31 July 2019

KCOM GROUP PLC (KCOM.L) ("KCOM")

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2019

IFRS 15 and IFRS 9 were adopted on 1 April 2018, without restating prior year figures. As a result, for comparative purposes, discussion of our operating results is primarily based on an IAS 11, IAS 18 and IAS 39 basis for all periods presented.

KCOM Group PLC (KCOM.L) announces its full year results for the year ended 31 March 2019. The annual report and accounts for year ended 31 March 2019 are now available to view on KCOM Group PLC's website: www.kcomplc.com. The information provided below is in satisfaction of the requirements of Disclosure Guidance and Transparency Rule 6.3.5.

Summary

- Group revenue[1] declined by 5%
- Group EBITDA[1,2,4] declined by 14%
- Continued progress in Hull & East Yorkshire
  - Roll-out of fibre across existing network complete
  - Percentage of broadband customers taking full fibre continues to increase
- Ongoing challenges in two national businesses in line with revised expectations set at the half year
  - Broadly flat revenue in Enterprise reflecting disappointing order intake performance
  - Revenue decline in National Network Services, due to continuing churn
- Performance of the national businesses results in a non-cash exceptional impairment of goodwill of £51.4 million
- Increase in net debt to £107.2 million (2018: £62.6 million), driven by:
  - Planned capital investment in Hull & East Yorkshire
  - Material one-off working capital outflow as previously communicated in the first half of the year

Financial summary

	IFRS 15/ IFRS 9	**Pro forma IAS 11/ IAS 18/ IAS 39**	IAS 11/ IAS 18/ IAS 39	IAS 11/ IAS 18/ IAS 39
	Audited 2019 £'m	**Unaudited 2019 £'m**	Audited 2018 £'m	Change over prior year
Revenue	**281.6**	**285.9**	301.9	(5%)
EBITDA [2,4]	**57.1**	**58.9**	68.3	(14%)
Profit before tax [2,4]	**24.3**	**24.2**	33.3	(27%)
Adjusted basic earnings per share (pence) [3,4]	**3.84p**	**3.81p**	5.26p	(28%)
Cash capital expenditure [4]	**37.5**	**38.4**	43.9	(13%)
Reported results				
(Loss)/profit before tax	**(31.6)**		34.0	(193%)
Basic (loss)/earnings per share (pence)	**(6.63p)**		5.38p	(112%)
Net debt [4]	**107.2**		62.6	71%
Final dividend per share (pence)[5]	**—**		4.00p	(100%)
Full year dividend per share (pence)[5]	**1.00p**		6.00p	(83%)

[1] All numbers and movements quoted in summary are on a pre-IFRS 15 and IFRS 9 basis.
[2] Before exceptional items.
[3] Adjusted basic EPS is basic EPS adjusted for exceptional items (including the tax impact of exceptional items).
[4] Alternative performance measures, used throughout the results announcement, are defined and reconciled to statutory measures in the Glossary on pages 33 and 34.
[5] As a result of the acquisition of KCOM outlined in Note 13 'Subsequent events', no final dividend was declared for the year ended 31 March 2019.

Post-period end

As per the process set out in detail in Note 13 "Subsequent Events", and hereafter referred to as the 'Acquisition of KCOM', KCOM Group PLC is expected to de-list from the London Stock Exchange in early August, upon completion of the acquisition of KCOM by MEIF 6 Fibre Limited, a wholly-owned indirect subsidiary of Macquarie European Infrastructure Fund 6 SCSp (an investment fund managed by Macquarie Infrastructure and Real Assets (Europe) Limited) ("MEIF 6 Fibre").

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Performance review

Basis of preparation

IFRS 15 "Revenue from contracts with customers" and IFRS 9 "Financial Instruments" have been adopted for the first time in the year ended 31 March 2019.

The Group has applied both these new standards in the current year only. As a result, our reported results in the current year are prepared in accordance with IFRS 15 and IFRS 9 and our comparatives are in line with previous accounting standards (IAS 11, IAS 18 and IAS 39).

In order to aid the comparison of year on year results, the directors have deemed it appropriate to provide and analyse proforma results as well as reported results for the Group on a like for like basis. Proforma results are presented for the year ended 31 March 2019 under the previous accounting standards (IAS 11, IAS 18 and IAS 39) for this purpose.

In aggregate, the standards have an impact of a reduction in revenue of £4.3 million, in EBITDA of £1.9 million and an increase in profit before tax and exceptional items of £0.1million. The impact of both these new standards is cash flow neutral. Further detail is provided in Note 2.

Group performance

On a reported basis, the results for the year show an anticipated decline in Group revenue of £20.3 million (7%) and a decline in EBITDA of £11.2 million (16%), compared to the prior year. When adjusting for the impact of IFRS 15 and IFRS 9, revenue has reduced by £16.0 million (5%) and EBITDA by £9.4 million (14%).

Our Hull & East Yorkshire segment continued to perform well with revenue growth in the Consumer channel. Our conversion and acquisition of customers onto fibre broadband continues to drive higher average revenue per user ("ARPU") across our consumer base.

We have now completed the rollout of fibre across our existing network, passing all properties we are able to pass and making full fibre broadband available across our network. However, there are c. 9,000 premises where third party permission is required (for example to access multi-dwelling units and private land) that will delay fibre availability for those premises.

EBITDA in the Group's Hull & East Yorkshire segment has declined; however, the prior year benefited from a £4.4 million multi-year rebate on network infrastructure hereditament (rateable value). Without the effect of this rebate, adjusting for the impact of IFRS 15 and IFRS 9, EBITDA is broadly flat.

As discussed at the half year, the performance of our two national business segments has been significantly below expectation in the year.

In the Group's Enterprise segment, revenue has remained broadly flat. EBITDA has improved; however, the prior year was impacted by £5.3 million of losses on complex software contracts. Without the effect of these contracts, EBITDA has declined. Trading within the Group's Enterprise segment remains challenging and the Directors now have lower future growth expectations for this segment.

As a result of this lower growth trajectory and a refocus of the Group's strategy towards core connectivity we have impaired the full Enterprise goodwill balance which has resulted in a non-cash exceptional charge of £19.1 million recognised in the second half of the year.

Revenue in the Group's National Network Services segment has continued to fall, again as communicated previously. This decline reflects continued churn and a performance well below the underlying market for its services. This performance led to the Directors' decision to impair the carrying value of goodwill for this segment in the first half of the year, resulting in a non-cash exceptional charge of £32.2 million.

The total non-cash goodwill impairments during the year across both the Enterprise and National Network Services segments was £51.4 million.

Remaining exceptional costs of £4.6 million relate to restructuring costs of £3.8 million and £0.8 million relating to the non-cash accounting impact of a guaranteed minimum pension equalisation adjustment in respect of the Group's defined benefit pension liabilities.

Net debt increased from £62.6 million at 31 March 2018 to £107.2 million at 31 March 2019, largely as a result of permanent one-off working capital outflows in the first half of the year as previously communicated and the continued investment in the Hull & East Yorkshire infrastructure.

Segmental analysis

The KCOM Group PLC Board makes decisions and manages the business in line with the segmental analysis set out below. This information is presented before exceptional items to provide a better understanding of underlying performance. A reconciliation of the Group's pre-exceptional results is set out in Note 3.

Hull & East Yorkshire

	IFRS 15/ IFRS 9 Audited 2019 £'m	Pro forma IAS 11/ IAS 18/ IAS 39 Unaudited 2019 £'m	IAS 11/ IAS 18/ IAS 39 Audited 2018 £'m
Revenue			
Consumer	**60.1**	**59.9**	58.5
Business	**29.6**	**29.9**	30.5
Wholesale	**9.7**	**9.7**	10.8
Non-core – Media and Contact Centres	**1.7**	**1.7**	4.4
Total revenue	**101.1**	**101.2**	104.2
Gross margin	**79.1**	**80.7**	85.4
EBITDA	**59.5**	**61.2**	65.7

Compared to the prior year, reported total revenue has reduced by £3.1 million and EBITDA by £6.2 million. The impact of IFRS 15 and IFRS 9 is a reduction in revenue of £0.1 million and in EBITDA of £1.7 million. This is principally due to the change in accounting for routers under IFRS 15 with router sales now recognised at the beginning of a customer contract and the cost recognised as a cost of sale rather than an asset which is depreciated over the life of the contract.

Adjusting for the impact of changes in accounting standards, revenue has declined by £3.0 million over the prior year and EBITDA has reduced by £4.5 million. The majority of the revenue decline relates to non-core activities and reflects the exit of the Contact Centres business. Broadly flat core revenue reflects growth in Consumer offset by decline in both Business and Wholesale.

On a comparable basis, Consumer revenue has increased by 2% compared to the prior year and our fibre rollout continues to deliver new broadband customers. The proportion of customers within this broadband base taking a fibre service has increased to 71% at 31 March 2019 (31 March 2018: 54%), supporting a 2% increase in ARPU in the last 12 months.

Business revenue on a like for like basis has declined by 2%. This reflects a reduction in project activity when compared to the prior year. The Business channel has, however, seen continued growth in its fibre base with a further 1,000 business sites connected in the year, supported by take-up in the SMB market through utilisation of the government funded voucher scheme.

The success of our award-winning, ultrafast full fibre offering continues. We passed a further 31,000 premises in the year and our deployment has now passed all 195,000 premises on our existing network that we are able to pass at this time.

The key metrics for our Hull & East Yorkshire segment are as follows:

	Unaudited 2019	Unaudited 2018
Total Consumer customers ('000s of voice lines)	**139.9**	138.7
Total Consumer broadband customers (fibre and copper – '000s)	**121.0**	118.3
Total Consumer fibre broadband customers ('000s)	**85.5**	63.5
Total Business fibre broadband sites ('000s)	**5.9**	4.9
Consumer Average Revenue Per User (ARPU) per month (£)	**£35.93**	£35.17
Total fibre availability ('000s premises passed)	**195**	164

As anticipated and signalled previously, our non-core Media and Contact Centres revenue has declined following the closure of our outsourced Contact Centre on 31 March 2018, after expiry of its largest customer contract.

Pro-forma EBITDA has reduced by £4.5 million year on year, which is mainly explained by the £4.4 million multi-year rebate on network infrastructure hereditament (rateable value) received in the prior year. EBITDA growth from more consumer customers and higher ARPU has been re-invested in various customer experience initiatives, designed to improve our customer satisfaction metrics.

Enterprise

	IFRS 15/ IFRS 9	Pro forma IAS 11/ IAS 18/ IAS 39	IAS 11/ IAS 18/ IAS 39
	Audited 2019 £'m	**Unaudited 2019 £'m**	Audited 2018 £'m
Revenue			
Projects	**29.6**	**34.7**	30.1
Managed Service	**43.5**	**42.5**	45.2
Network	**12.5**	**12.5**	13.0
Total revenue	**85.6**	**89.7**	88.3
Gross margin	**30.2**	**29.8**	29.9
EBITDA	**5.9**	**6.0**	5.1

Enterprise performance in the year has been disappointing, due to lower than anticipated order intake, as previously communicated. Reported revenue has reduced by £2.7 million and EBITDA has increased by £0.8 million compared to the prior year. The impact of IFRS 15 and IFRS 9 is a reduction in revenue of £4.1 million and decrease in EBITDA of £0.1 million. This is principally due to the revenue classification of certain customer contracts as 'agent' rather than 'principal' under the new standard. Adjusting for the impact of the new accounting standards, revenue has increased by £1.4 million (2%) and EBITDA has improved by £0.9 million (18%).

Despite the relatively flat revenue position, EBITDA has improved in the year due to £5.3 million of losses on complex software contracts in the prior year. Without the effect of these contracts, comparable EBITDA has declined year on year by £4.4 million, reflecting the underlying gross margin decline.

National Network Services

	IFRS 15/ IFRS 9	Pro forma IAS 11/ IAS 18/ IAS 39	IAS 11/ IAS 18/ IAS 39
	Audited 2019 £'m	**Unaudited 2019 £'m**	Audited 2018 £'m
Revenue			
Connectivity	**62.3**	**62.3**	68.1
Voice	**23.6**	**23.6**	30.5
Hosting	**6.8**	**6.8**	7.3
Managed Service & Other	**5.3**	**5.2**	7.3
Total revenue	**98.0**	**97.9**	113.2
Gross margin	**22.7**	**23.1**	32.0
EBITDA	**3.0**	**3.0**	9.0

Reported revenue has reduced by £15.2 million and EBITDA by £6.0 million. The impact of IFRS 15 and IFRS 9 is an increase in revenue of £0.1 million and is EBITDA neutral.

Adjusting for the impact of the new accounting standards, revenue has declined by £15.3 million and EBITDA by £6.0 million. This decline is in line with the revised expectations set at the half year. Revenue decline has been seen across all product categories which reflects churn, both in terms of customers leaving and declining use of traditional voice platforms. Voice revenues also continue to be impacted by the industry-wide change in the mix of call traffic (for example the movement to 03 numbers). The EBITDA decline is a consequence of churn with a decreasing contribution towards fixed network operating costs and continued gross margin pressure.

In the year we have focused on a specific public sector opportunity relating to the delivery of the Health and Social Care Network. We have been named preferred supplier on four aggregated procurements and have subsequently signed up a number of individual customers under framework agreements. The delivery of services to these customers commenced in the final quarter of the year ended 31 March 2019, with minimal impact in the year under review.

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.

Central costs have decreased from £11.5 million to £11.3 million.

EBITDA reconciliation

EBITDA before exceptional items is the key measure used by management and the Directors to monitor the underlying performance of the Group. EBITDA before exceptional items is defined as 'profit before tax' before share of profit of associates, finance costs, amortisation, depreciation and exceptional items. A reconciliation of EBITDA to its closest statutory measure (profit before tax) is set out in Note 3. The items classified as exceptional items are described below.

Exceptional items

The Group incurred exceptional charges totalling £56.0 million in the year. This comprises:

- a non-cash impairment of National Network Services goodwill of £32.2 million and Enterprise goodwill of £19.1 million;
- a non-cash plan amendment to the Group's pension scheme liabilities of £0.8 million to account for legislative changes relating to guaranteed minimum pension equalisation; and
- restructuring costs of £3.8 million.

The goodwill impairment reflects the disappointing performance of National Network Services and the continued low levels order intake in Enterprise.

Management scrutinises all restructuring costs on a line by line basis to determine whether they meet the criteria of being exceptional. During the year restructuring costs were incurred in relation to four main areas:

- termination and recruitment costs associated with Executive Directors (£1.3 million);
- transformation of project delivery (£0.4 million);
- transformation of central functions (£0.8 million); and
- costs associated with a strategic business review (£1.3 million).

The treatment of the termination and recruitment costs associated with Executive Directors is in line with the Group's accounting policy. The transformation costs are a completion of activity which had begun in the prior year in addition to the commencement of a fundamental re-organisation of the Group's product and propositions teams. The strategic business review costs mainly relate to third party consultant costs incurred performing the review. The outputs of this review are expected to be further reviewed and refined as part of a post-acquisition completion business review with implementation resulting in a number of operating model transformation initiatives which will lead to a reduction in organisation complexity, duplication and costs. Additional exceptional costs are expected to be incurred in the next financial year to support the realisation of these cost savings.

Net debt and cash flow

As expected, net debt at 31 March 2019 is higher than the prior year, at £107.2 million (31 March 2018: £62.6 million), representing a net debt to EBITDA ratio of 1.9 times. Undrawn committed borrowing facilities at 31 March 2019 were £65.0 million (31 March 2018: £105.0 million).

The anticipated increase in net debt compared to the prior year end position arises as a result of a working capital outflow and continued investment in our fibre deployment. The working capital outflow mainly relates to permanent differences arising in the first half of the year principally relating to:

- the successful insource of a managed service arrangement with a key partner, delivering overall cost benefit but with a one-off, in-year working capital outflow; and
- unwind of certain deferred revenue balances.

Underlying working capital continues to be well controlled. Both Days Sales Outstanding and Days Purchases Outstanding are consistent with the prior year end on an underlying basis. Alternative performance measures, used throughout the results announcement, are defined and reconciled to statutory measures in the Glossary on pages 33 and 34.

Dividend

At the half year, the Group declared and paid an interim dividend of 1.00 pence per share (2018: 2.00 pence per share). As the acquisition of KCOM by MEIF 6 Fibre is due to complete in early August, the Board did not declare a final dividend for the year ending 31 March 2019 (2018: 4.00 pence per share). Consequently, the full year dividend is 1.00 pence per share (2018: 6.00 pence per share).

Pensions

The IAS 19 pension position at 31 March 2019 is a combined net asset of £3.5 million (31 March 2018: £7.5 million liability). The movement from 31 March 2018 arises as a result of a £12.0 million increase in the fair value of the schemes' assets offset by a £1.0 million increase in the net present value of the schemes' liabilities. The increase in the value of assets reflects employer contributions into the schemes' and an increase in the expected return of the schemes' assets.

The increase in the value of schemes' liabilities is mainly due to a plan amendment to the Group's pension scheme liabilities of £0.8 million to account for legislative changes relating to guaranteed minimum pension equalisation. On 26 October, the High Court handed down a judgement involving the Lloyds Banking Group's defined benefit pension schemes. The judgement concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgement arise in relation to many other defined benefit pension schemes.

The agreed level of deficit repair payments across both schemes for the current year is £7.0 million (rising in line with Consumer Price Index 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 the current year is £2.8 million (2018: £2.7 million). Our most recent actuarial review date was 31 March 2019. The review is ongoing and the outputs, including valuation and agreed recovery plan will be finalised before 30 June 2020.

Capital investment

Cash capital expenditure during the year was £37.5 million or £38.4 million when adjusted for the impact of IFRS 15 (2018: £43.9 million). The major project in the year was the continued deployment of fibre and the transformation of the network in our Hull & East Yorkshire segment.

The Group's depreciation and amortisation charge for the year was £29.9 million or £31.9 million before the impact of IFRS 15 (2018: £32.6 million). The charge was lower on an IFRS 15 basis as routers are no longer capitalised and depreciated but directly expensed as a cost of sale.

Tax

The Group's tax charge was £2.3 million (2018: £6.6 million). The effective tax rate was -7%, which is different to the prevailing rate of corporation tax of 19% principally due to the tax impact of the goodwill impairment.

Risk management: our principal risks and uncertainties

As with all businesses, we are affected by a number of risks and uncertainties. The tables below show the principal risks and uncertainties, some of which are beyond our control, that could have a material adverse effect on the business and have been identified through our risk management framework. Some of the risks reported in the prior year such as upgrading of our network equipment and flood risk, have been consolidated this year within the principal risk of security and resilience of our networks and IT systems in the current year. Improved contract governance and project management has been observed during the year, and risks relating to customer focus and staff retention specifically attributed to the Enterprise segment in the prior year are now incorporated as part of the wider Group risk profile in the current year. This list is not exhaustive and there may be risks and uncertainties of which we are currently unaware, or which are believed to be immaterial, that could have an adverse effect on the business.

Risks reported in the prior year

Customer service and delivery

Why is it important?

Our aim is to provide exceptional service wherever we can as this supports the creation of long-term sustainable revenue. The risk of not achieving this is the loss of customers and this is therefore a key risk for the business.

What are we doing to mitigate the risk?

During the year we have continued our focus on improving the customer experience in all parts of our business. We have sought more regular feedback from customer satisfaction metrics. In response to customer feedback, a new range of broadband packages was launched for our Hull & East Yorkshire consumers. A specialist team has also been established that is dedicated to optimising the Wi-Fi experience in customers' homes and a more focused approach to sales and customer service has been introduced.

Change in level of risk

The level of risk remains the same.

How does this link to our strategy?

Customers and Partners
People
Systems and processes

Substitute technologies entering the consumer market

Why is it important?

Much of our business in Hull & East Yorkshire is currently based on the provision of services over a fixed-line network. If substitute technologies were developed to the extent where similar services could be provided without the use of a fixed-line network, then this would present a competitive threat to the consumer part of our business.

What are we doing to mitigate the risk?

We are always seeking to improve our services to our consumers and to provide a speed and quality of service that would not be achievable over a wireless network. Our full fibre deployment is part of this aim.

We offer bundles of products and services that offer our customers value for money. We are also investing in innovative products and services which take advantage of our full fibre deployment, and which provides a clear alternative to a substitute technology.

Change in level of risk

The level of risk remains unchanged from the prior year.

How does this link to our strategy?

Customers and Partners
People
Systems and processes
Assets

Risks reported in the prior year

Security and resilience of our networks and IT systems

Why is it important?

We need our networks and IT systems to continue operating in order to provide service to our customers. It is therefore essential that we have secure systems and networks in place that are resilient to network upgrades, malicious activity and physical factors (e.g. risk of flooding).

What are we doing to mitigate the risk?

We hold certifications in several standards that relate to security and resilience, including

ISO 27001, the Information Security Management standard, and ISO 22301, the Business Continuity Management standard. The Director of Risk Management is responsible for ensuring a consistent approach to security and resilience across the business and we have detailed policies and processes in place. We regularly test our resilience plans and feed back any lessons learnt from such tests into the resilience planning process, which in turn is continually reviewed and updated on an ongoing basis.

We monitor flood risk closely and are always alert to increased risks caused by extreme weather and high tides, so that we can activate our defences as required.

Change in level of risk

The level of risk remains unchanged from the prior year.

How does this link to our strategy?

Customers and Partners
Systems and processes
Assets

Regulatory obligations

Why is it important?

As a telecommunications provider, we are regulated by Ofcom and there are multiple conditions and regulations with which we need to comply. We take our regulatory responsibilities extremely seriously and seek to ensure we are compliant in all regards.

Regulatory changes may also have an impact on commercial pricing which in turn may affect ARPU, a key performance measure.

What are we doing to mitigate the risk?

We have an in-house regulatory team which is responsible for ensuring we understand our obligations and that these are communicated to the appropriate people across the business so that we can ensure the necessary controls are in place.

We have brought additional resource into this team during the year to enable additional focus in this area. We continue to work closely with our suppliers to make sure that our obligations are passed on and complied with in the areas where we are reliant on third parties for the provision of services.

Change in level of risk

The level of risk remains the same.

How does this link to our strategy?

Customers and Partners
Systems and processes

Risks reported in the prior year

Health and safety

Why is it important?

The health and safety of our people is of paramount importance to us. We have a number of people who undertake high risk activities; such as climbing telegraph poles, working in confined spaces, working alone or working next to roads. It is important to us to mitigate health and safety risks as far as possible to try to prevent incidents from occurring.

What are we doing to mitigate the risk?

We have an in-house health and safety team with significant experience of health and safety issues specific to our industry. We have a comprehensive training programme in place which provides general training to all our people, through mandatory e-learning, and specific training to those who undertake higher risk activities, which is then followed up by on-the-job checks to ensure our engineers are practising what they have learnt. For large projects which contain increased health and safety risks, such as our fibre deployment, we have brought in external health and safety advisors to work on the project full-time to ensure we are complying with all the appropriate health and safety requirements mitigating all known risks.

Change in level of risk

The level of risk remains the same.

How does this link to our strategy?

People
Systems and processes

Accuracy, security and confidentiality of customer data

Why is it important?

The security, confidentiality and accuracy of our customer data is of paramount importance to us and to our customers.

There is an increased inherent risk from the constantly evolving nature of cyberattacks, particularly for those businesses that operate in technology sectors.

What are we doing to mitigate the risk?

We have clear and comprehensive policies in place for the management of data and run training in this area for all employees. Specific roles are in place that focus entirely on data to help ensure our ongoing compliance with the General Data Protection Regulation (GDPR).

We keep up-to-date on emerging cyber risks through membership of information sharing forums. Cybersecurity is also considered as part of annual disaster recovery scenario testing.

Change in level of risk

The risk is increasing as the volume and nature of cyberattacks continues to grow and evolve, which threatens the security of data.

How does this link to our strategy?

Customers and Partners
People
Systems and processes
Assets

Risk reported for the first time this year

Ability to attract and retain talent within the business

Why is it important?

Many of the services that we provide are technically complex and require skills that are hard to find. Attracting and retaining the right skills is key to being able to deliver the services that our customers require.

What are we doing to mitigate the risk?

Colleague feedback has been obtained from employee engagement surveys in the year and acted upon where appropriate. We will be reviewing our ways of working in conjunction with employee feedback to realise the desired KCOM culture. We will strive to become an employer of choice and reduce the gender pay gap.

Change in level of risk

The level of risk has increased during the year due to the uncertainty of KCOM's future ownership and direction.

How does this link to our strategy?

Customers and Partners
People
Systems and processes
Assets

Forward looking statements

Certain statements in this results announcement are forward looking. Although the Group believes that the expectations reflected in these forward looking statements are reasonable, we can give no assurance that these expectations will prove to be correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward looking statements.

We undertake no obligation to update any forward looking statements whether as a result of new information, future events or otherwise.

Consolidated income statement

	Note	**2019 £'000**	2018 £'000
Revenue	3	**281,637**	301,898
Operating expenses		**(310,459)**	(265,462)
Operating (loss)/profit		**(28,822)**	36,436
Finance costs	5	**(2,837)**	(2,399)
Share of profit of associates		**16**	12
(Loss)/profit before taxation	3	**(31,643)**	34,049
Taxation	6	**(2,260)**	(6,571)
(Loss)/profit for the year attributable to owners of the parent		**(33,903)**	27,478

	Note	**2019 £'000**	2018 £'000
Operating (loss)/profit analysed as:			
EBITDA before exceptional items	3	**57,062**	68,270
Exceptional credits	4	**—**	2,361
Impairment of goodwill	4,8	**(51,372)**	**—**
Other exceptional charges	4	**(4,588)**	(1,638)
Depreciation of property, plant and equipment		**(16,913)**	(16,906)
Amortisation of intangible assets		**(13,011)**	(15,651)

Earnings per share

	Note	**2019**	2018
Basic	7	**(6.63p)**	5.38p
Diluted	7	**(6.63p)**	5.33p

Consolidated statement of comprehensive income

	Note	**2019 £'000**	2018 £'000
(Loss)/profit for the year		**(33,903)**	27,478
Other comprehensive income/(expense)			
Items that will not be reclassified to profit or loss:			
Remeasurements of retirement benefit obligations	10	**2,901**	4,203
Tax on items that will not be reclassified		**(493)**	(715)
Total items that will not be reclassified to profit or loss		**2,408**	3,488
Total comprehensive (expense)/income for the year attributable to owners of the parent		**(31,495)**	30,966

Consolidated balance sheet

	Note	**2019** £'000	2018 £'000
Assets			
Non-current assets			
Goodwill	8	**—**	51,372
Other intangible assets		**32,051**	36,816
Property, plant and equipment		**132,548**	122,928
Investments		**62**	46
Retirement benefit asset		**5,924**	—
Deferred tax assets		**4,539**	4,376
Contract Costs		**5,313**	—
		180,437	215,538
Current assets			
Inventories		**3,080**	3,713
Contract assets		**2,903**	—
Trade and other receivables		**55,257**	53,568
Cash and cash equivalents	11	**7,347**	13,223
		68,587	70,504
Total assets		**249,024**	286,042
Liabilities			
Current liabilities			
Trade and other payables		**(56,233)**	(87,281)
Contract liabilities		**(18,264)**	—
Finance leases	11	**(418)**	(1,722)
Provisions for other liabilities and charges		**(182)**	(471)
		(75,097)	(89,474)
Non-current liabilities			
Bank loans	11	**(114,129)**	(73,821)
Retirement benefit obligation	10	**(2,378)**	(7,507)
Deferred tax liabilities		**(9,109)**	(8,016)
Finance leases	11	**—**	(285)
Provisions for other liabilities and charges		**(3,160)**	(5,746)
		(128,776)	(95,375)
Total liabilities		**(203,873)**	(184,849)
Net assets		**45,151**	101,193
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]		**(359,740)**	(303,698)
Total equity		**45,151**	101,193

[1] Included within accumulated losses is a loss after tax of £33.9 million (2018: profit of £27.5 million).

Consolidated statement of changes in shareholders' equity

	Note	Share Capital £'000	Share premium account £'000	Accumulated losses £'000	Total £'000
At 1 April 2017		**51,660**	**353,231**	**(305,003)**	**99,888**
Profit for the year		—	—	27,478	27,478
Other comprehensive expense		—	—	3,488	3,488
Total comprehensive income for the year ended 31 March 2018		—	—	**30,966**	**30,966**
Purchase of ordinary shares		—	—	(450)	(450)
Employee share schemes		—	—	1,785	1,785
Dividends	9	—	—	(30,996)	(30,996)
Transactions with owners		—	—	(29,661)	(29,661)
At 31 March 2018		**51,660**	**353,231**	**(303,698)**	**101,193**
Changes in accounting standards	2	—	—	345	345
At 1 April 2018 (unaudited)		51,660	353,231	(303,353)	101,538
Loss for the year		—	—	(33,903)	(33,903)
Other comprehensive income		—	—	2,408	2,408
Total comprehensive expense for the year ended 31 March 2019		**—**	**—**	**(31,495)**	**(31,495)**
Purchase of ordinary shares		—	—	(450)	(450)
Employee share schemes		—	—	1,381	1,381
Deferred tax credit relating to share schemes		—	—	7	7
Dividends	9	—	—	(25,830)	(25,830)
Transactions with owners		—	—	(24,892)	(24,892)
At 31 March 2019		**51,660**	**353,231**	**(359,740)**	**45,151**

Consolidated cash flow statement

	Note	**2019**	2018
		£'000	£'000
Cash flows from operating activities			
Operating (loss)/profit		**(28,822)**	36,436
Adjustments for:			
- depreciation and amortisation		**29,924**	32,557
– impairment of goodwill		**51,372**	—
- increase in working capital		**(24,057)**	(4,197)
- loss/(profit) on sale of property, plant and equipment		**17**	(15)
- non-employee-related pension charges		**1,534**	1,100
- share-based payment charge		**1,381**	1,785
Payments made to defined benefit pension schemes	10	**(9,762)**	(9,470)
Tax paid		**(1,852)**	(3,698)
Net cash generated from operations		**19,735**	54,498
Cash flows from investing activities			
Purchase of property, plant and equipment		**(27,540)**	(34,139)
Purchase of intangible assets		**(8,309)**	(7,697)
Proceeds from sale of property, plant and equipment		**451**	517
Net cash used in investing activities		**(35,398)**	(41,319)
Cash flows from financing activities			
Dividends paid	9	**(25,830)**	(30,996)
Interest paid		**(2,315)**	(1,601)
Capital element of finance lease repayments		**(1,618)**	(2,099)
Repayment of bank loans		**(10,000)**	(20,000)
Drawdown of bank loans		**50,000**	45,000
Purchase of ordinary shares		**(450)**	(450)
Net cash generated from/(used in) financing activities		**9,787**	(10,146)
(Decrease)/increase in cash and cash equivalents		**(5,876)**	3,033
Cash and cash equivalents at the beginning of the year		**13,223**	10,190
Cash and cash equivalents at the end of the year	11	**7,347**	13,223

Notes to the financial information

1. General information and basis of preparation

General information

KCOM Group PLC is a public limited company, limited by shares, which is listed on the London Stock Exchange and incorporated and domiciled in England in the United Kingdom. The address of the registered office is 37 Carr Lane, Hull HU1 3RE.

The financial information included in this results 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 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 2019 or 2018 but it is derived from those accounts. The auditors have reported on those accounts; their reports (i) were unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006 in respect of the accounts for the years ended 31 March 2019 or 31 March 2018. Statutory accounts for the year ended 31 March 2018 were approved by the Board of Directors on 8 June 2018 and have been delivered to the Registrar of Companies.

The condensed consolidated financial statements ('the financial statements') on pages 12 to 15 comprise the financial results of KCOM Group plc for the financial years ended 31 March 2019 and 2018 together with the audited balance sheet as at 31 March 2019 and 2018. The results for the year ended 31 March 2019 have been extracted from the 31 March 2019 audited consolidated financial statements which were approved by the Board of Directors on 31 July. These have not yet been delivered to the Registrar of Companies but are now available to view on KCOM Group PLC's website: www.kcomplc.com.

This results 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.

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 has been in accordance with the accounting policies set out in Note 2 and have 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.

2. New accounting standards

2.1 Initial application of new standards, interpretations and amendments

The following amendments to standards published by the International Accounting Standards Board (IASB) were effective for the first time for the financial year beginning 1 April 2018:

- IFRS 9 "Financial Instruments"
- IFRS 15 "Revenue from Contracts with Customers"
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration"
- Amendments to the following standards:
  - IAS 40 "Transfers of Investment Property"
  - IFRS 2 "Classification and Measurement of Share-based Payment Transactions"
  - IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"
  - Clarifications to IFRS 15 "Revenue from Contracts with Customers"
  - Improvements to IFRSs (2014 – 2016)

2. New accounting standards *continued*

2.1 Initial application of new standards, interpretations and amendments *continued*

The above new and amended standards do not have a material effect on the Group except as described below:

IFRS 9 "Financial Instruments"

In July 2014, the IASB issued IFRS 9 "Financial Instruments", which replaces IAS 39 "Financial Instruments – Recognition and Measurement". Application of the standard is mandatory for annual periods beginning on or after 1 January 2018. Transition to IFRS 9 for the Group took place on 1 April 2018 and in accordance with the transitional provisions of IFRS 9, comparative figures have not been restated. The Group has also adopted the consequential amendments to IFRS 7 "Financial Instruments: Disclosures" which have been applied to current year disclosures but have not generally been applied to comparatives.

IFRS 9 introduces three key changes when compared to IAS 39 relating to: the classification and measurement of financial assets and financial liabilities; impairment of financial assets; and general hedge accounting.

Upon adoption of IFRS 9, no change in the classification of financial assets has arisen because, at the date of transition, all financial assets of the Group were held at amortised cost under IAS 39 and continue to be held at amortised cost under IFRS 9. There has also been no change in the classification of financial liabilities since the classification and measurement requirements of IAS 39 have been largely retained under IFRS 9.

The financial asset impairment requirements of IFRS 9 introduce a forward-looking expected credit loss model which results in earlier recognition of credit losses than the incurred loss model under IAS 39. The Group has adopted the simplified approach to provide for losses on receivables and contract assets resulting from transactions within the scope of IFRS 15. Receivables and contract assets have been grouped based on shared credit risk characteristics and days past due and a provision rate matrix derived from historical information has been applied to estimate the expected credit losses.

Adoption of the expected credit loss model has not had a significant impact on the financial statements of the Group. The loss allowances for trade receivables and contract assets as at 31 March 2018 reconcile to the opening loss allowances on 1 April 2018 as follows:

	Trade receivables £'000	Unbilled receivables £'000	Contract assets £'000	Total £'000
At 31 March 2018 (calculated under IAS 39)	1,308	—	—	1,308
Change in accounting policy	(303)	53	17	(233)
Opening loss allowance as at 1 April 2018 (calculated under IFRS 9)	1,005	53	17	1,075

Cash and cash equivalents are also subject to the impairment requirements of IFRS 9 but the identified impairment loss was immaterial.

The hedge accounting requirements of IFRS 9 have also been simplified and are more closely aligned to an entity's risk management strategy. The Group does not currently hedge account, however IFRS 9 introduces a new hedge accounting model which is optional to apply and is closer aligned to commercial activities, therefore it may be applied in the future if deemed appropriate.

IFRS 15 "Revenue from Contracts with Customers"

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers" which replaces IAS 11 "Construction Contracts" and IAS 18 "Revenue". Application of the standard is mandatory for annual periods beginning on or after 1 January 2018 and requires the Group to use a five step approach to allocate the revenue earned from contracts to individual performance obligations on a relative stand-alone basis.

Transition to IFRS 15 for the Group took place on 1 April 2018 and in accordance with the transition provisions of the standard we have adopted IFRS 15 using the modified retrospective transition method. Consequently, the prior period comparatives have not been restated, and the full cumulative impact of applying this standard retrospectively had been reflected in an adjustment to equity at the date of transition. The following adjustments were made to amounts recognised on the balance sheet at the date of initial application:

Notes to the financial information continued

2. New accounting standards continued

2.1 Initial application of new standards, interpretations and amendments continued

	As at 31 Mar 2018 IAS11/IAS18/ IAS 39[1] £'000	IFRS 15 Unaudited Reclassi-fication £'000	IFRS 15 Unaudited Remeasure-ments £'000	IFRS 9 Unaudited Remeasure-ments £'000	As at 1 Apr 2018 IFRS 15 IFRS 9 £'000
Assets					
Non-current assets					
Goodwill	51,372	—	—	—	51,372
Other intangible assets	36,816	—	—	—	36,816
Property, plant and equipment *(i)*	122,928	—	(1,495)	—	121,433
Investments	46	—	—	—	46
Deferred tax assets *(vii)*	4,376	—	406	—	4,782
Contract costs *(ii) (iii) (iv) (v) (vi)*	—	—	5,204	—	5,204
	215,538	—	4,115	—	219,653
Current assets					
Inventories	3,713	—	—	—	3,713
Contract assets *(i) (iv) (v) (viii)*	—	2,147	915	(17)	3,045
Trade and other receivables *(ii) (vi)(viii)*	53,568	(2,147)	(215)	250	51,456
Cash and cash equivalents	13,223	—	—	—	13,223
	70,504	—	700	233	71,437
Total assets	286,042	—	4,815	233	291,090
Liabilities					
Current liabilities					
Trade and other payables *(viii)*	(87,281)	17,446	—	—	(69,835)
Contract liabilities *(ii) (iv) (v) (vi) (viii)*	—	(17,446)	(4,274)	—	(21,720)
Finance leases	(1,722)	—	—	—	(1,722)
Provisions for other liabilities and charges	(471)	—	—	—	(471)
	(89,474)	—	(4,274)	—	(93,748)
Non-current liabilities					
Bank loans	(73,821)	—	—	—	(73,821)
Retirement benefit obligations	(7,507)	—	—	—	(7,507)
Deferred tax liabilities *(vii)*	(8,016)	—	(429)	—	(8,445)
Finance leases	(285)	—	—	—	(285)
Provisions for other liabilities and changes	(5,746)	—	—	—	(5,746)
	(95,375)	—	(429)	—	(95,804)
Total liabilities	(184,849)	—	(4,703)	—	(189,552)
Net assets	101,193	—	112	233	101,538
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	(303,698)	—	112	233	(303,353)
Total equity	101,193	—	112	233	101,538

[1] The amounts presented in this column are as reported and are therefore shown before the adjustments from the adoption of IFRS 9 or IFRS 15.

2. New accounting standards continued

2.1 Initial application of new standards, interpretations and amendments continued

(i) Routers

Prior to transition, routers were capitalised and the expense recognised as depreciation over the term of the contract. Under IFRS 15 we will treat routers as a discrete sale and performance obligation, and as a result these assets will no longer be capitalised and the cost will be recognised as an operating expense at the point control passes to the customer. Therefore transition to IFRS 15 resulted in the de-recognition of routers previously capitalised (£1.5 million) and the creation of a contract asset arising from the earlier revenue recognition for the sale of routers which were previously accounted for as part of a bundle (£2.0 million).

(ii) Connection fees

Under IFRS 15, connection fees are included in the transaction price and allocated to the performance obligations identified in the contract resulting in later recognition of revenue. Due to the timing of connection fee payments from customers a contract liability balance of £2.2 million has arisen upon transition to IFRS 15 and unbilled receivables has decreased by £0.1 million. Costs of £0.9 million associated with these connection activities have been capitalised on the balance sheet as costs of fulfilling a contract and will be amortised over the term of the contract on a systematic basis in line with the recognition of revenue.

(iii) Costs of obtaining a contract

IFRS 15 requires an asset to be recognised for the incremental costs incurred in obtaining a contract which is then amortised over the period that the goods or services are transferred to the customer. Therefore upon transition an asset of £1.8 million was recognised relating to deferred customer acquisition costs (e.g. sales commissions). Under previous accounting treatment, these would have been expensed as incurred and thus application of IFRS 15 results in later recognition of selling expenses spread over the contract lifetime.

(iv) Multi-element contracts

IFRS 15 introduces a clear link between the value provided to a customer and the timing of revenue recognition. A small number of contracts have been identified within the Enterprise operating segment for which we have previously recognised revenue relating to professional services rendered during the 'project phase' of the contract, but under IFRS 15 it has been determined that in these specific instances, the 'project phase' did not represent a separate performance obligation. Therefore, depending on timing of customer payments, for each contract identified there has either been a reduction in contract assets (cumulative impact £0.7 million) or the creation of a contract liability balance (cumulative impact £0.5 million) upon transition to IFRS 15. In a similar manner to the costs associated with connection activities detailed above, professional services costs incurred during the 'project phase' of £0.9 million have been capitalised on the balance sheet as costs of fulfilling a contract. Revenue is being recognised and the fulfilment assets are being amortised on a straight-line basis over the "managed service" phase of the contracts.

(v) Enforceable right to payment

Generally, the 'installation phase' in Enterprise contracts does represent a performance obligation and results in the creation of an asset with no alternative use to the Group. Therefore, provided we have an enforceable right to payment, under IFRS 15 we recognise revenue over time using a percentage cost to complete methodology similar to the accounting treatment previously used. In limited circumstances, where we do not have an enforceable right to payment during the "project phase", a difference in accounting treatment arises. IFRS 15 dictates that if we do not have an enforceable right to payment for performance completed to date then revenue should not be recognised over the project phase, but instead at the point in time that control of the asset transfers to the customer resulting in later recognition of revenue. Upon transition to IFRS 15, this has resulted in a decrease in contract assets of £0.4 million, an increase in contract liabilities of £0.1 million and the creation of contract fulfilment assets of £0.5 million.

(vi) Licences

The Group frequently enters into multi-element contracts with customers which may include the provision of third party licences. Under previous accounting the revenue associated with the licences was recognised at the point in time that the licences were provided to the customer. Under IFRS 15 we recognise that, for the supply of some licences, we have an ongoing obligation to the customer with respect to these licences as part of the managed service provided and thus we will recognise revenue associated with the licence over the shorter of the contract term and the licence term. Upon transition to IFRS 15 this has resulted in a contract liability of £1.5 million, reduction in unbilled receivables of £0.1 million and an asset relating to the cost of fulfilling the contracts of £1.1 million.

(vii) Deferred tax

Due to the changes in the pattern and timing of revenue and cost recognition under IFRS 15, and remeasurements resulting in revenue and costs moving between past and future periods, the principles of IAS 12 give rise to a movement in the deferred tax asset and liability due to temporary timing differences. In addition, a permanent difference arises from the derecognition of routers as capital assets. The net impact is negligible.

Notes to the financial information continued

2. New accounting standards continued

2.1 Initial application of new standards, interpretations and amendments *continued*

(viii) Presentation of contract assets and contract liabilities

The Group has voluntarily changed the presentation of certain amounts in the consolidated balance sheet to reflect the terminology of IFRS 15:

- contract assets of £2.1 million in relation to incomplete projects where we do not have an unconditional right to consideration have been reclassified upon transition from trade and other receivables; and
- contract liabilities of £17.4 million which were previously presented as deferred income within trade and other payables are now being presented separately on the balance sheet.

Comparative figures for the items of the financial statements affected by the first-time adoption of IFRS 15 and IFRS 9

The following tables present the consolidated income statement and the consolidated balance sheet as at 31 March 2019 in accordance with IFRS 15 and IFRS 9 as well as the previous accounting treatment in accordance with IAS 11/IAS 18, IAS 39 and related interpretations along with an explanation of the movements in balances:

Consolidated income statement

	2019 as reported IFRS 15 IFRS 9 £'000	2019 under IAS11/IAS18 IAS 39 £'000	Change £'000
Revenue	**281,637**	285,891	(4,254)
Operating expenses	**(310,459)**	(314,842)	4,383
Operating loss	**(28,822)**	(28,951)	129
Finance costs	**(2,837)**	(2,837)	—
Share of profit of associates	**16**	16	—
Loss before tax	**(31,643)**	(31,772)	129
Tax	**(2,260)**	(2,537)	277
Loss for the period attributable to owners of the parent	**(33,903)**	(34,309)	406
Operating loss analysed as:			
EBITDA before exceptional items	**57,062**	58,932	(1,870)
Impairment of goodwill	**(51,372)**	(51,372)	—
Other exceptional charges	**(4,588)**	(4,588)	—
Depreciation of property, plant and equipment	**(16,913)**	(18,912)	1,999
Amortisation of intangible assets	**(13,011)**	(13,011)	—
Operating loss	**(28,822)**	(28,951)	129

Without the effect of IFRS 15, revenue would have amounted to £285.9 million, £4.3 million higher than reported. The most significant item contributing to this is the recognition of agency relationships. The guidance in IFRS 15, for the distinction between an agent and a principal, is based on the concept of 'control' which differs to the previously applied notion of transfer of 'risks and rewards'. This has resulted in a reduction of revenue of £4.3 million within the Enterprise market segment due to sales previously recognised on a gross basis now being recognised net of costs under IFRS 15 as 'agency' revenue. The impact of this item is £Nil at operating loss, EBITDA and loss before tax.

Notes to the financial information continued

2. New accounting standards continued

2.1 Initial application of new standards, interpretations and amendments *continued*

Application of IFRS 15 and IFRS 9 has also resulted in a decrease in EBITDA of £1.9 million, largely attributable to the change in accounting treatment for routers. Under previous accounting treatment, routers were capitalised and the expense recognised as depreciation over the term of the contract. Under IFRS 15 we treat routers as a discrete sale and performance obligation, and as a result these assets will no longer be capitalised and the cost will be recognised as an operating expense at the point control passes to the customer. The reclassification of costs and the change in timing of revenue recognition mainly impacts our Hull & East Yorkshire market segment resulting in a reduction of segmental EBITDA of £1.4 million. The overall impact on Group EBITDA is £1.7 million, but the impact at operating loss and loss before tax is not significant due to a reduction in depreciation of £2.0 million.

The impact of these factors is summarised below:

	Revenue £'000	EBITDA £'000	Loss before tax £'000s
Year ended 31 March 2019 as reported under IAS11/IAS18 and IAS 39	285,891	58,932	(31,772)
Agency relationships	(4,329)	—	—
Routers	196	(1,742)	257
Other	(121)	(128)	(128)
Year ended 31 March 2019 as reported under IFRS 15 and IFRS 9	**281,637**	**57,062**	**(31,643)**

The other category relates to the cumulative impact of the following factors described within this note:

- connection fees;
- costs of obtaining a contract;
- multi-element contracts licences; and
- application of the forward-looking expected credit loss model under IFRS 9.

Notes to the financial information continued

2. New accounting standards *continued*

2.1 Initial application of new standards, interpretations and amendments *continued*

Consolidated balance sheet

	2019 as reported IFRS 15 IFRS 9 £'000	2019 under IAS11/IAS18 IAS 39 £'000	Change £'000
Assets			
Non-current assets			
Goodwill	—	—	—
Other intangible assets	**32,051**	32,051	—
Property, plant and equipment	**132,548**	133,983	(1,435)
Investments	**62**	62	—
Retirement benefit asset	**5,924**	5,924	—
Deferred tax assets	**4,539**	4,539	—
Contract costs	**5,313**	—	5,313
	180,437	176,559	3,878
Current assets			
Inventories	**3,080**	3,080	—
Contract assets	**2,903**	—	2,903
Trade and other receivables	**55,257**	57,004	(1,747)
Cash and cash equivalents	**7,347**	7,347	—
	68,587	67,431	1,156
Total assets	**249,024**	243,990	5,034
Liabilities			
Current liabilities			
Trade and other payables	**(56,233)**	(69,960)	13,727
Contract liabilities	**(18,264)**	—	(18,264)
Finance leases	**(418)**	(418)	—
Provisions for other liabilities and charges	**(182)**	(182)	—
	(75,097)	(70,560)	(4,537)
Non-current liabilities			
Bank loans	**(114,129)**	(114,129)	—
Retirement benefit obligations	**(2,378)**	(2,378)	—
Deferred tax liabilities	**(9,109)**	(9,363)	254
Provisions for other liabilities and changes	**(3,160)**	(3,160)	—
	(128,776)	(129,030)	254
Total liabilities	**(203,873)**	(199,590)	(4,283)
Net assets	**45,151**	44,400	751
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	**(359,740)**	(360,491)	751
Total equity	**45,151**	44,400	751

Notes to the financial information continued

2. New accounting standards continued

***2.1 Initial application of new standards, interpretations and amendments** continued*

Upon application of IFRS 15, non-current assets have increased by £3.9 million in part due to the first time recognition of contract costs i.e. costs of obtaining and costs of fulfilling contracts of £5.3 million. Previous accounting treatment would have resulted in earlier cost recognition with these costs generally being recognised as incurred. This impact is offset by the derecognition of routers from property, plant and equipment of £1.4 million because under IFRS 15 these are being treated as a discrete sale and performance obligation satisfied at the point in time when the router is delivered to the customer.

Current assets are £1.2 million higher under IFRS 15 due to the recognition of a contract asset for the sale of routers of £2.2 million. This is offset by a reduction in contract assets and unbilled receivables of £0.7 million arising from the de-recognition of revenue for specific contracts where the project phase has not been identified as a performance obligation under IFRS 15 or it has been determined that there is no enforceable right to payment during the project phase and thus revenue cannot be recognised until project completion (£0.2 million). This is also offset by the release of unbilled receivables (£0.1 million) in relation to connection activities which we have concluded do not represent a performance obligation.

Current liabilities have increased by £4.5 million due to the deferral of connection revenue of £2.3 million, the deferral of licence revenue of £1.8 million and the deferral of "project phase" revenue of £0.6 million; offset by the deferral of "project phase" costs of £0.2 million. Non-current liabilities have decreased by £0.3 million due to the permanent deferred tax adjustment relating to the derecognition of routers as capital assets.

Due to the change in terminology of IFRS 15 and IFRS 9, there has also been a reclassification of certain balances:

- £1.4 million from trade and other receivables to contract assets; and
- £13.5 million from trade and other payables to contract liabilities.

2.2 New accounting standards, amendments and interpretations effective for annual periods beginning after 1 April 2019

The following accounting standards, amendments and interpretations have been issued by the IASB but are not yet effective and have not been applied in preparing these financial statements.

- IFRS 16 Leases
- IFRS 17 Insurance Contracts
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to the following standards:
  - IAS 19 Plan Amendment, Curtailment or Settlement
  - IAS 28 Long-term Interests in Associates and Joint Ventures
  - IFRS 9 Prepayment Features with Negative Compensation
  - Improvements to IFRSs (2015 – 2017)
  - References to the Conceptual Framework

Of these new standards, interpretations and amendments, only IFRS 16 is expected to have a material impact on the Group's financial statements.

3. 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 2019, 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 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 the 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 2019 and for the year ended 31 March 2018, is as follows:

	Revenue		EBITDA	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Before exceptional items				
Hull & East Yorkshire	**101,054**	104,216	**59,519**	65,660
Enterprise	**85,590**	88,285	**5,854**	5,115
National Network Services	**97,976**	113,212	**2,980**	9,021
Central	**(2,983)**	(3,815)	**(11,291)**	(11,526)
Total before exceptional items	**281,637**	301,898	**57,062**	68,270
Exceptional items				
Hull & East Yorkshire	—	—	**(52)**	(357)
Enterprise	—	—	**(20,128)**	(591)
National Network Services	—	—	**(32,654)**	2,059
Central	—	—	**(3,126)**	(388)
Total	—	—	**(55,960)**	723
Total post-exceptional items	**281,637**	301,898	**1,102**	68,993

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

	2019 £'000	2018 £'000
EBITDA post-exceptional items	**1,102**	68,993
Depreciation	**(16,913)**	(16,906)
Amortisation	**(13,011)**	(15,651)
Finance costs	**(2,837)**	(2,399)
Share of profit of associate	**16**	12
(Loss)/profit before tax	**(31,643)**	34,049

Notes to the financial information continued

3. Segmental analysis continued

The table below shows revenue disaggregated by segment and nature:

	2019 £'000	2018 £'000
Revenue		
Hull & East Yorkshire:		
Consumer	**60,103**	58,415
Business	**29,573**	30,531
Wholesale	**9,665**	10,828
Media	**1,531**	1,912
Contact Centres	**182**	2,530
Total Hull & East Yorkshire	**101,054**	104,216
Enterprise:		
Projects	**29,605**	30,065
Managed Service	**43,454**	45,224
Network	**12,531**	12,996
Total Enterprise	**85,590**	88,285
National Network Services:		
Connectivity	**62,327**	68,102
Voice	**23,599**	30,497
Hosting	**6,804**	7,331
Managed Service	**4,073**	5,055
Other	**1,173**	2,227
Total National Network Services	**97,976**	113,212
Central	**(2,983)**	(3,815)
Group total	**281,637**	301,898

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:

	2019 £'000	2018 £'000
Revenue from external customers		
Hull & East Yorkshire	**98,065**	100,375
Enterprise	**85,590**	88,285
National Network Services	**97,976**	113,212
Central	**6**	26
Total	**281,637**	301,898
Inter-segment revenue		
Hull & East Yorkshire	**2,989**	3,841
Central	**(2,989)**	(3,841)
Total	**—**	—
Group total	**281,637**	301,898

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. In the current year, revenue of £29.1 million (2018: £33.3 million) from transactions with one customer within the Enterprise segment exceeded 10% of Group revenue.

4. Exceptional items

	2019	2018
	£'000	£'000
Regulatory matters	—	(2,361)
Credited to income statement	—	(2,361)
- Impairment of goodwill	**51,372**	—
- Restructuring costs	**3,799**	1,638
- GMP equalisation	**789**	—
Charged to income statement	**55,960**	1,638
Net charge/(credit) to operating profit	**55,960**	(723)

The Directors continue to recognise the need to differentiate costs incurred outside the normal course of business from the underlying trading performance.

In accordance with IAS 36, the group's goodwill balances are tested annually for impairment. In the year all of the group's goodwill of £51.4 million has been impaired. This is a non-cash item and is treated as exceptional in line with our accounting policy. See note 8 for further details.

During the year exceptional restructuring costs of £3.8 million were incurred (year ending 31 March 2018: £1.6 million). Management scrutinises all restructuring costs on a line by line basis to determine whether they meet the exceptional criteria. During the year restructuring costs were incurred in relation to four main areas:

- Termination and recruitment costs associated with Executive Directors (£1.3 million). In line with the Group's accounting policy these costs are classified as exceptional.
- 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. The transformation will enable us to deliver in-flight and future contracts more profitably and help avoid a reoccurrence of the losses on specific contracts incurred in prior years. Costs were also incurred in relation to this project in the prior year. We now consider this project to be complete.
- Transformation of central functions (£0.8 million). The Group has completed the process of centralisation of the technical and customer support teams into centres of excellence designed to provide an improved customer experience, which commenced in the prior year. The Group has also completed a structural re-organisation of its product and propositions teams to help design and create new offerings for the go-to-market segments.
- The strategic business review costs (£1.3 million) mainly relate to third party consultant costs incurred performing the review. The outputs of this review are expected to be further reviewed and refined as part of a takeover completion business review with implementation resulting in a number of operating model transformation initiatives which will lead to a reduction in organisation complexity, duplication and costs. Additional exceptional costs are expected to be incurred in the next financial year to support the realisation of these cost savings.

On 26 October the High Court handed down a judgement involving the Lloyds Banking Group's defined benefit pension schemes. The judgement concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgement arise in relation to many other defined benefit pension schemes. During the year, the Group recognised an exceptional charge of £0.8 million as a result of the crystallisation of additional liabilities in the Group's defined benefit pension schemes.

In the prior year, the Group recorded an exceptional credit of £2.4 million relating to regulatory matters. 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 combined effect of these items is a credit of £0.9 million (2018: charge of £0.1 million) in respect of current tax and £1.6 million (2018: £Nil) in respect of deferred tax.

The cash flow impact of exceptional items was an outflow of £3.4 million (2018: £1.1 million). The impact on working capital of exceptional items was an inflow of £0.1 million (2018: outflow of £1.8 million).

Notes to the financial information continued

5. Finance costs

	2019	2018
	£'000	£'000
Bank loans, overdrafts and other loans	**2,383**	1,583
Retirement benefit obligations	**76**	389
Finance lease and hire purchase contracts	**29**	69
	2,488	2,041
Amortisation of loan arrangement fees	**308**	234
Provision: unwind of discount	**41**	124
Charged to (loss)/profit before tax	**2,837**	2,399

6. Taxation

The charge based on the profit for the year comprises:

	2019	2018
	£'000	£'000
UK corporation tax		
– current tax on profits for the year	**1,925**	3,865
– adjustment in respect of prior years	**(86)**	(558)
Total current tax	**1,839**	3,307
UK deferred tax		
Origination and reversal of timing differences in respect of:		
– profit for the year	**(462)**	1,740
– change in rate	**(90)**	(309)
– adjustment in respect of prior years	**(340)**	540
– charge in respect of retirement benefit obligation	**1,313**	1,293
Total deferred tax	**421**	3,264
Total taxation charge for the year	**2,260**	6,571

	2019	2018
	£'000	£'000
(Loss)/profit before taxation	**(31,643)**	34,049
(Loss)/profit before taxation at the standard rate of corporation tax in the UK of 19% (2018: 19%)	**(6,012)**	6,469
Effects of:		
– expenses not deductible for tax purposes	**8,788**	429
– adjustment in respect of prior years	**(426)**	(18)
– change in rate reflected in the deferred tax asset	**(90)**	(309)
Total taxation charge for the year	**2,260**	6,571

Notes to the financial information continued

7. Earnings per share

	2019 **No.**	2018 No.
Weighted average number of shares		
For basic earnings per share	**511,531,719**	511,133,847
Share options in issue	**4,787,062**	4,730,273
For diluted earnings per share	**516,318,781**	515,864,120

	2019 **£'000**	2018 £'000
Earnings		
(Loss)/Profit attributable to equity holders of the company	**(33,903)**	27,478
Adjustments:		
Exceptional items	**55,960**	(723)
Tax on exceptional items	**(2,446)**	137
Adjusted profit attributable to equity holders of the company	**19,611**	26,892

	2019 **Pence**	2018 Pence
Earnings per share		
Basic	**(6.63)**	5.38
Diluted	**(6.63)**	5.33
Adjusted basic[1]	**3.83**	5.26
Adjusted diluted[1]	**3.80**	5.21

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.

8. Goodwill

Consolidated	Total £'000
Cost	
At 1 April 2017, 31 March 2018 and **31 March 2019**	**85,272**
Provisions for impairment	
At 1 April 2017 and 31 March 2018	33,900
Charge for the period	51,372
At 31 March 2019	**85,272**
Net book value	
At 31 March 2019	**—**
At 31 March 2018	51,372
At 1 April 2017	51,372

Goodwill acquired in a business combination is allocated at the date of acquisition to the cash generating unit (CGU) that is expected to benefit from that business combination.

CGUs represent the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other groups of assets. As in previous years, KCOM's CGUs are based on customer type and geographic service location.

Goodwill is tested annually for impairment, or more frequently if there are indications that goodwill may be impaired. The key assumptions for the value in use calculation relate to forecast cash flows, discount rate and growth rate. The Directors estimated the discount rate using a pre-tax rate that reflects current market assessments of the time value of money and the level of risk. The growth rate reflects the long-term growth rate prospects for the UK economy. The estimates used within the value in use calculation takes into account historical experience and the Board's estimate of future events.

Notes to the financial information continued

8. Goodwill continued

The discount rate and growth rate (in perpetuity) used for value in use calculations are as follows:

	2019	2018
Discount rate (pre-tax) Enterprise %	**9.6**	12.0
Discount rate (pre-tax) National Network Services %	**8.2**	9.4
Terminal value growth rate %	**2.0**	2.0

The discount rate was a pre-tax measure based on the rate of 10-year UK Government bonds, being the relevant market and in the same currency as the cash flows, adjusted for a risk premium to reflect both the increased risk of investing in equities generally and the systematic risk of KCOM and the relevant CGU.

Three years of cash flows were included in the discounted cash flow models. A long-term growth rate into perpetuity has been determined as the lower of the nominal gross domestic product (GDP) rate for the UK and the long-term compound annual EBITDA growth rate estimated by management.

Budgeted EBITDA was based on expectations of future outcomes taking into account past experience and our anticipation of future growth. The cash flow forecast was prepared by using the latest Board approved operating budget. The forecast covers a three-year period and an appropriate extrapolation of cash flows beyond this point into perpetuity based on the above assumptions.

Revenue in the Group's National Network Services segment has continued to fall. This decline reflects continued churn and a performance well below the underlying market for its services. This performance led to the Directors' decision to impair the full carrying value of goodwill of £32.2 million for this CGU, in the first half of the year. There has been no change to this assessment at the year end.

An impairment charge of the full value of the goodwill allocated to the Enterprise CGU, of £19.1 million, has also been recorded. At the half year, the carrying value of KCOM's Enterprise CGU goodwill balance was supported by the Group's medium/ long term cashflow forecasts. In the second half of the year, and as part of the Group's strategic review, the Group's cashflow forecasts were updated to reflect a reduction in Enterprise's growth expectations due to the long term cashflows expected from major customers and change in the Group's national focus towards core connectivity. As a result of these updated cashflow forecasts the Group's Enterprise CGU goodwill balance has been fully impaired.

Management also considered the carrying value of goodwill in the context of the acquisition of KCOM detailed in Note 13, including whether on a fair value less cost to sell basis this would impact the impairment decision. This did not change the conclusion that there is a full impairment of both the Enterprise and National Network Services goodwill.

Following both impairments, the Group reassessed the depreciation policies of its property, plant and equipment in both CGUs and estimated that their useful lives would not be affected following this decision. No class of asset other than goodwill was impaired. The combined impairment charge of £51.4 million has been treated as an exceptional item in line with the Group accounting policies.

Following the Group's impairment charge, the carrying amount of goodwill is £Nil (31 March 2018: £51.4 million):

CGUs	**2019**	2018
Enterprise	**—**	19,125
National Network Services	**—**	32,247
Total	**—**	51,372

9. Dividends

	2019 **£'000**	2018 £'000
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
Final dividend for the year ended 31 March 2018 of 4.00 pence per share	**20,664**	—
Interim dividend for the year ended 31 March 2019 of 1.00 pence per share	**5,166**	—
Total	**25,830**	**30,996**

No final dividend has been declared for the year ended 31 March 2019, see Note 13 for further details.

Notes to the financial information continued

10. 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 £'000	Data scheme £'000	Total £'000
At 1 April 2018	(2,719)	(4,788)	(7,507)
Net finance costs	13	(89)	(76)
Net administrative expenses	(799)	(735)	(1,534)
Contributions under asset-backed partnership	2,456	336	2,792
Deficit repair payments	4,656	2,314	6,970
Actuarial remeasurements	2,317	584	2,901
At 31 March 2019	**5,924**	**(2,378)**	**3,546**

	Main scheme £'000	Data scheme £'000	Total £'000
At 31 March 2018			
Present value of defined benefit obligations	(221,282)	(40,502)	(261,784)
Fair value of plan assets	218,563	35,714	254,277
(Deficit)	**(2,719)**	**(4,788)**	**(7,507)**
At 31 March 2019			
Present value of defined benefit obligation	(221,969)	(40,781)	262,750
Fair value of plan assets	227,893)	38,403	(266,296)
Surplus/(Deficit)	**5,924**	**(2,378)**	**3,546**

Principal financial assumptions

	2019		2018	
	Main scheme %	**Data Scheme %**	Main scheme %	Data Scheme %
RPI inflation	**3.20**	**3.20**	3.10	3.10
CPI inflation	**2.20**	**2.20**	2.10	2.10
Rate of increase to pensions in payment	**2.02**	**3.79**	1.93	3.78
Discount rate for scheme liabilities	**2.35**	**2.35**	2.50	2.50

11. Movement in net debt

	2019 £'000	2018 £'000
Opening net debt	**(62,605)**	(42,433)
Closing net debt	**(107,200)**	(62,605)
Increase in net debt in the year	**(44,595)**	(20,172)
Reconciliation of movement in the year		
Net cash flow from operations	**19,736**	54,498
Cash capital expenditure	**(37,467)**	(43,935)
Proceeds on sale of property, plant and equipment	**451**	517
Interest	**(2,315)**	(1,601)
Dividends	**(25,830)**	(30,996)
Purchase of ordinary shares	**(450)**	(450)
Finance leases[1]	**1,589**	2,029
Other	**(309)**	(234)
Increase in net debt in the year	**(44,595)**	(20,172)

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

Notes to the financial information continued

11. Movement in net debt continued

Net debt comprises:

	2019	2018
	£'000	£'000
Cash and cash equivalents (including bank overdrafts)	**7,347**	13,223
Bank loans	**(114,129)**	(73,821)
Finance leases	**(418)**	(2,007)
Net debt	**(107,200)**	(62,605)

12. Related party transactions

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

There are no other material related party transactions.

13. Subsequent events

Acquisition of KCOM Group PLC

On 24 April 2019, Humber Bidco Limited, a wholly-owned indirect subsidiary of Universities Superannuation Scheme Limited, announced a recommended cash offer for the entire issued and to be issued ordinary share capital of KCOM for 97.0 pence per share. On 3 June 2019, MEIF 6 Fibre Limited, a wholly-owned indirect subsidiary of Macquarie European Infrastructure Fund 6 SCSp (an investment fund managed by Macquarie Infrastructure and Real Assets (Europe) Limited), announced a recommended cash offer for the entire issued and to be issued ordinary share capital of KCOM for 108.0 pence per share. Both offers were to be effected by way of a Scheme of Arrangement.

As a result of there being a competitive situation, and in order to provide an orderly framework, the Takeover Panel ruled that the auction procedure set out in Appendix 8 of the Takeover Code would apply. The auction process ended on 12 July 2019 after which the KCOM board recommended unanimously the revised MEIF 6 Fibre offer of 120.3 pence per share.

The reconvened Court Meeting and General Meeting relating to the MEIF 6 Fibre offer took place on 26 July 2019 at which 99.48% and 99.52% repsectively of shares voted were in favour of the Scheme. The Company obtained Court approval for the Scheme on 30 July 2019, which will see the Scheme become effective and the shares will be de-listed in early August 2019. An announcement will be made following the conclusion of this process.

Significant agreements – change of control

The following significant agreements contain provisions entitling the counterparties to exercise termination or other rights in the event of a change of control of the Company:

- Under our £180.0 million multi-currency revolving facility agreement dated 30 September 2016, the Company must notify Lloyds Bank PLC, the Agent of the agreement, within seven days of becoming aware of a change of control of the Company. Any bank or financial institution named within the facility agreement may then notify the Agent within seven days that they wish to cancel their commitments. The Agent must then give at least 21 days' notice to the Company of this and all outstanding amounts due to that bank or financial institution will become immediately due and payable. For these purposes, a 'change of control' occurs if any person or group of persons acting in concert gains control of the Company. At 31 March 2019, the Group had borrowings or £115.0 million.
- The Company's share schemes, details of which can be found in the Remuneration report on pages 54 to 64 of Group's annual report and accounts for the year ended 31 March 2019 which can be found on the KCOM Group PLC's website: www.kcomplc.com, contain provisions which take effect in the event of a change of control, as a result of which options and awards may vest and become exercisable. The provisions do not entitle participants to a greater interest in the shares of the Company than that created by the initial grant or award under the relevant scheme. At 31 March 2019, the Group had 4,787,062 share options outstanding.

13. Subsequent events *continued*

Dividend

At the half year, the Group declared and paid an interim dividend of 1.00 pence per share (2018: 2.00 pence per share). As the acquisition of KCOM by MEIF 6 Fibre is due to complete in August, the Board did not declare a final dividend for the year ending 31 March 2019 (2018: 4.00 pence per share). Consequently, the full year dividend is 1.00 pence per share (2018: 6.00 pence per share).

Directors' responsibility statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the EU have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements and the Directors' Remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. The Directors are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Group's website, www.kcomplc.com. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Signed by Order of the Board on 31 July 2019 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 4. 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 3 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 7 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 7 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 11 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 (£35.4 million) add back proceeds from sale of property, plant and equipment (£0.5 million) plus capital element of finance lease repayments (£1.6 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 (£24.1 million) less decrease due to exceptional items quoted in Note 4 (£0.1 million).