KCOM GROUP PLC (KCOM.L)

UNAUDITED PRELIMINARY RESULTS ANNOUNCEMENT FOR YEAR ENDED 31 MARCH 2015

KCOM Group PLC (KCOM.L) announces its full year results for year ended 31 March 2015.

Highlights

- Performance in line with expectations
- Progress across all key focus areas
  - Success of and growth in demand for IP based 'Workplaces' portfolio, including successful HMRC implementation and further significant opportunities in pipeline
  - Acceleration of fibre deployment in Hull & East Yorkshire, following continued strong demand for fibre and broadband services, well ahead of national average
- Business transformation continues to create more agile operating model
  - Integration of brands to focus investment on growth in the Enterprise, Small and Medium-sized Business (SMB) and Consumer segments
  - Continued move towards effective, efficient support services/back office operations, implementation of common systems and processes support consolidation of teams
- Pre-exceptional operating profit up 4% to £57.2m (2014: £55.0m), reported operating profit £22.4m (2014: £55.6m)
- Adjusted basic EPS up 5% to 7.91p (2014: 7.55p)
- Proposed final dividend of 3.58p (2014: 3.25p), representing sixth year of at least 10 per cent dividend growth

Commenting on the results, Chief Executive Bill Halbert says:

"Last year we began the second stage of the transformation of our business. I am pleased to report that there has been continued progress in our focus areas. In Hull and East Yorkshire, the strong demand for our Lightstream fibre-based services has been maintained and in the Enterprise and SMB markets, we continue to see growing interest in our cloud and collaboration related capabilities. These are the key opportunities for future growth.

"In the coming year, we will seek to accelerate that progress, particularly in the Enterprise space where we see significant opportunity.

"In accordance with our previously stated dividend commitment, the Board is recommending a final dividend of 3.58p per share. Subject to shareholder approval at the AGM, this will be the sixth year of 10 per cent dividend progression, during which the full year dividend has grown from 1.75p to the proposed 5.37p, a reflection of our confidence in the Group's underlying strength."

Business update

Businesses of all sizes are increasingly looking for a technology partner that can provide solutions that deliver against clear business outcomes.

In the Enterprise market, we are increasingly recognised as a partner of choice for the delivery of complex integration projects, as is evidenced by the successful implementation of a private cloud, contact solution for HMRC. This success reflects our strategic decision to invest in our IP based 'Workplaces' services platform, migrating the business away from the provision of declining voice and volume-based connectivity services.

Within the SMB market, we provide and support a range of subscription-based IT and communications packages. We have seen growing demand particularly for cloud-based services, across both new and existing customers, resulting in continued revenue and EBITDA margin growth in this area.

In the Consumer market, data usage continues to grow exponentially, driving demand for both fibre-based and traditional broadband services. Our fibre deployment in Hull and East Yorkshire has achieved take-up of 33 per cent of premises passed, significantly above the national average. Based on this strong demand, we have accelerated our deployment of fibre and, by 2017, over 50 per cent of customers will have access to these services. The majority of our fibre services are delivered direct to the premises, allowing us to offer speeds and capacity that can grow readily, to match future customer demand.

Set against this progress, the revenue and margins from some of our more traditional legacy activities have continued to decline. Recognising this, and their diminishing importance and contribution to future growth, an exceptional, non-cash impairment charge of £33.9 million has been recognised against the goodwill balance associated with the related acquisitions made in 2004.

Outlook

Over the next 12 months, our focus is on continuing to execute our strategy, delivering greater value to our customers and aligning all our assets and resources to serve the Enterprise, SMB and Consumer segments.

To do this, we will begin the process of further integrating our existing brands to align with those market segments. Investment will be prioritised tightly on our strategic growth areas where we see increasing opportunity, in particular, the provision of cloud-based services, the integration of collaborative systems and related consultancy and integration activity and the development of fibre-based propositions. Building on the progress to date, we will continue consolidating our business-wide operational and support services to remove overlaps and duplication creating a more scalable, agile operating model.

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Group performance

	Unaudited Year ended 31 March 2015 (£ million)	Audited Year ended 31 March 2014 (£ million)	Change over prior year (%)
Results from continuing operations before exceptional items			
Revenue	348.0	370.7	(6.1)
EBITDA	74.3	75.3	(1.3)
Operating profit	57.2	55.0	4.0
Profit before tax	51.5	49.9	3.2
Adjusted basic earnings per share (pence) (Note 4)	7.91	7.55	4.8
Reported results			
Net cash inflow from operations	50.6	71.3	(29.0)
Net debt (Note 6)	99.3	75.0	32.4
Cash capital expenditure	32.0	27.9	14.7
Profit before tax	16.7	50.5	(66.9)
Basic earnings per share (pence) (Note 4)	2.47	7.64	(67.7)
Proposed final dividend (pence)	3.58	3.25	10.2
Proposed full year dividend per share (pence)	5.37	4.88	10.0

Segmental performance

The following analysis relates to the Group's reported segments in the year ended 31 March 2015 and all results are pre-exceptionals.

KC

	31 Mar 2015 Revenue £m	31 Mar 2014 Revenue £m	**31 Mar 2015 EBITDA £m**	31 Mar 2014 EBITDA £m
KC	95.7	94.1	55.6	54.0
Contact centres	4.8	5.9	(0.4)	0.1
Publishing	4.3	5.0	1.2	2.0
Total KC segment	**104.8**	105.0	**56.4**	56.1

The KC segment covers communications services for Consumers and SMBs within Hull and East Yorkshire, and provides contact centre and publishing services. Key features of the year include:

- continued growth in consumer revenue and profitability driven by growing demand for broadband services and increasing penetration of bundled products with an accelerating demand for fibre services;
- consumer Average Revenue Per User (ARPU) continues to increase as a result of new broadband customers and fibre take-up;
- slightly weaker business performance, pipeline strengthening particularly for fibre services; and
- an expected lower Publishing EBITDA, reflecting anticipated decline in the Hull Colour Pages directory.

The fibre deployment across Hull and East Yorkshire continues to achieve customer take-up well in excess of national trends. As at 31 April 2015, approximately 48,000 premises had access to fibre with take up of 33 per cent. As a result, we have accelerated our rate of deployment and by March 2017, we expect to reach 100,000 customers, covering 50 per cent of our network area.

Hull is included in a government funding scheme aimed at supporting SMBs with improved digital connectivity. KC has registered as a provider under the scheme and since launching on 1 April has achieved 110 sales with pipeline building to 450 registered interests. Fibre take-up rates in the business sector are significantly ahead of initial expectations, at approximately 50 per cent of premises passed.

Kcom

	31 Mar 2015 Revenue £m	31 Mar 2014 Revenue £m	**31 Mar 2015 EBITDA £m**	31 Mar 2014 EBITDA £m
Kcom	188.8	214.3	15.5	18.3
Eclipse	29.6	26.6	7.1	6.7
Smart 421	30.2	30.0	3.1	3.7
Total Kcom segment	**248.6**	270.9	**25.7**	28.7

The Kcom segment covers the communication and collaboration services provided across the Enterprise and SMB activities (excluding Hull and East Yorkshire). Key features in the year include:

- investment in cloud-based contact services underpins successful implementation of HMRC contract within Kcom;
- overall revenue and profit in Kcom brand impacted by continued decline in legacy activities;
- cloud services contributing to a growing revenue and market share within Eclipse; and
- strategic progress and stronger second half order intake in Smart421, particularly in cloud-based integration and consultancy services.

The substantial government contract to provide a cloud-based contact centre for HMRC was delivered successfully, ahead of the 31 January self-assessment deadline. This initial deployment was the start of our engagement with HMRC's digital roadmap.

PLC Segment

The Group's PLC segment comprises shared service functions, share scheme expenses, and administration costs associated with the Group's defined benefit pension schemes. These costs (before exceptional items) were £7.8 million (2014: £9.6 million). The year on year decrease represents the Group's continued drive to reduce costs and increase efficiency.

Exceptional items

The Group's net exceptional charge is £34.8 million (see Note 2).
Significant items include:

- £33.9 million impairment charge against the goodwill balance of legacy activities associated with historical acquisitions made in 2004. This is a non cash item and is treated as exceptional in line with our accounting policy.
- £7.5m restructuring costs relating to cost reduction, strategic IT investment and the move towards an integrated operating model; offset by
- £5.3 million cash receipt relation to a rebate of prior year network rates.

Refinancing, net debt and cash flow
During the year, the Group refinanced through the agreement of a £200 million revolving credit facility, secured on improved terms. This new arrangement, which expires on 30 June 2019, provides sufficient funding to support the Group's growth.

As anticipated year end net debt increased to £99.3 million (2014: £75.0 million), representing a net debt to pre-exceptional EBITDA ratio of 1.3 x (2014: 1.0 x). The year on year movement in net debt was anticipated following planned increases relating to our services to HMRC. The Group's working capital outflow in the year principally arose as a result of a partial reversal of the strong cash collection in March 2014.

Dividend
The Board is proposing a final dividend of 3.58 pence per share (2014: 3.25 pence), representing a total dividend for the year of 5.37 pence per share (2014: 4.88 pence). This represents 10.0 per cent year on year growth in the total dividend, consistent with the Board's previously stated commitment to grow full year dividends at 10 per cent per annum until the year ending 31 March 2016.

Subject to shareholder approval at the KCOM Group PLC Annual General Meeting on 31 July 2015, the final dividend will be paid on 4 August 2015 to shareholders registered on 26 June 2015. The ex-dividend date is 25 June 2015.

Pensions
The year end IAS 19 pension liability was £31.4 million (2014: £26.5 million). The year on year increase arose as a result of:

- £22.6 million increase in liabilities, principally due to a 1.05 per cent decrease in the discount rate, mitigated in part by a reduction in the assumed rate of inflation; offset by
- £17.7 million increase on assets, due to stronger investment returns (equity and bonds) over the year.

The agreed level of deficit repair payment (across both schemes) for the year ended 31 March 2016 is £2.0 million.

Capital investment
The Group's investment profile is consistent with previous guidance and cash capital expenditure during the year was £32.0 million (2014: £27.9 million). Specific projects include:

- the continued deployment of fibre;
- strategic IT investment, including the implementation of SAP financials, driving the Group's move towards common systems and processes; and
- targeted customer specific investment.

The Group's depreciation and amortisation charge for the year is £17.1 million (2014: £20.3 million). In line with its accounting policy and in light of market activity relating to network assets, the Group has assessed the appropriateness of the residual values of its network assets. This has resulted in higher residual values and a £4.9 million reduction in the depreciation charge for these assets in the year.

Tax
The Group's tax charge is £4.1 million (2014: £11.8 million). The current year effective tax rate is 21.6%, broadly in line with the prevailing rate of corporation tax. The overall effective tax rate is 24.9% reflecting the impact of prior year items.

Consolidated income statement

	Note	Unaudited Year ended 31 Mar 2015 £'000	Audited Year ended 31 Mar 2014 £'000
Revenue	1	**347,984**	370,697
Operating expenses		**(325,579)**	(315,090)
Operating profit		**22,405**	55,607
Analysed as:			
EBITDA before exceptional items	1	**74,304**	75,291
Exceptional credits	2	**6,658**	2,587
Exceptional charges	2	**(41,446)**	(1,999)
Depreciation of property, plant and equipment		**(12,033)**	(16,882)
Amortisation of intangible assets		**(5,078)**	(3,390)
Finance costs		**(5,725)**	(5,075)
Share of profit / (loss) of associates		**13**	(2)
Profit before tax	1	**16,693**	50,530
Tax	3	**(4,149)**	(11,760)
Profit for the year attributable to owners of the parent		**12,544**	38,770
Earnings per share (pence)			
Basic	4	**2.47**	7.64
Diluted	4	**2.44**	7.55

Consolidated interim statement of comprehensive income

	Unaudited Year ended 31 Mar 2015 £'000	Audited Year ended 31 Mar 2014 £'000
Profit for the year	**12,544**	38,770
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Remeasurements of retirement benefit obligations	**(7,263)**	(16,630)
Tax on items that will not be reclassified	**1,528**	2,997
Total items that will not be reclassified to profit or loss	**(5,735)**	(13,633)
Items that may be reclassified subsequently to profit or loss		
Cash flow hedge fair value movements	**1,428**	1,377
Tax on items that may be reclassified	**(285)**	(275)
Total items that may be reclassified subsequently to profit or loss	**1,143**	1,102
Total comprehensive income for the year attributable to owners of the parent	**7,952**	26,239

Consolidated balance sheet

	Note	**Unaudited As at 31 Mar 2015 £'000**	Audited As at 31 Mar 2014 £'000
Non-current assets			
Goodwill		**51,372**	85,272
Other intangible assets		**41,903**	22,669
Property, plant and equipment		**127,078**	123,839
Investments		**33**	20
Deferred tax assets		**16,306**	15,408
		236,692	247,208
Current assets			
Inventories		**2,235**	2,647
Trade and other receivables		**78,790**	74,135
Cash and cash equivalents	6	**11,701**	9,441
		92,726	86,223
Total assets		**329,418**	333,431
Current liabilities			
Trade and other payables		**(112,969)**	(128,314)
Current tax liabilities		**(2,500)**	(1,394)
Borrowings	6	**(691)**	-
Derivative financial instruments		**(378)**	(137)
Finance leases	6	**(1,743)**	-
Provisions for other liabilities and charges		**(2,579)**	(365)
Non-current liabilities			
Borrowings	6	**(103,460)**	(84,417)
Retirement benefit obligations		**(31,435)**	(26,500)
Deferred tax liabilities		**(4,603)**	(5,057)
Derivative financial instruments		-	(1,669)
Finance leases	6	**(5,155)**	-
Provisions for other liabilities and charges		**(26)**	(425)
Total liabilities		**(265,539)**	(248,278)
Net assets		**63,879**	85,153
Capital and reserves attributable to owners of the parent			
Share capital		**51,660**	51,660
Share premium account		**353,231**	353,231
Hedging and translation reserve		**442**	(986)
Accumulated losses		**(341,454)**	(318,752)
Total equity		**63,879**	85,153

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 31 March 2013 (audited)		**51,660**	**353,231**	**(2,363)**	**(319,886)**	**82,642**
Profit for the year		-	-	-	38,770	38,770
Other comprehensive income / (expense)		-	-	1,377	(13,908)	(12,531)
Total comprehensive income for the year ended 31 March 2014 (unaudited)		**-**	**-**	**1,377**	**24,862**	**26,239**
Deferred tax credit relating to share schemes		-	-	-	134	134
Current tax credit relating to share schemes		-	-	-	301	301
Purchase of ordinary shares		-	-	-	(1,764)	(1,764)
Employee share schemes		-	-	-	1,365	1,365
Dividends	5	-	-	-	(23,764)	(23,764)
		-	-	-	(23,728)	(23,728)
At 31 March 2014 (audited)		**51,660**	**353,231**	**(986)**	**(318,752)**	**85,153**
Profit for the year		-	-	-	12,544	12,544
Other comprehensive income / (expense)		-	-	1,428	(6,020)	(4,592)
Total comprehensive income for the year ended 31 March 2015 (unaudited)		**-**	**-**	**1,428**	**6,524**	**7,952**
Deferred tax charge relating to share schemes		-	-	-	(270)	(270)
Current tax credit relating to share schemes		-	-	-	184	184
Purchase of ordinary shares		-	-	-	(4,058)	(4,058)
Employee share schemes		-	-	-	975	975
Dividends	5	-	-	-	(26,057)	(26,057)
		-	-	-	(29,226)	(29,226)
At 31 March 2015 (unaudited)		**51,660**	**353,231**	**442**	**(341,454)**	**68,879**

Consolidated cash flow statement

	Note	**Unaudited Year Ended 31 Mar 2015 £'000**	Audited Year Ended 31 Mar 2014 £'000
Cash flows from operating activities			
Operating profit		**22,405**	55,607
Adjustments for:			
- depreciation and amortisation		**17,111**	20,272
- impairment of goodwill	2	**33,900**	-
- (increase) / decrease in working capital		**(14,881)**	1,537
- restructuring cost and onerous lease payments		**(62)**	(3,375)
- pension deficit payments		**(4,270)**	(788)
Tax paid		**(3,424)**	(1,531)
Loss / (profit) on sale of property, plant and equipment		**429**	(456)
Profit on sale of investments		**(624)**	-
Net cash generated from operations	6	**50,584**	71,266
Cash flows from investing activities			
Purchase of property, plant and equipment		**(17,356)**	(16,207)
Purchase of intangible assets		**(14,666)**	(11,705)
Proceeds from sale of property, plant and equipment		**-**	633
Proceeds from sale of investments		**624**	-
Net cash used in investing activities		**(31,398)**	(27,279)
Cash flows from financing activities			
Dividends paid	5	**(26,057)**	(23,764)
Dividends equivalent paid to participants of the share schemes	6	**(561)**	(301)
Interest paid	6	**(5,574)**	(4,436)
Capital element of finance lease repayments		**(1,367)**	-
Repayment of bank loans		**(45,000)**	(85,000)
Drawdown of bank loans		**65,000**	65,000
Purchase of ordinary shares	6	**(4,058)**	(1,764)
Net cash used in financing activities		**(17,617)**	(50,265)
Increase / (decrease) in cash and cash equivalents		**1,569**	(6,278)
Cash and cash equivalents at the beginning of the year		**9,441**	15,719
Cash and cash equivalents at the end of the year	6	**11,010**	9,441

Notes to the unaudited financial information

1. Segmental analysis

The chief operating decision-maker of the Group is the KCOM Group PLC Board. The Board considers the performance of the four brands and the PLC function in assessing the performance of the Group and making decisions about the allocation of resources. These are the Group's operating segments.

The KC brand addresses the needs of our Hull and East Yorkshire customers and the Kcom, Smart421 and Eclipse brands serve enterprise, public sector organisations and small business markets across the UK.

The Board assessed that the Kcom, Smart421 and Eclipse brands have similar profiles offering similar products and services, similar production and distribution processes and are operating in a consistent regulatory environment. In line with IFRS 8, the Kcom, Smart421 and Eclipse brands are aggregated together and reported as the 'Kcom' segment. The remaining brands of KC and the PLC function are reported respectively in the 'KC' segment and the 'PLC' segment. This reporting is also consistent with the reporting to the KCOM Group PLC Board.

	Unaudited Year ended 31 Mar 2015 £'000	Audited Year ended 31 Mar 2014 £'000
Revenue		
KC	**104,751**	105,021
Kcom	**248,593**	270,891
PLC[1]	**(5,360)**	(5,215)
Total	**347,984**	370,697
Group EBITDA		
KC	**56,368**	56,155
Kcom	**25,687**	28,714
PLC[1]	**(7,751)**	(9,578)
Total – before exceptional items	**74,304**	75,291
Exceptional items:		
KC	**5,027**	(499)
Kcom	**(37,435)**	1,864
PLC[1]	**(2,380)**	(777)
Total exceptional items	**(34,788)**	588
EBITDA post exceptional items	**39,516**	75,879

1 PLC comprises shared service functions, share scheme expenses, and administration costs associated with the Group's defined benefit pension scheme.

Notes to the unaudited financial information continued

1. Segmental analysis (continued)

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

	Unaudited Year ended 31 Mar 2015 £'000	Audited Year ended 31 Mar 2014 £'000
EBITDA post exceptional items	**39,516**	75,879
Depreciation	**(12,033)**	(16,882)
Amortisation	**(5,078)**	(3,390)
Finance costs	**(5,725)**	(5,075)
Share of profit / (loss) of associates	**13**	(2)
Profit before tax	**16,693**	50,530

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

	Unaudited Year ended 31 Mar 2015 £'000	Audited Year ended 31 Mar 2014 £'000
Revenue from external customers		
KC	**99,597**	99,573
Kcom	**248,033**	270,470
PLC[1]	**354**	654
Total	**347,984**	370,697
Inter-segment revenue		
KC	**5,154**	5,448
Kcom	**560**	421
PLC[1]	**(5,714)**	(5,869)
Total	**-**	-
	347,984	370,697

Neither revenue nor operating profit arising outside the United Kingdom is material to the Group.

[1] PLC comprises shared service functions, share scheme expenses, and administration costs associated with the Group's defined benefit pension scheme.

Notes to the unaudited financial information continued

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 2015 £'000	Audited Year ended 31 Mar 2014 £'000
Exceptional items:		
- Impairment of goodwill	**(33,900)**	-
- Network rates rebate	**5,278**	-
- Restructuring costs	**(7,546)**	(1,121)
- Recovery of previously provided debt	**756**	-
- Profit on sale of investments	**624**	-
- Credit on termination of contracts	**-**	2,587
- Strategic pensions advice costs	**-**	(700)
- Onerous lease costs	**-**	(178)
(Charged) / credited to operating profit	**(34,788)**	588

In accordance with accounting standards, the Group's goodwill balance is tested annually for impairment. As part of this review the goodwill in the Group's Kcom CGU was deemed to be impaired and as such a charge of £33.9m has been recognised in the consolidated income statement. This is a non cash item and is treated as exceptional in line with our accounting policy.

Network rates rebate relates to a settlement agreed during the year.

As set out in our accounting policy, restructuring costs are shown as exceptional items. During the year the Group incurred £4.4m in relation to the Kcom brand in the first half of the year, £1.7m relating to strategic IT investment and £1.4m supporting the Group's move towards a single operating model.

Recovery of previously provided debt relates to a settlement of the Group's written off debt due from Lehman Brothers, which was previously charged as an exceptional item.

The profit on sale of investments relates to the sale of the Group's previously impaired shareholding in Spectrum Venture Management Fund, which was previously charged as an exceptional item.

Credit on termination of contracts arose from a notification of termination following the closure of a regional government sponsored network infrastructure.

Strategic pensions advice costs related to the costs incurred for the agreements reached with the Trustees of the Group's defined benefit pension schemes to provide the Group with an efficient mechanism of funding the Schemes' current deficit position. The level of costs reflected both company and Schemes' advisor costs.

Onerous lease costs arose as a result of continued rationalisation of the Group's property portfolio.

Notes to the unaudited financial information continued

3. Tax

The tax charge on activities is set out below:

	Unaudited Year ended 31 Mar 2015 £'000	Audited Year ended 31 Mar 2014 £'000
Corporation tax	**(4,529)**	(2,572)
Deferred tax	**380**	(9,188)
Total	**(4,149)**	(11,760)

4. Earnings per share

Weighted average number of shares	**Unaudited Year ended 31 Mar 2015 No.**	Audited Year ended 31 Mar 2014 No.
For basic earnings per share	**508,619,479**	507,645,664
Share options in issue	**5,169,178**	5,704,438
For diluted earnings per share	**513,788,657**	513,350,102
Earnings	**£'000**	£'000
Profit attributable to equity holders of the company	**12,544**	38,770
Adjustments:		
Exceptional items	**34,788**	(588)
Tax on exceptional items	**(7,101)**	135
Adjusted profit attributable to equity holders of the company	**40,231**	38,317
Earnings per share		
	Pence	Pence
Basic	**2.47**	7.64
Diluted	**2.44**	7.55
Adjusted basic	**7.91**	7.55
Adjusted diluted	**7.83**	7.46

Notes to the unaudited financial information continued

5. Dividends

	Unaudited Year ended 31 Mar 2015 £'000	Audited Year ended 31 Mar 2014 £'000
Final dividend for the year ended 31 March 2013 of 2.97 pence per share	**-**	15,343
Interim dividend for the year ended 31 March 2014 of 1.63 pence per share	**-**	8,421
Final dividend for the year ended 31 March 2014 of 3.25 pence per share	**16,810**	-
Interim dividend for the year ended 31 March 2015 of 1.79 pence per share	**9,247**	-
Total	**26,057**	23,764

The proposed final dividend for the year ended 31 March 2015 is 3.58 pence per share. 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.

6. Movement in net debt

	Unaudited Year ended 31 Mar 2015 £'000	Audited Year ended 31 Mar 2014 £'000
Opening net debt	**(74,976)**	(88,218)
Closing net debt	**(99,348)**	(74,976)
(Increase) / decrease in the year	**(24,372)**	13,242
Reconciliation of movement in the year		
Net cashflow from operations	**50,584**	71,266
Capital expenditure	**(32,022)**	(27,912)
Interest	**(5,574)**	(4,436)
Dividends	**(26,057)**	(23,764)
Dividends equivalent paid to participants of the share schemes	**(561)**	(301)
Purchase of ordinary shares	**(4,058)**	(1,764)
Finance leases	**(6,898)**	-
Other	**214**	153
(Increase) / decrease in the year	**(24,372)**	13,242

Notes to the unaudited financial information continued

6. Movement in net debt (continued)

Net debt comprises:

	Unaudited Year ended 31 Mar 2015 £'000	Audited Year ended 31 Mar 2014 £'000
Cash and cash equivalents (including bank overdrafts)	**11,010**	9,441
Bank loans	**(103,460)**	(84,417)
Finance leases	**(6,898)**	-
Total net debt	**(99,348)**	(74,976)

The Group's bank facilities were refinanced in June 2014 to replace existing facilities. These bank facilities comprise a multi-currency revolving credit facility of £200.0 million, provided by a group of five core relationship banks. The facility matures in June 2019. 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

7. 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 2014 Annual report and accounts, except as disclosed in Note 8.

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 2015 or 2014. The financial information for the year ended 31 March 2014 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 2015 will be finalised on the basis of the financial information presented by the Directors in this unaudited preliminary announcement and will be delivered to the Registrar of Companies following the Annual General Meeting.

The financial information contained within this preliminary announcement was approved by the Board on 5 June 2015 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.

8. Accounting policies

The accounting policies adopted are consistent with those published in the Group's 2014 Annual report and accounts.

9. 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.

10. Related party transactions

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

There are no other material related party transactions.

Signed by Order of the Board on 5 June 2015 by: