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KCOM Group Public Limited Company
37 Carr Lane
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HU1 3RE

9 May 2019

This letter (**Letter**) should be read in conjunction with the scheme circular to shareholders of KCOM Group Public Limited Company (**KCOM**) dated on or around the date of this Letter (**Scheme Document**), a copy of which you should have received separately. The Scheme Document (together with a copy of this Letter) can also be viewed on the KCOM investor relations website at www.kcomplc.com. Words and expressions defined in the Scheme Document have the same meaning in this Letter unless the context requires otherwise. Key terms used in this Letter and the accompanying documents are explained in Appendix 1 to this Letter.

9 May 2019

To: Holders of awards (**Awardholders**) under the KCOM Group PLC Long-Term Incentive Plan (**LTIP**)

Dear Awardholder

Recommended cash acquisition of KCOM Group Public Limited Company by Humber Bidco Limited (Bidco) – to be implemented by means of a scheme of arrangement under Part 26 of the Companies Act 2006

As you may know, on 24 April 2019, the Boards of KCOM and Bidco announced that they had reached agreement on the terms of a recommended cash offer pursuant to which Bidco would acquire the entire issued and to be issued share capital of KCOM (**Acquisition**). The Acquisition will require, among other things, the approval of KCOM Shareholders and the sanction of the Court. You can find additional information regarding the Acquisition in the Scheme Document.

This Letter explains the effect of the Acquisition on the awards granted to you under the LTIP (**Awards**) and the proposal being made to you in relation to your Awards (**Proposal**) and sets out the courses of action available to you. In broad terms, the Proposal is that you exercise your Awards to the fullest extent possible and participate in the Scheme in respect of any KCOM Shares that you acquire on exercise. Further details of the Proposal are contained in paragraphs 8 to 10 below.

If you wish to exercise your Awards as set out in this Letter, it is important that you fill in and sign the enclosed Form of Instruction and return it in the pre-paid envelope provided to Cathy Phillips at KCOM Group Public Limited Company, 37 Carr Lane, Hull HU1 3RE. Your Form of Instruction should be received as soon as possible and in any event not later than 5.00pm on 3 June 2019.

The details of your Awards are set out in the statement enclosed with this Letter (the **Award Statement**).

The remainder of this Letter should help to explain what you need to know about the Acquisition, the effect of the Acquisition on your Awards and the Proposal that is being made to you by Bidco in relation to your Awards.

Introduction

1 Why am I being contacted now?

You are being contacted now because if the Acquisition proceeds, you will need to take certain actions in relation to your Awards prior to the date that the Scheme is sanctioned by the Court (which is expected to be on 10 June 2019) (the **Sanction Date**).

2 Who are USS and Bidco?

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.

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 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.

The Acquisition

3 How does the Acquisition work?

The Acquisition is intended to be effected by means of a Court-sanctioned "scheme of arrangement" (the **Scheme**). The purpose of the Scheme is to enable Bidco to become the owner of the entire issued and to be issued share capital of KCOM.

The Scheme is expected to be approved by KCOM Shareholders at a court meeting being held on 5 June 2019 (**Court Meeting**) which will be followed by a general meeting of KCOM Shareholders on the same day (**General Meeting**). However, the Scheme will only become effective if the High Court sanctions the Scheme. The Court hearing to sanction the Scheme is expected to take place on 10 June 2019, with the Scheme expected to become effective on 12 June 2019. This date is the time at which the Acquisition takes place (and is referred to in this Letter as the **Effective Date**). You will be notified of any change in the timetable or process which affects you.

The Acquisition and the Scheme are described in more detail in the Scheme Document which you can view on the KCOM investor relations website at www.kcomplc.com. If you cannot view the Scheme Document please contact Cathy Phillips at KCOM either by email on cathy.phillips@kcom.com or by telephone on 01482 602595. You should read this Letter in conjunction with the Scheme Document.

4 What are the terms of the Acquisition for shareholders of KCOM?

Under the terms of the Acquisition, KCOM Shareholders will be entitled to receive, for each KCOM Share held:

97 pence in cash (the Acquisition Price)

As described in more detail in the Scheme Document, based on KCOM's closing share price on 23 April 2019 of 72.5 pence per KCOM Share, the Acquisition Price represents a premium of approximately 33.8 per cent. per KCOM Share.

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

5 Will the Acquisition definitely go ahead?

The Acquisition is conditional upon, amongst other things, (i) approval by KCOM Shareholders at the Court Meeting and the General Meeting to be held on 5 June 2019; (ii) approval by the FCA; and (iii) the sanction of the Court. Whilst it is expected that KCOM Shareholders will approve the Acquisition and the Court will sanction the Scheme, this cannot be guaranteed.

6 What if the Acquisition does not go ahead?

If the Acquisition does not go ahead, the Proposal (as described in paragraphs 8 to 10 below) in relation to your Awards will not apply and your Awards will continue unaffected.

Your Awards

7 What is an Award?

Each Award is an option to acquire a certain number of KCOM Shares for no payment by you. Your Awards are subject to the rules of the LTIP and the terms set out in the award documentation provided to you when your Awards were granted.

The Proposal

As part of the Acquisition, Bidco has agreed to make the Proposal to Awardholders. The Proposal is described in paragraphs 8 to 10 below.

8 What is the effect of the Acquisition on my Awards?

If not already vested, your Awards will vest as a consequence of the Acquisition. This is earlier than would ordinarily be the case, as an Award would normally vest on the third anniversary of its date of grant.

The extent to which your unvested Awards will vest as a result of the Acquisition has been determined by the Remuneration Committee, taking into account the extent to which the relevant performance conditions have been met. The Remuneration Committee has also determined that, except where different treatment has previously been agreed or applied in respect of an Award under the LTIP rules (for example, because you have left KCOM), there will be no reduction in the number of KCOM Shares in respect of which an Award will vest as a result of the shortened vesting period.

The Award Statement enclosed with this Letter sets out the maximum number of KCOM Shares over which your Awards were originally granted and the number of KCOM Shares in respect of which the Remuneration Committee has determined your Awards will vest in connection with the Acquisition.

9 What action do I need to take in relation to my Awards as a result of the Acquisition?

You are being offered the opportunity to exercise your Awards to the fullest extent possible and participate in the Scheme in respect of any KCOM Shares acquired on exercise of your Awards, using the Form of Instruction enclosed with this Letter.

There may be certain tax consequences on the exercise of your Awards, as outlined in this Letter, the paragraphs regarding taxation in Appendix 2 to this Letter and the Scheme Document.

10 How do I exercise my Awards and participate in the Scheme?

If you wish to exercise your Awards to the fullest extent possible and participate in the Scheme in respect of any KCOM Shares acquired on exercise of your Awards, and thereby sell each KCOM Share you acquire to Bidco at the Acquisition Price, you should complete, sign and submit the enclosed Form of Instruction. You must return your Form of Instruction no later than 5.00pm on 3 June 2019.

If you do so, your Awards will be deemed to be exercised subject to and with effect immediately upon the sanction of the Scheme by the Court.

As mentioned above, for each KCOM Share sold pursuant to the Acquisition, you will receive the Acquisition Price of 97 pence (the aggregate amount payable being the **Acquisition Proceeds**).

Payment of the Acquisition Proceeds will be made to you in cash through payroll within 14 days of the Effective Date (following the deduction of any applicable income tax and employee National Insurance contributions).

11 What happens if I do nothing?

If you choose to do nothing, your Awards will remain exercisable for the period of one month after the Sanction Date and will then lapse. If you were to exercise your Awards during that period, any KCOM Shares you acquire would be automatically acquired by Bidco pursuant to the articles of association of KCOM (as a result of amendments that are being proposed at the General Meeting).

General

12 Will I receive dividends in relation to my Awards?

You are entitled to dividend equivalent amounts equal to the value of dividends that would have been paid on the KCOM Shares you acquire on the exercise of your Awards from the date of grant of the Award to its date of exercise (**Dividend Equivalent Payment**). The Dividend Equivalent Payment will be paid in cash through payroll at the same time as the Acquisition Proceeds are paid (following the deduction of income tax and employee National Insurance contributions).

13 Do I need to pay anything?

No, you will not need to make any upfront payments if you exercise your Awards using the Form of Instruction. You will be liable for PAYE income tax and employee National Insurance contributions on the exercise of the Awards by reference to the value of the KCOM Shares

acquired (see paragraph 17 below and Appendix 2 to this Letter). However these amounts will be deducted from your Acquisition Proceeds.

14 Can I give my Awards to someone else?

No, under the rules of the LTIP, you cannot transfer your Awards.

15 Will the Proposal affect my employment rights?

No, the Proposal, and whether or not you accept it, will not affect your employment rights.

16 What if I leave or have left employment?

To benefit from the Proposal in relation to your Awards you must be either an employee of KCOM or a former employee who is entitled to retain their Awards under the rules of the LTIP. If you leave KCOM before the Sanction Date, your Award may lapse under the rules of the LTIP and you would then not benefit from the Proposal. If you are a former employee who has retained an Award, under the rules of the LTIP the vesting treatment that was agreed or applied as a result of your leaving will continue to apply.

Tax

17 What tax will I have to pay if I exercise my Awards?

Please see Appendix 2 to this Letter, which sets out a summary of the UK tax and employee National Insurance contributions that you may be required to pay in relation to the exercise of your Awards and the sale of any KCOM Shares you acquire as a result.

Before you decide what action you would like to take, you should consider your tax position. If you are in any doubt as to your tax position, you should seek your own independent professional tax advice immediately.

18 How will the tax be paid?

PAYE income tax and employee National Insurance contributions that you are required to pay in relation to the exercise of your Awards must be withheld and paid to HM Revenue & Customs by your employer in the KCOM group and so will be deducted from the Acquisition Proceeds due to you.

Next Steps

19 What should I do now?

If you wish to exercise your Awards in accordance with the Proposal you should complete, sign and return the Form of Instruction using the pre-paid envelope provided to Cathy Phillips at KCOM Group Public Limited Company, 37 Carr Lane, Hull HU1 3RE (please note that neither this Letter nor the Award Statement need to be returned). **Your Form of Instruction should be received as soon as possible and in any event not later than 5.00pm on 3 June 2019.**

If you do not wish to exercise your Awards, please contact Chris Whitaker as soon as possible either by email on chris.whitaker@kcom.com or by telephone on 07879 487460.

If you do not take any action, your Awards will lapse in due course.

20 Can I amend my choice after I have submitted my Form of Instruction?

No. Once submitted, the Form of Instruction is irrevocable.

21 Power of attorney

Under the power of attorney included within the Form of Instruction, you authorise KCOM and/or Bidco to take certain actions on your behalf including signing the documents that are required to put into place the arrangements described as part of the Proposal.

22 What is the view of the KCOM Directors?

The KCOM Directors, who have been so advised by Rothschild & Co as to the financial terms of the Proposal, consider the terms of the Proposal set out in this Letter to be fair and reasonable in the context of the Acquisition. In providing its advice to the KCOM Directors, Rothschild & Co has taken into account the commercial assessments of the KCOM Directors.

The KCOM Directors recommend that you exercise your Awards. You should consider your own personal circumstances, including your tax position, when deciding your preferred timing for exercising your Awards.

23 Further queries

If you have any queries in relation to this Letter or how to complete the enclosed Form of Instruction please contact Chris Whitaker at KCOM either by email on chris.whitaker@kcom.com or by telephone on 07879 487460. Please note that neither KCOM nor your KCOM Group employer will be able to provide you with any legal, financial, tax planning or investment advice or advice on the merits of any particular choice or on the Acquisition itself. **If you are in any doubt as to the action you should take, you should seek your own independent professional advice.**

Yours faithfully

Graham Sutherland

For and on behalf of KCOM Group Public Limited Company

Notes

- 1 The distribution of this Letter and Form of Instruction in jurisdictions other than the United Kingdom may be restricted by the laws of those jurisdictions and therefore persons into whose possession these documents come should inform themselves about and observe any such restrictions. Failure to comply with any such restrictions may constitute a violation of the securities laws of any such jurisdiction. You should also refer to the Important Notices on page 3 of the Scheme Document. Nothing in this Letter or the Form of Instruction should be construed as legal, investment, financial or tax advice.
- 2 The USSIM Directors, whose names are set out in paragraph 2.2 of Appendix 3 to the Scheme Document, and the Bidco Directors, whose names are set out in paragraph 2.3 of Appendix 3 to the Scheme Document, each accept responsibility for all of the information contained in this Letter and the Form of Instruction (including any expressions of opinion) relating to USSL, USSIM, Bidco and themselves and their respective immediate families and the related trusts of and persons connected with them, and persons deemed to be acting in concert with Bidco. To the best of the knowledge and belief of the Bidco Directors and the USSIM Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this Letter and the Form of Instruction for which they accept responsibility is in accordance with the facts and does not omit anything likely to affect the import of such information.
- 3 The KCOM Directors, whose names are set out in paragraph 2.1 of Appendix 3 to the Scheme Document, accept responsibility for all the information contained in this Letter and the Form of Instruction (including any expressions of opinion), other than information for which responsibility has been taken pursuant to paragraph 2 above. To the best of the knowledge and belief of the KCOM Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this Letter and the Form of Instruction for which they accept responsibility is in accordance with the facts and does not omit anything likely to affect the import of such information.
- 4 N.M. Rothschild & Sons Limited (**Rothschild & Co**), which is authorised and regulated in the United Kingdom by the FCA, is acting exclusively for KCOM and no one else in relation to the Acquisition and/or other matters set out in this document 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 document or any other matter or arrangement referred to therein.
- 5 Rothschild & Co has given and not withdrawn its written consent to the issue of this document with the inclusion of the references to its name in the form and context in which they appear.
- 6 Accidental omission to dispatch this Letter or the Form of Instruction to, or any failure to receive the same by, any person to whom the Proposal in this Letter is made or should be made will not invalidate the Proposal in any way.

Appendix 1

Schedule of Key Terms

The below is a glossary of the key terms used in this Letter and the Form of Instruction. For the full definitions of certain of those terms, please refer to the Scheme Document or the rules of the LTIP (as appropriate).

Acquisition	the proposed acquisition by Bidco of the entire issued and to be issued share capital of KCOM to be effected by way of the Scheme
Award	an option to acquire KCOM Shares under the LTIP
Court Sanction	the sanction of the Scheme by the High Court of Justice in England and Wales, which is expected to take place on 10 June 2019
Effective Date	the date on which the Scheme becomes effective in accordance with its terms, which is expected to be on 12 June 2019
Form of Instruction	the form, enclosed with this Letter, whereby you can indicate your instruction to exercise your Awards in accordance with the Proposal
KCOM Shares	the ordinary shares of £0.10 each in the capital of KCOM
Scheme	the proposed scheme of arrangement under Part 26 of the Companies Act 2006 between KCOM and its shareholders to implement the Acquisition
Scheme Document	the document setting out the terms and conditions of the Acquisition which was dispatched to KCOM shareholders on 9 May 2019

Appendix 2

UK Taxation

This Taxation Appendix is intended as a general guide to the **UK tax** implications of exercising your Awards and participating in the Scheme if you are resident and domiciled for tax purposes in the UK only at all material times. This Taxation Appendix is not a full description of all the circumstances in which a tax liability may arise. **If you are in any doubt as to your tax position or if you are subject to taxation in any jurisdiction other than the United Kingdom, you should consult an appropriate professional adviser without delay.**

1 Income tax and National Insurance contributions

- 1.1 On the exercise of your Awards, an income tax and employee National Insurance contributions charge (**Tax Liability**) will arise on the amount of the market value of the KCOM Shares acquired (**Award Gain**).
- 1.2 The Tax Liability must be accounted for by KCOM (or the relevant employing company) to HMRC on your behalf under the PAYE system (see paragraph 2 below).

2 Recovery of Income Tax and National Insurance contributions through PAYE

- 2.1 On the exercise of your Awards and the sale of KCOM Shares pursuant to the Scheme, you authorise KCOM to deduct from the Acquisition Proceeds payable to you on participation in the Scheme an amount equal to the Tax Liability due and to account for the same to HMRC under the PAYE system.
- 2.2 You will then receive the net amount due to you from the Acquisition Proceeds through the relevant KCOM payroll.

3 Capital gains tax (CGT)

- 3.1 On the sale of KCOM Shares pursuant to the Scheme, it is unlikely that you will become liable to CGT because it is unlikely that any further gain will be realised by you over and above the Award Gain (see 1.1 above).
- 3.2 The amount of any gain which is chargeable to CGT on the disposal of your KCOM Shares pursuant to the Scheme would be the amount by which the total cash you receive on the disposal of your KCOM Shares (i.e. the Acquisition Proceeds) exceeds the Award Gain which arose on the exercise of your Awards, and these amounts are expected to be the same.

4 Accounting For Tax Under Self-Assessment

- 4.1 Under the self-assessment regime, taxpayers are required to provide HMRC with all the information needed to calculate their taxable income (from all sources) and any chargeable gains. The calculation of tax may then be carried out either by the taxpayer or by HMRC. The time limit for filing a return on-line and paying your tax (if any) for the 2019/2020 tax year is 31 January 2021.
- 4.2 If your Awards are exercised whilst you continue to be an employee or director of KCOM (or another company within the group), the entire Tax Liability due will be accounted for under PAYE directly to HMRC (and if this is the case you should not need to complete a tax return). If your Awards are exercised after you have ceased to be an employee or director of KCOM or another company within the group (and you are a higher or additional rate tax payer), then there

may be some further income tax to pay under the self-assessment regime described above (and if this is the case you must complete a tax return).