30 November 2015

KCOM GROUP PLC (KCOM.L) ANNOUNCES

UNAUDITED INTERIM RESULTS TO 30 SEPTEMBER 2015

KCOM Group PLC (KCOM.L) announces its unaudited interim results for the half year ended 30 September 2015.

Highlights

- Group revenue ahead of prior year, up 3% at £177.9 million
- EBITDA ahead of prior year, up 3% to £37.2 million
- Interim dividend up 10%
- Minimum dividend commitment for next two years
- Growth in focus areas demonstrates progress in strategy
    - Kcom segment revenue up 4%
    - KC brand revenue up 2%
- 3% decline in Group profit before tax and exceptional items reflects higher depreciation and amortisation consistent with increased investment

	Unaudited Six months ended 30 Sept 2015 (£ million)	Unaudited Six months ended 30 Sept 2014 (£ million)	Movement on Prior period (%)
Results from continuing operations before exceptional items			
Revenue	177.9	173.0	3
EBITDA	37.2	36.1	3
Profit before tax	24.6	25.4	(3)
Adjusted basic earnings per share (pence)[1] (Note 5)	3.82	3.98	(4)
Reported results			
Net cash inflow from operations	35.9	16.9	112
Net debt (Note 8)	103.0	103.0	-
Profit before tax	24.2	23.6	3
Basic earnings per share (pence) (Note 5)	3.76	3.71	1
Interim dividend per share (pence) (Note 6)	1.97	1.79	10

[1] Adjusted basic EPS is basic EPS adjusted for exceptional items (including the tax impact of exceptional items).

Commenting on the results, Bill Halbert, Chief Executive said:

“The Group has delivered improved performance across all target segments. The results are clear evidence of the potential of our strategy and of the level of opportunity we have in our chosen markets. Our focus on generating targeted organic revenue growth, coupled with further steps to simplify the operating structure of the business, places us in a strong position to create a single, unified and simplified business by the end of this financial year.

“Consistent with our prior commitment of a minimum of 10% year on year growth, the Board confirms its intention to pay an interim dividend of 1.97 pence per share.”

Outlook

The Group's performance shows good progress, reflecting its focus on growing those areas of strategic importance. The Board is committed to its stated strategy and, while certain legacy activities will continue to decline, is confident that it will produce profitable growth. The Group plans to accelerate further its investment in those areas that support this.

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

Reflecting its continued confidence in the outlook for the business, the Board is pleased to make a commitment to delivering a full year ordinary dividend of at least 6.0 pence per share for each of the financial years ending 31 March 2017 and 2018.

Assets classified as held for sale

As a result of the Board's decision to explore opportunities to maximise the return from our national network infrastructure (excluding Hull and East Yorkshire), and consistent with our wider transformation journey, these assets have been reclassified to current assets held for sale.

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Group performance

The Group's transformation plan continued at pace during the first half of the year. Nevertheless, our four brands (KC (excluding contact centres and publishing), Kcom, Eclipse and Smart421) have recorded revenue and EBITDA growth and have made further progress in working together. In that period, we continued to invest in those areas where we believe we can generate sustainable value.

The Group, as part of its transformation, has continued to simplify its operations, consolidating and centralising those activities, where efficiencies and cost savings may be obtained. This has been facilitated by investment in IT systems and we expect this investment to continue in the second half of the year and beyond.

Segmental performance

The following analysis relates to the Group's reported segments in the period ended 30 September 2015 and all results are stated before exceptional items.

KC

	30 Sept 2015 Revenue £m	30 Sept 2014 Revenue £m	**30 Sept 2015 EBITDA £m**	30 Sept 2014 EBITDA £m
KC	**47.9**	47.1	**26.8**	26.8
Contact Centres	**2.0**	2.4	**(0.2)**	(0.2)
Publishing	**2.3**	3.0	**1.1**	1.1
Total KC segment	**52.2**	52.5	**27.7**	27.7

The KC segment covers communications services for consumers and Small and Medium Businesses (SMB) within Hull and East Yorkshire, and provides contact centre and publishing services. Key features of the half year include:

- continued growth in consumer revenue and profitability driven by increasing broadband penetration of existing customers with an accelerating demand for fibre services;
- increased consumer Average Revenue Per User (ARPU) of £32.34 (2014: £31.54) as a result of new broadband customers and fibre take-up;
- strong performance, with the support of the government's voucher scheme for small businesses, to fund Superfast Broadband take-up, strengthening the demand for fibre services in those businesses; and
- anticipated decline in Contact Centres and Publishing revenue.

The fibre deployment across Hull and East Yorkshire continues to achieve customer take-up well in excess of national trends. As at 30 September 2015, approximately 53,000 premises had access to fibre with take-up of 40%. A total of 786 businesses have benefitted from access to the government Superfast Broadband voucher scheme during the half year.

Kcom

	30 Sept 2015 Revenue £m	30 Sept 2014 Revenue £m	**30 Sept 2015 EBITDA £m**	30 Sept 2014 EBITDA £m
Kcom	**92.7**	92.0[1]	**7.4**	6.9[1]
Eclipse	**19.0**	18.3[1]	**3.9**	3.6[1]
Smart421	**16.6**	12.8	**1.8**	1.5
Total Kcom segment	**128.3**	123.1	**13.1**	12.0

[1] *Prior year restated for hosting customers who passed from Kcom to Eclipse in period ending 30 September 2015.*

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

- continued growth of HMRC contract within Kcom, consulting on and delivering the HMRC digital roadmap;
- strong growth in other key strategic focus areas, alongside an expected decline in certain legacy activities.

Kcom and Smart421 has worked as one team in the Enterprise market, to deliver consultancy and integration services, which are increasingly cloud-based. There has been particular interest in cloud-based multi-channel contact centres and focus remains on building pipeline opportunities.

PLC Segment

The Group's PLC segment comprises shared service functions, share scheme expenses, and administration costs associated with the Group's defined benefit pension schemes. These costs (before exceptional items) were £3.6 million (2014: £3.5 million).

Exceptional items

The Group's net exceptional charge is £0.4 million (2014: £1.8 million) (see Note 2). Significant items include:

- £2.2 million restructuring costs relating to cost reduction and the move towards an integrated operating model, which we expect to continue throughout the year;
- £0.9 million increase in the onerous lease provision; offset by
- £2.7 million cash receipt relating to various regulatory settlements.

Net debt and cash flow

Net debt at 30 September 2015 remained stable and within a very comfortable range at £103.0 million (2014: £103.0 million), representing a net debt to pre-exceptional EBITDA ratio of 1.36 x (2014: 1.36 x).

Dividend

The Group's interim dividend is 1.97 pence per share (2014: 1.79 pence), which is consistent with the Board's previously stated commitment to grow the full year dividend at 10% per annum until the year ending 31 March 2016. The dividend will be paid on 1 February 2016 to shareholders registered on 29 December 2015. The ex-dividend date is 24 December 2015.

Pensions
The IAS 19 pension liability at 30 September 2015 is £16.1 million (30 September 2014: £34.0 million and 31 March 2015: £31.4 million). The decrease from the 31 March 2015 year end arises as a result of a higher discount rate used to calculate the schemes' liabilities.

The Group makes pre-agreed deficit repair payments into its pensions schemes, based on the outcomes of its triennial valuation. This payment will be a total of £2.0 million in the current year, rising to £6.7 million in the year ending 31 March 2017.

In addition to the deficit repair payments, the Group makes pre-agreed payments to its pension schemes through the asset backed partnership. The payment is £2.7million in the current year and is forecast to be £2.7million in the year ending 31 March 2017.

As a result, the total payment in respect of pensions will be approximately £4.7 million in 2016 and £9.4 million in 2017. The next actuarial valuation for both schemes is 31 March 2016.

Tax
The Group's tax charge is £5.1 million (2014: £4.7 million). The current year effective tax rate is 21.0%, broadly in line with the prevailing rate of corporation tax.

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 partners and suppliers – our business model means that we work with several key partners to deliver service to our customers; they include BT, ForgeRock, Cisco, Amazon Web Services and Microsoft;
- 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 20 and 21 of the Annual report and accounts to 31 March 2015 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 2015 £'000	Unaudited Six months ended 30 Sept 2014 £'000	Audited Year ended 31 Mar 2015 £'000
Revenue	1	**177,890**	173,004	347,984
Operating expenses		**(152,050)**	(146,279)	(325,579)
Operating profit		**25,840**	26,725	22,405
Analysed as:				
EBITDA before exceptional items	1	**37,197**	36,080	74,304
Exceptional credits	2	**2,700**	429	6,658
Exceptional charges	2	**(3,129)**	(2,237)	(41,446)
Depreciation of property, plant and equipment		**(6,291)**	(5,540)	(12,033)
Amortisation of intangible assets		**(4,637)**	(2,007)	(5,078)
Finance costs	3	**(1,632)**	(3,107)	(5,725)
Share of profit of associates		**5**	5	13
Profit before tax	1	**24,213**	23,623	16,693
Tax	4	**(5,081)**	(4,740)	(4,149)
Profit for the period attributable to owners of the parent		**19,132**	18,883	12,544
Earnings per share (pence)				
Basic	5	**3.76**	3.71	2.47
Diluted	5	**3.73**	3.66	2.44

Consolidated interim statement of comprehensive income

	Unaudited Six months ended 30 Sept 2015 £'000	Unaudited Six months ended 30 Sept 2014 £'000	Audited Year ended 31 Mar 2015 £'000
Profit for the period	**19,132**	18,883	12,544
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurements of retirement benefit obligations	**13,659**	(8,475)	(7,263)
Tax on items that will not be reclassified	**(3,001)**	1,509	1,528
Total items that will not be reclassified to profit or loss	**10,658**	(6,966)	(5,735)
Items that may be reclassified subsequently to profit or loss			
Cash flow hedge fair value movements	**(442)**	736	1,428
Tax on items that may be reclassified	**88**	(147)	(285)
Total items that may be reclassified subsequently to profit or loss	**(354)**	589	1,143
Total comprehensive income for the period attributable to owners of the parent	**29,436**	12,506	7,952

Consolidated interim balance sheet

	Note	**Unaudited As at 30 Sept 2015 £'000**	Unaudited As at 30 Sept 2014 £'000	Audited As at 31 Mar 2015 £'000
Non-current assets				
Goodwill		**51,372**	85,272	51,372
Other intangible assets		**39,974**	30,660	41,903
Property, plant and equipment		**90,606**	129,907	127,078
Investments		**38**	25	33
Deferred tax assets		**10,947**	13,837	16,292
		192,937	259,701	236,678
Current assets				
Inventories		**2,399**	2,136	2,235
Trade and other receivables		**92,450**	79,161	78,790
Cash and cash equivalents	8	**14,221**	5,696	11,701
Derivative financial instruments	12	**224**	-	328
		109,294	86,993	93,054
Assets classified as held for sale	7	**41,766**	-	-
		151,060	86,993	93,054
Total assets		**343,997**	346,694	329,732
Current liabilities				
Trade and other payables		**(123,672)**	(114,130)	(112,969)
Current tax liabilities		**(5,106)**	(3,178)	(2,500)
Borrowings		**-**	-	(691)
Derivative financial instruments	12	**-**	(1,070)	(706)
Finance leases		**(3,021)**	(1,300)	(1,743)
Provisions for other liabilities and charges		**(784)**	(888)	(2,579)
Non-current liabilities				
Borrowings	8	**(108,687)**	(103,487)	(103,460)
Retirement benefit obligations		**(16,100)**	(34,000)	(31,435)
Deferred tax liabilities		**(4,334)**	(5,111)	(4,589)
Finance leases		**(5,482)**	(3,868)	(5,155)
Provisions for other liabilities and charges		**(963)**	(357)	(26)
Total liabilities		**(268,149)**	(267,389)	(265,853)
Net assets		**75,848**	79,305	63,879
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)	442
Accumulated losses		**(329,043)**	(325,336)	(341,454)
Total equity		**75,848**	79,305	63,879

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 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
Deferred tax charge relating to asset-backed Partnership		-	-	-	(55)	(55)
Purchase of ordinary shares		-	-	-	(2,042)	(2,042)
Employee share schemes		-	-	-	532	532
Dividends	6	-	-	-	(16,810)	(16,810)
		-	-	-	(18,354)	(18,354)
At 30 September 2014 (unaudited)		**51,660**	**353,231**	**(250)**	**(325,336)**	**79,305**
Profit for the period		-	-	-	(6,339)	(6,339)
Other comprehensive income		-	-	692	1,093	1,785
Total comprehensive income for the period ended 31 March 2015 (audited)		**-**	**-**	**692**	**(5,246)**	**(4,554)**
Deferred tax charge relating to share schemes		-	-	-	(157)	(157)
Current tax credit relating to share schemes		-	-	-	50	50
Deferred tax credit relating to asset-backed Partnership		-	-	-	509	509
Purchase of ordinary shares		-	-	-	(2,016)	(2,016)
Employee share schemes		-	-	-	(11)	(11)
Dividends	6	-	-	-	(9,247)	(9,247)
		-	-	-	(10,872)	(10,872)
At 31 March 2015 (audited)		**51,660**	**353,231**	**442**	**(341,454)**	**63,879**
Profit for the period		-	-	-	19,132	19,132
Other comprehensive income		-	-	(442)	10,746	10,304
Total comprehensive income for the period ended 30 September 2015 (unaudited)		-	-	**(442)**	**29,878**	**29,436**
Deferred tax credit relating to share schemes		-	-	-	28	28
Deferred tax credit relating to asset-backed Partnership		-	-	-	269	269
Purchase of ordinary shares		-	-	-	(150)	(150)
Employee share schemes		-	-	-	880	880
Dividends	6	-	-	-	(18,494)	(18,494)
		-	-	-	(17,467)	(17,467)
At 30 September 2015 (unaudited)		**51,660**	**353,231**	**-**	**(329,043)**	**75,848**

Consolidated interim cash flow statement

	Note	**Unaudited Six months Ended 30 Sept 2015 £'000**	Unaudited Six months Ended 30 Sept 2014 £'000	Audited Year Ended 31 Mar 2015 £'000
Cash flows from operating activities				
Operating profit		**25,840**	26,725	22,405
Adjustments for:				
- depreciation and amortisation		**10,928**	7,547	17,111
- impairment of goodwill	2	**-**	-	33,900
- decrease / (increase) in working capital		**5,445**	(12,170)	(14,881)
- restructuring cost and onerous lease payments		**(1,870)**	(1,776)	(62)
- pension deficit payments		**(2,526)**	(1,765)	(4,270)
Tax paid		**(1,900)**	(1,394)	(3,424)
Loss on sale of property, plant and equipment		**-**	150	429
Profit on sale of investments		**-**	(429)	(624)
Net cash generated from operations	8	**35,917**	16,888	50,584
Cash flows from investing activities				
Purchase of property, plant and equipment		**(11,998)**	(7,858)	(10,039)
Purchase of intangible assets		**(4,252)**	(9,984)	(21,983)
Proceeds on disposal of investments		**-**	429	624
Net cash used in investing activities		**(16,250)**	(17,413)	(31,398)
Cash flows from financing activities				
Dividends paid	6	**(18,494)**	(16,810)	(26,057)
Dividends equivalent paid to participants of the share schemes	8	**-**	(268)	(561)
Interest paid	8	**(1,700)**	(3,505)	(5,574)
Repayment of bank loans		**(45,000)**	(15,000)	(45,000)
Drawdown of bank loans		**50,000**	35,000	65,000
Capital element of finance lease repayments		**(1,112)**	(572)	(1,367)
Purchase of ordinary shares	8	**(150)**	(2,065)	(4,058)
Net cash used in financing activities		**(16,456)**	(3,220)	(17,617)
Increase / (decrease) in cash and cash equivalents		**3,211**	(3,745)	1,569
Cash and cash equivalents at the beginning of the period		**11,010**	9,441	9,441
Cash and cash equivalents at the end of the period	8	**14,221**	5,696	11,010

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 2015 £'000	Unaudited Six months ended 30 Sept 2014 £'000	Audited Year ended 31 Mar 2015 £'000
Revenue			
KC	**52,234**	52,460	104,751
Kcom	**128,352**	123,077	248,593
PLC[1]	**(2,696)**	(2,533)	(5,360)
Total	**177,890**	173,004	347,984
Group EBITDA			
KC	**27,713**	27,650	56,368
Kcom	**13,115**	11,964	25,687
PLC[1]	**(3,631)**	(3,534)	(7,751)
Total – before exceptional items	**37,197**	36,080	74,304
Exceptional items:			
KC	**(396)**	(90)	5,027
Kcom	**(265)**	(1,253)	(37,435)
PLC[1]	**232**	(465)	(2,380)
Total exceptional items	**(429)**	(1,808)	(34,788)
EBITDA post exceptional items	**36,768**	34,272	39,516

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

Notes to the unaudited interim financial information continued

1. Segmental analysis (continued)

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

	Unaudited Six months ended 30 Sept 2015 £'000	Unaudited Six months ended 30 Sept 2014 £'000	Audited Year ended 31 Mar 2015 £'000
EBITDA post exceptional items	**36,768**	34,272	39,516
Depreciation	**(6,291)**	(5,540)	(12,033)
Amortisation	**(4,637)**	(2,007)	(5,078)
Finance costs	**(1,632)**	(3,107)	(5,725)
Share of profit of associates	**5**	5	13
Profit before tax	**24,213**	23,623	16,693

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 2014 £'000	Audited Year ended 31 Mar 2015 £'000
Revenue from external customers			
KC	**49,270**	49,968	99,597
Kcom	**128,352**	122,865	248,033
PLC[1]	**268**	171	354
Total	**177,890**	173,004	347,984
Inter-segment revenue			
KC	**2,964**	2,492	5,154
Kcom	**-**	212	560
PLC[1]	**(2,964)**	(2,704)	(5,714)
Total	**-**	-	-
	177,890	173,004	347,984

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

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 2015 £'000	Unaudited Six months ended 30 Sept 2014 £'000	Audited Year ended 31 Mar 2015 £'000
Ofcom settlement	**2,700**	-	-
Network rates rebate	**-**	-	5,278
Recovery of previously provided debt	**-**	-	756
Profit on sale of investments	**-**	429	624
Exceptional credits	**2,700**	429	6,658
Restructuring costs	**(2,274)**	(2,237)	(7,546)
Onerous lease costs	**(855)**	-	-
Impairment of goodwill	**-**	-	(33,900)
Exceptional charges	**(3,129)**	(2,237)	(41,446)
Charged to profit before tax	**(429)**	(1,808)	(34,788)

During the period, the Group received a settlement of a claim relating to an industry-wide regulatory ruling. The cash was received in June 2015 and the settlement is treated as exceptional in line with our accounting policy.

Restructuring costs arise as a result of organisational changes to support the Group's transformation.

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

In accordance with accounting standards, the Group's goodwill balance is tested annually for impairment. As part of this review for the year ending 31 March 2015, the goodwill in the Group's Kcom CGU was deemed to be impaired and a charge was recognised in the consolidated income statement.

Network rates rebate related to a settlement agreed during the year ending 31 March 2015.

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

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

Notes to the unaudited interim financial information continued

3. Finance costs

	Unaudited	Unaudited	Audited
	Six months ended 30 Sept	Six months ended 30 Sept	Year ended 31 Mar
	2015	2014	2015
	£'000	£'000	£'000
Finance costs	**(2,452)**	(3,107)	(5,725)
Fair value gain on financial instruments	**820**	-	-
Charged to profit before tax	**(1,632)**	(3,107)	(5,725)

In July 2015, the sterling interest rate swaps held by the Group matured and the Group decided against entering into further swap arrangements. The result was the cumulative gain on the interest rate swaps, which had been previously recognised directly into equity, was recycled from equity into the income statement as per IAS 39.

4. 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 21.0% (2014: 20.1%).

5. Earnings per share

	Unaudited	Unaudited	Unaudited
	Six months ended	Six months ended	Year ended
	30 Sept	30 Sept	31 Mar
	2015	2014	2015
Weighted average number of shares	**No.**	No.	No.
For basic earnings per share	**509,352,876**	508,386,228	508,619,479
Share options in issue	**3,384,917**	7,106,810	5,169,178
For diluted earnings per share	**512,737,793**	515,493,038	513,788,657
Earnings	**£'000**	£'000	£'000
Profit attributable to equity holders of the company	**19,132**	18,883	12,544
Adjustments:			
Exceptional items	**429**	1,808	34,788
Tax on exceptional items	**(86)**	(447)	(7,101)
Adjusted profit attributable to equity holders of the company	**19,475**	20,244	40,231
Earnings per share			
	Pence	Pence	Pence
Basic	**3.76**	3.71	2.47
Diluted	**3.73**	3.66	2.44
Adjusted basic	**3.82**	3.98	7.91
Adjusted diluted	**3.80**	3.93	7.83

Notes to the unaudited interim financial information continued

6. Dividends

	Unaudited Six months ended 30 Sept 2015 £'000	Unaudited Six months ended 30 Sept 2014 £'000	Audited Year ended 31 Mar 2015 £'000
Final dividend for the year ended 31 March 2014 of 3.254 pence per share	**-**	16,810	16,810
Interim dividend for the year ended 31 March 2015 of 1.79 pence per share	**-**	-	9,247
Final dividend for the year ended 31 March 2015 of 3.58 pence per share	**18,494**	-	-
Total	**18,494**	16,810	26,057

The proposed interim dividend for the six months ended 30 September 2015 is 1.97 pence per share. In accordance with IAS 10, "Events after the reporting period", dividends declared after the balance sheet date are not recognised as a liability in this set of interim financial information.

7. Assets classified as held for sale

Assets classified as held for sale are the Group's national network infrastructure, outside of Hull and East Yorkshire.

	Unaudited Six months ended 30 Sept 2015 £'000
Cost	
At 30 September 2015	**148,550**
Accumulated depreciation	
At 30 September 2015	**106,784**
Net book value	
At 30 September 2015	**41,766**

The assets had an original build cost of £238.1 million, of which £89.5 million was written off in previous years.

The above assets are disclosed in note 1 in the Kcom reporting segment.

Notes to the unaudited interim financial information continued

8. Movement in net debt

	Unaudited Six months ended 30 Sept 2015 £'000	Unaudited Six months ended 30 Sept 2014 £'000	Audited Year ended 31 Mar 2015 £'000
Opening net debt	**(99,348)**	(74,976)	(74,976)
Closing net debt	**(102,969)**	(102,959)	(99,348)
Increase in the period	**(3,621)**	(27,983)	(24,372)
Reconciliation of movement in the period			
Net cash flow from operations	**35,917**	16,888	50,584
Capital expenditure	**(16,250)**	(17,842)	(32,022)
Interest	**(1,700)**	(3,505)	(5,574)
Dividends	**(18,494)**	(16,810)	(26,057)
Dividends equivalent paid to participants of the share schemes	**-**	(268)	(561)
Purchase of ordinary shares	**(150)**	(2,065)	(4,058)
Finance leases	**(1,605)**	(5,168)	(6,898)
Other	**(1,339)**	787	214
Increase in the period	**(3,621)**	(27,983)	(24,372)

Net debt comprises:

	Unaudited Six months ended 30 Sept 2015 £'000	Unaudited Six months ended 30 Sept 2014 £'000	Audited Year ended 31 Mar 2015 £'000
Cash and cash equivalents (including bank overdrafts)	**14,221**	5,696	11,010
Bank loans	**(108,687)**	(103,487)	(103,460)
Finance leases	**(8,503)**	(5,168)	(6,898)
Total net debt	**(102,969)**	(102,959)	(99,348)

These Group's facilities comprise a multi-currency revolving credit facility of £200.0 million, provided by a group of five core relationship banks. The facility matures in June 2019. The Group considers that this facility will provide sufficient funding to support the Group's growth. In addition, short-term flexibility of funding is available under the £10.0 million overdraft facility provided by the Group's clearing bankers.

9. 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 2015 annual report and accounts.

This condensed consolidated interim financial information was approved for issue on 25 November 2015.

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 2015 were approved by the Board of directors on 17 June 2015 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 19 and 20.

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 2015 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 2015, 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.

10. Accounting policies

The accounting policies adopted are consistent with those published in the Group's 2015 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 2016 year end in respect of the six months ended 30 September 2015. The Group has included the disclosures required by IAS 34 para 16A(j). See Note 12. Application of this revised standard has not had a material impact on the financial statements.

Assets classified as held for sale
Assets are classified as assets held for sale when their carrying amount is to be recovered through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell. Once classified as held for sale, intangibles assets and property, plant and equipment are no longer amortised or depreciated.

Notes to the unaudited interim financial information continued

11. 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 2015 annual report and accounts, with the exception of changes in estimates that are required in determining the provision for income taxes (see Note 10).

12. 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 2015. 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 2015 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 2015 £'000		Audited Year ended 31 Mar 2015 £'000	
	Assets	**Liabilities**	Assets	Liabilities
Interest rate swaps – cash flow hedges	**-**	**-**	-	706
Forward foreign exchange contracts	**224**	**-**	328	-
Current portion	**224**	**-**	328	706

Fair values
The fair value of bank borrowings is £97.5 million (March 2015: £91.6 million) compared to a book value of £110.0 million (March 2015: £105.0 million). The fair value of cash flows has been estimated using a rate based on the weighted average borrowing rate of 3.20% (March 2015: 3.20%).

13. Related party transactions

There are no material related party transactions.

Notes to the unaudited interim financial information continued

14. 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 2015 annual report and accounts.

The directors of KCOM Group PLC are listed in the KCOM Group Annual Report for 31 March 2015.

Signed by Order of the Board on 30 November 2015 by:

Independent review report to KCOM Group PLC

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed KCOM Group PLC's condensed consolidated interim financial statements (the "interim financial statements") in the unaudited interim results of KCOM Group PLC for the 6 month period ended 30 September 2015. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements, comprise:

- the consolidated interim balance sheet as at 30 September 2015;
- 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.

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

As disclosed in Note 9 to the interim financial statements, 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.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

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

Our responsibility is to express a conclusion on the interim financial statements in the unaudited interim results 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 Rules and Transparency Rules of the United Kingdom's 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.

What a review of interim 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 unaudited interim results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
Leeds
30 November 2015

Notes:

a) The maintenance and integrity of the KCOM Group PLC website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim financial statements since they were initially presented on the website.

b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.