5 June 2018

KCOM GROUP PLC (KCOM.L)

RESULTS FOR THE YEAR ENDED 31 MARCH 2018

KCOM Group PLC (KCOM.L) announces its preliminary full year results for the year ended 31 March 2018.

Highlights

- Profit ahead of expectations despite lower revenue
  - EBITDA[1,2] up 1% year on year, driven by multi-year network rates rebate, higher margins and strong cost control
  - Lower revenue reflects anticipated decline in National Network Services
- Good progress in Hull & East Yorkshire
  - Revenue up 2% overall
  - Strong performance in Consumer channel, revenue up 4%
  - Full-fibre deployment on target to be available to 100% of addressable market by March 2019
  - More customers taking broadband over full-fibre now than over copper
- Margin and profit improvement in Enterprise, despite 3% revenue decline
  - Revenue affected by lower government spend, and previously identified software contracts
    - Two software contracts now exited; customer relationship maintained with new business in place
  - Strengthened management team driving momentum from cloud-based wins and renewals
- Statutory profit before tax increased by 11.5% reflecting lower level of exceptional costs partially offset by increased depreciation and amortisation
- Net debt[2] increase reflects our capital investment, including continued investment in fibre
- Recommended final dividend of 4.00p, to deliver committed 6.00p per share dividend for the full year
- Existing dividend commitment extended to 2018/19 financial year

Financial highlights

	Unaudited year ended 31 March 2018 £'m	Audited year ended 31 March 2017 £'m	Change over prior year
Performance measure			
Revenue	**301.9**	331.3	(8.9%)
EBITDA	**68.3**	67.6	1.0%
Adjusted basic earnings per share[2] (pence)	**5.26**	6.10	(13.8%)
Cash capital expenditure[2]	**(43.9)**	(47.2)	(7.0%)
Reported results			
Profit before tax	**34.0**	30.5	11.5%
Basic earnings per share (pence)	**5.38**	4.85	10.9%
Net debt	**62.6**	42.4	47.6%
Proposed final dividend per share (pence)	**4.00**	4.00	-
Proposed full year dividend per share (pence)	**6.00**	6.00	-

[1] EBITDA is stated before exceptional items. All references to "EBITDA" throughout the remainder of this document are before exceptional items, except where specifically highlighted in Note 1.

[2] For the definition and purpose of this alternative performance measure stated here and used subsequently throughout this document, please see the glossary. The glossary also provides a reconciliation to the closest equivalent IFRS measure.

Graham Holden, Chairman, said:

"In a challenging environment, we have made continued progress and have achieved year on year growth in EBITDA and profit before tax, ahead of our expectations. Our objective remains to deliver long-term sustainable value for our shareholders. The operating segments we established last year have allowed us to more clearly articulate our segments' goals and understand their individual performance and value. This leads to our continued refinement of the allocation of investment and resources.

"Our Hull & East Yorkshire performance this year was particularly pleasing, with our ultrafast fibre deployment firmly on target for completion next year and another strong performance secured in our key Consumer market. Enterprise delivered strengthened margins against a difficult backdrop, largely driven by an unexpected slowdown in government spending. We remain focused on capitalising on the growing trend for business applications moving to the cloud, our Enterprise team's greatest strength.

"We are making good progress with the important work to manage leadership changes within our business. We are well advanced in our search for a replacement for our CEO Bill Halbert, who is providing strong continuity whilst we complete that task. We have also announced the appointment of Anna Bielby as interim Chief Financial Officer on 1 July 2018 and have new leadership in place in Hull & East Yorkshire.

"I am pleased to confirm that the Board is recommending a final dividend of 4.00 pence per share which, if approved, will bring our full year dividend to 6.00 pence per share – in line with our commitment. We are extending the minimum dividend commitment of 6.00 pence per share for the year ending 31 March 2019."

Chief Executive's statement

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

We have continued to establish sustainable momentum across the business:

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

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

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

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

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

Outlook

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

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

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

The recommended final dividend of 4.00 pence, when combined with the interim dividend of 2.00 pence, sees the Group deliver once again on its commitment to a minimum 6.00 pence full year dividend. The Board is pleased to announce the extension of the existing dividend commitment for an additional year.

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Performance review

Group performance

The results for the year show an increase in EBITDA (up 1% to £68.3 million) and an anticipated decline in Group revenue (down 9% to £301.9 million), largely driven by the expected decline in National Network Services.

Our Hull & East Yorkshire segment continues to perform well and during the year we saw growth across core channels, supporting the cash generation of the Group. Fibre take-up remains strong and we have reached the milestone where more of our broadband customers are taking the service on fibre than on copper.

Despite some in-year challenges, the Enterprise segment offers an important opportunity for growth. We are continuing to develop and refine the articulation of our propositions and to win the trust of new and existing customers, with a particular emphasis on our core capabilities around cloud-based implementation and Contact and Collaboration services.

Our National Network Services segment has seen an expected reduction in both revenue and contribution[1]. We will continue to manage this segment for value focusing on growing those areas where we can differentiate our propositions.

In the year ended 31 March 2017, we refined our operating segments in order to report three distinct customer segments, namely; Hull & East Yorkshire, Enterprise and National Network Services. Those segments allow for a better understanding of segmental performance and clearer communication of the Group's strategy through to performance. As communicated at our recent Capital Markets Day each segment has a clearly defined go-to-market plan, under the common KCOM brand. We began an exercise midway through last year to allocate our shared costs to the go-to-market segments, in order to understand more clearly performance at this level. Certain costs are more easily allocated at a segment or customer level. Other costs (such as network and IT infrastructure) are more difficult to allocate due to their nature and the complexity of our processes and systems. We have allocated those costs based on our best available information.

This significant piece of work continues, with the next stage focused on a better understanding of our market segments in order to enable us to maximise value. With that in mind, and to continue to drive down our costs, we are investing in the transformation of our network and are accelerating the simplification and upgrading of our IT estate. We expect capital expenditure to peak next year as we focus on those important investments.

Exceptional items show a net credit of £0.7 million (2017: £8.0 million charge) due to a regulatory settlement and a reduction in the level of restructuring. In the prior year, we saw a high level of exceptional restructuring costs (2017: £7.3 million) as we undertook significant transformation in order to create a simplified Group with an appropriate cost base and investment aligned to market opportunities. Transformation activities continued through the year although we have incurred much lower restructuring costs (2018: £1.6 million).

[1] For the definition and purpose of the alternative performance measure stated here and used subsequently throughout this document, please see the glossary. The glossary also provides a reconciliation to the closest equivalent IFRS measure.

In line with our accounting policy, regulatory items are shown as exceptional. Restructuring items are shown as exceptional, where they relate directly to the transformation of the business. After careful consideration the directors believe that the following two items should not be classified as exceptional:

- Contract losses relating to certain complex software contracts in our Enterprise segment (£5.3 million). These have been excluded from exceptional items since they arose as part of the normal course of business.
- Multi-year rebate on network infrastructure hereditament (rateable value) (£4.4 million). This has been excluded from exceptional items since we expect items of this nature to occur from time to time in the ordinary course of business. In addition, previous charges (for which the rebate has been awarded) were themselves not exceptional items and therefore presentation of the rebate as exceptional would not assist comparisons with previous periods.

Year end net debt was £62.6 million (31 March 2017: £42.4 million), with the increase on the prior year largely a result of capital investment, including the continued investment in the Hull & East Yorkshire infrastructure.

Segmental analysis

Management makes decisions and manages the business in line with the segmental analysis set out below. This information is presented before exceptional items in order to provide a better understanding of underlying performance. A reconciliation of the Group's pre-exceptional results is set out in Note 1. The definition of contribution is set out in the glossary.

Hull & East Yorkshire

A stable, income-generating segment focused on our regional market. Our plan is to achieve growth through continued broadband penetration, fibre take-up and the introduction of additional services enabled by our investment in the market leading full fibre network.

	Unaudited year ended 31 Mar 2018 £'m	Unaudited year ended 31 Mar 2017 £'m
Revenue		
Consumer	**58.5**	56.1
Business	**30.5**	29.6
Wholesale	**10.8**	11.0
Core channels	**99.8**	96.7
Media	**1.9**	2.4
Contact Centres	**2.5**	3.2
Total revenue	**104.2**	102.3
Gross margin	**85.4**	78.5
Contribution	**65.7**	60.4

The Hull & East Yorkshire segment performed strongly during the year and has progressed in line with the strategy.

Consumer revenue has increased by 4% compared to the prior year. Our fibre deployment has enabled us to access more customers, with a net additional 2,700 broadband (copper and fibre) customers during the year.

Key metrics relating to our broadband market are as follows:

	Unaudited year ended 31 Mar 2018	Unaudited year ended 31 Mar 2017	Change
Overall broadband penetration of customer base (fibre and copper) %	85%	83%	2 percentage points
% of broadband customers taking a fibre service	54%	33%	21 percentage points
Broadband Average Revenue Per User (ARPU) per month (£)	£35.17	£33.77	4%

The success of our ultrafast Fibre to the Premise offering continues. A summary of our progress is below:

	Unaudited year ended 31 Mar 2018	Unaudited year ended 31 Mar 2017
Total fibre availability (premises passed)	164,000	137,000
Total number of fibre customers (including businesses)	67,000 (3,500)	43,000 (2,800)
Availability delivered during current year (premises passed)	27,000	45,000
Premises connected to fibre during the year (net)	24,000	19,000

Within our fibre enabled areas, 64% of broadband customers are taking a fibre service.

We expect to complete our full fibre deployment (premises passed) by March 2019 at a total cost of c£80.0 million, a further c£5.0 million will be incurred in 2020 in order to continue to connect customers.

Business revenue has increased by 3% compared to the prior year. This growth has been underpinned by our fibre proposition with a further 700 Business customers connected in the year, alongside an increase in project revenues.

Our Wholesale channel has reported broadly flat revenue with some stabilisation in the rate of decline seen in previous years.

As anticipated and signalled previously, our non-core Media and Contact Centres revenues have continued to decline. We closed our outsourced Contact Centres on 31 March 2018 following the end of our largest customer contract.

Contribution has increased compared to the prior year, with the current year including the benefit of a multi-year rebate on network infrastructure hereditament (rateable value) (£4.4 million). The prior year results include a one off supplier credit (£1.0 million).

Enterprise

Our opportunity for growth in shareholder value. Our focus is to increase both scale and capability in the provision of cloud-enabled solutions to the enterprise market.

	Unaudited year ended 31 Mar 2018 £'m	Unaudited year ended 31 Mar 2017 £'m
Revenue		
Projects	**35.5**	48.3
Managed Service	**39.8**	30.5
Network	**13.0**	12.2
Total revenue	**88.3**	91.0
Gross margin	**29.9**	25.6
Contribution	**5.1**	4.5

Overall revenue for the year decreased by 3% year on year. This principally relates to Projects where revenue was affected by unexpected lower public sector spending (as a result of the UK General Election and Brexit), alongside the mutually agreed exit of two previously identified complex software contracts, which incurred contract losses of £5.3 million (2017: £3.7 million). Following the mutual exit of these contracts, we continue to work with this customer on new projects.

Despite the challenges above, we continue to see the translation of prior year Project activity into annuity-based revenue through existing relationships. We continue to build relationships with key customers such as HMRC and NFUM both of whom have renewed and extended contracts during the year. Revenue from our top five customers has grown by 5% compared to the prior year.

Contracts were signed with a number of new customers including Jaguar Land Rover, InterDigital, SES Water and ITSO, all of which exploit our cloud capability. We have now joined the Google Cloud Partner Programme adding to our strong relationships with Amazon Web Services and Microsoft Azure.

We have continued to invest in the Enterprise management team and delivery capability which has driven an increased contribution through higher gross margin alongside tighter cost control.

National Network Services

Our national, connectivity-based segment, where we seek to maximise the value from our national network infrastructure with a tight focus on mid-market customers' requirements for connectivity-based services.

	Unaudited year ended 31 Mar 2018 £'m	Unaudited year ended 31 Mar 2017 £'m
Revenue		
SMB	**51.9**	52.6
Partners	**33.9**	41.8
Large Corporate	**27.4**	47.4
Total revenue	**113.2**	141.8
Gross margin	**32.0**	41.0
Contribution	**9.0**	16.0

As anticipated, we have seen a decrease in revenue compared to the prior year. The majority of this decline has come from Large Corporate customers taking legacy services which we no longer sell. There has also been a reduction in Partners revenue relating to anticipated customer churn, alongside the continuing industry wide change in the mix of services in intelligent numbering (e.g. the movement to 03 numbers). As a consequence of this, contribution also reduced compared to the prior year.

During the year, we have tightened our focus on the larger end of the mid-market (SMB), where we can provide more value. We have seen continued success in the provision of managed wide area network (WAN) connectivity services to multi-site organisations, including the deployment to 900 retail convenience stores nationally for One Stop stores.

We are now focusing on core customer segments supporting the provision of WANs, a specific public sector opportunity relating to the delivery of Health and Social Care Networks (HSCN) and call management services.

Central

Central costs include PLC and corporate costs, where allocation to the underlying segments would not improve understanding of those segments. These include costs associated with our defined benefit pension obligations and share schemes, along with the residual Group cost of finance, HR, risk, legal and communications, once appropriate recharges have been made to the three go-to-market segments.

Central costs have decreased from £13.2 million in the prior year to £11.5 million, largely as a result of headcount reduction.

EBITDA reconciliation

A reconciliation of EBITDA to its closest statutory measure (profit before tax) is set out below. Further details can be found in the glossary.

	Unaudited year ended 31 Mar 2018 £'m	Audited year ended 31 Mar 2017 £'m
EBITDA	**68.3**	67.6
Exceptional items	**0.7**	(7.9)
Depreciation	**(16.9)**	(14.3)
Amortisation	**(15.7)**	(12.6)
Finance costs	**(2.4)**	(2.3)
Share of profit before associate	**0.0**	0.0
Profit before tax	**34.0**	30.5

Exceptional items

The Group benefitted from a net exceptional credit of £0.7 million during the year. This comprises:

- a credit of £2.4 million from an industry wide settlement which arose as a result of a breach in BT Openreach's contractual and regulatory obligations relating to compensation for misapplying 'Deemed Consent'; offset by
- restructuring costs of £1.6 million including redundancy costs for the closure of our outsourced Contact Centre business and the improvement of our project delivery capability in line with our strategic growth plans.

Capital investment

Cash capital expenditure during the period was £43.9 million (2017: £47.2 million), slightly below previous guidance. The major project in the period was the continued deployment of fibre in Hull & East Yorkshire.

We expect capital expenditure to increase (to c£50.0 million) in the year ending 31 March 2019 due to continued investment in transforming our network and improving our underlying systems and processes, in part to allow greater understanding of segmental performance.

The Group's depreciation and amortisation charge for the period is £32.6 million (2017: £26.9 million), the increase resulting from the higher capital investment in recent years, which has an ongoing impact on profit before tax.

Net debt and cash flow

Year end net debt is £62.6 million (31 March 2017: £42.4 million), representing a net debt to EBITDA ratio of 0.9x.

The increase in net debt compared to the prior year end position arises principally as a result of dividend payments and continued capital investment (in particular fibre deployment in Hull & East Yorkshire).

Trade debtors and creditors continue to be well controlled. Days Sales' Outstanding (30) is broadly consistent with the prior year (27) and our Days' Purchases Outstanding shows a slight increase on the 31 March 2017 position. Our underlying working capital[1] movement shows a small outflow of £2.4 million which reflects the timing of one significant customer's payments at the year end compared to the prior year.

Dividend

The Group's proposed dividend is 4.00 pence per share (31 March 2017: 4.00 pence), which is consistent with the Board's previously stated commitment to pay a total dividend of no less than 6.00 pence for the year ending 31 March 2018. The dividend, if approved by shareholders, will be paid on 3 August 2018 to shareholders registered on 22 June 2018. The ex-dividend date is 21 June 2018.

Pensions

The year end IAS 19 pension liability is £7.5 million (31 March 2017: £19.7 million). The decrease from 31 March 2017 principally arises, as a result of slight changes in assumptions (£3.5 million) alongside contributions to the schemes (£9.5 million).

The agreed level of deficit repair payments across both schemes is £6.7 million (rising in line with CPI until the year ending 31 March 2020 for the Data scheme and 31 March 2022 for the Main scheme). In addition, the Group makes pre-agreed payments to its pension schemes through the asset backed partnership. The full year payment for both the current year and prior year is £2.7 million.

Tax

The Group's tax charge including the impact of prior year items is £6.6 million (31 March 2017: £5.7 million). The effective tax rate is 19.3%, broadly in line with the prevailing rate of corporation tax .

[1] For the definition and purpose of the alternative performance measure stated here and used subsequently throughout this document, please see the glossary. The glossary also provides a reconciliation to the closest equivalent IFRS measure.

Consolidated income statement

	Note	**Unaudited year ended 31 Mar 2018 £’000**	Audited year ended 31 Mar 2017 £’000
Revenue	1	**301,898**	331,303
Operating expenses		**(265,462)**	(298,547)
Operating profit		**36,436**	32,756
Finance costs	3	**(2,399)**	(2,263)
Share of profit of associates		**12**	12
Profit before taxation	1	**34,049**	30,505
Taxation	4	**(6,571)**	(5,743)
Profit for the year attributable to owners of the parent		**27,478**	24,762

Operating profit analysed as:			
EBITDA before exceptional items	1	**68,270**	67,645
Exceptional credits	2	**2,361**	—
Exceptional charges	2	**(1,638)**	(7,981)
Depreciation of property, plant and equipment		**(16,906)**	(14,279)
Amortisation of intangible assets		**(15,651)**	(12,629)

Earnings per share

Basic	5	**5.38p**	4.85p
Diluted	5	**5.33p**	4.81p

Consolidated statement of comprehensive income

	Note	**Unaudited year ended 31 Mar 2018 £’000**	Audited year ended 31 Mar 2017 £’000
Profit for the year		**27,478**	24,762
Other comprehensive income/(expense)			
Items that will not be reclassified to profit or loss			
Remeasurements of retirement benefit obligations	7	**4,203**	(12,035)
Tax on items that will not be reclassified		**(715)**	1,738
Total items that will not be reclassified to profit or loss		**3,488**	(10,297)
Total comprehensive income for the year attributable to owners of the parent		**30,966**	14,465

Consolidated balance sheet

	Note	**Unaudited as at 31 Mar 2018 £'000**	Audited as at 31 Mar 2017 £'000
Assets			
Non-current assets			
Goodwill		**51,372**	51,372
Other intangible assets		**36,816**	45,709
Property, plant and equipment		**122,928**	106,323
Investments		**46**	45
Deferred tax assets		**4,376**	7,836
		215,538	211,285
Current assets			
Inventories		**3,713**	3,075
Trade and other receivables		**53,568**	68,406
Cash and cash equivalents	8	**13,223**	16,093
		70,504	87,574
Total assets		**286,042**	298,859
Liabilities			
Current liabilities			
Trade and other payables		**(87,281)**	(110,917)
Bank overdrafts	8	**—**	(5,903)
Finance leases	8	**(1,722)**	(1,942)
Provisions for other liabilities and charges		**(471)**	(377)
Non-current liabilities			
Bank loans	8	**(73,821)**	(48,587)
Retirement benefit obligation	7	**(7,507)**	(19,691)
Deferred tax liabilities		**(8,016)**	(7,498)
Finance leases	8	**(285)**	(2,094)
Provisions for other liabilities and charges		**(5,746)**	(1,962)
Total liabilities		**(184,849)**	(198,971)
Net assets		**101,193**	99,888
Equity			
Capital and reserves attributable to owners of the parent			
Share capital		**51,660**	51,660
Share premium account		**353,231**	353,231
Accumulated losses[1]		**(303,698)**	(305,003)
Total equity		**101,193**	99,888

[1] Included within accumulated losses is a profit after tax of £27.5 million (2017: £24.8 million).

Consolidated statement of changes in shareholders' equity

	Note	Share Capital £'000	Share premium account £'000	Accumulated losses £'000	Total £'000
At 1 April 2016 (audited)		**51,660**	**353,231**	**(288,624)**	**116,267**
Profit for the year		—	—	24,762	24,762
Other comprehensive expense		—	—	(10,297)	(10,297)
Total comprehensive income for the year ended 31 March 2017 (audited)		**—**	**—**	**14,465**	**14,465**
Deferred tax charge relating to share schemes		—	—	(122)	(122)
Purchase of ordinary shares		—	—	(1,778)	(1,778)
Employee share schemes		—	—	1,742	1,742
Dividends	6	—	—	(30,686)	(30,686)
Transactions with owners		—	—	(30,844)	(30,844)
At 31 March 2017 (audited)		**51,660**	**353,231**	**(305,003)**	**99,888**
Profit for the year		—	—	27,478	27,478
Other comprehensive income		—	—	3,488	3,488
Total comprehensive income for the year ended 31 March 2018 (unaudited)		**—**	**—**	**30,966**	**30,966**
Purchase of ordinary shares		—	—	(450)	(450)
Employee share schemes		—	—	1,785	1,785
Dividends	6	—	—	(30,996)	(30,996)
Transactions with owners		—	—	(29,661)	(29,661)
At 31 March 2018 (unaudited)		**51,660**	**353,231**	**(303,698)**	**101,193**

Consolidated cash flow statement

	Note	**Unaudited year ended 31 Mar 2018 £'000**	Audited year ended 31 Mar 2017 £'000
Cash flows from operating activities			
Operating profit		**36,436**	32,756
Adjustments for:			
- depreciation and amortisation		**32,557**	26,908
- increase in working capital		**(4,197)**	(18,302)
- (profit)/loss on sale of property, plant and equipment		**(15)**	555
- non-employee-related pension charges		**1,100**	655
- share-based payment charge		**1,785**	1,742
Payments made to defined benefit pension schemes	7	**(9,470)**	(7,724)
Tax paid		**(3,698)**	(8,019)
Net cash generated from operations		**54,498**	28,571
Cash flows from investing activities			
Purchase of property, plant and equipment		**(34,139)**	(28,403)
Purchase of intangible assets		**(7,697)**	(15,792)
Proceeds from sale of property, plant and equipment		**517**	68
Net cash used in investing activities		**(41,319)**	(44,127)
Cash flows from financing activities			
Dividends paid	6	**(30,996)**	(30,686)
Interest paid		**(1,601)**	(1,257)
Capital element of finance lease repayments		**(2,099)**	(3,025)
Payment of loan issue costs		—	(720)
Repayment of bank loans		**(20,000)**	(15,000)
Drawdown of bank loans		**45,000**	65,000
Purchase of ordinary shares		**(450)**	(1,778)
Net cash (used in)/generated from financing activities		**(10,146)**	12,534
Increase/(decrease) in cash and cash equivalents		**3,033**	(3,022)
Cash and cash equivalents at the beginning of the year		**10,190**	13,212
Cash and cash equivalents at the end of the year	8	**13,223**	10,190

Notes to the unaudited financial information

1. Segmental analysis

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

For the year ended 31 March 2018, the Board considered four segments in assessing the performance of the Group and making decisions in relation to the allocation of resources. These four segments are:

- Hull & East Yorkshire - providing communication and internet-based services to consumer and business customers within the region.
- Enterprise - providing consulting, design, implementation and managed services related to the collaborative systems and cloud-based solutions markets.
- National Network Services - providing network connectivity and related services to business customers nationally.
- Central - holding the PLC costs and corporate costs, where allocation to the underlying segments would not improve understanding of these segments. These include costs associated with our defined benefit pension obligations and share schemes, alongside the residual cost of finance, HR, risk, legal and communications once appropriate recharges have been made to go-to-market segments.

Segmental information has been prepared on a basis consistent with the prior financial year. The segment information provided to the KCOM Group PLC Board for the reportable segments, for the year ended 31 March 2018 and for the year ended 31 March 2017, is as follows:

	Revenue		**Contribution**	
	Unaudited year ended 31 Mar 2018 £'000	Audited year ended 31 Mar 2017 £'000	**Unaudited year ended 31 Mar 2018 £'000**	Audited year ended 31 Mar 2017 £'000
Before exceptional items				
Hull & East Yorkshire	**104,216**	102,275	**65,660**	60,424
Enterprise	**88,285**	90,966	**5,115**	4,500
National Network Services	**113,212**	141,811	**9,021**	15,959
Central	**(3,815)**	(3,749)	**(11,526)**	(13,238)
Total before exceptional items	**301,898**	331,303	**68,270**	67,645
Exceptional items				
Hull & East Yorkshire	—	—	**(357)**	(2,338)
Enterprise	—	—	**(591)**	(2,624)
National Network Services	—	—	**2,059**	353
Central	—	—	**(388)**	(3,372)
Total	—	—	**723**	(7,981)
Total post-exceptional items	**301,898**	331,303	**68,993**	59,664

Notes to the unaudited financial information continued

1. Segmental analysis *continued*

A reconciliation of total EBITDA post-exceptional items to profit before tax is provided as follows:

	Unaudited year ended 31 Mar 2018 £'000	Audited year ended 31 Mar 2017 £'000
EBITDA post-exceptional items	**68,993**	59,664
Depreciation	**(16,906)**	(14,279)
Amortisation	**(15,651)**	(12,629)
Finance costs	**(2,399)**	(2,263)
Share of profit of associate	**12**	12
Profit before tax	**34,049**	30,505

Disclosure has not been made of segmental assets and liabilities. This is in accordance with IFRS 8 as this measure is not provided regularly to the KCOM Group PLC Board.

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

	Unaudited year ended 31 Mar 2018 £'000	Audited year ended 31 Mar 2017 £'000
Revenue from external customers		
Hull & East Yorkshire	**100,375**	97,921
Enterprise	**88,285**	90,966
National Network Services	**113,212**	141,811
Central	**26**	605
Total	**301,898**	331,303
Inter-segment revenue		
Hull & East Yorkshire	**3,841**	4,354
Central	**(3,841)**	(4,354)
Total	**—**	—
Group total	**301,898**	331,303

Inter-segment sales are charged at prevailing market prices.

None of the revenue, operating profit or net operating assets arising outside the United Kingdom are material to the Group. Revenue of £33.3 million from transactions with one customer within the Enterprise go-to-market segment exceeded 10% of Group revenue. In the prior year, no external customers contributed in excess of 10% of Group revenue.

Notes to the unaudited financial information continued

2. Exceptional items

	Unaudited year ended 31 Mar 2018 £'000	Audited year ended 31 Mar 2017 £'000
Regulatory matters	**(2,361)**	—
Credited to income statement	**(2,361)**	—
- Restructuring costs	**1,638**	7,271
- Regulatory matters	**—**	710
Charged to income statement	**1,638**	7,981
Net (credit)/charge to operating profit	**(723)**	7,981

The Group recorded an exceptional credit of £2.4 million relating to regulatory matters (2017: charge £0.7 million). The credit resulted from an industry wide settlement which arose as a result of a breach in BT Openreach's contractual and regulatory obligations relating to compensation for misapplying 'Deemed Consent'.

The Group has incurred high levels of restructuring costs in recent years as part of transformation activity (see the performance review for more information). The Directors recognise the need to differentiate those costs outside the normal course of business from the underlying trading performance. Management scrutinises all restructuring costs on a line by line basis in order to determine the appropriate treatment. During the year exceptional restructuring costs of £1.6 million were incurred in relation to four main areas:

- Strategic exit from certain products and markets (£0.4 million). This relates to the Group's decision to exit areas of the business that are not of strategic focus. The cost largely relates to the closure of our outsourced Contact Centres, within the Hull & East Yorkshire segment, on 31 March 2018, following the end of our largest customer contract.
- Transformation of project delivery capability (£0.4 million). The Group has undertaken a discrete project designed to improve and de-risk our delivery of complex customer contracts. This transformation will enable us to deliver in-flight and future contracts more profitably and help avoid a re-occurrence of the losses on specific contracts incurred in both the current and prior years. We plan for this transformation to continue into the year ended 31 March 2019.
- Transformation of central functions (£0.4 million). The Group has carried out a structural re-organisation of some of its central functions, including HR and Legal, in order to deliver more efficient support for the go-to-market segments. The Group has also begun a process of the centralisation of the technical and customer support teams into centres of excellence designed to provide an improved customer experience.
- Redundancy costs relating to prior year transformation activity (£0.4 million). These costs were incurred as a result of strategic decisions made in the prior year in order to ensure we have the right people with the right skill set in the right areas. The benefits associated with these costs have been realised in the current financial year and are expected to continue into future periods.

The combined effect of these items is a charge of £0.1 million (2017: credit £1.6 million) in respect of current tax and £Nil (2017: £Nil) in respect of deferred tax.

Cash flow impact of exceptional items is an outflow if £1.1 million (2017: £8.3 million). The impact on working capital of exceptional items was an increase of £1.8 million.

Notes to the unaudited financial information continued

3. Finance costs

	Unaudited year ended 31 Mar 2018 £'000	Audited year ended 31 Mar 2017 £'000
Bank loans, overdrafts and other loans	**1,401**	1,195
Retirement benefit obligations	**389**	375
Finance lease and hire purchase contracts	**69**	110
	1,859	1,680
Amortisation of loan arrangement fees	**416**	583
Provision: unwind of discount	**124**	—
Charged to profit before tax	**2,399**	2,263

4. Taxation

The charge based on the profit for the year comprises:

	Unaudited year ended 31 Mar 2018 £'000	Audited year ended 31 Mar 2017 £'000
UK corporation tax		
– current tax on profits for the year	**3,865**	3,889
– adjustment in respect of prior years	**(558)**	(905)
Total current tax	**3,307**	2,984
UK deferred tax		
Origination and reversal of timing differences in respect of:		
– profit for the year	**1,740**	1,356
– change in rate	**(309)**	672
– adjustment in respect of prior years	**540**	214
– charge in respect of retirement benefit obligation	**1,293**	517
Total deferred tax	**3,264**	2,759
Total taxation charge for the year	**6,571**	5,743

Notes to the unaudited financial information continued

4. Taxation continued

Factors affecting tax charge for the year

	Unaudited year ended 31 Mar 2018 £'000	Audited year ended 31 Mar 2017 £'000
Profit before taxation	**34,049**	30,505
Profit before taxation at the standard rate of corporation tax in the UK of 19% (2017: 20%)	**6,469**	6,101
Effects of:		
– income not subject to tax	**—**	(379)
– expenses not deductible for tax purposes	**429**	40
– adjustment in respect of prior years	**(18)**	(691)
– change in rate reflected in the deferred tax asset	**(309)**	672
Total taxation charge for the year	**6,571**	5,743

5. Earnings per share

	Unaudited year ended 31 Mar 2018 No.	Audited year ended 31 Mar 2017 No.
Weighted average number of shares		
For basic earnings per share	**511,133,847**	510,384,583
Share options in issue	**4,730,273**	4,643,349
For diluted earnings per share	**515,864,120**	515,027,932

	Unaudited year ended 31 Mar 2018 £'000	Audited year ended 31 Mar 2017 £'000
Earnings		
Profit attributable to equity holders of the company	**27,478**	24,762
Adjustments:		
Exceptional items	**(723)**	7,981
Tax on exceptional items	**137**	(1,596)
Adjusted profit attributable to equity holders of the company	**26,892**	31,147

5. Earnings per share continued

	Unaudited year ended 31 Mar 2018 Pence	Audited year ended 31 Mar 2017 Pence
Earnings per share		
Basic	**5.38**	4.85
Diluted	**5.33**	4.81
Adjusted basic	**5.26**	6.10
Adjusted diluted[1]	**5.21**	6.05

[1] For the definition and purpose of the alternative performance measure stated here and used subsequently throughout this document, please see the glossary. The glossary also provides a reconciliation to the closest equivalent IFRS measure.

6. Dividends

	Unaudited year ended 31 Mar 2018 £'000	Audited year ended 31 Mar 2017 £'000
Final dividend for the year ended 31 March 2016 of 3.94 pence per share	**—**	20,354
Interim dividend for the year ended 31 March 2017 of 2.00 pence per share	**—**	10,332
Final dividend for the year ended 31 March 2017 of 4.00 pence per share	**20,664**	—
Interim dividend for the year ended 31 March 2018 of 2.00 pence per share	**10,332**	—
Total	**30,996**	30,686

The proposed final dividend for the year ended 31 March 2018 is 4.00 pence per share amounting to a total dividend of £20.7 million. In accordance with IAS 10 (Events after the balance sheet date), dividends declared after the balance sheet date are not recognised as a liability in this financial information.

7. Retirement benefit obligation

The movements in the net defined benefit obligation over the year and the amounts recognised in the balance sheet are detailed below:

	Main scheme £'000s	**Data scheme £'000**	**Total £'000**
At 1 April 2017 (audited)	(12,690)	(7,001)	(19,691)
Net finance costs	(241)	(148)	(389)
Net administrative expenses	(711)	(389)	(1,100)
Contributions under asset-backed partnership	2,398	328	2,726
Deficit repair payments	4,496	2,248	6,744
Actuarial remeasurements	4,029	174	4,203
At 31 March 2018 (unaudited)	**(2,719)**	**(4,788)**	**(7,507)**

Notes to the unaudited financial information continued

7. Retirement benefit obligation continued

	Main scheme £'000s	Data scheme £'000	Total £'000
At 31 March 2017 (audited)			
Present value of defined benefit obligations	(229,723)	(41,506)	(271,229)
Fair value of plan assets	217,033	34,505	251,538
Deficit	**(12,690)**	**(7,001)**	**(19,691)**
At 31 March 2018 (unaudited)			
Present value of defined benefit obligation	(221,282)	(40,502)	(261,784)
Fair value of plan assets	218,563	35,714	254,277
Deficit	**(2,719)**	**(4,788)**	**(7,507)**

Principal financial assumptions

	2018		2017	
	Main scheme %	**Data Scheme %**	Main scheme %	Data Scheme %
RPI Inflation	**3.10**	**3.10**	3.15	3.15
CPI Inflation	**2.10**	**2.10**	2.15	2.15
Rate of increase to pensions in payment	**1.93**	**3.78**	1.97	3.78
Discount rate for scheme liabilities	**2.50**	**2.50**	2.50	2.50

8. Movement in net debt

	Unaudited year ended 31 Mar 2018 £'000	Audited year ended 31 Mar 2017 £'000
Opening net (debt)/funds	**(42,433)**	7,412
Closing net debt	**(62,605)**	(42,433)
Increase in net debt in the year	**(20,172)**	(49,845)
Reconciliation of movement in the year		
Net cash flow from operations	**54,498**	28,571
Cash capital expenditure	**(43,935)**	(47,220)
Proceeds on sale of property, plant and equipment	**517**	68
Interest	**(1,601)**	(1,257)
Payment of loan issue costs	**—**	(720)
Dividends	**(30,996)**	(30,686)
Purchase of ordinary shares	**(450)**	(1,778)
Finance leases[1]	**2,029**	2,915
Other	**(234)**	262
Increase in net debt in the year	**(20,172)**	(49,845)

[1] Represents the movement in finance lease liabilities during the year.

Notes to the unaudited financial information continued

8. Movement in net debt *continued*

Net debt comprises:

	Unaudited year ended 31 Mar 2018 £'000	Audited year ended 31 Mar 2017 £'000
Cash and cash equivalents (including bank overdrafts)	**13,223**	10,190
Bank loans	**(73,821)**	(48,587)
Finance leases	**(2,007)**	(4,036)
Net debt	**(62,605)**	(42,433)

9. Basis of preparation

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

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

The unaudited consolidated financial information in this report has been prepared in accordance with the accounting policies disclosed in the Group's 2017 Annual report and accounts, except as disclosed in Note 10.

The financial information set out in this announcement does not constitute the company's statutory accounts within the meaning of Section 434 of the Companies Act 2006 for the years ended 31 March 2018 or 2017. The financial information for the year ended 31 March 2017 is derived from the statutory accounts for that year, which have been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain a statement under Section 498 of the Companies Act 2006. The statutory accounts for the year ended 31 March 2018 will be finalised on the basis of the financial information presented by the Directors in this unaudited preliminary announcement and will be delivered to the Registrar of Companies following the Annual General Meeting.

The financial information contained within this preliminary announcement was approved by the Board on 5 June 2018 and has been agreed with the Company's auditors for release.

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

Notes to the unaudited financial information continued

9. Basis of preparation *continued*

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

10. Accounting policies

The accounting policies adopted are consistent with those published in the Group's 2017 Annual report and accounts with the exception of the following policies which have been refined during the year. These policies have not changed in function, but the wording has been amended to improve clarity and transparency. Retrospective application of these accounting policy amendments would have no impact on the previously reported results.

Revenue recognition
Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods supplied, stated net of discounts, returns and value-added taxes. The Group recognises revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from calls is recognised in the Consolidated income statement at the time the call is made over the Group's network. Revenue from rentals is recognised evenly over the rental period.

Revenue from product sales is recognised at the point of effective transfer of risk and reward. Revenue from production of directories is recognised at the point when the directory is published. For large long-term annuity and multiple element customer contracts the Group is able to distinguish between the installation and the in-life service phases of a contract. Contractually agreed revenues are recognised for each phase unless they do not represent a fair and market value for the work performed. Should contractually agreed revenues not represent a fair and market value then revenues are allocated between the two phases by reference to the overall contract margin, the expected costs of performing each phase and the typical selling prices had the phases been contracted separately. Revenue is recognised on the following basis for each phase:

- Installation – within this phase revenue relating to resources and services is accounted for on a stage of completion basis with reference to the progress made towards fulfilling our contractual obligations. Revenue related to equipment is accounted for based on the point of effective transfer of risks and rewards (shipment); and
- In-life service – revenue for this phase is recognised in line with the obligation to provide service as dictated by customer contracts.

Pre-contract costs, such as bid costs, on key contract wins are expensed as and when incurred.

Revenue arising from the provision of other services, including maintenance contracts, is recognised in the accounting period in which services are rendered, by reference to stage of completion of the specific transaction, and assessed on the basis of the actual service provided as a proportion of the total services to be provided.

10. Accounting policies *continued*

Exceptional items

Exceptional items are presented whenever significant expenses are incurred or income received as a result of events considered to be outside the normal course of business, where the unusual nature and expected frequency merits separate presentation to assist comparisons with previous periods. Items which are always classified as exceptional are:

- Regulatory matters;
- Onerous property leases;
- Impairment of goodwill; and
- Termination costs associated with Executive Directors.

Restructuring and transformational costs are considered on a case by case basis as to whether they meet the exceptional criteria. Other items are considered against the exceptional criteria based on the specific circumstances. The presentation is consistent with the way financial performance is measured by management and reported to the Board.

Taxation

The tax expense represents the sum of the current tax and deferred tax expense.

The current tax is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and/or items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised generally for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced or increased to the extent that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items recognised in other comprehensive income or directly to equity. In this case the deferred tax is also recognised in other comprehensive income or directly in equity, respectively.

Prior year adjustments to current and deferred taxes are recognised if the estimated tax position differs from the final tax position subsequently agreed with the taxation authority.

Research and development (R&D) tax reliefs are recognised as a credit to profit before taxation in the year in which relief is claimed.

Claims for R&D relief can be made up to two years after the end of the accounting period to which it relates, therefore the period in which the claim is recognised is not necessarily the same as the period in which the costs were borne. Unclaimed reliefs are not recognised.

Notes to the unaudited financial information continued

10. Accounting policies *continued*

Pensions

Defined contribution

Obligations for contributions to the defined contribution (money purchase) scheme are charged to the income statement in the period they fall due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Defined benefit

For defined benefit retirement schemes, the cost of providing benefits is determined using a building block approach, with actuarial valuations being carried out at each balance sheet date. Remeasurements are recognised in full in the period in which they occur and are recognised in equity and presented in the Consolidated statement of comprehensive income.

The current and past service costs of the scheme (the increase in the present value of employees' future benefits attributable to the current or prior periods) are charged to the income statement in the period. The cost or benefit of committed settlements and curtailments is recognised immediately in the income statement. The interest cost of the scheme is recognised in the income statement in the period to which it relates.

The retirement benefit obligation recognised on the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost and as reduced by the fair value of scheme assets. Should an actuarial valuation result in a net asset position then the amount recognised will be limited to the recoverable amount. The recoverable amount shall be determined with reference to the agreements made between the Group and the trustees within the pension scheme rules.

Provisions

A provision is recognised on the balance sheet when the Group has a present, legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Certain provisions are treated as exceptional items, as set out in our exceptional items accounting policy.

Provisions for onerous contracts are recognised should the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The estimated onerous element of the contract is recognised in full in the period in which the contract is identified as onerous. The assessment of whether a multi-element customer contract is onerous is undertaken separately for the installation and in-life phases should the revenues for that contract also be recognised on that basis.

11. Principal risks and uncertainties

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

Notes to the unaudited financial information continued

12. Changes to reporting

IFRS 15

We will report our financial statements under IFRS 15 from the six months ended 30 September 2018. We will adopt IFRS 15 on a modified retrospective basis in our 2018/19 financial statements. Accordingly we will not restate prior year comparatives for the effect of IFRS 15 but will instead restate our 1 April 2018 opening reserves for the full cumulative impact of adopting this standard. We will provide a reconciliation of our primary financial statements under IAS 18 to our primary financial statements under IFRS 15 in our Annual Report 2018/19. We are in the process of finalising the impact of the standard including the final transition adjustment to retained earnings. We have estimated that the likely impact on transition at 1 April 2018 will result in a movement in retained earnings of between a £0.5 million increase and £0.5 million decrease before tax.

We expect the principal areas of impact will be:

- Hull & East Yorkshire: a c.£2m reduction in EBITDA; PBT neutral
- Enterprise: a c.£3m reduction in revenue; EBITDA and PBT neutral

Other areas of impact include the treatment of licenses, connections and commissions

13. Related party transactions

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

There are no other material related party transactions.

Signed by Order of the Board on 5 June 2018 by:

Glossary

Alternative Performance Measures

In response to the Guidelines on Alternative Performance Measures (APMs) issued by the European Securities and Markets Authority (ESMA), we have provided additional information on the APMs used by the Group. The Directors use the APMs listed below as they are critical to understanding the financial performance of the Group. As they are not defined by IFRS, they may not be directly comparable with other companies who use similar measures.

Measure	Closest equivalent IFRS measure	Definition and purpose	Reconciliation to closest equivalent IFRS measure of performance
Profit measures			
EBITDA before exceptional items ("EBITDA")	Profit before tax	EBITDA before exceptional items is the key measure used by management to monitor the underlying performance of the Group. EBITDA before exceptional items is also reported to the Board, is incorporated in banking covenants and is an important measure for setting remuneration. EBITDA before exceptional items is important to the users of the accounts as it assists with comparing performance from previous periods. The items classified as exceptional items are described in Note 2. EBITDA before exceptional items is defined as 'profit before tax' before share of profit before associates, finance costs, amortisation, depreciation and exceptional items.	A reconciliation of this measure is provided in Note 1 of the financial infornation.
Contribution	Profit before tax	An equivalent measure to 'EBITDA before exceptional items' for each of the Group's market segments. The metric is used by management and the Board to compare performance across segments.	A reconciliation of this measure is provided in Note 1 of the financial information.
Adjusted basic earnings per share	Basic earnings per share	This provides additional information regarding earnings per share attributable to the underlying activities of the business. Basic earnings per share based upon profit after tax adjusted for the impact of exceptional items.	A reconciliation of this measure is provided in Note 5 of the financial information.
Adjusted diluted earnings per share	Diluted earnings per share	This provides additional information regarding diluted earnings per share attributable to the underlying activities of the business. Diluted earnings per share based upon profit after tax adjusted for the impact of exceptional items.	A reconciliation of this measure is provided in Note 5 of the financial information.

Glossary continued

Alternative Performance Measures continued

Measure	**Closest equivalent IFRS measure**	**Definition and purpose**	**Reconciliation to closest equivalent IFRS measure of performance**
Cash flows and net debt measures			
Net debt	Cash and cash equivalents, bank overdrafts, finance leases (current and non-current) and bank loans	Net debt is important as it allow management to assess available funds by calculating how much headroom there is within the Group’s borrowing facilities. It is used in the monitoring, reporting and planning of cash flows, and for the purpose of monitoring compliance with the terms of the Group's Facilities. Net debt to EBITDA is a key ratio used by external stakeholders. Net debt is cash and cash equivalents, bank overdrafts, finance leases (current and non-current) and bank loans.	A reconciliation of this measure is provided in Note 8 of the financial information.
Cash capital expenditure	Net cash used in investing activities	A proportion of our capital expenditure is obtained under financing arrangements therefore, compared to captial additions, this measure allows management to monitor, report and plan the cash flows relating to capital projects. This measure is important to the users of the accounts as it provides the outflow of cash expenditure in the current year relating to assets purchased in current and prior years. Cash capital expenditure is net cash used in investing activities before proceeds from sale of property, plant and equipment plus capital element of finance lease repayments.	Reported in the consolidated cash flow: Net cash used in investing activites (£41.3 million) add back proceeds from sale of property, plant and equipment (£0.5 million) plus capital element of finance lease repayments (£2.1 million).
Underlying working capital movement	No direct equivalent	This measure is used by management as it provides a more appropriate reflection of the working capital movement by excluding certain movements relating to exceptional items. Underlying working capital movement is working capital movement less working capital movement due to exceptional items.	Increase in working capital quoted in consolidated cashflow (£4.2 million) less increase due to exceptional items quoted in Note 2 (£1.8 million).