25 November 2014

KCOM GROUP PLC (KCOM.L) ANNOUNCES
UNAUDITED INTERIM RESULTS TO 30 SEPTEMBER 2014

KCOM Group PLC (KCOM.L) ('KCOM Group' or the 'Group') announces its unaudited interim results for the half-year ended 30 September 2014.

Highlights

- Continued strong KC brand performance with top line growth, strong cash generation and growing fibre uptake
- Good market share and revenue growth in Eclipse
- Solid underlying performance and market position in Smart421
- Good progress in key customer contracts in Kcom, including HMRC, but broader revenue challenges continue
- Increased interim dividend to 1.79p, in line with commitment to increase full-year dividend by 10% per annum through to March 2016

	Unaudited Six months ended 30 Sept 14 (£ million)	**Unaudited Six months ended 30 Sept 13 (£ million)**	**Movement on prior period (%)**
Results from continuing operations before exceptional items			
Revenue	173.0	185.5	(6.7)
EBITDA	36.1	37.4	(3.5)
Operating profit	28.5	27.3	4.4
Profit before tax	25.4	24.7	2.8
Adjusted basic earnings per share (pence)[1] (Note 4)	3.98	3.76	5.9
Reported results			
Net cash inflow from operations	20.4	20.0	2.0
Net debt (Note 6)	103.0	99.7	
Profit before tax	23.6	25.8	(8.5)
Basic earnings per share (pence) (Note 4)	3.71	3.93	(5.6)
Interim dividend per share (pence)	1.79	1.63	9.8[2]

[1] Adjusted basic EPS is basic EPS adjusted for exceptional items (including the tax impact of exceptional items).
[2] Full-year dividend will show a 10% year on year increase in line with previously stated policy.

Bill Halbert, Chief Executive Officer, said

"The Group continues to make progress in terms of its strategic objectives, in spite of overall revenue performance continuing to be challenged in some specific activities. We're particularly pleased with the overall performance in KC brand, (most notably in the consumer channel). Fibre services continue to see strong levels of uptake, well above the UK average, and demand remains ahead of our own initial expectations. Increasingly this investment will allow us to design and introduce advanced fibre-based services.

In the Kcom reporting segment, Eclipse also has seen high levels of revenue growth, having begun to introduce a range of hosted services, and Smart421 continues to enhance its market leading position in cloud-based services. Within the Kcom brand, we have seen good progress with key customers, where we are adding considerable value. This is well in evidence with customers, such as HMRC, where we are building strong value-based relationships. Nevertheless, these have not yet developed to a level where they are able to compensate for the higher than anticipated decline in certain other activities. We have implemented a plan to reduce costs and will take further action to accelerate progress to reposition the overall Kcom brand performance.

The Group remains highly cash-generative and we reaffirm our existing commitment to increase the full-year dividend by 10% per annum through to March 2016."

Outlook

The Group remains well positioned to exploit profitable growth opportunities in most of its target markets.

The consumer activities of the Group are expected to continue to grow, with the demand for bundled products, broadband and fibre services outweighing the anticipated decline in legacy products. The opportunity for continued growth in the SMB market through the Eclipse brand remains, with the product set continuing to see good take-up from both existing and new customers.

Overall Group revenue outlook has seen a decline as a result of insufficient new business order intake in the Kcom brand. Cost reduction actions have been taken, in order to support full-year earnings within the current range of expectations and plans are in place to accelerate further the change in the nature and mix of services and revenues, within this part of the business.

The Board reconfirms its commitment to increasing the full-year dividend by 10% per annum until March 2016.

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Business and Operating Review

The Group's priorities are:

- delivery of increasing value-added services across its target markets, with the aim of generating sustainable profitable growth and establishing strong market positions;
- driving operational effectiveness through enhanced back office systems, processes and efficient resourcing strategies;
- investing in the development of the talent and leadership in the business; and
- continued development of market leading partner relationships.

During the last year we have consolidated Group-wide finance teams into a single location and are nearing completion of an IT investment programme to support this activity. The Group has also successfully implemented a new partnership for Cisco based customer support services and continue to work with BT to develop our network transformation plans.

Consistent with its 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.

KC

The KC segment covers the performance of the KC brand, which operates telephony and broadband capabilities over its East Yorkshire network and provides Contact Centre and publishing services. Key features of the reporting period include:

- continued growth in consumer revenue and profitability;
- growing demand for broadband services and increasing penetration of bundled products;
- accelerating demand for fibre services; and
- Publishing services contribution reflects anticipated decline in the Hull Colour Pages directory.

	30 Sept 2014 Revenue £m	30 Sept 2013 Revenue £m	**30 Sept 2014 EBITDA £m**	30 Sept 2013 EBITDA £m
KC	47.1	46.7	26.8	26.4
Contact centres	2.4	3.0	(0.2)	0.1
Publishing	3.0	3.6	1.1	1.6
Total KC segment[1]	**52.5**	53.3	**27.7**	28.1

[1] Pre exceptional

KC's performance in the period remained strong, with contributions from consumer revenue more than outweighing a slightly weaker business performance, attributable to local economic factors. Consumer performance benefitted from continued demand for broadband services and an increasing penetration of bundled services. Business revenue has consistently outperformed relevant regional economic data points over recent years.

The demand for fibre services from KC continues to increase. Net additions for the six-month period to September 2014 were materially higher than the corresponding period last year. The plan to provide 45,000 households and business premises with access to high-speed services by March 2015 remains on target. The current take-up rate of 29% is comfortably ahead of the national average with consumer ARPU uplift approximately £5 per month.

Publishing services contribution remains strong although it reflects the anticipated and continuing decline in the revenue and profitability associated with the publication of the Hull Colour Pages Directory.

Kcom

The Kcom segment covers the performance of business and public sector communications activities throughout the national market. Key features of the reporting period include:

- Eclipse growing revenue and market share;
- strategic progress in Smart421, particularly in cloud-based services;
- HMRC contract progressing well; and
- revenue and resulting profit reduction in Kcom reflects insufficient new business order intake.

	30 Sept 2014 Revenue £m	30 Sept 2013 Revenue £m	**30 Sept 2014 EBITDA £m**	30 Sept 2013 EBITDA £m
Eclipse	14.7	12.7	3.2	3.8
Smart421	12.8	14.8	1.4	1.6
Kcom	95.6	107.2	7.4	8.5
Total Kcom segment[1]	**123.1**	134.7	**12.0**	13.9

[1] Pre exceptional

Eclipse has enjoyed a good six-month period, seeing growth in demand for new services from both new and existing customers, helping to drive strong level of overall revenue growth. Eclipse EBITDA margins remain strong with current performance reflecting the investment in capability being made to support the growth plan. It should be noted that the prior six-month period benefitted from a non-recurring item totalling £0.6m.

Smart421 has made clear strategic progress, particularly in the delivery of cloud-based integration services. The revenue decline is solely attributable to a reduction in consulting revenue with one financial services customer. Activity to rebuild the pipeline and order book is progressing well. Overall profit margins remain consistent and we remain confident the brand will continue to grow in future periods.

During the period, the expanding cloud-based services portfolio was successfully deployed, an example being Kcom Workplaces, into HMRC's contact centre environment. This five-year contract will provide HMRC with flexibility, multichannel contact capability and automation to manual call centre processes. It will support 8,000 advisers over 16 sites and will be capable of satisfying peak demand for up to 12,000 advisers. The successful deployment of contracts such as Workplaces into HMRC gives us confidence in our ability to win and deliver high value, managed services contracts.

Overall performance from the Kcom brand has been challenging through the first half of the year. Revenue in the period was below the same period last year and growth in new areas was insufficient to compensate for those areas where we experienced decline. In particular there has been reduced activity from multi-site organisations, especially retailers, including the loss of the Phones4U contract. Alongside this, lower numbers of opportunities have been tendered through the PSN framework, as this overall market developed more slowly than expected and had lower and more commoditised levels of new activity.

Refinancing, net debt and cash flow

During the period, 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 both organic and inorganic growth.

Net debt at 30 September 2014 is £103.0 million (2013: £99.7 million), representing a net debt to EBITDA ratio of 1.36 x (2013: 1.33 x). This amount includes £5.2 million (2013: £Nil) of finance leases supporting major customer contracts.

The Group's debtor management and cash collection remains strong, and days' sales outstanding at the half-year were 39 days (2013: 37 days).

Dividend

The Group's interim dividend is 1.79 pence per share (2013: 1.63 pence), which 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. The dividend will be paid on 2 February 2015 to shareholders registered on 30 December 2014. The ex-dividend date is 29 December 2014.

Pensions

The IAS 19 pension liability at 30 September 2014 is £34.0 million (30 September 2013: £14.8 million and 31 March 2014: £26.5 million). The increase from the 31 March 2014 year end arises as a result of:

- £13.9 million increase in liabilities, principally a 0.4% decrease in the discount rate; offset by
- £6.4 million increase on assets, due to stronger investment returns (equity and bonds) over the period.

The agreed level of deficit repair payment (across both schemes) is £2.0 million in both the current year and the year ending 31 March 2016.

Group performance

As anticipated, Group revenue (£173.0 million) is lower than the corresponding period (2013: £185.5 million) as a result of lower sales within the Kcom brand. EBITDA before exceptional items has remained broadly flat at £36.1 million (2013: £37.4 million), with Group EBITDA margin improving to 20.9%.

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 £3.6 million (2013: £4.6 million).

The Group's net exceptional charge is £1.8 million. This includes costs of restructuring (£2.2 million) offset by £0.4 million relating to the profit on sale of the Group's shareholding in Spectrum Venture Management Fund.

In the second half of the year, the Group anticipates a further exceptional charge relating to restructuring activities already undertaken.

Capital investment

The Group's depreciation and amortisation charge for the period is £7.6 million (2013: £10.1 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 £2.7 million reduction in the depreciation charge for these assets in the period. We expect a similar impact in the second half of the year.

The Group continues to invest in line with previous guidance and cash capital expenditure during the period was £21.4 million (2013: £13.5 million). Specific projects include:

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

Tax

The Group's tax charge is £4.7 million (2013: £5.9 million). This reflects the corporation tax charge for the period and the ongoing unwind of deferred tax balances. The effective rate of 20.1% 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.

Tax of £1.4 million has been paid in the period, relating to the year ended 31 March 2014.

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 risk management framework. The risks set out below could have a material adverse impact on the Group:

- customer service and delivery – delivering exceptional service to our customers is one of our key strategic aims and therefore the risk of failing to do this is a key risk for us to mitigate;
- recruitment and retention of the right people – we need to be able to recruit and retain people who embody our values as well as those who have specific technical skills where needed;
- reliance on key third-party suppliers – our business model means that we are reliant on several key partners to deliver service to our customers and to provide the equipment that we need to deliver the right solutions; such as BT, Comms-Care, ForgeRock, Cisco, Avaya, Amazon Web Services, Microsoft and IBM;
- security and resilience of our networks and IT systems – our networks and IT systems are key to all that we do and are crucial in delivering service to our customers; and
- accuracy, security and confidentiality of customer data – security of customer data is of paramount importance to our customers and therefore to us.

The risks outlined above are disclosed in more detail on pages 18 and 19 of the Annual report and accounts to 31 March 2014 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 Sept 2014 £'000**	Unaudited Six months ended 30 Sept 2013 £'000	Audited Year ended 31 Mar 2014 £'000
Revenue	1	**173,004**	185,458	370,697
Operating expenses		**(146,279)**	(157,017)	(315,090)
Operating profit		**26,725**	28,441	55,607
Analysed as:				
EBITDA before exceptional items	1	**36,080**	37,382	75,291
Exceptional items	2	**(1,808)**	1,100	588
Depreciation of property, plant and equipment		**(5,540)**	(8,394)	(16,882)
Amortisation of intangible assets		**(2,007)**	(1,647)	(3,390)
Finance costs		**(3,107)**	(2,652)	(5,075)
Share of profit / (loss) of associates		**5**	5	(2)
Profit before tax	1	**23,623**	25,794	50,530
Tax	3	**(4,740)**	(5,856)	(11,760)
Profit for the period attributable to owners of the parent		**18,883**	19,938	38,770
Earnings per share (pence)				
Basic	4	**3.71**	3.93	7.64
Diluted	4	**3.66**	3.88	7.55

Consolidated interim statement of comprehensive income

	Unaudited Six months ended 30 Sept 2014 £'000	Unaudited Six months ended 30 Sept 2013 £'000	Audited Year ended 31 Mar 2014 £'000
Profit for the period	**18,883**	19,938	38,770
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurements of retirement benefit obligations	**(8,475)**	(4,754)	(16,630)
Tax on items that will not be reclassified	**1,509**	829	2,997
Total items that will not be reclassified to profit or loss	**(6,966)**	(3,925)	(13,633)
Items that may be reclassified subsequently to profit or loss			
Cash flow hedge fair value movements	**736**	834	1,377
Tax on items that may be reclassified	**(147)**	(175)	(275)
Total items that may be reclassified subsequently to profit or loss	**589**	659	1,102
Total comprehensive income for the period attributable to owners of the parent	**12,506**	16,672	26,239

Consolidated interim balance sheet

	Note	**Unaudited As at 30 Sept 2014 £'000**	Unaudited As at 30 Sept 2013 £'000	Audited As at 31 Mar 2014 £'000
Non-current assets				
Goodwill		**85,272**	85,272	85,272
Other intangible assets		**30,660**	18,538	22,669
Property, plant and equipment		**129,907**	118,766	123,839
Investments		**25**	27	20
Deferred tax assets		**13,837**	17,069	15,408
		259,701	239,672	247,208
Current assets				
Inventories		**2,136**	2,684	2,647
Trade and other receivables		**79,161**	86,804	74,135
Cash and cash equivalents	6	**5,696**	4,481	9,441
		86,993	93,969	86,223
Total assets		**346,694**	333,641	333,431
Current liabilities				
Trade and other payables		**(117,308)**	(124,341)	(129,708)
Derivative financial instruments	10	**(1,070)**	-	(137)
Finance leases		**(1,300)**	-	-
Provisions for other liabilities and charges		**(888)**	(1,137)	(365)
Non-current liabilities				
Bank loans	6	**(103,487)**	(104,187)	(84,417)
Retirement benefit obligations		**(34,000)**	(14,800)	(26,500)
Deferred tax liabilities		**(5,111)**	(2,314)	(5,057)
Derivative financial instruments	10	**-**	(2,349)	(1,669)
Finance leases		**(3,868)**	-	-
Provisions for other liabilities and charges		**(357)**	(462)	(425)
Total liabilities		**(267,389)**	(249,590)	(248,278)
Net assets		**79,305**	84,051	85,153
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		**(250)**	(1,529)	(986)
Accumulated losses		**(325,336)**	(319,311)	(318,752)
Total equity		**79,305**	84,051	85,153

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 2013 (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**
Profit for the period		-	-	-	18,832	18,832
Other comprehensive income		-	-	543	(9,808)	(9,265)
Total comprehensive income for the period ended 31 March 2014 (audited)		**-**	**-**	**543**	**9,024**	**9,567**
Deferred tax credit relating to share schemes		-	-	-	268	268
Current tax credit relating to share schemes		-	-	-	215	215
Purchase of ordinary shares		-	-	-	(1,273)	(1,273)
Employee share schemes		-	-	-	746	746
Dividends	5	-	-	-	(8,421)	(8,421)
		-	-	-	(8,465)	(8,465)
At 31 March 2014 (audited)		**51,660**	**353,231**	**(986)**	**(318,752)**	**85,153**
Profit for the period		-	-	-	18,883	18,883
Other comprehensive income		-	-	736	(7,113)	(6,377)
Total comprehensive income for the period ended 30 September 2014 (unaudited)		-	-	**736**	**11,770**	**12,506**
Deferred tax charge relating to share schemes		-	-	-	(113)	(113)
Current tax credit relating to share schemes		-	-	-	134	134
Purchase of ordinary shares		-	-	-	(2,042)	(2,042)
Employee share schemes		-	-	-	477	477
Dividends	5	-	-	-	(16,810)	(16,810)
		-	-	-	(18,354)	(18,354)
At 30 September 2014 (unaudited)		**51,660**	**353,231**	**(250)**	**(325,336)**	**79,305**

Consolidated interim cash flow statement

	Note	**Unaudited Six months Ended 30 Sept 2014 £'000**	Unaudited Six months Ended 30 Sept 2013 £'000	Audited Year Ended 31 Mar 2014 £'000
Cash flows from operating activities				
Operating profit		**26,725**	28,441	55,607
Adjustments for:				
- depreciation and amortisation		**7,547**	10,041	20,272
- (increase) / decrease in working capital		**(8,617)**	(15,377)	1,460
- restructuring cost and onerous lease payments		**(1,776)**	(2,223)	(3,375)
- pension deficit payments		**(1,765)**	(263)	(788)
Tax paid		**(1,394)**	(300)	(1,531)
Loss / (profit) on sale of property, plant and equipment		**150**	(355)	(456)
Profit on sale of investments		**(429)**	-	-
Net cash generated from operations	6	**20,441**	19,964	71,189
Cash flows from investing activities				
Purchase of property, plant and equipment		**(11,411)**	(7,691)	(16,207)
Purchase of intangible assets		**(9,984)**	(5,830)	(11,705)
Proceeds on disposal of property, plant and equipment		**-**	540	633
Proceeds on disposal of investments		**429**	-	-
Net cash used in investing activities		**(20,966)**	(12,981)	(27,279)
Cash flows from financing activities				
Dividends paid	5	**(16,810)**	(15,343)	(23,764)
Dividends equivalent paid to participants of the share schemes	6	**(268)**	(140)	(224)
Interest paid	6	**(3,505)**	(2,247)	(4,436)
Repayment of bank loans		**(15,000)**	-	(85,000)
Drawdown of bank loans		**35,000**	-	65,000
Capital element of finance lease repayments		**(572)**	-	-
Purchase of ordinary shares	6	**(2,065)**	(491)	(1,764)
Net cash used in financing activities		**(3,220)**	(18,221)	(50,188)
Decrease in cash and cash equivalents		**(3,745)**	(11,238)	(6,278)
Cash and cash equivalents at the beginning of the period		**9,441**	15,719	15,719
Cash and cash equivalents at the end of the period	6	**5,696**	4,481	9,441

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.

	Unaudited Six months ended 30 Sept 2014 £'000	Unaudited Six months ended 30 Sept 2013 £'000	Audited Year ended 31 Mar 2014 £'000
Revenue			
KC	**52,460**	53,279	105,021
Kcom	**123,077**	134,655	270,891
PLC[1]	**(2,533)**	(2,476)	(5,215)
Total	**173,004**	185,458	370,697
Group EBITDA			
KC	**27,650**	28,097	56,155
Kcom	**11,964**	13,889	28,714
PLC[1]	**(3,534)**	(4,604)	(9,578)
Total – before exceptional items	**36,080**	37,382	75,291
Exceptional items:			
KC	**(90)**	(382)	(499)
Kcom	**(1,253)**	1,674	1,864
PLC[1]	**(465)**	(192)	(777)
Total exceptional items	**(1,808)**	1,100	588
EBITDA post exceptional items	**34,272**	38,482	75,879

[1] 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 Sept 2014 £'000	Unaudited Six months ended 30 Sept 2013 £'000	Audited Year ended 31 Mar 2014 £'000
EBITDA post exceptional items	**34,272**	38,482	75,879
Depreciation	**(5,540)**	(8,394)	(16,882)
Amortisation	**(2,007)**	(1,647)	(3,390)
Finance costs	**(3,107)**	(2,652)	(5,075)
Share of profit / (loss) of associates	**5**	5	(2)
Profit before tax	**23,623**	25,794	50,530

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

	Unaudited Six months ended 30 Sept 2014 £'000	Unaudited Six months ended 30 Sept 2013 £'000	Audited Year ended 31 Mar 2014 £'000
Revenue from external customers			
KC	**49,968**	50,695	99,573
Kcom	**122,865**	134,445	270,470
PLC[1]	**171**	318	654
Total	**173,004**	185,458	370,697
Inter-segment revenue			
KC	**2,492**	2,584	5,448
Kcom	**212**	210	421
PLC[1]	**(2,704)**	(2,794)	(5,869)
Total	**-**	-	-
	173,004	185,458	370,697

[1] PLC includes Public Company central and share scheme expenses, inter-segment eliminations and the costs of administrating the Group's defined benefit pension schemes

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

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 Sept 2014 £'000	Unaudited Six months ended 30 Sept 2013 £'000	Audited Year ended 31 Mar 2014 £'000
Exceptional items:			
- Restructuring costs relating to employees	**1,343**	765	**1,121**
- Restructuring costs relating to strategic IT investment	**894**	-	**-**
- Profit on sale of investments	**(429)**	-	**-**
- Credit on termination of contracts	**-**	(2,043)	**(2,587)**
- Strategic pensions advice costs	**-**	-	**700**
- Onerous lease costs	**-**	178	**178**
Charged / (credited) to profit before taxation	**1,808**	(1,100)	**(588)**

Restructuring costs arise as a result of organisational changes.

Restructuring costs relating to strategic IT investment arise as a result of the Group's finance organisational changes.

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

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.

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 20.1% (2013: 22.7%).

Notes to the unaudited interim financial information continued

4. Earnings per share

Weighted average number of shares	**Unaudited Six months ended 30 Sept 2014 No.**	Unaudited Six months ended 30 Sept 2013 No.	Audited Year ended 31 Mar 2014 No.
For basic earnings per share	**508,386,228**	507,407,465	507,645,664
Share options in issue	**7,106,810**	6,831,748	5,704,438
For diluted earnings per share	**515,493,038**	514,239,213	513,350,102
Earnings	**£'000**	£'000	£'000
Profit attributable to equity holders of the company	**18,883**	19,938	38,770
Adjustments:			
Exceptional items	1,808	(1,100)	(588)
Tax on exceptional items	(447)	253	135
Adjusted profit attributable to equity holders of the company	**20,244**	19,091	38,317

Earnings per share	**Pence**	Pence	Pence
Basic	**3.71**	3.93	7.64
Diluted	**3.66**	3.88	7.55
Adjusted basic	**3.98**	3.76	7.55
Adjusted diluted	**3.93**	3.71	7.46

5. Dividends

	Unaudited Six months ended 30 Sept 2014 £'000	**Unaudited Six months ended 30 Sept 2013 £'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**	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 3.254 pence per share	**16,810**	**-**	-
Total	**16,810**	**15,343**	23,764

The proposed interim dividend for the six months ended 30 September 2014 is 1.79 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.

Notes to the unaudited interim financial information continued

6. Movement in net debt

	Unaudited Six months ended 30 Sept 2014 £'000	Unaudited Six months ended 30 Sept 2013 £'000	Audited Year ended 31 Mar 2014 £'000
Opening net debt	**(74,976)**	(88,218)	(88,218)
Closing net debt	**(102,959)**	(99,706)	(74,976)
(Increase) / decrease in the period	**(27,983)**	(11,488)	13,242
Reconciliation of movement in the period			
Net cash flow from operations	**20,441**	19,964	71,189
Capital expenditure	**(21,395)**	(13,521)	(27,912)
Interest	**(3,505)**	(2,247)	(4,436)
Dividends	**(16,810)**	(15,343)	(23,764)
Dividends equivalent paid to participants of the share schemes	**(268)**	(140)	(224)
Purchase of ordinary shares	**(2,065)**	(491)	(1,764)
Finance leases	**(5,168)**	-	-
Other	**787**	290	153
(Increase) / decrease in the period	**(27,983)**	(11,488)	13,242

Net debt comprises:

	Unaudited Six months ended 30 Sept 2014 £'000	Unaudited Six months ended 30 Sept 2013 £'000	Audited Year ended 31 Mar 2014 £'000
Cash and cash equivalents	**(5,696)**	(4,481)	(9,441)
Bank loans	**103,487**	104,187	84,417
Finance leases	**5,168**	-	-
Total net debt	**102,959**	99,706	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 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.

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 Strategic report in the Group's 2014 annual report and accounts.

This condensed consolidated interim financial information was approved for issue on 25 November 2014.

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 2014 were approved by the Board of directors on 18 June 2014 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 pages 18 and 19.

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 2014 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority (previously 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 2014, 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 2014 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.

IFRS 13 – Fair value measurement
IFRS 13 measurement and disclosure requirements are applicable for the March 2015 year end in respect of the six months ended 30 September 2014. The Group has included the disclosures required by IAS 34 para 16A(j). See Note 10. Application of this revised standard has not had a material impact on the financial statements.

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 2014 annual report and accounts, with the exception of changes in estimates that are required in determining the provision for income taxes (see Note 8).

Notes to the unaudited interim financial information continued

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 2014. 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 2014 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 Sept 2014 £'000 Liabilities	Audited Year ended 31 Mar 2014 £'000 Liabilities
Interest rate swaps – cash flow hedges	**1,070**	1,806
Forward foreign exchange contracts	**-**	-
Total	**1,070**	1,806
Less non-current portion:		
Interest rate swaps – cash flow hedges	**-**	1,669
Forward foreign exchange contracts	**-**	-
	-	1,669
Current portion	**1,070**	137

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 £102.1 million (March 2014: £80.7 million) compared to a book value of £105.0 million (March 2014: £85.0 million). The fair value of cash flows has been estimated using a rate based on the weighted average borrowing rate of 3.90% (March 2014: 3.90%).

11. Related party transactions

There are no material related party transactions.

Notes to the unaudited interim financial information continued

12. Statement of directors' responsibilities

The directors confirm that these condensed interim financial statements have 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 2014 annual report and accounts.

The directors of KCOM Group PLC are listed in the KCOM Group Annual Report for 31 March 2014.

Signed by Order of the Board on 25 November 2014 by:

Independent review report to KCOM Group PLC

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed the condensed consolidated interim financial statements, defined below, in the interim financial report of KCOM Group PLC for the six months ended 30 September 2014. Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements are 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.

This conclusion is to be read in the context of what we say in the remainder of this report.

What we have reviewed

The condensed consolidated interim financial statements, which are prepared by KCOM Group PLC, comprise:

- the consolidated interim balance sheet as at 30 September 2014;
- the consolidated interim income statement and statement of comprehensive income for the period then ended;
- the consolidated interim cash flow statement for the period then ended;
- the consolidated interim statement of changes in shareholders' equity for the period then ended; and
- the explanatory notes to the condensed consolidated interim financial statements.

As disclosed in note 7, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The condensed consolidated interim financial statements included in the interim financial report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

What a review of condensed consolidated financial statements involves

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.

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 consolidated interim financial statements.

Responsibilities for the condensed consolidated interim financial statements and the review

Our responsibilities and those of the directors

The interim financial report, including the condensed consolidated interim financial statements, 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.

Our responsibility is to express to the company a conclusion on the condensed consolidated interim 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 complying with the Disclosure and Transparency Rules of the Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, 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.

PricewaterhouseCoopers LLP
Chartered Accountants
25 November 2014
Leeds