26 November 2013

KCOM GROUP PLC (KCOM.L) ANNOUNCES
UNAUDITED INTERIM RESULTS TO 30 SEPTEMBER 2013

“Improving quality and long term sustainability of the business”

KCOM Group PLC (KCOM.L) (‘KCOM Group’ or the ‘Group’) announces its unaudited interim results for the half year ended 30 September 2013.

Highlights

- Results in line with our expectations
- Group increasingly competitive in chosen markets
- Number of areas showing growth, despite modest overall revenue decline
- Growth in KC consumer revenue, particularly in broadband
- Continued success in fibre deployment
- Increase in Kcom segment multi-year order backlog
- Strong revenue growth in Eclipse and Smart421
- Preferred supplier status on significant government contract
- Increase in interim dividend as previously stated

In a separate announcement released this morning, the Group has outlined changes to the structure of the Board. These reflect the Board’s confidence in the Group’s strategic focus and the positive progress made in transforming the competitive position of the business.

	Unaudited Six months ended 30 Sept 13 (£ million)	Unaudited Six months ended 30 Sept 12 Restated[1] (£ million)	Movement on prior period (%)
Results from continuing operations before exceptional items			
Revenue	185.5	188.7	(1.7)
Operating profit	27.3	28.7	(4.9)
EBITDA	37.4	38.1	(1.8)
Profit before tax	24.7	26.1	(5.4)
Adjusted basic earnings per share (pence)[2]	3.76	3.86	(2.6)
Reported results			
Net cash inflow from operations	20.0	19.0	5.3
Net debt	99.7	94.3	
Profit before tax	25.8	26.2	(1.5)
Basic earnings per share (pence)	3.93	3.88	1.3
Interim dividend per share (pence)	1.63	1.47	10.9[3]

[1] September 2012 restated to reflect the impact of the revised IAS 19 standard.
[2] Adjusted basic EPS is basic EPS adjusted for exceptional items (including the tax impact of exceptional items).
[3] Full year dividend will show a 10% year on year increase in line with previously stated policy.

Bill Halbert, Executive Chairman, said “The half year position is encouraging and represents further good progress towards achieving our strategic ambitions. We continue to invest in support of the competitive position of our brands, our core IT applications and infrastructure and our broadband fibre deployment. While, as expected, this contributes to a short term decline in certain financial metrics, our strategy and plans continue to yield positive results. We remain confident about the Group’s longer term prospects and success and expect the full year outturn to be in line with market expectations.”

Outlook

These results provide evidence of the underlying strength of the Group and the significant opportunities we see in the longer term. We remain focused on executing our strategy for profitable growth by providing more value added services to existing customers and winning new contracts across all our markets. Alongside this, we will continue our investment in those areas that support scalable and efficient delivery of services to our customers.

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Business and Operating Review

The Group priorities are:

- delivery of value added services across our brands' target markets, with the aim of generating profitable growth and establishing strong market positions;
- driving operational effectiveness and scale through enhanced back office systems and processes;
- investing in the development of the talent and leadership in the business; and
- further development of our partner relationships.

Consistent with our strategy, the Group has remained focused on improving the quality and sustainability of business across its brands and, as a result, each has demonstrated progress in its key strategic areas.

Group revenue was 2 per cent lower at £185.5 million (2012: £188.7 million). Similarly, Group EBITDA before exceptional items reduced 2 per cent to £37.4 million (2012: restated £38.1 million). Group profit before tax and exceptional items is £24.7 million (2012: restated £26.1 million).

Highlights by segment are:

KC

- growth in consumer revenue and profitability as a result of demand for broadband services;
- successful deployment of fibre including the launch of new fibre-enabled services; and
- increased proportion of customers taking bundled services.

Kcom

- growing market share and increased order backlog, with double digit revenue growth in Smart421 and Eclipse;
- key customer wins and renewals including further success in the Public Services Network ('PSN') market; and
- collaboration across brands providing additional opportunities.

Preferred supplier status

The Group has secured preferred supplier status for a substantial contract with a government department for the provision of hosted contact centres supported by related IT and telephony services. During the second half of the year, we will be finalising contract details for these services, which are enabled by our cloud-based portfolio, Workplaces. Further information will be provided following contract signature.

Contract update

The Group's results for the period include an exceptional profit of £2.0m relating to notice of the intention to terminate a contract following the closure of a regional government sponsored network infrastructure. We expect to receive a cash settlement in the next financial year.

Regulatory update

It is anticipated that certain regulatory changes, including the outcome of the wholesale narrowband market review, may reduce future revenue from those activities by up to £5.0 million (EBITDA: up to £2.0 million).

KC

Our KC segment covers the performance of our KC brand which operates telephony and broadband over our East Yorkshire network and provides publishing services.

KC's revenue of £53.3 million is slightly lower than the prior period (2012: £53.6 million). This reflects an increase in consumer and contact centre revenue, offset by a reduction in business revenue and publishing. EBITDA increased to £28.1 million (2012: £27.8 million).

KC has seen a continued strong take-up of fibre-based services, with 25,000 premises passed and approximately 6,000 customers taking our Lightstream package. We have recently launched a high definition Smart CCTV service, enabled by the capability of high speed fibre, where footage is uploaded to the cloud allowing customers access to secure, real-time and recorded footage whenever they need to. KC's Lightstream capability offers a number of wider opportunities for 'over the top' services which the Group is currently exploring.

Our investment in, and emphasis on, customer service has led to KC being the overall winner at the UK Customer Experience awards.

Kcom

Our Kcom segment covers the performance of our business communications activities.

The segment's reported revenue of £134.7 million (2012: £137.5 million) reflects strong growth in Smart421 and Eclipse offset by slightly lower revenue in Kcom. EBITDA is £13.9 million (2012: £14.5 million) as a result of continued investment in the brand, coupled with slightly lower revenue.

Across the Kcom segment, we continue to develop strong customer relationships and have been successful in both winning and renewing contracts, resulting in an increase in multi-year order backlog. Recent contract wins and extensions include British Airways, Borough of Poole, Sports Direct, the Health Lottery and Red Hat. Our focus on growing existing contracts within the PSN market is evidenced by Leicestershire County Council awarding Kcom a four year managed WAN contract under the existing emPSN framework.

Our capability and service has been recognised by a number of partners and industry bodies. During the period, Eclipse was awarded 'Best SME vertical solution' at the Comms National awards and Smart421 achieved 'Premier consulting partner' status by Amazon Web Services.

We remain focused on building order backlog across all brands within the Kcom segment, and improving the medium term quality of the business. This will be supported by the investment we have made in previous years, including our suite of Workplaces services and the deployment of new tools that support our managed services customers.

PLC and associated costs ("PLC")

This segment includes Public Company central and share scheme expenses, and administration costs associated with the Group's defined benefit pension schemes.

PLC costs (before exceptional items) are £4.6 million (2012: restated £4.2 million), the increase relates to the mix and timing of Group-wide IT projects. 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.

Group operating profit

Group operating profit of £28.4 million (2012: restated £28.8 million) reflects:

- a £0.7 million decrease in EBITDA before exceptional items;
- a £1.0 million increase in exceptional profits, which includes a profit on contract termination offset by restructuring and onerous lease costs; and
- a £0.7 million increase in depreciation and amortisation.

Finance costs

Finance costs of £2.7 million (2012: restated £2.6 million) include £0.3 million (2012: £0.2 million) in relation to financing the Group's pension schemes. The Group's interest cost is in line with the comparative period.

Tax

The Group's tax charge of £5.9 million (2012: restated £6.6 million) reflects the corporation tax charge for the period 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 21% for the year ending 31 March 2015. The effective rate of 22.7% 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.

Dividend

The interim dividend is 1.63 pence per share (2012: 1.47 pence). The dividend will be paid on 3 February 2014 to shareholders registered on 3 January 2014. The ex-dividend date is 31 December 2013.

The level of interim dividend is consistent with the Board's previously stated commitment to grow full year dividends at 10% per annum until the year ending 31 March 2016.

Pension schemes

The Group's net pension liability is £14.8 million (2012: £15.0 million) and has increased by £5.0 million since March 2013 reflecting:

- a £3.9 million fall in assets, due to payments made to pensioners; and
- a £1.1 million increase in liabilities, principally as a result of a 0.1% decrease in the discount rate.

In the year ended 31 March 2013, the Group transferred its interest in certain freehold properties into an asset backed partnership. The structure (which had no accounting impact) created both an improvement to the funding deficit and added security to the Trustees of the schemes, thereby allowing the Group to reduce its deficit repair contributions for the year ending 31 March 2014.

Under the partnership structure, the pension schemes are entitled to an annual distribution of £1.1 million for 15 years, which is treated as a deficit repair payment. The transfer of assets reduced the Group's corporation tax liability and created a deferred tax balance which unwinds as payments are made from the partnership into the scheme.

The Group continues to engage in positive discussions with the Trustees of the schemes. These include proposals around deficit management and the outcomes of the March 2013 actuarial review.

Cash flow and net debt

Net debt at 30 September 2013 is £99.7 million (2012: £94.3 million), representing a net debt to EBITDA ratio of 1.33 (2012: 1.23). We expect the level of net debt at the year end to be in line with market expectations.

The working capital outflow includes the impact of a receivable at 30 September 2013, relating to the termination of the Group's network infrastructure contract, and the timing of debtors within Kcom. The Group's debtor management remains strong with days' sales outstanding at 30 September 2013 of 37 days (2012: 33 days).

Cash outflows associated with the purchase of tangible and intangible assets are £13.5 million (2012: £14.3 million).

Forward looking statements

Certain statements in this interim statement 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.

Principal risk and uncertainties

The Group has a number of risks and uncertainties which have been identified through the management risk framework. The risks set out below could have a material adverse impact on the Group:

- Customer service and delivery - one of the ways in which we seek to differentiate ourselves from our competitors is in the service and delivery that we provide to our customers. Failing to deliver a service that differentiates us would clearly result in us failing to meet one of our key business objectives.
- Recruitment and retention of the right people - people are our greatest asset and ensuring that we recruit and retain the right calibre of people with the right skill-set is key to the success of our business.
- Reliance on key third-party suppliers – our strategic agreements with BT and Phoenix means we are dependent on the performance of these third parties.
- Business continuity – it is essential to many of our customers that we can continue to provide services even when a significant incident occurs.
- Security and resilience of IT, networks and data – we continue to operate networks across the UK and host data for many customers alongside billing platforms and other IT systems internally. This means that we are dependent on the secure operation and resilience of our information systems, networks and data.
- Increasing compliance requirements from customers – our customers (particularly those in the public sector) are increasingly requesting compliance with new standards. It is essential that our team can interpret, implement and comply with these standards.
- Competition in the Hull and East Yorkshire area – the level of competition, particularly in the business service market continues to increase. We remain focused on providing the best value for money in order to retain and build our customer base.

The risks outlined above are disclosed in more detail on pages 26 and 27 of the Annual report and accounts to 31 March 2013 and it is the view of the directors that these risks and uncertainties remain appropriate for this interim statement.

Consolidated interim income statement

	Note	Unaudited Six months ended 30-Sep 2013 £'000	Restated[1] Unaudited Six months ended 30-Sep 2012 £'000	Restated[1] Audited Year ended 31-Mar 2013 £'000
Revenue	1	**185,458**	188,717	372,869
Operating expenses		**(157,017)**	(159,910)	(319,929)
Operating profit		**28,441**	28,807	52,940
Analysed as:				
EBITDA before exceptional items	1	**37,382**	38,052	74,862
Exceptional items	2	**1,100**	95	(2,310)
Depreciation of property, plant and equipment		**(8,394)**	(7,723)	(15,890)
Amortisation of intangible assets		**(1,647)**	(1,617)	(3,722)
Finance costs		**(2,652)**	(2,572)	(5,241)
Share of profit of associates		**5**	4	10
Profit before tax	1	**25,794**	26,239	47,709
Tax	3	**(5,856)**	(6,632)	(11,864)
Profit for the period attributable to owners of the parent		**19,938**	19,607	35,845
Earnings per share (pence)				
Basic	4	**3.93**	3.88	7.08
Diluted	4	**3.88**	3.80	6.99

Consolidated interim statement of comprehensive income

	Unaudited Six months ended 30-Sep 2013 £'000	Restated[1] Unaudited Six months ended 30-Sep 2012 £'000	Restated[1] Audited Year ended 31 Mar 2013 £'000
Profit for the period	**19,938**	19,607	35,845
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurements of retirement benefit obligations	**(4,754)**	(1,131)	4,705
Tax on items that will not be reclassified	**829**	(260)	(1,593)
Total items that will not be reclassified to profit or loss	**(3,925)**	(1,391)	3,112
Items that may be reclassified subsequently to profit or loss			
Cash flow hedge fair value movements	**834**	66	582
Tax on items that may be reclassified	**(175)**	(15)	(133)
Total items that may be reclassified subsequently to profit or loss	**659**	51	449
Total comprehensive income for the period attributable to owners of the parent	**16,672**	18,267	39,406

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

Consolidated interim balance sheet

	Note	**Unaudited As at 30-Sep 2013 £'000**	Unaudited As at 30-Sep 2012 £'000	Audited As at 31-Mar 2013 £'000
Non-current assets				
Goodwill		**85,272**	85,272	85,272
Other intangible assets		**18,538**	12,321	14,354
Property, plant and equipment		**118,766**	120,237	119,270
Investments		**27**	16	22
Deferred tax assets		**14,755**	22,072	16,528
		237,358	239,918	235,446
Current assets				
Inventories		**2,684**	2,685	2,244
Trade and other receivables		**86,804**	75,149	70,214
Cash and cash equivalents	6	**4,481**	4,705	15,719
Derivative financial instruments	10	**-**	13	52
		93,969	82,552	88,229
Total assets		**331,327**	322,470	323,675
Current liabilities				
Trade and other payables		**(124,341)**	(133,247)	(121,671)
Provisions for other liabilities and charges		**(1,137)**	(1,053)	(1,921)
Non-current liabilities				
Trade and other payables		**-**	(303)	-
Bank loans	6	**(104,187)**	(98,708)	(103,937)
Retirement benefit obligations		**(14,800)**	(15,000)	(9,758)
Derivative financial instruments	10	**(2,349)**	(3,712)	(3,235)
Provisions for other liabilities and charges		**(462)**	(1,687)	(511)
Total liabilities		**(247,276)**	(253,710)	(241,033)
Net assets		**84,051**	68,760	82,642
Capital and reserves, attributable to owners of the parent				
Share capital		**51,660**	51,660	51,660
Share premium account		**353,231**	353,231	353,231
Hedging and translation reserve		**(1,529)**	(2,879)	(2,363)
Accumulated losses		**(319,311)**	(333,252)	(319,886)
Total equity		**84,051**	68,760	82,642

Consolidated interim 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		**51,660**	**353,231**	**(2,945)**	**(328,489)**	**73,457**
Profit for the period		-	-	-	19,607	19,607
Other comprehensive income		-	-	66	(1,406)	(1,340)
Total comprehensive income for the period ended 30 September 2012 (restated and unaudited)[1]		-	-	66	18,201	18,267
Tax credit relating to share schemes		-	-	-	608	608
Purchase of ordinary shares		-	-	-	(10,038)	(10,038)
Employee share schemes		-	-	-	259	259
Dividends	5	-	-	-	(13,793)	(13,793)
		-	-	-	(22,964)	(22,964)
At 30 September 2012 (restated[1] and unaudited)		**51,660**	**353,231**	**(2,879)**	**(333,252)**	**68,760**
Profit for the period		-	-	-	16,238	16,238
Other comprehensive income		-	-	516	4,385	4,901
Total comprehensive income for the period ended 31 March 2013 (restated[1] and audited)		-	-	516	20,623	21,139
Deferred tax charge relating to share schemes		-	-	-	(996)	(996)
Current tax credit relating to share schemes		-	-	-	1,484	1,484
Purchase of ordinary shares		-	-	-	(834)	(834)
Employee share schemes		-	-	-	683	683
Dividends	5	-	-	-	(7,594)	(7,594)
		-	-	-	(7,257)	(7,257)
At 31 March 2013 (restated[1] and audited)		**51,660**	**353,231**	**(2,363)**	**(319,886)**	**82,642**
Profit for the period		-	-	-	19,938	19,938
Other comprehensive income		-	-	834	(4,100)	(3,266)
Total comprehensive income for the period ended 30 September 2013 (unaudited)		-	-	834	15,838	16,672
Deferred tax charge relating to share schemes		-	-	-	(134)	(134)
Current tax credit relating to share schemes		-	-	-	86	86
Purchase of ordinary shares		-	-	-	(491)	(491)
Employee share schemes		-	-	-	619	619
Dividends	5	-	-	-	(15,343)	(15,343)
		-	-	-	(15,263)	(15,263)
At 30 September 2013 (unaudited)		**51,660**	**353,231**	**(1,529)**	**(319,311)**	**84,051**

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

Consolidated interim cash flow statement

	Note	Unaudited Six months Ended 30-Sep 2013 £'000	Restated[1] Unaudited Six months Ended 30-Sep 2012 £'000	Restated[1] Audited Year Ended 31-Mar 2013 £'000
Cash flows from operating activities				
Operating profit		**28,441**	28,807	52,940
Adjustments for:				
- depreciation and amortisation		**10,041**	9,340	19,612
- increase in working capital		**(15,377)**	(15,191)	(16,211)
- restructuring cost and onerous lease payments		**(2,223)**	(2,429)	(4,462)
- pension deficit payments		**(263)**	(575)	(575)
Tax paid		**(300)**	-	-
Profit on sale of property, plant and equipment		**(355)**	(138)	(138)
Profit on sale of investments		**-**	(857)	(857)
Net cash generated from operations	6	**19,964**	18,957	50,309
Cash flows from investing activities				
Purchase of property, plant and equipment		**(7,691)**	(7,362)	(16,964)
Purchase of intangible assets		**(5,830)**	(6,894)	(11,032)
Proceeds on disposal of property, plant and equipment		**540**	464	477
Proceeds on disposal of investments		**-**	1,895	1,895
Net cash used in investing activities		**(12,981)**	(11,897)	(25,624)
Cash flows from financing activities				
Dividends paid	5	**(15,343)**	(13,793)	(21,387)
Dividends equivalent paid to participants of the share schemes	6	**(140)**	(675)	(898)
Interest paid	6	**(2,247)**	(2,023)	(4,006)
Capital element of finance lease repayments		**-**	166	(136)
Drawdown of bank loans		**-**	15,000	20,000
Purchase of ordinary shares	6	**(491)**	(9,363)	(10,872)
Net cash used in financing activities		**(18,221)**	(10,688)	(17,299)
(Decrease) / increase in cash and cash equivalents		**(11,238)**	(3,628)	7,386
Cash and cash equivalents at the beginning of the period		**15,719**	8,333	8,333
Cash and cash equivalents at the end of the period	6	**4,481**	4,705	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 interim 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.

		Restated[1]	Restated[1]
	Unaudited	Unaudited	Audited
	Six months ended	Six months ended	Year ended
	30-Sep	30-Sep	31-Mar
	2013	2012	2013
	£'000	£'000	£'000
Revenue			
KC	**53,279**	53,629	104,564
Kcom	**134,655**	137,509	273,446
PLC[1]	**(2,476)**	(2,421)	(5,141)
Total	**185,458**	188,717	372,869
Group EBITDA			
KC	**28,097**	27,754	54,483
Kcom	**13,889**	14,540	29,379
PLC[2]	**(4,604)**	(4,242)	(9,000)
Total – before exceptional items	**37,382**	38,052	74,862
Exceptional items:			
KC	**(382)**	(346)	(788)
Kcom	**1,674**	(378)	(1,001)
PLC[2]	**(192)**	819	(521)
Total exceptional items	**1,100**	95	(2,310)
EBITDA post exceptional items	**38,482**	38,147	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 interim financial information continued

1. Segmental analysis (continued)

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

	Unaudited Six months ended 30-Sep 2013 £'000	Restated[1] Unaudited Six months ended 30-Sep 2012 £'000	Restated[1] Audited Year ended 31-Mar 2013 £'000
EBITDA post exceptional items	**38,482**	38,147	72,552
Depreciation	**(8,394)**	(7,723)	(15,890)
Amortisation	**(1,647)**	(1,617)	(3,722)
Finance costs	**(2,652)**	(2,572)	(5,241)
Share of profit of associates	**5**	4	10
Profit before tax	**25,794**	26,239	47,709

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

	Unaudited Six months ended 30-Sep 2013 £'000	Unaudited Six months ended 30-Sep 2012 £'000	Audited Year ended 31-Mar 2013 £'000
Revenue from external customers			
KC	**50,695**	51,050	99,139
Kcom	**134,445**	137,304	273,034
PLC[2]	**318**	363	696
Total	**185,458**	188,717	372,869
Inter-segment revenue			
KC	**2,584**	2,579	5,425
Kcom	**210**	205	412
PLC[2]	**(2,794)**	(2,784)	(5,837)
Total	**-**	-	-
	185,458	188,717	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 interim 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 Six months ended 30-Sep 2013 £'000	Unaudited Six months ended 30-Sep 2012 £'000	Audited Year ended 31-Mar 2013 £'000
Exceptional items:			
- Credit on termination of contracts	**(2,043)**	-	-
- Restructuring costs relating to employees	**765**	762	2,272
- Onerous leases	**178**	-	-
- Asset backed partnership implementation costs	**-**	-	895
- Profit on sale of investment	**-**	(857)	(857)
(Credited) / charged to profit before taxation	**(1,100)**	(95)	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.

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

Asset backed partnership implementation costs relate to the costs incurred for the agreement 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.

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

3. Taxation

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to the expected total annual earnings. The Group's effective rate is 22.7% (restated 2012: 25.2%).

Notes to the unaudited interim financial information continued

4. Earnings per share

Weighted average number of shares	**Unaudited Six months ended 30-Sep 2013 No.**	Restated[1] Unaudited Six months ended 30-Sep 2012 No.	Restated[1] Audited Year ended 31-Mar 2013 No.
For basic earnings per share	**507,407,465**	505,675,503	506,268,452
Share options in issue	**6,831,748**	10,783,721	6,273,766
For diluted earnings per share	**514,239,213**	516,459,224	512,542,218

Earnings	**£'000**	£'000	£'000
Profit attributable to equity holders of the company	**19,938**	19,607	35,845
Adjustments:			
Exceptional items	**(1,100)**	(95)	2,310
Tax on exceptional items	**253**	25	(760)
Adjusted profit attributable to equity holders of the company	**19,091**	19,537	37,395

Earnings per share	**Pence**	Pence	Pence
Basic	**3.93**	3.88	7.08
Diluted	**3.88**	3.80	6.99
Adjusted basic	**3.76**	3.86	7.39
Adjusted diluted	**3.71**	3.78	7.30

5. Dividends

	Unaudited Six months ended 30-Sep 2013 £'000	Unaudited Six months ended 30-Sep 2012 £'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	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**	-	-
Total	**15,343**	13,793	21,387

The proposed interim dividend for the six months ended 30 September 2013 is 1.63 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 set of interim financial information.

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

Notes to the unaudited interim financial information continued

6. Movement in net debt

	Unaudited Six months ended 30-Sep 2013 £'000	Unaudited Six months ended 30-Sep 2012 £'000	Audited Year ended 31 Mar 2013 £'000
Opening net debt	**88,218**	75,267	75,267
Closing net debt	**99,706**	94,306	88,218
Increase in the period	**(11,488)**	(19,039)	(12,951)
Reconciliation of movement in the period			
Net cash flow from operations	**19,964**	18,957	50,309
Capital expenditure	**(13,521)**	(14,256)	(27,996)
Interest	**(2,247)**	(2,023)	(4,006)
Dividends	**(15,343)**	(13,793)	(21,387)
Dividends equivalent paid to participants of the share schemes	**(140)**	(675)	(898)
Purchase of ordinary shares	**(491)**	(9,363)	(10,872)
Other	**290**	2,114	1,899
Increase in the period	**(11,488)**	(19,039)	(12,951)

Net debt comprises:

	Unaudited Six months ended 30-Sep 2013 £'000	Unaudited Six months ended 30-Sep 2012 £'000	Audited Year ended 31 Mar 2013 £'000
Cash and cash equivalents	**(4,481)**	(4,705)	(15,719)
Borrowings	**104,187**	98,708	103,937
Finance leases	**-**	303	-
Total net debt	**99,706**	94,306	88,218

The Group's bank facilities comprise a multi-currency revolving credit facility of £200.0 million, provided by a group of six core relationship banks. The facility matures in July 2015. 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 interim financial information continued

7. Basis of preparation and publication of unaudited interim 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. Details of the principal activities of the Group are disclosed on pages 2 to 3 and in the Business review in the Group's 2013 annual report and accounts.

This condensed consolidated interim financial information was approved for issue on 26 November 2013.

This condensed consolidated interim financial information does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2013 were approved by the Board of directors on 18 June 2013 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

The condensed consolidated interim financial information has been reviewed, not audited. The review opinion is disclosed on page 18.

This condensed consolidated interim financial information 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
This condensed consolidated interim financial information for the six months ended 30 September 2013 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34, 'Interim financial reporting' as adopted by the European Union. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 March 2013, which have been prepared in accordance with IFRSs as adopted by the European Union.

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 interim 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.

Tax policy
Taxes on income in the interim periods are accrued using the tax rate that would be applicable to the expected total annual earnings.

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 30 September 2012 has increased by £1.0m and for the year to 31 March 2013 has by £2.1m.

Notes to the unaudited interim financial information continued

8. Accounting policies continued

IFRS 13 – Fair value measurement
IFRS 13 measurement and disclosure requirements are applicable for the March 2014 year end in respect of the six months ended 30 September 2013. The Group has included the disclosures required by IAS 34 para 16A(j). See Note 10.

9. Significant judgements and estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group's 2013 annual report and accounts, with the exception of changes in estimates that are required in determining the provision for income taxes (see note 8).

10. Financial risk management and financial instruments

Financial risk factors
The Group's activities expose it to a variety of financial risks; currency risk, interest-rate risk, liquidity risk, and credit risk. The Group's overall risk management strategy is approved by the Board and implemented and reviewed by senior management. Detailed financial risk management is then delegated to the Finance departments which have a specific policy manual that sets out guidelines to manage financial risk. The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual financial statements as at 31 March 2013. There have been no changes in the Group's risk management processes or policies since the year end.

Financial instruments
The Group accounts for financial instruments in accordance with IFRS 13. This standard requires disclosure of fair value measurements by level of the following hierarchy;

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Consistent with the March 2013 year end, all of the Group's financial instruments fall into hierarchy level 2. The fair value of financial assets and liabilities is obtained from third party sources.

The following table analyses the fair value of derivative financial instruments held by the Group by category:

	Unaudited Six months ended 30-Sep 2013 £'000		Audited Year ended 31-Mar 2013 £'000	
	Assets	**Liabilities**	Assets	Liabilities
Interest rate swaps – cash flow hedges	**-**	**2,349**	-	3,235
Forward foreign exchange contracts	**-**	**-**	52	-
Total	**-**	**2,349**	52	3,235
Less non-current portion:				
Interest rate swaps – cash flow hedges	**-**	**2,349**	-	3,235
Forward foreign exchange contracts	**-**	**-**	-	-
	-	**2,349**	-	3,235
Current portion	**-**	**-**	52	-

Notes to the unaudited interim financial information continued

10. Financial risk management and financial instruments continued

Fair values
For financial instruments with a remaining life of greater than one year, fair values are based on cash flows discounted at prevailing interest rates. Accordingly, the fair value of cash deposits and short term borrowings approximates to the book value due to the short maturity of these instruments. The same applies to trade and other receivables and payables. Where there are no readily available market values to determine fair values, cash flows relating to the various instruments have been discounted at prevailing interest and exchange rates to give an estimate of fair value.

The fair value of bank borrowings is £98.6 million (March 2013: £96.5 million) compared to a book value of £105.0 million (March 2013: £105.0 million). The fair value of cash flows has been estimated using a rate based on the weighted average borrowing rate of 3.46% (March 2013: 3.60%).

11. Related party transactions

There are no material related party transactions.

12. Statement of directors' responsibilities

The directors confirm that this consolidated interim financial information has been prepared in accordance with IAS 34 as adopted by the European Union, and that the interim management report herein includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the first six months and any material changes in the related party transactions described in the Group's 2013 annual report and accounts.

The directors of KCOM Group PLC are listed in the KCOM Group Annual Report for 31 March 2013.

Signed by Order of the Board on 26 November 2013 by:

Independent review report to KCOM Group plc

Introduction

We have been engaged by the company to review the condensed set of financial statements in the interim financial report for the six months ended 30 September 2013, which comprises the consolidated interim income statement, the consolidated interim statement of comprehensive income, the consolidated interim balance sheet, the consolidated interim statement of changes in shareholders' equity, the consolidated interim cash flow statement and related notes. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The interim financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 7, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this interim financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the interim financial report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Disclosure and Transparency Rules of the Financial Conduct Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the six months ended 30 September 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

PricewaterhouseCoopers LLP
Chartered Accountants
Leeds
26 November 2013