6 June 2014

KCOM GROUP PLC (KCOM.L) ANNOUNCES

UNAUDITED PRELIMINARY RESULTS TO 31 MARCH 2014

KCOM Group PLC (KCOM.L) today announces full year results for year ended 31 March 2014.

Highlights

- Year end results in line with expectations
- Strong second half cash performance with closing net debt of £75.0 million
- Net debt to EBITDA ratio reduced to 1.0 x (2013: 1.2 x)
- Increased final dividend of 3.25p, in line with commitment to increase dividend by 10 per cent per annum until March 2016
- Refinancing agreed, providing capacity to consider investment in selective organic and inorganic opportunities to strengthen position in target markets

	Unaudited Year ended 31 March 2014 (£ million)	Restated[1] Audited Year ended 31 March 2013 (£ million)	Change over prior year (%)
Results from continuing operations before exceptional items			
Revenue	370.7	372.9	(0.6)
EBITDA	75.3	74.9	0.5
Operating profit	55.0	55.2	(0.4)
Profit before tax	49.9	50.0	(0.2)
Adjusted basic earnings per share (pence) (note 4)	7.55	7.39	2.2
Reported results			
Net cash inflow from operations	71.2	50.3	41.6
Net debt (note 6)	75.0	88.2	(15.0)
Cash capital expenditure	27.9	28.0	(0.4)
Profit before tax	50.5	47.7	5.9
Basic earnings per share (pence) (note 4)	7.64	7.08	7.9
Proposed final dividend (pence)	3.25[2]	2.97	9.4
Proposed full year dividend per share (pence)	4.88[3]	4.44	10.0

[1] March 2013 restated to reflect the impact of the revised IAS 19 standard (note 8).
[2] Actual proposed final dividend is 3.254p per share.
[3] Actual proposed full year dividend is 4.884p per share.

Bill Halbert, Chief Executive Officer, commenting on the results said:

"This set of results reflects the progress in key strategic areas being made across the Group, underpinned by the highly cash generative nature of the business. That ability to generate cash results in net debt reducing during the period since March 2013, and is comfortably within our target gearing levels, at a net debt to EBITDA ratio of 1.0 x.

"In KC, there continues to be growing demand for our fibre services, with take-up rates remaining ahead of our expectations and above UK averages. The success to date and consequent uplift in ARPU for customers has helped shape our thinking as we begin to scope the next phase of deployment. Across the other areas of the Group, we continue to build our reputation in the design, delivery and management of value-added services in the wider enterprise market.

"The re-financing of the business coupled with the underlying strength of the Group, gives us the confidence and capacity to consider targeted investment in both organic and inorganic growth opportunities to strengthen our competitive position.

"With the previously announced Board changes now effected, we are moving into the next phase of the Group's development. I look forward to building on the progress made to date."

Outlook

The Group is well positioned to continue exploiting the opportunities that exist in its key markets. We will continue to invest in expanding the reach of, and building consumer demand for, our fibre-based broadband services.

As we focus on the delivery of value added services to the enterprise market, we expect to see a continued decline in some traditional carrier revenue. With the strong underlying cash flow of the Group, refinancing finalised and the positive indicators within the Group, we will now consider opportunities for investment in those focus areas going forward.

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Group update

The Group is well positioned to deliver value-added services in our target markets, giving us the opportunity to generate profitable growth and build upon our strengthening market presence.

Growing consumer demand for fibre-based services

In KC, progress in our fibre deployment remains strong and we continue to exploit the investment in our fibre network to grow sales of broadband and related data services. Take-up remains strong and we are on target to provide 45,000 premises (c30% of the addressable market) with access to high speed fibre-based services by December 2015. Our current take-up rate of 27 per cent is well ahead of the national average, and is delivering an average revenue per user (ARPU) uplift of in excess of £5 per month.

We are scoping the next phase of this investment (beyond December 2015) and will provide an update on this at the interim results in November 2014. While subsequent phases of this deployment will require additional capital investment, it will create a future proof infrastructure capable of very high speeds, well in excess of current and forecast market requirements. We believe our decision to deploy fibre to the premises (FTTP) is the most financially attractive over the longer term, as well as being the most beneficial for our customers.

Focus on delivery of value-added services to SMB and enterprise markets

In Kcom, we are focused principally on partnering enterprise and public sector organisations for the delivery of value-added communications and IT related services.

The move away from some of our legacy carrier business is most evident in our enterprise activities rather than those in the SMB market where there is continued demand for connectivity, particularly as part of our cloud based offerings. Typically, SMB organisations have limited internal IT resource and are looking for access to a range of communications packages with low upfront investment and full service support. Customers in this sector include RNLI, Furniture Village and the RSPB.

Within the large enterprise market, our carrier-only activity is declining due to both the commoditised nature of the products and ongoing pricing pressure from regulatory changes. However, those products will continue to form an important part of our managed services offering.

Increasingly, our enterprise customers are looking for partners with the ability to offer multiple communications and IT services under one managed contract, many of which include cloud based solutions.

We believe this market will exhibit significant growth and provides opportunities for the Group, driven by:

- the need for organisations to make “catch-up” investment post the economic crisis;
- the complexity of managing multiple customer contact channels (web, email, live chat, contact centres);
- the need to exploit the capability of a range of systems and platforms; and
- a focus on increased efficiency, collaboration and productivity within organisations.

Building long-term customer relationships

Our ability to deliver bespoke solutions provides the opportunity to build long-term, quality relationships based on annuity contracts.

We provide managed and consultancy services to organisations including Morrisons, Phones4U, National Farmers Union Mutual, Admiral Insurance and University Hospitals Birmingham. During the year, we also secured contracts and renewals with British Airways, Mercedes and HMRC. Under our contract with the Associated Train Operating Companies, we recently migrated all the UK’s rail ticketing and travel information and systems on to a cloud based platform with our partner, Amazon Web Services.

Certain managed services contracts require specific customer capital investment, which is reflected in our contract pricing. Our contract with HMRC for the provision of hosted contact centre services requires capital investment of c£8 million which will be funded through cost effective finance leases allowing us to match our cash inflows and outflows over the life of the contract. This will increase net debt in the year ending 31 March 2015.

Net debt, cashflow and refinancing

Year end net debt was £75.0 million (2013: £88.2 million), representing a net debt to EBITDA ratio of 1.0 x (2013: 1.2 x).

The Group continues to be highly cash generative and recorded strong cash collection in the second half of the year increasing working capital inflows and leading to lower year end net debt. Net debt is likely to increase in 2015 as capital expenditure increases but we expect to maintain a net debt to EBITDA ratio of comfortably less than 1.5 x. The Group’s debtor management remains strong with year end days’ sales outstanding of 30 days (2013: 30 days).

On 4 June, the Group successfully refinanced through the agreement of a £200.0 million revolving credit facility, secured on improved terms. This new arrangement, which expires on 30 June 2019, provides sufficient funding to support both organic and inorganic growth.

Dividend

The Board is proposing a final dividend of 3.25 pence per share (2013: 2.97 pence), representing a total dividend for the year of 4.88 pence per share (2013: 4.44 pence). This represents 10.0% year on year growth in the total dividend, consistent with the Board’s previously stated commitment to grow full year dividends at 10% per annum until the year ending 31 March 2016.

Subject to shareholder approval at the KCOM Group PLC Annual General Meeting on 29 July 2014, the final dividend will be paid on 1 August 2014 to shareholders registered on 27 June 2014. The ex-dividend date is 25 June 2014.

Pensions

The Group continues to actively manage its pension obligations and engage in positive discussions with the schemes’ Trustees. In recent years, significant progress has been made through a number of actions, including:

- closure of all defined benefit schemes to future accrual;
- breaking the link to final salary;
- reduction of deferred membership through a transfer-out offer; and
- establishment and transfer of assets into an asset backed partnership.

During the year reported, a secured loan (£16.0 million) was transferred into the asset backed partnership created during the year ended 31 March 2013. This second agreement provides further certainty over the Group's cash commitments to the schemes, by creating both an improvement to the funding deficit (through an annual distribution of £1.6 million) and added security to the Trustees of the schemes.

The Group's IAS 19 pension liability is £26.5 million (2013: £9.8 million). The year on year increase arises as a result of movements in assumptions, in particular a lower discount rate used to calculate the schemes' liabilities.

The actuarial deficit at 31 March 2013 was £59.2 million (31 March 2010: £61.4 million). The Group's cash commitments reflect post valuation experience factors including:

- successful completion of the second transfer into the asset backed partnership;
- post valuation experience, particularly significant movements in discount factors and equity rates since March 2013; alongside
- further strengthening of covenant and relationship with the pension scheme Trustees.

In addition to payments relating to the Group's asset backed partnership, the planned level of deficit repair payment (across both schemes) is £2.0 million in each of the years ending 31 March 2015 and 31 March 2016.

Group and segmental performance

Group revenue (£370.7 million) and EBITDA before exceptional items (£75.3 million) were broadly flat (2013: £372.9 million and restated £74.9 million).

The KC segment reported revenue of £105.0 million (2013: £104.6 million) representing a strong consumer performance (particularly in the take-up of fibre), offset by slightly lower business revenue.
Ongoing efficient cost management resulted in EBITDA before exceptional items increasing by 3.1% to £56.2 million (2013: £54.5 million).

Within our Kcom segment, revenue was £270.9 million (2013: £273.4 million) reflecting our focus on exploiting emerging market trends. EBITDA before exceptional items was £28.7 million (2013: £29.4 million). We anticipate some incremental decline in revenue in the year ending 31 March 2015.

The Group's PLC segment includes central and share scheme expenses, and administration costs associated with the Group's defined benefit pension schemes. These costs (before exceptional items) were £9.6 million (2013: restated £9.0 million).The income statement effect of financing the Group's pension schemes was previously reported within EBITDA but, following the revision to IAS 19, is now included within finance costs.

The Group's net exceptional credit was £0.6 million. This included a £2.6 million profit on contract termination offset by costs of restructuring (£1.1 million), costs associated with the Group's second asset backed pension funding arrangement (£0.7 million) and onerous lease costs (£0.2 million).

Capital investment

The Group's depreciation and amortisation charge for the year was £20.3 million (2013: £19.6 million), reflecting continued investment in existing commitments. We expect this charge to increase in future years. Cash capital expenditure during the year was £27.9 million (2013: £28.0 million). Specific projects include:

- the continued roll-out of fibre;
- strategic IT investment to allow the Group to move towards common systems and processes; and
- targeted customer specific investment.

The Group anticipates that capital investment levels will be approximately £35 million in the year ending 31 March 2015, this increase reflects the timing of cash outflows rather than a material change in capital investment levels.

Tax

The Group's tax charge of £11.8 million (2013: restated £11.9 million) reflects the corporation tax charge for the year and the ongoing unwind of deferred tax balances. Deferred tax balances have been re-measured to reflect the reduction in the corporation tax rate from 23% to 20% for the year ending 31 March 2015.

The effective rate of 23.3% is broadly in line with the prevailing rate of corporation tax as the effect of re-measuring deferred tax is offset by prior year tax items. The Group's corporation tax liability would have been higher had it not been for the benefit arising from the Group's second asset backed pension funding arrangement.

Our cash tax payment in the year ended 31 March 2015 relating to the current year is c£2 million. We expect cash tax payments in the years ending 31 March 2015 and 31 March 2016 to be c£4 million and c£5 million respectively, in line with prevailing corporation tax rates.

Consolidated income statement

	Note	Unaudited Year ended 31 Mar 2014 £'000	Restated[1] Audited Year ended 31 Mar 2013 £'000
Revenue	1	**370,697**	372,869
Operating expenses		**(315,090)**	(319,929)
Operating profit		**55,607**	52,940
Analysed as:			
EBITDA before exceptional items	1	**75,291**	74,862
Exceptional items	2	**588**	(2,310)
Depreciation of property, plant and equipment		**(16,882)**	(15,890)
Amortisation of intangible assets		**(3,390)**	(3,722)
Finance costs		**(5,075)**	(5,241)
Share of (loss) / profit of associates		**(2)**	10
Profit before tax	1	**50,530**	47,709
Tax	3	**(11,760)**	(11,864)
Profit for the year attributable to owners of the parent		**38,770**	35,845
Earnings per share (pence)			
Basic	4	**7.64**	7.08
Diluted	4	**7.55**	6.99

Consolidated interim statement of comprehensive income

	Unaudited Year ended 31 Mar 2014 £'000	Restated[1] Audited Year ended 31 Mar 2013 £'000
Profit for the year	**38,770**	35,845
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Remeasurements of retirement benefit obligations	**(16,630)**	4,705
Tax on items that will not be reclassified	**2,997**	(1,593)
Total items that will not be reclassified to profit or loss	**(13,633)**	3,112
Items that may be reclassified subsequently to profit or loss		
Cash flow hedge fair value movements	**1,377**	582
Tax on items that may be reclassified	**(275)**	(133)
Total items that may be reclassified subsequently to profit or loss	**1,102**	449
Total comprehensive income for the year attributable to owners of the parent	**26,239**	39,406

[1] The comparative results have been restated for changes in IAS 19 (Employee benefits). See note 8 for further details.

Consolidated balance sheet

	Note	**Unaudited As at 31 Mar 2014 £'000**	Audited As at 31 Mar 2013 £'000
Non-current assets			
Goodwill		**85,272**	85,272
Other intangible assets		**22,669**	14,354
Property, plant and equipment		**123,839**	119,270
Investments		**20**	22
Deferred tax assets		**15,408**	18,842
		247,208	237,760
Current assets			
Inventories		**2,647**	2,244
Trade and other receivables		**74,135**	70,214
Cash and cash equivalents	6	**9,441**	15,719
Derivative financial instruments		**-**	52
		86,223	88,229
Total assets		**333,431**	325,989
Current liabilities			
Trade and other payables		**(129,708)**	(121,671)
Derivative financial instruments		**(137)**	-
Provisions		**(365)**	(1,921)
Non-current liabilities			
Bank loans	6	**(84,417)**	(103,937)
Retirement benefit obligations		**(26,500)**	(9,758)
Deferred tax liabilities		**(5,057)**	(2,314)
Derivative financial instruments		**(1,669)**	(3,235)
Provisions		**(425)**	(511)
Total liabilities		**(248,278)**	(243,347)
Net assets		**85,153**	82,642
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		**(986)**	(2,363)
Accumulated losses		**(318,752)**	(319,886)
Total equity		**85,153**	82,642

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 2012 (audited)		**51,660**	**353,231**	**(2,945)**	**(328,489)**	**73,457**
Profit for the year		-	-	-	35,845	35,845
Other comprehensive income		-	-	582	2,979	3,561
Total comprehensive income for the year ended 31 March 2013 (restated and audited)[1]		**-**	**-**	**582**	**38,824**	**39,406**
Deferred tax charge relating to share schemes		-	-	-	(996)	(996)
Current tax credit relating to share schemes		-	-	-	2,092	2,092
Purchase of ordinary shares		-	-	-	(10,872)	(10,872)
Employee share schemes		-	-	-	942	942
Dividends	5	-	-	-	(21,387)	(21,387)
		-	-	-	(30,221)	(30,221)
At 31 March 2013 (restated and audited)[1]		**51,660**	**353,231**	**(2,363)**	**(319,886)**	**82,642**
Profit for the year		-	-	-	38,770	38,770
Other comprehensive income		-	-	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 (unaudited)		**51,660**	**353,231**	**(986)**	**(318,752)**	**85,153**

[1] The comparative results have been restated for changes in IAS 19 (Employee benefits). See note 8 for further details.

Consolidated cash flow statement

	Note	Unaudited Year Ended 31 Mar 2014 £'000	Restated[1] Audited Year ended 31 Mar 2013 £'000
Cash flows from operating activities			
Operating profit		**55,607**	52,940
Adjustments for:			
- depreciation and amortisation		**20,272**	19,612
- decrease / (increase) in working capital		**1,460**	(16,211)
- restructuring cost and onerous lease payments		**(3,375)**	(4,462)
- pension deficit payments		**(788)**	(575)
Tax paid		**(1,531)**	-
Profit on sale of property, plant and equipment		**(456)**	(138)
Profit on sale of investments		**-**	(857)
Net cash generated from operations	6	**71,189**	50,309
Cash flows from investing activities			
Purchase of property, plant and equipment		**(16,207)**	(16,964)
Purchase of intangible assets		**(11,705)**	(11,032)
Proceeds from sale of property, plant and equipment		**633**	477
Proceeds from sale of investments		**-**	1,895
Net cash used in investing activities		**(27,279)**	(25,624)
Cash flows from financing activities			
Dividends paid	5	**(23,764)**	(21,387)
Dividends equivalent paid to participants of the share schemes	6	**(224)**	(898)
Interest paid	6	**(4,436)**	(4,006)
Capital element of finance lease repayments		**-**	(136)
Repayment of bank loans		**(85,000)**	(70,000)
Drawdown of bank loans		**65,000**	90,000
Purchase of ordinary shares	6	**(1,764)**	(10,872)
Net cash used in financing activities		**(50,188)**	(17,299)
(Decrease) / increase in cash and cash equivalents		**(6,278)**	7,386
Cash and cash equivalents at the beginning of the year		**15,719**	8,333
Cash and cash equivalents at the end of the year	6	**9,441**	15,719

[1] The comparative results have been restated for changes in IAS 19 (Employee benefits). See note 8 for further details.

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 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 'PLC' segment. This reporting is also consistent with the reporting to the KCOM Group PLC Board.

	Unaudited Year ended 31 Mar 2014 £'000	Restated[1] Audited Year ended 31 Mar 2013 £'000
Revenue		
KC	**105,021**	104,564
Kcom	**270,891**	273,446
PLC[2]	**(5,215)**	(5,141)
Total	**370,697**	372,869
Group EBITDA		
KC	**56,155**	54,483
Kcom	**28,714**	29,379
PLC[2]	**(9,578)**	(9,000)
Total – before exceptional items	**75,291**	74,862
Exceptional items:		
KC	**(499)**	(788)
Kcom	**1,864**	(1,001)
PLC[2]	**(777)**	(521)
Total exceptional items	**588**	(2,310)
EBITDA post exceptional items	**75,879**	72,552

[1] The comparative results have been restated for changes in IAS 19 (Employee benefits). See note 8 for further details.
[2] PLC includes Public Company central and share scheme expenses, inter-segment eliminations and the costs of administrating the Group's defined benefit pension schemes.

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 2014 £'000	Restated[1] Audited Year ended 31 Mar 2013 £'000
EBITDA post exceptional items	**75,879**	72,552
Depreciation	**(16,882)**	(15,890)
Amortisation	**(3,390)**	(3,722)
Finance costs	**(5,075)**	(5,241)
Share of (loss) / profit of associates	**(2)**	10
Profit before tax	**50,530**	47,709

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

	Unaudited Year ended 31 Mar 2014 £'000	Audited Year ended 31 Mar 2013 £'000
Revenue from external customers		
KC	**99,573**	99,139
Kcom	**270,470**	273,034
PLC[2]	**654**	696
Total	**370,697**	372,869
Inter-segment revenue		
KC	**5,448**	5,425
Kcom	**421**	412
PLC[2]	**(5,869)**	(5,837)
Total	**-**	-
	370,697	372,869

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

[1]The comparative results have been restated for changes in IAS 19 (Employee benefits). See note 8 for further details.
[2] PLC includes Public Company central and share scheme expenses, inter-segment eliminations and the costs of administrating the Group's defined benefit pension schemes.

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 2014 £'000	Audited Year ended 31 Mar 2013 £'000
Exceptional items:		
- Credit on termination of contracts	**(2,587)**	-
- Restructuring costs relating to employees	**1,121**	2,272
- Strategic pensions advice costs	**700**	895
- Onerous lease costs	**178**	-
- Profit on sale of investments	**-**	(857)
(Credited) / charged to operating profit	**(588)**	2,310

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

Restructuring costs arise as a result of organisational changes.

Strategic pensions advice costs relate 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 reflects both company and Schemes' advisor costs.

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

The profit on sale of investments related to the sale of the Group's shareholding in Spectrum Venture Management Fund.

3. Tax

The tax charge on activities is set out below:

	Unaudited Year ended 31 Mar 2014 £'000	Restated[1] Audited Year ended 31 Mar 2013 £'000
Corporation tax	**(2,572)**	(2,743)
Deferred tax	**(9,188)**	(9,121)
Total	**(11,760)**	(11,864)

[1] The comparative results have been restated for changes in IAS 19 (Employee benefits). See note 8 for further details.

Notes to the unaudited financial information continued

4. Earnings per share

Weighted average number of shares	**Unaudited Year ended 31 Mar 2014 No.**	Restated[1] Audited Year ended 31 Mar 2013 No.
For basic earnings per share	**507,645,664**	506,268,452
Share options in issue	**5,704,438**	6,273,766
For diluted earnings per share	**513,350,102**	512,542,218
Earnings	**£'000**	£'000
Profit attributable to equity holders of the company	**38,770**	35,845
Adjustments:		
Exceptional items	**(588)**	2,310
Tax on exceptional items	**135**	(760)
Adjusted profit attributable to equity holders of the company	**38,317**	37,395
Earnings per share		
	Pence	Pence
Basic	**7.64**	7.08
Diluted	**7.55**	6.99
Adjusted basic	**7.55**	7.39
Adjusted diluted	**7.46**	7.30

[1] The comparative results have been restated for changes in IAS 19 (Employee benefits). See note 8 for further details.

Notes to the unaudited financial information continued

5. Dividends

	Unaudited Year ended 31 Mar 2014 £'000	Audited Year ended 31 Mar 2013 £'000
Final dividend for the year ended 31 March 2012 of 2.67 pence per share	**-**	13,793
Interim dividend for the year ended 31 March 2013 of 1.47 pence per share	**-**	7,594
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**	-
Total	**23,764**	21,387

The proposed final dividend for the year ended 31 March 2014 is 3.254 pence per share, amounting to a total dividend of £16,810,000. In accordance with IAS 10 (Events after the balance sheet date), dividends declared after the balance sheet date are not recognised as a liability in this financial information.

6. Movement in net debt

	Unaudited Year ended 31 Mar 2014 £'000	Audited Year ended 31 Mar 2013 £'000
Opening net debt	**88,218**	75,267
Closing net debt	**(74,976)**	(88,218)
Decrease / (increase) in the year	**13,242**	(12,951)
Reconciliation of movement in the year		
Net cashflow from operations	**71,189**	50,309
Capital expenditure	**(27,912)**	(27,996)
Interest	**(4,436)**	(4,006)
Dividends	**(23,764)**	(21,387)
Dividends equivalent paid to participants of the share schemes	**(224)**	(898)
Purchase of ordinary shares	**(1,764)**	(10,872)
Other	**153**	1,899
Decrease / (increase) in the year	**13,242**	(12,951)

Notes to the unaudited financial information continued

6. Movement in net debt (continued)

Net debt comprises:

	Unaudited Year ended 31 Mar 2014 £'000	Audited Year ended 31 Mar 2013 £'000
Cash and cash equivalents	**(9,441)**	(15,719)
Borrowings	**84,417**	103,937
Total net debt	**74,976**	88,218

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 meet the organic investment needs of the business. 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 2013 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 2014 or 2013. The financial information for the year ended 31 March 2013 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 s498 of the Companies Act 2006. The financial information for the year ended 31 March 2013 has been restated to reflect the impact of the revised IAS 19 standard. Further detail is given in note 8. The statutory accounts for the year ended 31 March 2014 will be finalised on the basis of the financial information presented by the Directors in this unaudited preliminary announcement and will be delivered to the Registrar of Companies following the Annual General Meeting.

The financial information contained within this preliminary announcement was approved by the Board on 6 June 2014 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 2013 Annual report and accounts, except as described below.

IAS 19 (revised) – Employee benefits
IAS 19 (revised) amends the accounting for employment benefits. The Group has applied the standard retrospectively in accordance with the transition provisions of the standard.

The standard replaces the interest cost on the defined benefit obligation and the expected return on plan assets with a net interest cost based on the net defined benefit asset or liability and the discount rate, measured at the beginning of the year. There is no change to determining the discount rate; this continues to reflect the yield on high-quality corporate bonds. This has increased the income statement charge as the discount rate applied to assets is lower than the expected return on assets. This has no effect on total comprehensive income as the increased charge in profit or loss is offset by a credit in other comprehensive income. The effect has been that the income statement charge for the period to 31 March 2013 has increased by £2.1m.

Notes to the unaudited financial information continued

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 6 June 2014 by: