheme Shareholders, irrespective of whether or not they attended or voted at the Court Meeting or the General Meeting. The cash consideration payable under the Scheme will be despatched to KCOM Scheme Shareholders by Bidco no later than 14 days after the Effective Date.

Upon the Scheme becoming Effective, the non-executive directors of KCOM will resign as KCOM Directors.

Further details of the Scheme, including an indicative timetable for its implementation, will be set out in the Scheme Document. It is expected that the Scheme Document and the Forms of Proxy accompanying the Scheme Document will be published as soon as practicable and, in any event, within 28 days of this Announcement. The Scheme Document and Forms of Proxy will be made available to all KCOM Shareholders at no charge to them.

The Scheme will be governed by English law and will be subject to the jurisdiction of the Court. The Scheme will also be subject to the applicable requirements of the Takeover Code, the Panel, the London Stock Exchange and the FCA.

14. De-listing and re-registration

Prior to the Scheme becoming Effective, KCOM will make an application for the cancellation of the listing of KCOM Shares on the Official List and for the cancellation of trading of the KCOM Shares on the London Stock Exchange's main market for listed securities, in each case to take effect from or shortly after the Effective Date.

On the Effective Date, share certificates in respect of KCOM Shares will cease to be valid and entitlements to KCOM Shares held within the CREST system will be cancelled.

It is also proposed that, following the Effective Date and after its shares are de-listed, KCOM will be re-registered as a private limited company.

15. Dividends

If any dividend or other distribution is authorised, declared, made or paid in respect of KCOM Shares on or after the date of this Announcement, Bidco reserves the right to reduce the Acquisition Price by an amount up to the amount of such dividend or other distribution for each KCOM Share, in which case the eligible KCOM Shareholders will be entitled to receive and retain such dividend or other distribution.

16. Disclosure of interests in KCOM

As at the close of business on the Last Practicable Date, save for the irrevocable undertakings and the letter of intent referred to in paragraph 6 of this Announcement, none of Bidco or any of its directors or, so far as Bidco is aware, any person acting, or deemed to be acting, in concert with Bidco, had:

- (a) an interest in, or right to subscribe for, relevant securities of KCOM;
- (b) any short position in (whether conditional or absolute and whether in the money or otherwise), including any short position under a derivative, any agreement to sell or any delivery obligation or right to require another person to purchase or take delivery of, relevant securities of KCOM;
- (c) procured an irrevocable commitment or letter of intent to accept the terms of the Acquisition in respect of relevant securities of KCOM; or
- (d) borrowed, lent or entered into any financial collateral arrangements or dealing arrangements in respect of any KCOM Shares.

In the interests of secrecy prior to this Announcement, Bidco has not made any enquiries in respect of the matters referred to in this paragraph of certain parties who may be deemed by the Panel to be acting in concert with Bidco for the purposes of the Acquisition. Enquiries of such parties will be made as soon as practicable following the date of this Announcement, and Bidco confirms that further disclosure in accordance with Rule 8.1(a) and Note 2(a)(i) on Rule 8 of the Takeover Code will be made as soon as possible and in any event by no later than 12 noon on 9 May 2019.

17. General

Bidco reserves the right to elect, subject to the consent of the Panel and the terms of the Co-operation Agreement, to implement the Acquisition of the KCOM Shares by way of a Takeover Offer as an alternative to the Scheme. In such event, the Acquisition will be implemented on substantially the same terms, so far as applicable, as those which would apply to the Scheme (subject to appropriate amendments for an acquisition being made by way of a Takeover Offer, including, unless the Panel agrees otherwise, an acceptance condition set at 75 per cent. of the shares to which such Takeover Offer relates or at such lower percentage as Bidco may, in accordance with the provisions of the Co-operation Agreement, decide provided that if it became or was declared unconditional in all respects, the Takeover Offer would result in Bidco holding KCOM Shares carrying greater than 50 per cent. of the voting rights in KCOM).

The Acquisition will be made subject to the Conditions and further terms set out in Appendix 1 and to be set out in the Scheme Document. The bases and sources of certain financial information contained in this Announcement are set out in Appendix 2. Details of the irrevocable undertakings and letter of intent given in relation to the Acquisition are set out in Appendix 3. Certain definitions and terms used in this Announcement are set out in Appendix 4.

Arma Partners, Gleacher Shacklock, Rothschild & Co, Peel Hunt and Investec have each given and not withdrawn their consent to the publication of this Announcement with the inclusion herein of the references to their names in the form and context in which they appear.

18. Documents available on website

Copies of the following documents will, by no later than 12 noon (London time) on the Business Day following the date of this Announcement, be made available on USSL's website at www.uss.co.uk and KCOM's website at www.kcomplc.com until the end of the Offer Period:

- (a) this Announcement;
- (b) the irrevocable undertakings and the letter of intent referred to in paragraph 6 and summarised in Appendix 3;
- (c) the Confidentiality Agreement;
- (d) the Co-operation Agreement; and
- (e) the documents relating to the financing of the Acquisition referred to in paragraph 11 above.

19. Enquiries:

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Ed Bridges
Matt Dixon
Jamie Ricketts

Allen & Overy LLP is retained as legal adviser to USSL and Bidco. Addleshaw Goddard LLP is retained as legal adviser to KCOM.

Further information

This Announcement is for information purposes only and is not intended to, and does not, constitute or form part of any offer or invitation to purchase, otherwise acquire, subscribe for, sell or otherwise dispose of, any securities or the solicitation of any vote or approval in any jurisdiction pursuant to the Acquisition or otherwise. The Acquisition will be made solely through the Scheme Document (and the accompanying Forms of Proxy), which will contain the full terms and conditions of the Acquisition, including details of how to vote in respect of the Acquisition. Any vote or other response to the Acquisition should be made only on the basis of the information in the Scheme Document.

This Announcement does not constitute a prospectus or prospectus equivalent document.

Bidco reserves the right to elect, with the consent of the Panel and subject to the terms of the Co-operation Agreement, to implement the Acquisition by way of a Takeover Offer. In such event, the Takeover Offer will be implemented on substantially the same terms, so far as applicable, as those which would apply to the Scheme, subject to the Takeover Code and to any appropriate amendments to reflect the change in method of implementing the Acquisition.

Important notices relating to financial advisers

Arma Partners LLP (Arma Partners), which is authorised and regulated in the United Kingdom by the FCA, is acting exclusively for USSL and Bidco and for no one else in connection with the Acquisition and/or any other matter set out in this Announcement and will not be responsible to

anyone other than USSL and Bidco for providing the protections afforded to clients of Arma Partners or for providing advice in connection with the Acquisition, the contents of this Announcement or any other matter referred to herein

Gleacher Shacklock LLP (**Gleacher Shacklock**), which is authorised and regulated in the United Kingdom by the FCA, is acting exclusively for USSL and Bidco and no one else in connection with the Acquisition and/or any other matters set out in this Announcement and will not be responsible to anyone other than USSL and Bidco for providing the protections afforded to clients of Gleacher Shacklock or for providing advice in connection with the Acquisition, the contents of this Announcement or any other matter referred to herein.

N.M. Rothschild & Sons Limited (**Rothschild & Co**), which is authorised by the PRA and regulated in the United Kingdom by the FCA and the PRA, is acting exclusively for KCOM and no one else in relation to the Acquisition and/or other matters set out in this Announcement and will not be responsible to anyone other than KCOM for providing the protections afforded to clients of Rothschild & Co or for providing advice in relation to the Acquisition, the contents of this Announcement or any other matter or arrangement referred to herein.

Peel Hunt LLP (**Peel Hunt**), which is authorised and regulated in the United Kingdom by the FCA, is acting for KCOM and no-one else in connection with the Acquisition and/or other matters set out in this Announcement and will not be responsible to anyone other than KCOM for the protections offered to its clients nor for providing advice in relation to the Acquisition or any matters referred to in this Announcement.

Investec Bank plc (**Investec**), which is authorised by the PRA and regulated in the United Kingdom by the FCA and the PRA, is acting exclusively for KCOM and no one else in relation to the Acquisition and/or other matters set out in this Announcement and will not be responsible to anyone other than KCOM for providing the protections afforded to the clients of Investec or for providing advice in relation to the Acquisition, the contents of this Announcement or any other matter or arrangement referred to herein.

Overseas Shareholders

The release, publication or distribution of this Announcement in jurisdictions other than the United Kingdom and the ability of KCOM Shareholders who are not resident in the United Kingdom to participate in the Acquisition may be restricted by laws and/or regulations in those jurisdictions and therefore any persons who are not resident in the United Kingdom or who are subject to the laws of any jurisdiction other than the United Kingdom (including Restricted Jurisdictions) should inform themselves about, and observe, any applicable legal or regulatory requirements. In particular, the ability of persons who are not resident in the United Kingdom or who are subject to the laws of another jurisdiction to vote their KCOM Scheme Shares in respect of the Scheme at the Court Meeting or with respect to the General Meeting Resolution at the General Meeting, or to execute and deliver Forms of Proxy appointing another to vote at the Court Meeting and/or the General Meeting on their behalf, may be affected by the laws of the relevant jurisdictions in which they are located or to which they are subject. Any failure to comply with applicable legal or regulatory requirements of any jurisdiction may constitute a violation of securities laws in that jurisdiction. To the fullest extent permitted by applicable law, the companies and persons involved in the Acquisition disclaim any responsibility or liability for the violation of such restrictions by any person.

Unless otherwise determined by Bidco or required by the Takeover Code, and permitted by applicable law and regulation, the Acquisition will not be made available, directly or indirectly, in, into or from a Restricted Jurisdiction where to do so would violate the laws in that jurisdiction and no person may vote in favour of the Acquisition by use of the mails or any other, means or instrumentality (including, without limitation, facsimile, e-mail or other electronic transmission,

telex or telephone) of interstate or foreign commerce of, or any facility of a national, state or other securities exchange of, or from within, a Restricted Jurisdiction or any other jurisdiction if to do so would constitute a violation of the laws of that jurisdiction.

The Acquisition will be subject to the applicable requirements of English law, the Takeover Code, the Panel, the London Stock Exchange and the FCA.

Copies of this Announcement and any formal documentation relating to the Acquisition are not being, and must not be, directly or indirectly, mailed or otherwise forwarded, distributed or sent in or into or from any Restricted Jurisdiction or any jurisdiction where to do so would constitute a violation of the laws of such jurisdiction and persons receiving such documents (including custodians, nominees and trustees) must not mail or otherwise forward, distribute or send them in or into or from any Restricted Jurisdiction. Doing so may render invalid any related purported vote in respect of acceptance of the Acquisition.

If the Acquisition is implemented by way of a Takeover Offer (unless otherwise permitted by applicable law and regulation), the Takeover Offer may not be made, directly or indirectly, in or into or by use of the mails or any other means or instrumentality (including, without limitation, facsimile, e-mail or other electronic transmission, telex or telephone) of interstate or foreign commerce of, or any facility of a national, state or other securities exchange of, any Restricted Jurisdiction and the Takeover Offer will not be capable of acceptance by any such use, means, instrumentality or facilities or from within any Restricted Jurisdiction.

Further details in relation to Overseas Shareholders will be contained in the Scheme Document.

Additional information for US investors in KCOM

KCOM Shareholders in the United States should note that the Acquisition relates to the securities of a UK company and is proposed to be implemented pursuant to a scheme of arrangement provided for under English company law. A transaction implemented by means of a scheme of arrangement is not subject to the tender offer rules or the proxy solicitation rules under the US Exchange Act. Accordingly, the Acquisition will be subject to UK procedural and disclosure requirements and practices applicable to a scheme of arrangement involving a target company in England, which are different from the disclosure requirements of the US tender offer and proxy solicitation rules. The financial information included in this Announcement and other documentation relating to the Acquisition has been or will have been prepared in accordance with International Financial Reporting Standards and thus may not be comparable to financial information of US companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the US. If Bidco exercises its right, in the circumstances provided for in this Announcement, to implement the Acquisition by way of a Takeover Offer, such Takeover Offer will only be made in the United States if an exemption from the registration requirements of the US Securities Act is available.

None of the securities referred to in this Announcement have been approved or disapproved by the SEC, any state securities commission in the United States or any other US regulatory authority, nor have such authorities passed upon or determined the adequacy or accuracy of the information contained in this document. Any representation to the contrary is a criminal offence in the United States.

It may be difficult for US holders of KCOM Shares to enforce their rights and claims arising out of the US federal securities laws, since Bidco and KCOM are located in countries other than the United States, and some or all of their officers and directors may be residents of countries other than the United States. US holders of KCOM Shares may not be able to sue a non-US company or its officers or directors in a non-US court for violations of US securities laws. Further, it may be

difficult to compel a non-US company and its affiliates to subject themselves to a US court's judgement.

Forward-looking statements

This Announcement contains certain forward-looking statements with respect to Bidco and KCOM. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as, without limitation, "anticipate", "target", "expect", "estimate", "intend", "plan", "goal", "believe", "aim", "will", "may", "hope", "continue", "would", "could" or "should" or other words of similar meaning or the negative thereof. Forward-looking statements include, but are not limited to, statements relating to the following: (a) future capital expenditures, expenses, revenues, economic performance, financial conditions, dividend policy, losses and future prospects, (b) business and management strategies and the expansion and growth of the operations of Bidco or KCOM, and (c) the effects of government regulation on the business of Bidco or KCOM. There are many factors which could cause actual results to differ materially from those expressed or implied in forward looking statements. Among such factors are changes in the global, political, economic, business, competitive, market and regulatory forces, future exchange and interest rates, changes in tax rates and future business combinations or disposals. Such statements are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations.

These forward-looking statements are based on numerous assumptions regarding the present and future business strategies of such persons and the environment in which each will operate in the future. Except as expressly provided in this document, they have not been reviewed by the auditors of Bidco or KCOM. By their nature, these forward-looking statements involve known and unknown risks, uncertainties because they relate to events and depend on circumstances that will occur in the future. The factors described in the context of such forward-looking statements in this Announcement may cause the actual results, performance or achievements of any such person, or industry results and developments, to be materially different from any results, performance or achievements expressed or implied by such forward-looking statements. No assurance can be given that such expectations will prove to have been correct and persons reading this Announcement are therefore cautioned not to place undue reliance on these forward-looking statements which speak only as at the date of this Announcement. Neither Bidco nor KCOM, nor their respective members, directors, officers or employees, advisers or any person acting on their behalf, provides any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this announcement will actually occur.

None of Bidco, KCOM or their respective members, directors, officers, employees, advisers and any person acting on behalf of one or more of them undertakes any intention or obligation to update publicly or revise forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required. All subsequent oral or written forward-looking statements attributable to Bidco or KCOM or any persons acting on their behalf are expressly qualified in their entirety by the cautionary statement above.

Neither Bidco nor the KCOM Group, nor any of their respective associates, directors, officers, employees or advisers, provides any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this Announcement will actually occur.

No profit forecasts or estimates

Nothing in this Announcement is intended, or is to be construed, as a profit forecast or to be interpreted to mean that earnings for each KCOM Share, for the current or future financial years, will necessarily match or exceed the historical published earnings for each KCOM Share.

Disclosure requirements of the Takeover Code

Under Rule 8.3(a) of the Takeover Code, any person who is interested in one per cent. or more of any class of relevant securities of an offeree company or of any securities exchange offeror (being any offeror other than an offeror in respect of which it has been announced that its offer is, or is likely to be, solely in cash) must make an Opening Position Disclosure following the commencement of the Offer Period and, if later, following the Announcement in which any securities exchange offeror is first identified. An Opening Position Disclosure must contain details of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s). An Opening Position Disclosure by a person to whom Rule 8.3(a) applies must be made by no later than 3.30 pm on the 10th Business Day following the commencement of the Offer Period and, if appropriate, by no later than 3.30 pm on the 10th Business Day following the Announcement in which any securities exchange offeror is first identified. Relevant persons who deal in the relevant securities of the offeree company or of a securities exchange offeror prior to the deadline for making an Opening Position Disclosure must instead make a Dealing Disclosure.

Under Rule 8.3(b) of the Takeover Code, any person who is, or becomes, interested in one per cent. or more of any class of relevant securities of the offeree company or of any securities exchange offeror must make a Dealing Disclosure if the person deals in any relevant securities of the offeree company or of any securities exchange offeror. A Dealing Disclosure must contain details of the dealing concerned and of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s), save to the extent that these details have previously been disclosed under Rule 8. A Dealing Disclosure by a person to whom Rule 8.3(b) applies must be made by no later than 3.30 pm on the Business Day following the date of the relevant dealing.

If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire or control an interest in relevant securities of an offeree company or a securities exchange offeror, they will be deemed to be a single person for the purpose of Rule 8.3.

Opening Position Disclosures must also be made by the offeree company and by any offeror and Dealing Disclosures must also be made by the offeree company, by any offeror and by any persons acting in concert with any of them (see Rules 8.1, 8.2 and 8.4).

Details of the offeree and offeror companies in respect of whose relevant securities Opening Position Disclosures and Dealing Disclosures must be made can be found in the Disclosure Table on the Panel's website at www.thetakeoverpanel.org.uk, including details of the number of relevant securities in issue, when the Offer Period commenced and when any offeror was first identified. You should contact the Panel's Market Surveillance Unit on +44 (0)20 7638 0129 if you are in any doubt as to whether you are required to make an Opening Position Disclosure or a Dealing Disclosure.

Publication on a website

This Announcement and the documents required to be published pursuant to Rule 26 of the Takeover Code will be available, subject to certain restrictions relating to persons resident in Restricted Jurisdictions, on USSL's website at www.uss.co.uk and on KCOM's website at www.kcomplc.com promptly and in any event by no later than 12 noon on 25 April 2019.

Neither the content of the websites referred to in this Announcement nor the content of any website accessible from hyperlinks is incorporated into, or forms part of, this Announcement.

Request for hard copies

KCOM Shareholders may, subject to applicable securities laws, request a hard copy of this Announcement (and any information incorporated into it by reference to another source) by contacting Link Asset Services on 0371 664 0321 or by submitting a request in writing to Link Asset Services, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TH, with an address to which the hard copy may be sent. Calls are charged at the standard geographic rate and will vary by provider. Calls from outside of the United Kingdom will be charged at the applicable international rate. The helpline is open between 9.00 a.m. and 5.30 p.m., Monday to Friday, excluding public holidays in England and Wales. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. The helpline cannot provide advice on the merits of the Acquisition or give any financial, legal or tax advice. KCOM Shareholders may, subject to applicable securities laws, also request that all future documents, announcements and information to be sent in relation to the Acquisition should be in hard copy form.

Information relating to KCOM Shareholders

Please be aware that addresses, electronic addresses and certain information provided by KCOM Shareholders, persons with information rights and other relevant persons for the receipt of communications from KCOM may be provided to Bidco during the Offer Period as required under section 4 of Appendix 4 to the Takeover Code.

Rounding

Certain figures included in this Announcement have been subjected to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

Rule 2.9 of the Takeover Code

For the purposes of Rule 2.9 of the Takeover Code, KCOM confirms that, as at 23 April 2019, it had 516,603,910 ordinary shares of 10 pence each in issue and admitted to trading on the London Stock Exchange. The International Securities Identification Number for KCOM Shares is GB0007448250.

General

If you are in any doubt about the contents of this Announcement or the action you should take, you are recommended to seek your own independent financial advice immediately from your stockbroker, bank manager, solicitor, accountant or independent financial adviser duly authorised under the Financial Services and Markets Act 2000 (as amended) if you are resident in the United Kingdom or, if not, from another appropriately authorised independent financial adviser.

Time

All times shown in this Announcement are London times, unless otherwise stated.

APPENDIX 1

CONDITIONS AND FURTHER TERMS OF THE SCHEME AND THE ACQUISITION

The Acquisition will be subject to the Conditions and terms set out in this Appendix and in the Scheme Document.

PART 1

CONDITIONS TO THE SCHEME AND ACQUISITION

1. The Acquisition will be conditional upon the Scheme becoming unconditional and Effective, subject to the Takeover Code, by no later than 11.59 pm on the Long Stop Date.

Scheme approval

2. The Scheme will be conditional upon:
 - (a) the approval of the Scheme at the Court Meeting (or at any adjournment of any such meeting) by a majority in number representing not less than 75 per cent. in value of the KCOM Scheme Shares held by KCOM Scheme Shareholders (or the relevant class or classes thereof, if applicable) present, entitled to vote and voting, either in person or by proxy and such Court Meeting (or any adjournment of any such meeting) being held on or before the 22nd day after the expected date of the Court Meeting to be set out in the Scheme Document in due course (or such later date, if any, as Bidco and KCOM may agree and the Court may allow); and
 - (b) all resolutions necessary to approve and implement the Scheme and to approve certain related matters being duly passed by the requisite majority or majorities at the General Meeting (or at any adjournment of that meeting) and the General Meeting (or any adjournment of that meeting) being held on or before the 22nd day after the expected date of the General Meeting to be set out in the Scheme Document in due course (or such later date, if any, as Bidco and KCOM may agree and the Court may allow); and
 - (c) the sanction of the Scheme by the Court with or without modification (but subject to any such modification being acceptable to Bidco and KCOM) and the Court Hearing being held on or before the 22nd day after the expected date of the Court Hearing to be set out in the Scheme Document in due course (or such later date, if any, as Bidco and KCOM may agree and the Court may allow); and
 - (d) the delivery of an office copy of the Court Order to the Registrar of Companies.
3. In addition, Bidco and KCOM have agreed that, subject to the requirements of the Takeover Code, the Acquisition will be conditional upon the following Conditions and, accordingly, the necessary actions to make the Scheme Effective will not be taken unless the following Conditions (as amended, if appropriate) have been satisfied or, where relevant, waived:

FCA approvals

- (a) In respect of each notice under section 178 of FSMA which USSL or any other person in the USSL Group who has decided to acquire control over any member of the KCOM Group which is a UK authorised person (as such term is defined in section 191G of FSMA) is under a duty to give in connection with the proposed implementation of the Acquisition:

- (i) the FCA having given notice in writing pursuant to section 189(4)(a) of FSMA that it has determined unconditionally to approve each such acquisition pursuant to section 185 of FSMA;
- (ii) in relation to such acquisition, the FCA having given notice in writing pursuant to section 189(7) of FSMA subject to condition(s) specified in the decision notice and such condition(s) being satisfactory to the section 178 notice-giver, acting reasonably; or
- (iii) the FCA being treated, under section 189(6) of FSMA, as having approved each such acquisition,

where for the purposes of this Condition 3(a), "control" shall be construed in accordance with the provisions of Part XII of FSMA (read, as appropriate, with the FSMA (Controllers) (Exemption) Order 2009);

Third Party clearances

- (b) no relevant government or governmental, quasi-governmental, supranational, statutory, regulatory, environmental or investigative body, court, trade agency, association, institution, any entity owned or controlled by any relevant government or state, or any other similar body or person whatsoever in any jurisdiction (each a **Third Party**) having given written notice of a decision to take, institute, implement or threaten any action, proceeding, suit, investigation, enquiry or reference, or having required any action to be taken or otherwise having done anything or having enacted, made or proposed any statute, regulation, decision, order or change to published practice, or having taken any other steps (in each case, not having withdrawn the same) (in each case which would be material in the context of the Wider Bidco Group or Wider KCOM Group, as the case may be, taken as a whole) and there not continuing to be outstanding any statute, regulation, decision or order which would or might reasonably be expected to:
 - (i) make the Acquisition, its implementation or the acquisition or proposed acquisition of any shares or other securities in, or control or management of, any member of the Wider KCOM Group by any member of the Wider Bidco Group void, illegal and/or unenforceable under the laws of any jurisdiction, or otherwise directly or indirectly prevent, prohibit, or restrain, restrict, impede, materially challenge, delay or otherwise interfere with the implementation of, or impose additional material conditions or material obligations with respect thereto or otherwise challenge or interfere therewith;
 - (ii) impose any material limitation on, or result in a material delay in, the ability of any member of the Wider Bidco Group directly or indirectly to acquire or hold or to exercise effectively, directly or indirectly, all or any rights of ownership in respect of shares or loans or other securities convertible into shares or any other securities (or the equivalent) in KCOM (or any member of the Wider KCOM Group) or to exercise management control over, any member of the Wider KCOM Group to an extent which is material in the context of the Wider KCOM Group taken as a whole;
 - (iii) require, prevent or delay the divestiture or alter the terms envisaged for any proposed divestiture by any member of the Wider KCOM Group of all or any part of their respective businesses, assets or property or impose any limitation on the ability of all or any of them to conduct their respective businesses (or any part thereof) or to own, control or manage any of their respective assets or properties or any part thereof which, in any such case, is material in the context of the Wider KCOM Group taken as a whole;
 - (iv) other than pursuant to sections 974 to 991 of the Companies Act, require any member of the Wider Bidco Group to acquire or offer to acquire any shares, other securities (or the

equivalent) or interest in any member of the Wider KCOM Group owned by any third party (other than in the implementation of the Acquisition);

- (v) result in any member of the Wider KCOM Group ceasing to be able to carry on business under any name under which it presently does so (in each case to an extent which is material in the context of the Wider KCOM Group taken as a whole;
- (vi) impose any material limitation on, or result in any delay of, the ability of any member of the Wider Bidco Group or any member of the Wider KCOM Group to integrate or co-ordinate all or any part of their respective businesses with all or any part of the business of any other member of the Wider Bidco Group and/or the Wider KCOM Group in a manner which is material in the context of the Wider Bidco Group and/or the Wider KCOM Group, in each case taken as a whole; or
- (vii) otherwise adversely affect the business, assets, value, profits, prospects or operational performance of any member of the Wider KCOM Group to an extent which is material in the context of the Wider KCOM Group taken as a whole,

and all applicable waiting or other time periods (including any extensions thereof) during which a Third Party could take, institute, implement or threaten any such action, proceeding, suit, investigation, enquiry or reference or take any other step under the laws of any jurisdiction in respect of the Acquisition or proposed acquisition of any KCOM Shares having expired, lapsed or been terminated;

- (c) other than as contemplated by Condition 3(a) above, all notifications, filings or applications which are necessary under applicable legislation or regulation of any relevant jurisdiction having been made in connection with the Acquisition and all necessary waiting and other time periods (including any extensions thereof) under any applicable legislation or regulation of any jurisdiction having expired, lapsed or been terminated (as appropriate) and all statutory and regulatory obligations in any jurisdiction having been complied with in respect of the Scheme and the Acquisition; and
- (d) all Authorisations which are necessary in any jurisdiction for or in respect of the Acquisition or the proposed acquisition of any shares or other securities in, or control of, KCOM by any member of the Wider Bidco Group having been obtained in terms and in a form reasonably satisfactory to Bidco from all appropriate Third Parties or (without prejudice to the generality of the foregoing) from any person or bodies with whom any member of the Wider KCOM Group has entered into contractual arrangements and all such Authorisations which are necessary for any member of the Wider KCOM Group to carry on its business in any jurisdiction having been obtained in each case where the consequence of a failure to make such notification or filing or to wait for the expiry, lapse or termination of any such waiting or other time period or to comply with such obligation or obtain such Authorisation would be unlawful in any relevant jurisdiction or have a material adverse effect on the Wider KCOM Group, any member of the Bidco Group or the ability of Bidco to implement the Scheme and all such Authorisations remaining in full force and effect at the time at which the Scheme becomes otherwise unconditional and there being no notice or intimation of an intention to revoke, suspend, restrict, modify or not to renew such Authorisations.

Confirmation of absence of adverse circumstances

- (e) Except as Disclosed, there being no provision of any arrangement, agreement, licence, permit, franchise, lease or other instrument to which any member of the Wider KCOM Group is a party or by or to which any such member or any of its assets is or may be bound, entitled or be subject or any event or circumstance which, in each case as a consequence of the Acquisition or the proposed acquisition by any member of the Wider Bidco Group of any shares or other securities in KCOM or because of a change in the control or management of any member of the Wider KCOM Group or

otherwise, would or might reasonably be expected to result in (in each case to an extent which is, or would be, material in the context of the Wider KCOM Group as a whole, or in the context of the Scheme):

- (i) any monies borrowed by, or any other indebtedness or liabilities (including, without limitation, guarantees, letters of credit and hedging contracts), whether actual or contingent, of, or any grant available to, any member of the Wider KCOM Group being or becoming repayable, or capable of being declared repayable immediately or prior to its or their stated maturity date or repayment date, or the ability of any such member to borrow monies or incur any indebtedness being withdrawn or inhibited or being capable of becoming or being withdrawn or inhibited;
- (ii) any such arrangement, agreement, licence, permit, lease or instrument, or the rights, liabilities, obligations or interests of any member of the Wider KCOM Group thereunder being or becoming capable of being terminated or adversely modified or affected or any onerous obligation or liability arising or any adverse action being taken or arising thereunder;
- (iii) any such member of the Wider KCOM Group ceasing to be able to carry on business under any name under which it presently does so;
- (iv) any assets or interests of, or any asset the use of which is enjoyed by, any member of the Wider KCOM Group being or falling to be disposed of or charged or ceasing to be available to any member of the Wider KCOM Group or any right arising under which any such asset or interest could be required to be disposed of or charged or could cease to be available to any member of the Wider KCOM Group otherwise than in the ordinary course of business;
- (v) the creation or enforcement of any mortgage, charge or other security interest over the whole or any part of the business, property or assets of any member of the Wider KCOM Group or any such mortgage, charge or other security interest (whenever created, arising or having arisen), becoming enforceable;
- (vi) business, assets, value, financial or trading position, profits, prospects or operational performance of any member of the Wider KCOM Group being materially prejudiced or adversely affected;
- (vii) the creation or acceleration of any material liability (actual or contingent) by any member of the Wider KCOM Group, other than trade creditors or other liabilities incurred in the ordinary course of business; or
- (viii) any liability of any member of the Wider KCOM Group to make any severance, termination, bonus or other payment to any of its directors or other officers,

and no event having occurred which, under any provision of any agreement, arrangement, licence, permit or other instrument to which any member of the Wider KCOM Group is a party or by or to which any such member or any of its assets may be bound, entitled or subject, could result in any of the events or circumstances as are referred to in sub-paragraphs (i) to (viii) of this Condition, in each case to an extent which is material in the context of the Wider KCOM Group taken as a whole.

No material transactions, claims or changes in the conduct of the business of the KCOM Group

- (f) Except as Disclosed, no member of the Wider KCOM Group having since 30 September 2018:
- (i) save as between KCOM and wholly-owned subsidiaries of KCOM or for KCOM Shares issued pursuant to the exercise of options or vesting of awards granted in the ordinary course under, or any other issue of KCOM Shares in the ordinary course pursuant to, the KCOM Share Schemes, issued or agreed to be issued or authorised or proposed or announced its intention to authorise or propose the issue of additional shares of any class, or securities or securities convertible into, or exchangeable for, or rights, warrants or options to subscribe for or acquire, any such shares or convertible securities;
 - (ii) other than to another member of the KCOM Group and the interim dividend of £0.01 for each KCOM Share paid on 1 February 2019, recommended, declared, paid or made or proposed to recommend, declare, pay or make any bonus issue, dividend or other distribution (whether payable in cash or otherwise);
 - (iii) save for transactions between KCOM and its wholly-owned subsidiaries, or between its wholly-owned subsidiaries or transactions in the ordinary course of business, merged or demerged with any body corporate or acquired or disposed of any body corporate, partnership or business or acquired or disposed of, or transferred, mortgaged or charged or created any security interest over, any assets or any right, title or interest in any asset (including shares and trade investments) or authorised, proposed or announced any intention to do so, in each case, other than in the ordinary course of business (in each case to an extent which is material in the context of the Wider KCOM Group taken as a whole);
 - (iv) made, authorised, proposed or announced an intention to propose any change in its loan capital in each case, to the extent which is material in the context of the Wider KCOM Group taken as a whole;
 - (v) issued, authorised or proposed or announced an intention to authorise or propose the issue of, or made any change in or to the terms of, any debentures or, save in the ordinary course of business, incurred or increased any indebtedness or become subject to any contingent liability which in any case is material in the context of the Wider KCOM Group as a whole;
 - (vi) entered into, varied, authorised or proposed entry into or variation of, or announced its intention to enter into or vary, any contract, transaction, arrangement or commitment (whether in respect of capital expenditure or otherwise) which is outside the ordinary course of business or is of a long-term, unusual or onerous nature, or which involves or could reasonably be expected to involve an obligation of a nature or magnitude and which, in any such case, is material in the context of the Wider KCOM Group or in the context of the Acquisition, or which is or is reasonably likely to be restrictive on the business of any member of the Wider KCOM Group taken as a whole;
 - (vii) disposed of intellectual property rights of any member of the Wider KCOM Group which is material in the context of the Wider KCOM Group taken as a whole or which is other than in the ordinary course of business;
 - (viii) entered into, varied, authorised or proposed entry into or variation of, or announced its intention to enter into or vary the terms of or made any offer (which remains open for acceptance) to enter into or vary the terms of, any contract, commitment, arrangement or any service agreement with any director or senior executive of the Wider KCOM Group;

- (ix) proposed, agreed to provide or modified to a material extent the terms of the KCOM Share Schemes or any share option scheme, incentive scheme, or other benefit relating to the employment or termination of employment, of any employee of the Wider KCOM Group;
- (x) procured the trustees of any pension scheme or other retirement or death benefit arrangement established for the directors, former directors, employees or former employees of any entity in the Wider KCOM Group or their dependants (a **Relevant Pension Plan**), or any such trustees having taken any action since 30 September 2018, to:
 - (A) make or agree to any material change to: (a) the terms of the trust deeds, rules, policy or other governing documents constituting any Relevant Pension Plan; (b) the basis on which benefits accrue, pensions which are payable or the persons entitled to accrue or be paid benefits, under any Relevant Pension Plan; (c) the basis on which the liabilities of any Relevant Pension Plan are funded or valued; or (d) the basis or rate of employer contribution to a Relevant Pension Plan, in each case other than as required by applicable law;
 - (B) carry out any act: (a) which would or could reasonably be expected to lead to the commencement of the winding-up of any Relevant Pension Plan; (b) which would or is reasonably likely to create a material debt owed by an employer to any Relevant Pension Plan; (c) which would or might accelerate any obligation on any employer to fund or pay additional contributions to any Relevant Pension Plan, in each case other than as required by applicable law;
- (xi) entered into, implemented or effected, or authorised, proposed or announced its intention to implement or effect, any joint venture, asset or profit sharing arrangement, partnership, composition, assignment, reconstruction, amalgamation, commitment, scheme or other transaction or arrangement other than the Scheme;
- (xii) purchased, redeemed or repaid or announced any proposal to purchase, redeem or repay any of its own shares or other securities or reduced or, save in respect of the matters mentioned in sub-paragraph (i) above, made any other change to any part of its share capital;
- (xiii) waived, compromised or settled any claim (whether actual or threatened) otherwise than in the ordinary course of business and which is material in the context of the Wider KCOM Group taken as a whole;
- (xiv) save as is envisaged by the Acquisition, made any material alteration to its articles of association or other constitutional documents;
- (xv) (other than in respect of a member of the Wider KCOM Group which is dormant and was solvent at the relevant time) taken or proposed any steps, corporate action or had any legal proceedings instituted or threatened against it in relation to the suspension of payments, a moratorium of any indebtedness, its winding-up (voluntary or otherwise), dissolution, reorganisation or for the appointment of any administrator, receiver, manager, administrative receiver, trustee or similar officer of all or any of its assets or revenues or any analogous proceedings in any jurisdiction or appointed any analogous person in any jurisdiction or had any such person appointed (in each case to an extent which is material in the context of the Wider KCOM Group when taken as a whole);
- (xvi) been unable, or admitted in writing that it is unable, to pay its debts or commenced negotiations with one or more of its creditors with a view to rescheduling or restructuring any of its indebtedness, or having stopped or suspended (or threatened to stop or suspend) payment of its debts generally or ceased or threatened to cease carrying on all or a

substantial part of its business (in each case to an extent which is material to the Wider KCOM Group when taken as a whole);

- (xvii) entered into any material contract, commitment, agreement or arrangement otherwise than in the ordinary course of business or passed any resolution or made any offer (which remains open for acceptance) with respect to or announced an intention to, or to propose to, effect any of the transactions, matters or events referred to in this Condition and which is material in the context of the Wider KCOM Group taken as a whole or in the context of the Acquisition;
- (xviii) terminated or varied the terms of any agreement or arrangement between any member of the Wider KCOM Group and any other person in a manner which would or would reasonably likely to be expected to have a material adverse effect on the financial position of the Wider KCOM Group taken as a whole; or
- (xix) other than with the consent of Bidco, having taken (or agreed or proposed to take) any action which requires, or would require, the consent of the Panel or the approval of KCOM Shareholders at the General Meeting in accordance with, or as contemplated by, Rule 21.1 of the Takeover Code.

No material adverse change

- (g) Except as Disclosed, since 30 September 2018:
 - (i) there having been no adverse change or deterioration in the business, assets, value, financial or trading position, profits, prospects or operational performance of any member of the Wider KCOM Group which, in any such case, is material in the context of the Wider KCOM Group taken a whole or in the context of the Acquisition and no circumstances have arisen which would or might reasonably be expected to result in any such adverse change;
 - (ii) no material litigation, arbitration proceedings, prosecution or other material legal proceedings including, without limitation, with regard to intellectual property rights used by the Wider KCOM Group to which any member of the Wider KCOM Group is or may become a party (whether as claimant or defendant or otherwise) and no enquiry, review, investigation or enforcement proceedings by, or complaint or reference to, any Third Party against or in respect of any member of the Wider KCOM Group having been threatened, announced or instituted by or against, or remaining outstanding in respect of, any member of the Wider KCOM Group in each case which is material in the context of the Wider KCOM Group taken as a whole;
 - (iii) no contingent or other liability having arisen, increased or become apparent which would reasonably be likely adversely to affect the business, assets, financial or trading position, profits, prospects or operational performance of any member of the Wider KCOM Group to an extent which is material to the Wider KCOM Group taken as a whole or in the context of the Acquisition; and
 - (iv) no steps having been taken and no omissions having been made which are reasonably likely to result in the withdrawal, cancellation, termination or modification of any licence held by any member of the Wider KCOM Group, which is necessary for the proper carrying on of its business and the withdrawal, cancellation, termination or modification of which is material and reasonably likely to have an adverse effect on the Wider KCOM Group taken as a whole or in the context of the Acquisition.

No discovery of certain matters

- (h) Except as Disclosed, since 30 September 2018 Bidco not having discovered:
- (i) that any financial, business or other information concerning the Wider KCOM Group publicly announced or disclosed to any member of the Wider Bidco Group at any time by or on behalf of any member of the Wider KCOM Group or to any of their advisers is materially misleading, contains a material misrepresentation of fact or omits to state a fact necessary to make that information not materially misleading; or
 - (ii) that any member of the Wider KCOM Group is subject to any material liability, contingent or otherwise, other than in the ordinary course of business; or
 - (iii) there is any information which affects the import of any information publicly announced prior to the date of this Announcement by or on behalf of any member of the Wider KCOM Group and which is material in the context of the Wider KCOM Group taken as a whole.

Intellectual Property

- (i) Save as Disclosed, no circumstance having arisen or ceasing to exist, or no event having occurred, in each case, in relation to any intellectual property owned or used by any member of the Wider KCOM Group which would have a material adverse effect on the Wider KCOM Group taken as a whole.

Anti-corruption and sanctions

- (j) Save as Disclosed, Bidco not having discovered that:
- (i) any past or present member, director, officer or employee of the Wider KCOM Group or any person that performs or has performed services for or on behalf of any such company is or has at any time engaged in any activity, practice or conduct (or omitted to take any action) in connection with the performance of such services which would constitute an offence under the UK Bribery Act 2010, the US Foreign Corrupt Practices Act of 1977, Part 3 of the Criminal Finances Act 2017 (each as amended) or any other applicable anti-corruption or anti-tax-evasion legislation; or
 - (ii) any past or present member, director, officer or employee of the Wider KCOM Group or any person who has performed services for and on behalf of any such company has engaged in any activity or business with, or made any investments in, or made any funds or assets available to or received any funds or assets from: (i) any government, entity or individual in respect of which US or EU persons, or persons operating in those territories, are prohibited from engaging in activities or doing business, or from receiving or making available funds or economic resources, by US or EU laws or regulations, including the economic sanctions administered by the HM Treasury & Customs, the United Nations or the EU (or any of their respective member states) or the United States Office of Foreign Assets Control; or (ii) any government, entity or individual targeted by any of the economic sanctions of the United Nations, the United States, the EU or any of its member states, in each case to an extent which is material in the context of the Wider KCOM Group taken as a whole; or
 - (iii) any member of the KCOM Group has been engaged in any transaction which would cause Bidco to be in breach of any applicable law or regulation upon its acquisition of KCOM, including the economic sanctions of the United States Office of Foreign Assets Control, or HM Treasury & Customs, or any government, entity or individual targeted by any of the

economic sanctions of the United Nations, the United States, the EU or any of its member states.

No criminal property

- (k) Save as Disclosed, Bidco not having discovered that any material asset of any member of the Wider KCOM Group constitutes criminal property as defined by section 340(3) of the Proceeds of Crime Act 2002 (but disregarding paragraph (b) of that definition).

PART 2

WAIVER AND INVOCATION OF THE CONDITIONS

1. The Scheme will not become Effective unless the Conditions have been fulfilled or (if capable of waiver) waived or, where appropriate, have been determined by Bidco and KCOM to be or remain to be satisfied by no later than the Long Stop Date.
2. Subject to the requirements of the Panel in accordance with the Takeover Code, Bidco reserves the right in its sole discretion (subject to the requirements of the Takeover Code and the Panel) to waive (if capable of waiver) in whole or in part, all or any of Conditions 3(b) to 3(k).
3. Under Rule 13.5(a) of the Takeover Code, Bidco may not invoke a Condition to the Acquisition so as to cause the Acquisition not to proceed, to lapse or to be withdrawn unless the circumstances which give rise to the right to invoke the Condition are of material significance to Bidco in the context of the Acquisition. Conditions 2(a), 2(b), 2(c) and 2(d) and, if applicable, any acceptance condition if the Acquisition is implemented by means of a Takeover Offer, are not subject to this provision of the Takeover Code.

PART 3

IMPLEMENTATION BY WAY OF TAKEOVER OFFER

Bidco reserves the right to elect, subject to the consent of the Panel and the terms of the Co-operation Agreement, to implement the Acquisition by way of a Takeover Offer. In such event, the Takeover Offer will be implemented on the same terms and conditions as those which would apply to the Scheme subject to appropriate amendments, including (without limitation) an acceptance condition set at 75 per cent. (or such other percentage (being more than 50 per cent.) as Bidco may decide) in nominal value of the shares to which such Takeover Offer relates and of the voting rights attaching to those shares.

PART 4

CERTAIN FURTHER TERMS OF THE ACQUISITION

1. The availability of the Acquisition to persons not resident in the UK may be affected by the laws of the relevant jurisdictions. Persons who are not resident in the UK should inform themselves about, and observe, any applicable requirements. Further information in relation to Overseas Shareholders will be contained in the Scheme Document.
2. If Bidco is required by the Panel to make an offer for KCOM Shares under the provisions of Rule 9 of the Takeover Code, Bidco may make such alterations to any of the above Conditions as are necessary to comply with the provisions of that Rule.
3. The KCOM Shares will be acquired by Bidco fully paid and free from all liens, charges, equities, encumbrances, options, rights of pre-emption and any other third party rights and interests of any nature whatsoever and together with all rights attaching to them as at the date of this Announcement or subsequently attaching or accruing to them including, without limitation, voting rights and the right to receive and retain, in full, all dividends and other distributions (if any), declared, made or paid, or any other return of capital (whether by way of reduction of share capital or share premium account or otherwise) made on or after the date of this Announcement and before the Effective Date.
4. If any dividend or other distribution is authorised, declared, made or paid in respect of the KCOM Shares on or after the date of this Announcement and prior to the Effective Date, Bidco reserves the

right to reduce the Acquisition Price by an amount up to the amount of such dividend or other distribution for each KCOM Share. If Bidco exercises this right or makes such reduction in respect of a dividend or other distribution that has not been paid, KCOM Shareholders will be entitled to receive and retain that dividend or other distribution.

5. The Acquisition will lapse and the Scheme will not become Effective if the Acquisition or any matter arising from or relating to it becomes subject to a CMA Phase 2 Reference before 11.59 p.m. on the date immediately preceding the date of the Court Meeting.
6. The Scheme will be governed by the laws of England and Wales and be subject to the jurisdiction of the Court and to the Conditions and further terms set out in this Announcement and to be set out in the Scheme Document. The Acquisition will comply with the applicable requirements of the UK Listing Authority, the London Stock Exchange and the Court, as well as with the Takeover Code.
7. Each of the Conditions shall be regarded as a separate Condition and shall not be limited by reference to any other Condition.

APPENDIX 2

SOURCES OF INFORMATION AND BASES OF CALCULATION

- (a) As at close of business on the Last Practicable Date, KCOM had 516,603,910 ordinary shares in issue.
- (b) The value placed by the Acquisition on the existing issued and to be issued ordinary share capital of KCOM has been calculated on the basis of:
 - (i) 516,603,910 KCOM Shares in issue on the Last Practicable Date; and
 - (ii) 3,412,903 KCOM Shares which may be issued on or after the date of this Announcement on the exercise of options or vesting of awards under the KCOM LTIP (taking into account the exercise by KCOM's remuneration committee of applicable discretions).
- (c) Unless otherwise stated, all prices quoted for KCOM Shares are Closing Prices.
- (d) Volume-weighted average prices have been derived from Bloomberg and have been rounded to the nearest two decimal places.

APPENDIX 3

IRREVOCABLE UNDERTAKINGS AND LETTER OF INTENT

1. KCOM Directors

The following KCOM Directors have given irrevocable undertakings in respect of their own beneficial holdings of KCOM Shares (or those KCOM Shares over which they have control) to vote (or procure a vote) in favour of the resolutions relating to the Acquisition at the KCOM Meetings or, in the event that the Acquisition is implemented by way of a Takeover Offer, to accept (or procure the acceptance of) such Takeover Offer:

Name	Total number of KCOM Shares	Percentage of existing issued share capital
Graham Sutherland	250,000	0.048
Anna Bielby	17,016	0.003
Peter Smith	50,000	0.010

The obligations of the KCOM Directors under the irrevocable undertakings given by them shall lapse and cease to have effect on and from the earlier of the following occurrences:

- (a) Bidco announces, with the consent of the Panel, that it does not intend to proceed with the Acquisition;
- (b) the Scheme Document has not been posted within 28 days of this Announcement (or within such longer period as Bidco and KCOM may, with the consent of the Panel, agree);
- (c) the Acquisition is withdrawn, lapses or otherwise terminates in accordance with its terms; or
- (d) the Scheme has not become Effective before the Long Stop Date.

These irrevocable undertakings remain binding in the event a competing offer is made for KCOM.

2. Other KCOM Shareholders

Irrevocable undertakings

The following KCOM Shareholders have given irrevocable undertakings in respect of their own beneficial holdings of KCOM Shares (or those KCOM Shares over which they have control) to vote (or procure a vote) in favour of the resolutions relating to the Acquisition at the KCOM Meetings or, in the event that the Acquisition is implemented by way of a Takeover Offer, to accept (or procure the acceptance of) such Takeover Offer:

Name	Total number of KCOM Shares	Percentage of existing issued share capital
Teleios Capital Partners	83,127,586	16.09

The obligations of Teleios Capital Partners under its irrevocable undertaking shall lapse and cease to have effect on and from the earlier of the following occurrences:

- (a) Bidco announces, with the consent of the Panel, that it does not intend to proceed with the Acquisition;
- (b) a third party makes a firm offer announcement under Rule 2.7 of the Takeover Code and: (i) such third party offer represents an improvement of at least 10 per cent. over the Acquisition Price at the time that the third party offer is announced; and (ii) a period of 21 days has elapsed from the announcement of such third party offer without Bidco having revised the terms of the Acquisition so that the value of the consideration for each KCOM Share is equal to or exceeds the value of the consideration for each KCOM share under the third party offer;
- (c) the Acquisition is withdrawn, lapses or otherwise terminates in accordance with its terms; or
- (d) the Scheme has not become Effective before the Long Stop Date.

The obligations of Invesco Asset Management under its irrevocable undertaking shall lapse and cease to have effect on and from the earlier of the following occurrences:

- (a) Invesco Asset Management has cast its vote in relation to the Acquisition and the Court Meeting has taken place;
- (b) the Scheme Document has not been posted within 28 days of the date of this Announcement, or within such longer period as Bidco, with the consent of the Panel, determines;
- (c) the Acquisition is withdrawn, lapses or does not become wholly unconditional or effective in accordance with its terms;
- (d) an announcement of a competing offer in respect of KCOM is made in accordance with Rule 2.7 of the Takeover Code, whether made by way of an offer or a scheme of arrangement or any other transaction which constitutes an offer for the purposes of the Takeover Code, and the consideration payable to KCOM Shareholders under such competing offer is, in Invesco Asset Management's reasonable opinion, at least 10 per cent. higher than that payable pursuant to the Acquisition;
- (e) Bidco announces, with the consent of the Panel, and before the Scheme Document is published, that it does not intend to proceed with the Acquisition and no new revised or replacement Scheme is announced by Bidco; and
- (f) the Scheme has not become Effective before 4 June 2019 (or such later date as Bidco and KCOM may agree).

Under its irrevocable undertaking, Invesco Asset Management has the ability to sell its KCOM Shares after the Court Meeting has taken place. Prior to the Court Meeting, Invesco Asset Management can only (except to the extent required by law or regulation) sell or otherwise dispose of its KCOM Shares provided that the transferee of those KCOM Shares enters into an irrevocable undertaking in favour of Bidco on substantially the same terms as the irrevocable undertaking given by Invesco Asset Management.

Letter of intent

Majedie Asset Management has given a non-binding letter of intent to vote in favour of the resolutions relating to the Acquisition at the KCOM Meetings or, in the event that the Acquisition is implemented by way of a Takeover Offer, to accept such Takeover Offer, in respect of 17,006,505 KCOM Shares representing approximately 3.3 per cent. of KCOM's issued ordinary share capital on the Last Practicable Date.

APPENDIX 4

DEFINITIONS

The following definitions apply throughout this Announcement unless the context otherwise requires:

2006 Act or Companies Act	the Companies Act 2006, as amended from time to time
Acquisition	the proposed acquisition by Bidco of the entire issued and to be issued share capital of KCOM by means of the Scheme as described in this Announcement, or should Bidco so elect, by means of a Takeover Offer
Acquisition Price	97 pence for each KCOM Share
Announcement	this announcement made in accordance with Rule 2.7 of the Takeover Code
Annual Report	the annual report and financial statements of KCOM for the year ended 31 March 2018
associated undertaking	shall be construed in accordance with paragraph 19 of Schedule 6 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) but for this purpose ignoring paragraph 19(1)(b) of Schedule 6 to those regulations
Authorisations	authorisations, orders, grants, recognitions, confirmations, consents, licences, clearances, certificates, permissions or approvals
Bidco	Humber Bidco Limited, a company incorporated in England and Wales with registered number 11940887
Bidco Directors or Bidco Board	the directors of Bidco as at the date of this Announcement or, where the context so requires, the directors of Bidco from time to time
Bidco Group	Bidco and its subsidiary undertakings from time to time
Business Day	a day, not being a public holiday, Saturday or Sunday, on which banks in London are open for normal business
Closing Price(s)	the closing price of a KCOM Share as derived from the Daily Official List of the London Stock Exchange on any particular date
CMA	the Competition and Markets Authority of the UK
CMA Phase 2 Reference	a reference of the Acquisition to the chair of the CMA for the constitution of a group under Schedule 4 to the Enterprise and Regulatory Reform Act 2013
Conditions	the conditions to the Acquisition, as set out in Part 1 of

	Appendix 1, and to be set out in the Scheme Document
Confidentiality Agreement	the confidentiality agreement dated 4 March 2019 between USSIM and KCOM, as described in paragraph 12 of this Announcement
Court	the High Court of Justice of England and Wales
Court Hearing	the hearing of the Court to sanction the Scheme
Court Meeting	the meeting of KCOM Scheme Shareholders convened by order of the Court pursuant to section 896 of the 2006 Act, notice of which will be set out in the Scheme Document, for the purposes of considering, and if thought fit, approving the Scheme (with or without amendment) and any adjournment, postponement or reconvention thereof
Court Order	the order of the Court sanctioning the Scheme under section 899 of the 2006 Act
Co-operation Agreement	the agreement dated 24 April 2019 between Bidco and KCOM, as described in paragraph 12 of this Announcement
CREST	the relevant system (as defined in the Uncertificated Securities Regulations 2001 (SI 2001/3755)) (the Regulations) in respect of which Euroclear UK & Ireland Ltd is the Operator (as defined in the Regulations) in accordance with which securities may be held and transferred in uncertificated form
Dealing Disclosure	an announcement pursuant to Rule 8 of the Takeover Code containing details of dealings in relevant securities of a party to an offer
Disclosed	<p>the information which has been fairly disclosed:</p> <p>(a) by or on behalf of KCOM to Bidco or USSL or the professional advisers of Bidco or USSL (in their capacity as such in relation to the Acquisition) prior to the date of this Announcement;</p> <p>(b) in the Annual Report;</p> <p>(c) in this Announcement;</p> <p>(d) in any other public announcement made by KCOM prior to the date of this Announcement; or</p> <p>(e) by or on behalf of KCOM (or its advisers) in writing during the course of the due diligence exercise carried out by Bidco or its professional advisers or on a call in connection with the Acquisition</p>

Effective	in the context of the Acquisition: (a) if the Acquisition is implemented by way of the Scheme, the Scheme having become effective pursuant to its terms, upon the delivery of an office copy of the Court Order to the Registrar of Companies; or (b) if the Acquisition is implemented by way of the Takeover Offer, the Takeover Offer having been declared or having become unconditional in all respects in accordance with the requirements of the Takeover Code
Effective Date	the date on which the Acquisition becomes Effective
EU	the European Union
Excluded Shares	any KCOM Shares: (a) which are registered in the name of or beneficially owned by USSL or its nominee(s) or any subsidiary undertaking of USSL or its nominee(s); or (b) which are held in treasury (unless such KCOM Shares cease to be so held)
FCA	Financial Conduct Authority or its successor from time to time
Forms of Proxy	the form of proxy in connection with each of the Court Meeting and the General Meeting, which shall accompany the Scheme Document
FSMA	the Financial Services and Markets Act 2000 (as amended from time to time)
General Meeting	the general meeting of KCOM Shareholders (including any adjournment, postponement or reconvention thereof) to be convened for the purpose of considering and, if thought fit approving, the General Meeting Resolution in relation to the Acquisition, notice of which shall be contained in the Scheme Document
General Meeting Resolution	the resolution to be proposed by KCOM at the General Meeting in connection with (a) authorising the KCOM Directors to take all required action in relation to the Scheme and (b) amending KCOM's articles of association and such other matters as may be necessary to implement the Scheme
HEY	the Hull & East Yorkshire division of the KCOM Group
Invesco Asset Management	Invesco Asset Management Limited
KCOM or Company	KCOM Group Public Limited Company, a company

	incorporated in England and Wales with registered number 02150618
KCOM Directors or KCOM Board	the directors of KCOM as at the date of this Announcement or, where the context so requires, the directors of KCOM from time to time
KCOM Group	KCOM and its subsidiary undertakings from time to time
KCOM LTIP	the KCOM Long-Term Incentive Plan
KCOM Meetings	the Court Meeting and the General Meeting
KCOM Scheme Shares	KCOM Shares: <ul style="list-style-type: none"> (a) in issue as at the date of the Scheme Document; (b) if any, issued after the date of the Scheme Document and prior to the Voting Record Time; and (c) if any, issued on or after the Voting Record Time and before the Scheme Record Time, either on terms that the original or any subsequent holders thereof shall be bound by the Scheme or in respect of which the holders thereof shall have agreed in writing to be bound by the Scheme, but in each case other than the Excluded Shares
KCOM Scheme Shareholders	holders of KCOM Scheme Shares
KCOM Share(s)	the ordinary shares of 10 pence each in the capital of KCOM
KCOM Shareholder(s)	holders of KCOM Shares
KCOM Share Schemes	the KCOM LTIP and the KCOM SIP
KCOM SIP	the KCOM MyShare Share Incentive Plan
Last Practicable Date	23 April 2019
Link Asset Services	a trading name of Link Market Services Limited
London Stock Exchange	London Stock Exchange plc or its successor
Long Stop Date	31 August 2019 or such later date (if any) as Bidco and KCOM may agree, with the consent of the Panel, and the Court may allow
Majedie Asset Management	Majedie Asset Management Limited
Offer Period	the offer period (as defined by the Takeover Code) relating to KCOM, which commenced on the date of this

	Announcement
Official List	the Official List maintained by the UK Listing Authority
Opening Position Disclosure	an announcement pursuant to Rule 8 of the Takeover Code containing details on interests or short positions in, or rights to subscribe for, any relevant securities of a party to an offer
Overseas Shareholders	KCOM Shareholders (or nominees of, or custodians or trustees of KCOM Shareholders) who are not resident in, ordinarily resident in, or citizens of, the United Kingdom
Panel	the Panel on Takeovers and Mergers
PRA	the Prudential Regulation Authority or its successor from time to time
Registrar of Companies	the Registrar of Companies in England and Wales
relevant securities	shall be construed in accordance with the Takeover Code
Restricted Jurisdiction(s)	any jurisdiction where local laws or regulations may result in a significant risk of civil, regulatory or criminal exposure if information concerning the Acquisition is sent or made available to KCOM Shareholders in that jurisdiction
Scheme	the proposed scheme of arrangement under Part 26 of the 2006 Act between KCOM and KCOM Scheme Shareholders in order to implement the Acquisition, upon the terms and subject to the conditions set out in this Announcement and to be set out in the Scheme Document (with or subject to any modification, addition or condition which Bidco and KCOM may agree and the Court may impose or, if required, approve)
Scheme Document	the document to be sent to KCOM Shareholders, persons with information rights and holders of options under the KCOM Share Schemes containing, amongst other things, the Scheme, the full terms and conditions of the Scheme and notices of the KCOM Meetings and proxy forms in respect of the KCOM Meetings
Scheme Record Time	the record date and time for the Scheme, as specified in the Scheme Document
SEC	the US Securities and Exchange Commission
Senior Facilities Agreement	the facilities agreement dated on or about the date of this Announcement between, among others, Lloyds Bank plc as facility agent and Bidco

Significant Interest	in relation to an undertaking, a direct or indirect interest of 20 per cent. or more of: (a) the total voting rights conferred by the equity share capital (as defined in section 548 of the 2006 Act) of such undertaking; or (b) the relevant partnership interest
Strategy Review	the in-depth review of KCOM's businesses and strategy announced by KCOM in the interim statement of results for the six months ended 30 September 2018 released on 27 November 2018
subsidiary, subsidiary undertaking and undertaking	shall be construed in accordance with the 2006 Act
Takeover Code	the City Code on Takeovers and Mergers
Takeover Offer	if the Acquisition is implemented by way of a takeover offer, as defined in Chapter 3 of Part 28 of the 2006 Act, the offer to be made by or on behalf of Bidco to acquire the entire issued and to be issued ordinary share capital of KCOM (excluding the Excluded Shares) on the terms and subject to the conditions to be set out in the related offer document and, where the context permits, any subsequent revision, variation, extension or renewal of such takeover offer
Teleios Capital Partners	Teleios Capital Partners LLC
UK or United Kingdom	United Kingdom of Great Britain and Northern Ireland
UK Listing Authority	the FCA as the authority for listing in the U.K. when it is exercising its powers under Part 6 of the Financial Services and Markets Act 2000 as amended
USS	Universities Superannuation Scheme
USSL	Universities Superannuation Scheme Limited, a company incorporated in England and Wales with registered number 01167127, acting in its capacity as sole corporate trustee of Universities Superannuation Scheme
USSL Group	USSL and its subsidiary undertakings from time to time
USSIM	USS Investment Management Limited, a company incorporated in England and Wales with registered number 03380864
US or United States	the United States of America, its territories and possessions, any state of the United States and the District of Columbia

US Exchange Act	the US Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder;
US Securities Act	the US Securities Act of 1933, as amended and the rules and regulations promulgated thereunder
Voting Record Time	the time and date by reference to which entitlement to vote on the Scheme will be determined, as specified in the Scheme Document
Wider Bidco Group	Bidco Group and associated undertakings and any other body corporate, partnership, joint venture or person in which Bidco and all such undertakings (aggregating their interests) have a Significant Interest
Wider KCOM Group	KCOM Group and associated undertakings and any other body corporate, partnership, joint venture or person in which KCOM and all such undertakings (aggregating their interests) have a Significant Interest
£ or pence	the lawful currency of the United Kingdom from time to time

All references in this Announcement to any statutory provision or law or to any order or regulation shall be construed as a reference to that provision, law, order or regulation as extended, modified, replaced or re-enacted from time to time and all statutory instruments, regulations and orders from time to time made thereunder or deriving validly therefrom.