KCOM GROUP PLC (KCOM.L)
UNAUDITED PRELIMINARY RESULTS FOR YEAR ENDED 31 MARCH 2017

KCOM Group PLC (KCOM.L) announces its full year results for year ended 31 March 2017.

Highlights

- Results in line with expectations, reduction from last year largely due to continuing decline in legacy business and additional cost of the national fibre network outsource
- Continued investment in fibre network in Hull & East Yorkshire ahead of schedule, supporting a 3% increase in consumer sales
- Enterprise revenue grown by 5%, with top five customers growing by 16%
- Continued focus on optimising cost base with year-on-year reduction in indirect costs
- Strengthened management team and organisation, aligned to deliver our medium term strategy
- Strong cash management with favourable year-on-year underlying working capital movement
- Recommended final dividend of 4.00p to make 6.00p per share for the full year

	Unaudited Year ended 31 March 2017 (£m)	**Audited Year ended 31 March 2016 (£m)**	**Change over prior year (%)**
Performance measures			
Revenue	331.3	349.2	(5.1)
EBITDA[1,3]	67.6	74.9	(9.7)
Profit before tax[1]	38.5	47.9	(19.6)
Adjusted basic earnings per share (pence)[2]	6.10	7.54	(19.1)
Cash capital expenditure[3]	(47.2)	(31.3)	
Reported results			
Profit before tax	30.5	88.7	(65.6)
Basic earnings per share (pence)	4.85	13.96	(65.3)
Net (debt)/funds[3]	(42.4)	7.4	
Proposed final dividend (pence)	4.00	3.94	1.5
Proposed full year dividend per share (pence)	6.00	5.91	1.5

[1] Before exceptional items
[2] Adjusted basic EPS is basic EPS adjusted for exceptional items (including the tax impact of exceptional items)
[3] For definition and reconciliation to statutory measure see glossary

Graham Holden, Non-Executive Chairman said:

"Our objective is to deliver long-term sustainable value for our shareholders. Our strategy is designed to offer shareholders a combination of income generation and value accretion. Hull & East Yorkshire is core to the strategic direction of KCOM, and receives the majority of the Group's investment. We are fully committed to completing the fibre deployment across our market to deliver premium services both to homes and businesses. This should deliver long-term sustainable cash generation, to continue to support our dividend policy.

Our Enterprise business is focused on market areas, where we have seen good growth and where we have market leading skills.

We are targeting development in this area to provide momentum in shareholder value. A key part of our growth this year comes from additional business from existing customers who recognise the value we can add to their business.

While we continue the investment in our fibre deployment and further develop our Enterprise business, I am pleased to confirm that the Board is recommending, subject to shareholder approval, a final dividend of 4.00 pence per share, in accordance with our existing commitment to deliver a minimum full year dividend of 6.00 pence per share for both this year, and the year ending 31 March 2018. This reflects both our confidence in the strategy being executed by the management team and longer term prospects"

Bill Halbert, Chief Executive said:

"We are reporting another period of strategic and operational progress and remain focused on continuing to reposition the business as a provider of fibre-enabled services and IP-based solutions. Our fibre deployment in Hull & East Yorkshire remains on schedule to reach 150,000 premises by December 2017 and we continue to see high levels of customer take-up. In Enterprise, we have strengthened our sales, delivery management and technical capability to respond quickly to customer demand and create a scalable operating model as demand grows."

Our business is focused on three distinct market segments.

Hull & East Yorkshire: a stable, income-generating segment focused on our regional market. Our plan here is to grow through continued broadband penetration and the introduction of additional services that exploit our continued investment in the market leading fibre network.

Enterprise: our engine for future growth. Our focus is to grow scale and capability in the provision of complex IP-related communications and IT solutions to the enterprise market.

National Network Services: our national, connectivity based segment, where we seek to maximise the value from our legacy investment in national network infrastructure with a tight focus on the mid-market's need for connectivity-based services.

Progress

At the beginning of the financial year, we aligned all of our business activities under a single brand. This is enabling us to simplify the way we work and to adapt the size and skills of our teams to better support our core markets. We strengthened our management team at Group level and across our Enterprise segment to help to align the business behind our core market strategy and to drive performance.

As we indicated at the half year, we have tightened our focus on the two segments (Hull & East Yorkshire and Enterprise) that provide sustainable opportunities for the business in terms of delivering dividend support and future growth in overall shareholder value.

The disposal of certain national network assets last year was a fundamental part of this repositioning. The proceeds received from this sale are being re-invested in the deployment of fibre in Hull & East Yorkshire and continuing the transformation of the business.

During the second half of the year we analysed our shared costs in order to better allocate them to our market segments. This improved insight is helping us to optimise our cost base going forward.

Hull & East Yorkshire

In our Hull & East Yorkshire segment, our focus is on exploiting the value from the continuing investment in our network, particularly our ultra-fast fibre capability, through the introduction of quad-play services to consumers and additional network-based services to businesses. We have a total of approximately 145,000 consumer and business customers in this segment.

Demand for our fibre broadband across both business and consumer markets has remained high during the year with average take-up rates in excess of 30% where our fibre is available and we remain on target to make those services available to more than two thirds of premises by December 2017.

Building on this fibre capability, towards the end of the calendar year, we plan to introduce an innovative approach to a TV proposition, which importantly will provide also the platform for further in-home ‘over the top’ content services and applications.

The anticipated decline in revenue generated from our contact centre and media services has continued and we expect this contribution to further reduce over the next year.

Enterprise

Our best growth opportunity is within our Enterprise segment providing IT and integration services to UK-based enterprises. We have a primary focus on the development and support of IP-based solutions and services and have particular skills and experience in taking complex multi-location on premise call centres to the cloud. This growing market for Contact Centres as a Service and professional cloud deployment for enterprises should mean that our Enterprise segment continues to develop as an asset light business with strong margins.

This segment represents the biggest opportunity for growth and we remain optimistic about future progress and our ability to exploit the opportunities available. Current customers include BUPA, HMRC, Rail Delivery Group and Shoosmiths and each has grown from its initial contract size. New business has been signed with clients across a range of sectors, including Hastings Direct (Insurance), C Hoare & Co (Financial Services) and Dugout (Entertainment).

The growth in our IP solutions activity is encouraging and the potential for this continues to develop, exploiting our unique combination of capabilities across cloud, internet, IT and communications. While we have seen early signs of revenue growth in this segment, margins were held back in the year, as we recognised the impact of incurred and anticipated cost overruns on the development stages of two fixed price, complex software implementations for a single customer. We continue to maintain a strong relationship with the customer, which we expect to continue to grow successfully.

Following those early successes and the valuable experience we have gained in their implementation, we have invested in strengthening our sales leadership and delivery capabilities, including flexible resourcing systems and resource pooling. We expect these actions to result in a stronger pipeline of opportunities and margin expansion in the coming year.

National Network Services

Our National Network Services segment focuses on delivering connectivity based services to national organisations in both the direct and indirect market.

This segment seeks to maximise the value of our historical investment in national network platforms and, while we expect overall revenues to decline in this segment as a number of legacy contracts come to an end, there are some areas of this market in which we can compete without the need for substantial investment. Primarily this is in the provision of multi-site wide area networks and other associated services. Existing customers for such services include RNLI, One Stop, Furniture Village and Domino's.

We continue to seek ways to limit the effect of the decline and explore other solutions as appropriate.

Outlook

Evidenced by the progress made over the past year, the Board is confident in the transition of KCOM into a regional fibre-based services provider and a provider of complex IP solutions to the enterprise market. We remain focused on creating a simplified business, with a cost base better aligned to the growth opportunities in our core markets that the Board believes will generate long-term sustainable returns and growth for shareholders. Whilst we expect to make further progress in both Hull & East Yorkshire and Enterprise, as we transition away from commoditised services, we expect there to be a further decline in revenues and margins associated with our legacy activities.

Consistent with our existing commitment to a minimum full year dividend of 6.00p per share, the Board is recommending a final dividend of 4.00p per share. Subject to shareholder approval at the company's Annual General Meeting on 21 July 2017, the final dividend will be paid on 1 August 2017 to shareholders on the register as at 23 June 2017.

For further information please contact:

Bill Halbert, Chief Executive Officer
Jane Aikman, Chief Financial Officer
Cathy Phillips, Investor relations
KCOM Group PLC

01482 602595

Lulu Bridges / Mike Bartlett
Tavistock Communications

020 7920 3150

Performance review

- Overall results in line with expectations, with operational and strategic progress in focus areas
- Revenue is lower than the prior year, due to the continuing decline of legacy network contracts
- Group EBITDA is lower than prior year, as a result of the lower revenue, additional costs of the national fibre network outsource and overrun of project costs in relation to a specific Enterprise customer
- Continued focus on the cost base with year-on-year reduction in indirect costs
- Profit before tax is lower than prior year due to the reduced EBITDA and higher depreciation and amortisation charges, following increased investment in recent years
- Exceptional items of £8.0 million as a result of ongoing business transformation and reductions to our cost base, leading to a reduction in headcount in the second half of the year
- Re-investment of proceeds from sale of network assets in the fibre deployment in Hull & East Yorkshire is progressing well
- Strong net debt management with favourable year-on-year underlying working capital movement
- Intention to a pay a 6.00p dividend for the year ending 31 March 2018 reconfirmed

Group performance

Our results for the period show an anticipated decrease in revenue and EBITDA. These arose, as expected, from our strategic repositioning away from our commoditising legacy business towards IP-based solutions, coupled with the additional cost of our national fibre network outsource, following the sale of certain national network assets in the prior year.

The performance in our Hull & East Yorkshire segment continues to benefit from strong fibre take-up, funded in part by the proceeds from the sale of these network assets.

In the Enterprise market, where we are uniquely positioned, we continue to shift our focus towards significant integration and collaboration contracts with key customers. The results for the year show growth and good progress strategically. Margins however were held back, as a result of cost overruns on two fixed price contracts relating to some complex software development projects for a particular customer.

In September, we completed the extension of our banking arrangements, securing a facility of £180 million for a further five years through to December 2021, on existing favourable terms. This medium-term certainty reduces the Group’s risk and provides further opportunities for growth.

Segmental analysis

In the prior year, we explained the changes to our segments, which arose as a result of the move to one KCOM brand. During the year, we have continued to refine our segments to align with the way the business is managed and financial performance is analysed.

This included:
- further analysing our shared cost base in order to allocate costs to the appropriate market segment
- refining the customers and related activities allocated to our Enterprise segment. Contracts that relate to connectivity and network only business are now managed

with our other contracts of this nature in the National Network Services segment. Enterprise is now focused on growth IP solutions business.

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 the Group's underlying performance. A reconciliation of the Group's pre-exceptional results, along with the definition of contribution is set out in the glossary.

Hull & East Yorkshire

	Unaudited 31 Mar 2017 Revenue	Unaudited 31 Mar 2016 Revenue	**Unaudited 31 Mar 2017 Gross margin**	Unaudited 31 Mar 2016 Gross margin	**Unaudited 31 Mar 2017 Contribution**	Unaudited 31 Mar 2016 Contribution
	£m	£m	**£m**	£m	**£m**	£m
Consumer	**56.1**	54.7	-	-	-	-
Business	**29.7**	31.2	-	-	-	-
Wholesale	**11.0**	11.6	-	-	-	-
Media/contact centres	**5.5**	7.0	-	-	-	-
Total	**102.3**	104.5	**78.5**	79.2	**60.4**	59.8

The success of our ultra-fast Fibre-to-the-Premise (FTTP) continues, in part funded by the sale of certain national network assets in the prior year. Our FTTP deployment cost compares well with our peers. We believe both our cost to pass and cost to connect are the lowest in the UK based on available comparable benchmark information. In Europe, lower costs exist in areas of multiple dwellings. Our costs to date are 7% lower than we had initially anticipated and our take-up rates are 3% higher.

Our deployment is ahead of target and we expect to pass 150,000 premises (more than two thirds of our addressable market) by December 2017.

During the year we have passed 45,000 premises, taking our total to 137,000 and take-up remains strong with 19,000 premises connected in the year (including 1,400 businesses), taking the total connected to 43,000.

Revenue has increased from prior year by 3% in our consumer channel. Our fibre deployment has enabled us to access more customers and has supported a 3% increase in Average-Revenue-per-User (ARPU[1]). We continue to achieve market leading take-up rates in excess of 30% of homes passed to date. Broadband connection volumes have grown in the year and we have progressed our product development roadmap and plan to introduce new over the top services during the remainder of 2017.

The small decline in revenue in the business channel can be explained by:

- the impact of the Government's superfast broadband scheme in the prior year, with over 1,000 small businesses connecting to our fibre service under this voucher scheme (£1.1 million revenue);
- lower year-on-year public sector spend, following migration to a Public Services Network (£0.7 million revenue).

After taking account of these factors, underlying revenue increased in our business channel.

[1] Refer glossary

Wholesale revenues have declined slightly during the year as a result of lower voice revenues and, as anticipated, our non-core contact centre and publishing revenues have continued to decline.

Despite a small overall decrease in revenue within this segment, our underlying contribution has increased by 1% in comparison to the prior year.

Enterprise

	Unaudited 31 Mar 2017 Revenue £m	Unaudited 31 Mar 2016 Revenue £m	**Unaudited 31 Mar 2017 Gross margin £m**	Unaudited 31 Mar 2016 Gross margin £m	**Unaudited 31 Mar 2017 Contribution £m**	Unaudited 31 Mar 2016 Contribution £m
Projects	**48.2**	49.0	-	-	-	-
Managed service	**30.6**	24.2	-	-	-	-
Network	**12.2**	13.5	-	-	-	-
Total	**91.0**	86.7	**25.6**	28.6	**4.5**	8.2

During the year, we have seen year-on-year revenue growth, through growing relationships with key customers such as HMRC and NFUM. Our reputation in this segment is continuing to strengthen, as we develop our unique capability of delivering IP-based solutions which combine cloud, internet, IT and communications. Revenue has increased by 5% from prior year and our year-on-year revenue to our top five customers has grown by 16%.

Despite the revenue growth, margin and contribution for the year were lower than prior year due to the recognition of an estimated overall cost overrun on two fixed price, complex software developments for one customer. These estimated overrun costs have been recognised as a loss of £3.6 million for this stage of the contract.

We have strengthened the delivery management for those projects, together with other changes and we continue to maintain a strong relationship with the customer.

In the prior year we benefited from higher margin project development based revenues from our largest customer, HMRC.

National Network Services

	Unaudited 31 Mar 2017 Revenue £m	Unaudited 31 Mar 2016 Revenue £m	**Unaudited 31 Mar 2017 Gross margin £m**	Unaudited 31 Mar 2016 Gross margin £m	**Unaudited 31 Mar 2017 Contribution £m**	Unaudited 31 Mar 2016 Contribution £m
Large Corporate	**47.4**	60.9	-	-	-	-
SMB	**52.6**	55.2	-	-	-	-
Partners	**41.8**	47.1	-	-	-	-
	141.8	163.2	**41.0**	44.9	**16.0**	19.3

Without scale, it is increasingly difficult to differentiate our services in this highly commoditised market and, as expected, this segment has seen a year-on-year decline in both revenue and contribution.

Our focus during the year has been at the larger end of the mid-market, where we can provide more value, this has resulted in higher churn with some of our smaller customers.

This segment includes network customers which were formerly reported in our Enterprise segment (Large Corporate). As indicated previously, revenue from these customers has declined year-on-year. We anticipate a further decline of c£25.0 million in the year ending 31 March 2018, however, we expect the rate of decline to slow after the end of that year.

Central

Central costs include PLC and corporate costs, where allocation to the underlying segments would not improve understanding of those segments. These costs include share based payments and pensions, along with the residual Group cost of finance, HR, risk, legal and communications, once appropriate recharges have been made to the three business segments.

Year-on-year, underlying central costs remain broadly flat, with slightly higher overall costs being attributable to a higher share based payment charge.

Exceptional items

Our continued business transformation has resulted in the need to continue the restructuring of our business to ensure we have the right number of employees with the right skill sets as well as bringing together our activities under a single brand. As a result, and in line with our accounting policy, the Group incurred exceptional costs of £7.3 million during the period. These costs relate to the KCOM rebrand, alongside redundancy costs, systems costs and advisory costs as we 'right-size' the business.

Exceptional items also include £0.7 million relating to regulatory matters (Note 2).

Refinancing, net debt and cash flow

Net debt at 31 March 2017 is £42.4 million (31 March 2016: Net funds of £7.4 million), representing a net debt to EBITDA ratio of 0.6x.

We aim to cover the Group's core obligations (pensions, tax and run-rate capital investment), as well as our dividends, from the cash generated from our trading performance. In the year ended 31 March 2017 it covered our core obligations and part of our dividend commitment. We remain committed to the stated dividend policy of a minimum of 6.00p per share for the year ended 31 March 2017 and the year ending 31 March 2018.

The year-on-year increase in net debt arises as a result of capital investment (£47.2 million), dividends (£30.7 million), pensions (£7.7 million), tax (£8.0 million) and cash exceptional items (£8.3 million). As previously reported, the movement during the year also includes an £18.0 million VAT payment to HMRC in relation to the disposal of certain network assets in the prior year.

Underlying working capital was favourable year-on-year. Our days' sales outstanding was 27 (31 March 2016: 32).

In September 2016, we agreed a new five year £180.0 million revolving credit facility, on the same terms as our existing arrangements.

Dividend

The Board is proposing a final dividend of 4.00 pence per share (2016: 3.94 pence), representing a total dividend for the year of 6.00 pence per share (2016: 5.91 pence) consistent with the Board's previously stated commitment of a dividend of no less than 6.00 pence per annum for both the year ended 31 March 2017 and the year ending 31 March 2018.

Subject to shareholder approval at the KCOM Group PLC Annual General Meeting on 21 July 2017, the final dividend will be paid on 1 August 2017 to shareholders registered on 23 June 2017. The ex-dividend date is 22 June 2017.

Pensions

The IAS 19 pension liability at 31 March 2017 is £19.7 million (31 March 2016: £14.4 million). The increase from 31 March 2016 arises as a result of a lower discount rate used to calculate the schemes' liabilities, offset by a strong asset performance.

Our triennial valuation (as at 31 March 2016) has now been agreed with deficit repair payments of £6.7 million across both schemes until the year ending 31 March 2020. In addition to this amount, the Group makes pre-agreed payments to its pension schemes through the asset backed partnerships. The full year payment for both the current year and prior year is £2.7 million.

Capital investment

The Group's capital investment during the year is consistent with previous guidance. The disposal of certain national network assets in the prior year enabled increased capital investment in order to continue to reposition the business.

Cash capital expenditure during the year was £47.2 million (31 March 2017: £31.3 million).

The Group's depreciation and amortisation charge for the period is £26.9 million (31 March 2016: £24.0 million), the increase resulting from the higher capital investment in recent years, which has an ongoing impact on profit before tax.

Tax

The Group's tax charge is £5.7 million (31 March 2016: £17.6 million). The effective tax rate is 19%, this is slightly lower than the prevailing rate of corporation tax due the impact of prior year items, offset by the re-measurement of deferred tax balances. The prior year tax charge includes the impact of the disposal of certain national network assets during the year ended 31 March 2016.

Consolidated income statement

	Note	**Unaudited Year ended 31 Mar 2017 £'000**	Audited Year ended 31 Mar 2016 £'000
Revenue	1	**331,303**	349,222
Operating expenses		**(298,547)**	(257,438)
Operating profit		**32,756**	91,784
Analysed as:			
EBITDA before exceptional items	1	**67,645**	74,937
Exceptional credits	2	**—**	47,331
Exceptional charges	2	**(7,981)**	(6,445)
Depreciation of property, plant and equipment		**(14,279)**	(13,744)
Amortisation of intangible assets		**(12,629)**	(10,295)
Finance costs	3	**(2,263)**	(3,057)
Share of profit of associates		**12**	16
Profit before taxation	1	**30,505**	88,743
Taxation	4	**(5,743)**	(17,609)
Profit for the year attributable to owners of the parent		**24,762**	71,134
Earnings per share			
Basic	5	**4.85p**	13.96p
Diluted	5	**4.81p**	13.82p

Consolidated statement of comprehensive income

	Unaudited Year ended 31 Mar 2017 £'000	Audited Year ended 31 Mar 2016 £'000
Profit for the year	**24,762**	71,134
Other comprehensive (expense)/income		
Items that will not be reclassified to profit or loss		
Remeasurements of retirement benefit obligations	**(12,035)**	12,130
Tax on items that will not be reclassified	**1,738**	(2,426)
Total items that will not be reclassified to profit or loss	**(10,297)**	9,704
Items that may be reclassified subsequently to profit or loss		
Cash flow hedge fair value movements	**—**	(442)
Tax on items that may be reclassified	**—**	(569)
Total items that may be reclassified subsequently to profit or loss	**—**	(1,011)
Total comprehensive income for the year attributable to owners of the parent	**14,465**	79,827

Consolidated balance sheet

	Note	**Unaudited as at 31 Mar 2017 £'000**	Audited as at 31 Mar 2016 £'000
Assets			
Non-current assets			
Goodwill		**51,372**	51,372
Other intangible assets		**45,709**	44,637
Property, plant and equipment		**106,323**	93,592
Investments		**45**	49
Deferred tax assets		**7,836**	8,356
		211,285	198,006
Current assets			
Inventories		**3,075**	2,638
Trade and other receivables		**68,406**	65,431
Cash and cash equivalents	8	**16,093**	14,857
		87,574	82,926
Total assets		**298,859**	280,932
Liabilities			
Current liabilities			
Trade and other payables		**(110,917)**	(126,235)
Current tax liabilities		**—**	(5,459)
Bank overdrafts	8	**(5,903)**	(1,645)
Derivative financial instruments		**—**	(11)
Finance leases	8	**(1,942)**	(3,271)
Provisions for other liabilities and charges		**(377)**	(738)
Non-current liabilities			
Bank loans	8	**(48,587)**	—
Retirement benefit obligation	7	**(19,691)**	(14,350)
Deferred tax liabilities		**(7,498)**	(6,875)
Finance leases	8	**(2,094)**	(3,680)
Provisions for other liabilities and charges		**(1,962)**	(2,401)
Total liabilities		**(198,971)**	(164,665)
Net assets		**99,888**	116,267
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]		**(305,003)**	(288,624)
Total equity		**99,888**	116,267

[1] Included within accumulated losses is a profit after tax of £24.8m (2016: £71.1m)

Consolidated statement of changes in shareholders' equity

	Note	Share capital £'000	Share premium account £'000	Hedging and translation reserve £'000	Accumulated losses £'000	Total £'000
At 1 April 2015 (audited)		**51,660**	**353,231**	**442**	**(341,454)**	**63,879**
Profit for the year		—	—	—	71,134	71,134
Other comprehensive (expense)/income		—	—	(442)	9,135	8,693
Total comprehensive income for the year ended 31 March 2016 (audited)		**—**	**—**	**(442)**	**80,269**	**79,827**
Deferred tax charge relating to share schemes		—	—	—	125	125
Current tax credit relating to share schemes		—	—	—	90	90
Purchase of ordinary shares		—	—	—	(450)	(450)
Employee share schemes		—	—	—	1,468	1,468
Dividends	6	—	—	—	(28,672)	(28,672)
Transactions with owners		—	—	—	(27,439)	(27,439)
At 31 March 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 (unaudited)		**—**	**—**	—	**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 (unaudited)		**51,660**	**353,231**	**—**	**(305,003)**	**99,888**

Consolidated cash flow statement

	Note	**Unaudited Year ended 31 Mar 2017 £'000**	Audited Year ended 31 Mar 2016 £'000
Cash flows from operating activities			
Operating profit		**32,756**	91,784
Adjustments for:			
- depreciation and amortisation		**26,908**	24,039
- (increase)/decrease in working capital		**(18,302)**	23,262
- loss/(profit) on sale of property, plant and equipment		**555**	(47,065)
- non-employee-related pension charges		**655**	656
- share-based payment charge		**1,742**	1,468
Payments made to defined benefit pension schemes		**(7,724)**	(6,565)
Tax paid		**(8,019)**	(7,206)
Net cash generated from operations	8	**28,571**	80,373
Cash flows from investing activities			
Purchase of property, plant and equipment		**(28,403)**	(16,959)
Purchase of intangible assets		**(15,792)**	(11,467)
Proceeds from sale of property, plant and equipment		**68**	90,000
Net cash (used in)/generated from investing activities		**(44,127)**	61,574
Cash flows from financing activities			
Dividends paid	6	**(30,686)**	(28,672)
Interest paid	8	**(1,257)**	(2,794)
Capital element of finance lease repayments		**(3,025)**	(2,829)
Payment of loan issue costs		**(720)**	—
Repayment of bank loans		**(15,000)**	(175,000)
Drawdown of bank loans		**65,000**	70,000
Purchase of ordinary shares	8	**(1,778)**	(450)
Net cash generated from/(used in) financing activities		**12,534**	(139,745)
(Decrease)/increase in cash and cash equivalents		**(3,022)**	2,202
Cash and cash equivalents at the beginning of the year		**13,212**	11,010
Cash and cash equivalents at the end of the year	8	**10,190**	13,212

The working capital increase in 2017 includes the repayment of an £18.0 million VAT creditor arising from the 2016 exceptional gain on the sale of the Group's infrastructure in relation to the sale of certain national network assets.

Notes to the unaudited financial information

1. Segmental analysis

The Group's operating segments are based on the reports reviewed by the KCOM Group PLC Board 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 2017, 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, Enterprise, National Network Services and Central.

In our report and accounts for the year ended 31 March 2016, we explained the changes to our segments which arose as a result of the move from four brands (KC, Kcom, Eclipse and Smart 421), to one brand, KCOM.

The changes included three 'go to market' segments, along with a shared segment. In our disclosure notes we re-presented our results for the year ended 31 March 2016 on this new basis.

During the year, and as part of the Group's evolution, we have continued to refine those segments to align with the way the business is run and financial performance is analysed.

We have further analysed our shared cost base in order to meaningfully allocate to our go to market segments. This provides segmental performance at a lower level in the income statement than disclosed at the half year. This means that the level of residual cost relates only to costs of the central functions with all network costs being allocated to go to market segments. As a result, the costs shown in our shared segment are materially lower than disclosed in our re-presented results for the year ended 31 March 2016 and our interim results for the period ended 30 September 2016. As a result of this change, this segment has been renamed Central.

We have further refined the customers allocated to our Enterprise segment. These are now fewer in number and relate solely to our largest customers where the revenue relates to complex communication and IP-based collaboration services. As a result, a greater proportion of our legacy network customers are now part of our National Network Services segment (renamed from SMB National).

Notes to the unaudited financial information continued

1. Segmental analysis *continued*

A summary of these changes is set out below:

<table>
<tr><th>As reported 31 March 2016</th><th>As reported 30 September 2016</th><th>As reported 31 March 2017</th></tr>
<tr><td>KC
Communication services for consumers and small local businesses within the Hull & East Yorkshire region.</td><td>Hull & East Yorkshire
Communication services for consumers and small local businesses within the Hull & East Yorkshire region.

Change from 31 March 2016: Allocation principles around shared costs.</td><td>Hull & East Yorkshire
Communication services for consumers and businesses within the Hull & East Yorkshire region.

Change from 31 March 2016: Allocation principles around shared costs.</td></tr>
<tr><td rowspan="2">Kcom
Communication and collaboration services across the enterprise and SMB markets (excluding Hull & East Yorkshire), from our former Kcom, Eclipse and Smart421 brands.</td><td>SMB National
Communication services to our medium-sized business customers outside of Hull & East Yorkshire.

Change from 31 March 2016: A disaggregation of former Kcom segment. Allocation principles around shared costs.</td><td>National Network Services
Connectivity-based services for organisations nationwide.

Change from 30 September 2016: Allocation of certain network-based customers formally in Enterprise. Allocation principles around shared costs. Name change to National Network Services.</td></tr>
<tr><td>Enterprise
Communication and collaboration solutions to our largest customers

Change from 31 March 2016: A disaggregation of former Kcom segment. Changes to cost allocation. Allocation principles around shared costs.</td><td>Enterprise
IP-based communication and collaboration services for UK enterprise customers.

Change from 30 September 2016: Allocation of certain network-based customers to National Network Services. Allocation principles around shared costs.</td></tr>
<tr><td>PLC
Shared service functions, share scheme expenses and certain pension costs.</td><td>Shared
Technical and engineering support, alongside IT, Finance, Estates, Legal and HR services. This segment also includes PLC costs such as share scheme expenses and certain pension costs.

Change from 31 March 2016: Shared costs relating to Technical and engineering support, alongside IT, Finance, Estates, Legal and HR services held centrally and not allocated out to segments.</td><td>Central
PLC costs and corporate costs, where allocation to the underlying segments would not improve understanding of these segments. These costs include share schemes and pensions, alongside the residual cost of finance, HR, risk, legal and communications once appropriate recharges have been made to go to market segments.

Change from 30 September 2016: Costs allocated out to segments, where they can be allocated meaningfully. Name changed to Central.</td></tr>
</table>

Notes to the unaudited financial information continued

1. Segmental analysis *continued*

As disclosed in our Annual Report for the year ended 31 March 2016, KCOM Group continues to have one business-wide EBITDA with segment profitability (contribution) used as the metric of reporting segmental performance. Following the refinement and allocation of our shared costs, contribution represents gross margin less all costs directly attributable to the segment.

The segment information provided to the KCOM Group PLC Board for the reportable segments, for the year ended 31 March 2017 and for the year ended 31 March 2016, is as follows:

	Revenue		**Contribution**	
	Unaudited Year ended 31 Mar 2017 £'000	Unaudited Year ended 31 Mar 2016 £'000	**Unaudited Year ended 31 Mar 2017 £'000**	Unaudited Year ended 31 Mar 2016 £'000
Before exceptional items				
Hull & East Yorkshire	**102,275**	104,515	**60,424**	59,769
Enterprise	**90,966**	86,726	**4,500**	8,192
National Network Services	**141,811**	163,221	**15,959**	19,341
Central	**(3,749)**	(5,240)	**(13,238)**	(12,365)
Total before exceptional items	**331,303**	349,222	**67,645**	74,937
Exceptional items				
Hull & East Yorkshire	**—**	—	**(2,338)**	(2,641)
Enterprise	**—**	—	**(2,624)**	(395)
National Network Services	**—**	—	**353**	47,362
Central	**—**	—	**(3,372)**	(3,440)
Total	**—**	—	**(7,981)**	40,886
Total	**331,303**	349,222	**59,664**	115,823

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

	Unaudited Year ended 31 Mar 2017 £'000	Audited Year ended 31 Mar 2016 £'000
EBITDA post-exceptional items	**59,664**	115,823
Depreciation	**(14,279)**	(13,744)
Amortisation	**(12,629)**	(10,295)
Finance costs	**(2,263)**	(3,057)
Share of profit of associate	**12**	16
Profit before tax	**30,505**	88,743

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.

Notes to the unaudited financial information continued

1. Segmental analysis *continued*

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

	Unaudited Year ended 31 Mar 2017 £'000	Unaudited Year ended 31 Mar 2016 £'000
Revenue from external customers		
Hull & East Yorkshire	**97,921**	98,797
Enterprise	**90,966**	86,696
National Network Services	**141,811**	163,221
Central	**605**	508
Total	**331,303**	349,222
Inter-segment revenue		
Hull & East Yorkshire	**4,354**	5,718
Enterprise	**—**	30
Central	**(4,354)**	(5,748)
Total	**—**	—
Group total	**331,303**	349,222

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.

The Group is not dependent upon a single or small number of external customers.

2. Exceptional items

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

	Unaudited Year ended 31 Mar 2017 £'000	Audited Year ended 31 Mar 2016 £'000
Exceptional items:		
- Profit on sale of national network	**—**	(44,486)
- Restructuring costs	**7,271**	4,130
- Regulatory matters	**710**	(2,845)
- Onerous lease costs	**—**	2,315
Charged/(credited) to operating profit	**7,981**	(40,886)

2. Exceptional items (continued)

Our continued business transformation has resulted in the need to restructure our business in order to provide the right number of people with the right skills and bring together our activities under a single brand. As a result, and in line with our accounting policy, the Group incurred costs of £7.3 million (2016: £4.1 million) during the period. These costs include:

- £3.4 million of redundancy costs;
- £2.4 million of advisory and other costs;
- £1.0 million in relation to KCOM rebranding; and
- £0.5 million of costs supporting the system changes required as part of our restructuring.

The Group also incurred £0.7 million in relation to regulatory matters. As noted in our interim results announcement, we received a provisional notification from Ofcom in October 2016, stating that KCOM may have failed to comply fully with a required "General Condition" between 2009 and 2015. Following representations in response, Ofcom, in February, withdrew that provisional notification. Ofcom has continued its investigation and issued a revised provisional notification in June 2017, in response to which we will make further representations, in order to reach a final conclusion with Ofcom. The regulatory matters item represents a provision for any potential liability in relation to this matter and a credit resulting from a further settlement of claims in relation to an industry wide regulatory ruling dating back to the previous year (2016: £2.8 million credit).

Other exceptional items in the year ended 31 March 2016 relate to:
- Profit on sale of the Group's national telecommunications network (£44.5 million); and
- Onerous lease costs arising as a result of rationalisation of the Group's property portfolio (£2.3 million).

The combined effect of these items is a credit of £1,596,000 (2016: charge of £16,520,000) in respect of current tax and £Nil (2016: credit of £8,343,000) in respect of deferred tax.

The cash flow impact of exceptional items is £8.3million.

3. Finance costs

	Unaudited Year ended 31 Mar 2017 £'000	Audited Year ended 31 Mar 2016 £'000
Finance costs	**1,888**	2,922
Retirement benefit obligation	**375**	954
Fair value gain on financial instruments	**-**	(819)
Charged to profit before tax	**2,263**	3,057

Notes to the unaudited financial information continued

4. Tax

The charge based on the profit for the year comprises:

	Unaudited Year ended 31 Mar 2017 £'000	Audited Year ended 31 Mar 2016 £'000
UK corporation tax:		
– current tax on profits for the year	**3,889**	10,569
– adjustment in respect of prior years	**(905)**	(314)
Total current tax	**2,984**	10,255
UK deferred tax:		
Origination and reversal of timing differences in respect of:		
– profit for the year	**1,356**	7,128
– change in rate	**672**	—
– adjustment in respect of prior years	**214**	(224)
– charge in respect of retirement benefit obligation	**517**	450
Total deferred tax	**2,759**	7,354
Total taxation charge for the year	**5,743**	17,609

Factors affecting tax charge for the year

	Unaudited Year ended 31 Mar 2017 £'000	Audited Year ended 31 Mar 2016 £'000
Profit before taxation	**30,505**	88,743
Profit before taxation at the standard rate of corporation tax in the UK of 20% (2016: 20%)	**6,101**	17,749
Effects of:		
– income not subject to tax	**(339)**	—
– expenses not deductible for tax purposes	**—**	398
– adjustments relating to prior year tax	**(691)**	(538)
– change in rate reflected in the deferred tax asset	**672**	—
Total taxation charge for the year	**5,743**	17,609

Notes to the unaudited financial information continued

5. Earnings per share

Weighted average number of shares	**Unaudited Year ended 31 Mar 2017 No.**	Audited Year ended 31 Mar 2016 No.
For basic earnings per share	**510,384,583**	509,543,003
Share options in issue	**4,643,349**	5,225,401
For diluted earnings per share	**515,027,932**	514,768,404
Earnings	**£'000**	£'000
Profit attributable to equity holders of the company	**24,762**	71,134
Adjustments:		
Exceptional items	**7,981**	(40,886)
Tax on exceptional items	**(1,596)**	8,177
Adjusted profit attributable to equity holders of the company	**31,147**	38,425
Earnings per share		
	Pence	Pence
Basic	**4.85**	13.96
Diluted	**4.81**	13.82
Adjusted basic	**6.10**	7.54
Adjusted diluted	**6.05**	7.46

6. Dividends

	Unaudited Year ended 31 Mar 2017 £'000	Audited Year ended 31 Mar 2016 £'000
Final dividend for the year ended 31 March 2015 of 3.58 pence per share	**—**	18,494
Interim dividend for the year ended 31 March 2016 of 1.97 pence per share	**—**	10,178
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**	—
Total	**30,686**	28,672

The proposed final dividend for the year ended 31 March 2017 is 4.00 pence per share amounting to a total dividend of £20,664,000. 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

Reconciliation of funded status to balance sheet

	Unaudited Year ended 31 Mar 2017 £'000	Audited Year ended 31 Mar 2016 £'000
Present value of defined benefit obligation	**(271,229)**	(227,538)
Fair value of plan assets	**251,538**	213,188
Deficit	**(19,691)**	(14,350)

Principal financial assumptions

	Unaudited Year ended 31 Mar 2017 %	Audited Year ended 31 Mar 2016 %
RPI Inflation	**3.15**	2.95
CPI Inflation	**2.15**	1.95
Rate of increase to pensions in payment	**2.20**	2.00
Discount rate for scheme liabilities	**2.50**	3.45

Notes to the unaudited financial information continued

8. Movement in net (debt)/funds

	Unaudited Year ended 31 Mar 2017 £'000	Unaudited Year ended 31 Mar 2016 £'000
Opening net funds/(debt)	**7,412**	(99,348)
Closing net (debt)/funds	**(42,433)**	7,412
(Increase)/decrease in net debt in the year	**(49,845)**	106,760
Reconciliation of movement in the year		
Net cashflow from operations	**28,571**	80,373
Cash capital expenditure[1]	**(47,220)**	(31,255)
Proceeds on sale of property, plant and equipment	**68**	90,000
Interest	**(1,257)**	(2,794)
Payment of loan issue costs	**(720)**	—
Dividends	**(30,686)**	(28,672)
Purchase of ordinary shares	**(1,778)**	(450)
Finance leases[2]	**2,915**	(53)
Other	**262**	(389)
(Increase)/decrease in net debt in the year	**(49,845)**	106,760

[1] For definition of cash capital expenditure see glossary
[2] Represents the movement in finance lease liabilities during the year

Net (debt)/funds comprises:

	Unaudited Year ended 31 Mar 2017 £'000	Audited Year ended 31 Mar 2016 £'000
Cash and cash equivalents (including bank overdrafts)	**10,190**	13,212
Bank loans	**(48,587)**	1,151
Finance leases	**(4,036)**	(6,951)
Net (debt)/funds	**(42,433)**	7,412

Bank facilities comprise a multi-currency revolving credit facility of £180.0 million, provided by a group of five core relationship banks. The facility matures in December 2021. The Group considers that this facility will provide sufficient funding to support the Group's growth. In addition, short-term flexibility of funding is available under the £10.0 million overdraft facility provided by the Group's clearing bankers.

Notes to the unaudited financial information continued

9. Basis of preparation and publication of unaudited results

General information

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

Basis of preparation

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

The unaudited consolidated financial information in this report has been prepared in accordance with the accounting policies disclosed in the Group's 2016 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 2017 or 2016. The financial information for the year ended 31 March 2016 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 2017 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 6 June 2017 and has been agreed with the Company's auditors for release.

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

Going concern basis

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

10. Accounting policies

The accounting policies adopted are consistent with those published in the Group's 2016 Annual report and accounts.

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.

12. 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 6 June 2017 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.

APM	**Definition**	**Reconciliation to equivalent IFRS measure of performance**
EBITDA	Operating profit before finance costs, taxation, depreciation, amortisation and exceptional items	A reconciliation of this measure is provided in Note 1 of these results
Contribution	An equivalent measure to 'EBITDA before exceptional items' for each of the Group's segments.	A reconciliation of this measure is provided in Note 1 of these results
Net (debt)/ funds	Net (debt)/ funds 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 these results
ARPU	Average revenue per user. This measure is specifically used when analysing the consumer performance within the HEY segment	As ARPU values are not disclosed within these financial statements a reconciliation is not deemed necessary.
Cash capital expenditure	Cash outflow for the purchase of 'property, plant and equipment' and 'other intangible assets'	Reported in the consolidated cash flow: Purchase of property, plant and equipment (£28.4m) plus Purchase of intangible assets (£15.8m) plus Capital element of finance lease repayments (£3.0m)