KCOM GROUP PLC (KCOM.L)
Unaudited interim results for the six months ended 30 September 2018

IFRS 15 and IFRS 9 were adopted on 1 April 2018, without restating prior year figures. As a result, discussion of our operating results is primarily based on an IAS 11, IAS 18 and IAS 39 basis for all periods presented.

KCOM Group PLC (KCOM.L) announces its unaudited interim results for the six months ended 30 September 2018.

Summary

- Group revenue[1] declined by 5%
- Group EBITDA[1] up by 2%
- Hull & East Yorkshire continues to perform well and in line with market expectations
    - Full-fibre deployment remains on target to be available to 100% of addressable market by March 2019
    - Percentage of broadband customers taking full-fibre continues to increase
- Poor performance in national business segments driven by:
    - Revenue decline in NNS, due to continuing churn
    - Broadly flat revenue in Enterprise reflecting disappointing order intake performance
- NNS performance results in non-cash exceptional impairment of goodwill of £32.2 million
- Increase in net debt to £108.5 million (1.6x net debt: EBITDA), driven by:
    - Capital investment in Hull & East Yorkshire segment
    - Material working capital outflow, due to insourcing a managed service arrangement and unwind of deferred revenue balances in Enterprise
- Interim dividend of 1.00p (2017: 2.00p), reflecting Board's previously announced decision to revise full year dividend commitment to a minimum of 3.00p per share

Graham Sutherland, Chief Executive Officer said, "Despite only joining the business last month, I believe KCOM has considerable skills, assets and capabilities. The full fibre rollout in Hull and East Yorkshire leads the market, provides us with sustainable cash flows and enables the further development of our service offering. However, the current financial performance of our two national businesses is below our expectations, in particular, in National Network Services where we are experiencing high levels of customer churn. In the second half of the year, we will focus on three key priorities – review of our business strategy to identify how we create the best value from KCOM's assets, implementing initiatives to improve business performance and improving transparency through clear metrics on which our progress can be measured. We will be in a position to share outputs from the strategic review in March."

Outlook

The strong performance in Hull & East Yorkshire is expected to continue during the second half of the year, supported in part by the launch in early December of a new unlimited fibre broadband portfolio for consumer customers.

While we have started to take action to address some of the issues in our national segments, we anticipate that the trading performance in Enterprise and National Network Services will remain challenging during the second half of the year and that this will continue into next year. As a business, we are seeking to address these medium-term challenges by reducing cost and complexity at the same time as identifying those opportunities to deliver value from KCOM's assets. The Board believes that the Group has the potential to execute well on those opportunities.

The Board previously announced its intention to recommend a minimum full year dividend of 3.00p per share for the current year."

Financial highlights

	IFRS 15/ IFRS 9	**Pro forma IAS 11/IAS 18/IAS 39**	IAS 11/IAS 18/IAS 39	IAS 11/IAS 18/IAS 39
	Unaudited six months ended 30 Sept 2018 £'m	**Unaudited six months ended 30 Sept 2018 £'m**	Unaudited six months ended 30 Sept 2017 £'m	Change over prior year
Revenue	**142.0**	**143.4**	151.3	(5%)
EBITDA [2,4]	**29.0**	**30.5**	29.8	2%
Profit before tax [2,4]	**12.8**	**13.0**	13.6	(4%)
Adjusted basic earnings per share (pence) [3,4]	**2.06p**	**2.09p**	2.16p	(3%)
Cash capital expenditure [4]	**18.2**	**19.1**	18.6	3%

	IFRS 15/IFRS 9	IAS 11/IAS 18/ IAS 39	
	Unaudited six months ended 30 Sept 2018 £'m	Unaudited six months ended 30 Sept 2017 £'m	Change over prior year
Reported results			
(Loss)/profit before tax	**(21.0)**	14.8	(242%)
Basic (loss)/earnings per share (pence)	**(4.18p)**	2.35p	(278%)
Net debt [4]	**108.5**	67.8	60%
Interim dividend per share (pence)	**1.00p**	2.00p	(50%)

[1]All numbers and movements quoted in summary are on a pre-IFRS 15 and IFRS 9 basis.
[2] Before exceptional items.
[3] Adjusted basic EPS is basic EPS adjusted for exceptional items (including the tax impact of exceptional items).
[4] For definition and reconciliation to statutory measure see glossary.

For further information please contact:

KCOM Group PLC **01482 602 595**
Graham Sutherland, Chief Executive Officer
Anna Bielby, Interim Chief Financial Officer
Cathy Phillips, Investor Relations

FTI Consulting LLP **020 3727 1137**
Edward Bridges/Matt Dixon/Jamie Ricketts/Leah Dudley

Performance review

Basis of preparation

IFRS 15 “Revenue from contracts with customers” and IFRS 9 “Financial Instruments” have been adopted for the first time in the interim financial statements.

The Group has applied both these new standards in the current year only. As a result, our reported numbers in the period are prepared in accordance with IFRS 15 and IFRS 9 and our comparatives are in line with previous accounting standards (IAS 11, IAS 18 and IAS 39).

In aggregate, the standards have an impact of a reduction in revenue of £1.4 million, in EBITDA of £1.5 million and in profit before tax and exceptional items of £0.2 million. The impact of both these new standards is timing only and is cash flow neutral. Further detail is provided in Note 4.

Group performance

The results for the period show a decline in both Group revenue (6%) and EBITDA (3%), compared to the first half of last year. When adjusting for the impact of IFRS 15 and IFRS 9, revenue has reduced by 5% and EBITDA has increased by 2%.

Our Hull & East Yorkshire segment continued to perform strongly with revenue growth across core channels. Our conversion and acquisition of customers onto fibre broadband continues to drive higher ARPU across our consumer base. The final phase of fibre deployment is on track and we expect to have full-fibre available to our whole addressable market by the end of March 2019.

The performance of our two national business segments has been significantly below expectation in the period.

In our Enterprise segment, revenue has remained broadly flat, with both Project and Network related revenues down 3%. EBITDA has improved; however, the prior period was impacted by £6.2 million of losses on complex software contracts. Without the effect of these contracts, EBITDA has declined.

Revenue in our National Network Services (NNS) segment has decreased, with continued churn and a performance well below the market. This performance has led to the Board’s decision to impair the carrying value of goodwill of the segment, resulting in a non-cash exceptional charge of £32.2 million.

Remaining exceptional costs relate to restructuring costs.

Net debt increased from £62.6 million at 31 March 2018 to £108.5 million at 30 September 2018, largely because of permanent one-off working capital outflows and the continued investment in the Hull & East Yorkshire infrastructure.

Segmental analysis

The Board makes decisions and manages the business in line with the segmental analysis set out below. This information is presented before exceptional items to provide a better understanding of underlying performance. A reconciliation of the Group's pre-exceptional results is set out in Note 5.

Hull & East Yorkshire

	IFRS 15/ IFRS 9 **Unaudited six months ended 30 Sept 2018 £'m**	**Proforma IAS 11/ IAS 18/IAS 39** **Unaudited six months ended 30 Sept 2018 £'m**	IAS 11/IAS 18/IAS 39 Unaudited six months ended 30 Sept 2017 £'m	IAS 11/IAS 18/IAS 39 Audited year ended 31 Mar 2018 £'m
Revenue				
Consumer	**30.0**	**30.2**	28.8	58.5
Business	**15.0**	**15.1**	14.4	30.5
Wholesale	**4.7**	**4.8**	5.3	10.8
Non-core – Media and Contact Centres	**1.1**	**1.1**	2.6	4.4
Total revenue	**50.8**	**51.2**	51.1	104.2
Gross margin	**39.7**	**40.7**	39.6	85.4
EBITDA	**29.6**	**30.5**	30.5	65.7

Compared to the first half of the prior year, revenue has reduced by £0.3 million and EBITDA by £0.9 million. The impact of IFRS 15 and IFRS 9 is a reduction in revenue of £0.4 million and in EBITDA of £0.9 million. This is principally due to the change in accounting for routers under IFRS 15 with router sales now recognised at the beginning of a customer contract and the cost recognised as a cost of sale rather than an asset which is depreciated.

Adjusting for the impact of the accounting standards, revenue has grown by £0.1 million over the prior period and EBITDA is in line. The relatively flat overall revenue position reflects the exit of the non-core Contact Centres business. The core channels have delivered revenue growth on a like-for-like basis of 3%.

On a comparable basis, Consumer revenue has increased by 5% compared to the first half of the prior year and our fibre rollout continues to deliver new broadband customers. The number of customers within this broadband base taking a fibre service has increased to 61% at 30 September 2018 (30 September 2017: 44%), supporting a 4% increase in ARPU in the last 12 months.

Business revenue on a like for like basis has also increased by 5% compared to the first half of the prior year. This growth has also been underpinned by our fibre proposition with a further 700 business sites connected since 31 March 2018, supported by take up in the SMB market through utilisation of the government funded voucher scheme.

The success of our award winning ultrafast Fibre-to-the-Premise (FTTP) offering continues. Our deployment is on target and we expect to have made full-fibre available to all our addressable market by March 2019. During the period we have passed a further 15,000 premises, taking our total to 179,000.

The key metrics for our Hull & East Yorkshire segment are as follows:

	Unaudited six months ended 30 Sept 2018	Unaudited six months ended 30 Sept 2017	Unaudited year ended 31 Mar 2018
Total Consumer customers (‘000s of voice lines)	**138.1**	137.9	138.7
Total Consumer broadband customers (fibre and copper – ‘000s)	**118.7**	116.3	118.3
Total Consumer fibre broadband customers (‘000s)	**72.6**	50.7	63.5
Total Business fibre broadband sites (‘000s)	**5.6**	4.8	4.9
Consumer Average Revenue Per User (ARPU) per month (£)	**£35.97**	£34.46	£35.17
Total fibre availability (‘000s premises passed)	**179**	147	164
Availability delivered during the year (‘000s premises passed)	**15**	10	27

As anticipated and signalled previously, our non-core Media and Contact Centres revenue has continued to decline. We closed our outsourced Contact Centre on 31 March 2018, at the completion of its largest customer contract.

Despite the increase in core revenues, adjusted EBITDA is flat in the period as the prior half year benefitted from £0.6 million of one-off supplier credits and rebates. The current period benefits by £0.2 million of such items.

Enterprise

	IFRS 15/ IFRS 9	**Proforma IAS 11/ IAS 18/IAS 39**	IAS 11/IAS 18/IAS 39	IAS 11/IAS 18/IAS 39
	Unaudited six months ended 30 Sept 2018 £’m	**Unaudited six months ended 30 Sept 2018 £’m**	Unaudited six months ended 30 Sept 2017 £’m	Audited year ended 31 Mar 2018 £’m
Revenue				
Projects	**13.8**	**15.3**	15.7	30.1
Managed Service	**22.4**	**21.8**	21.5	45.2
Network	**6.4**	**6.4**	6.6	13.0
Total revenue	**42.6**	**43.5**	43.8	88.3
Gross margin	**16.2**	**16.0**	10.2	29.9
EBITDA	**4.1**	**4.0**	(0.8)	5.1

Enterprise performance in the period has been disappointing, due to lower than anticipated order intake. Revenue has reduced by £1.2 million and EBITDA has increased by £4.9 million compared to the prior half year. The impact of IFRS 15 and IFRS 9 is a reduction in revenue of £0.9 million and an increase in EBITDA of £0.1 million. This is principally due to the revenue classification of certain customer contracts as 'agent' rather than 'principal' under the new standard. Adjusting for the impact of the new accounting standards, revenue has declined by 1% and EBITDA has improved by £4.8 million.

Despite the relatively flat revenue position, EBITDA has improved in the period due to losses of £6.2 million of losses on complex software contracts in the prior period. Without the effect of these contracts, gross margin percentage in the current period is comparable at 37% but EBITDA has reduced £1.4 million, which includes continued investment in the Enterprise management team and sales and delivery capability.

National Network Services

	IFRS 15/ IFRS 9 **Unaudited six months ended 30 Sept 2018 £'m**	**Proforma IAS 11/ IAS 18/IAS 39** **Unaudited six months ended 30 Sept 2018 £'m**	IAS 11/IAS 18/IAS 39 Unaudited six months ended 30 Sept 2017 £'m	IAS 11/IAS 18/IAS 39 Audited year ended 31 Mar 2018 £'m
Revenue				
Connectivity	**31.8**	**32.0**	34.0	68.1
Voice	**12.3**	**12.3**	16.4	30.5
Hosting	**3.4**	**3.4**	3.7	7.3
Managed Service & Other	**2.6**	**2.6**	4.3	7.3
Total revenue	**50.1**	**50.3**	58.4	113.2
Gross margin	**11.4**	**11.9**	16.1	32.0
EBITDA	**0.6**	**1.2**	5.8	9.0

Revenue has reduced by £8.3 million and EBITDA by £5.2 million. The impact of IFRS 15 and IFRS 9 is a reduction in revenue of £0.2 million and EBITDA of £0.6 million.

Adjusting for the impact of the new accounting standards, revenue has declined by £8.1 million and EBITDA by £4.6 million. Although a decline was expected, churn has continued at higher levels than anticipated. Revenue decline has been seen across all product categories which reflects this churn, both in terms of customers leaving and declining use of traditional voice platforms. Voice revenues also continue to be impacted by the industry wide change in the mix of call traffic (e.g. the movement to 03 numbers).

The EBITDA decline is a consequence of this churn with a decreasing marginal contribution towards fixed network operating costs and continued gross margin pressure. The prior period also benefitted from £1.2 million of supplier credits and rebates. The current period benefits by £0.2 million of such items.

In the period we have focused on a specific public-sector opportunity relating to the delivery of Health and Social Care Networks (HSCN). We have seen early success having been named preferred supplier on four aggregated procurements. The process of securing individual customers under the aggregated procurements is ongoing and delivery is expected in the second half of this financial year, continuing into the first half of next year when it will start to positively impact connectivity revenues.

Central

Central costs include PLC and corporate costs, where allocation to the underlying segments would not improve understanding of those segments. These costs include share-based payments and pensions, along with the residual Group cost of finance, HR, risk, legal and communications, once appropriate recharges have been made to the three business segments.

Central costs have decreased from £5.7 million (six months ended 30 September 2017) to £5.3 million.

Exceptional items

The Group incurred exceptional charges of £33.8 million in the first six months of the year. This comprises:

- impairment of NNS goodwill of £32.2 million; and
- restructuring costs of £1.5 million.

Management scrutinises all restructuring costs on a line by line basis to determine whether they meet the exceptional criteria. During the period restructuring costs were incurred in relation to three main areas:

- termination and recruitment costs associated with executive directors (£0.6 million);
- transformation of project delivery (£0.4 million); and
- transformation of central functions (£0.5 million).

The treatment of the termination and recruitment costs associated with executive directors is in line with the Group's accounting policy and such costs are always treated as exceptional. The transformation costs are a completion of activity which had commenced in the prior year in addition to the commencement of a fundamental re-organisation of the Group's Product and Propositions teams.

Net debt and cash flow

Net debt at 30 September 2018 is £108.5 million (31 March 2018: £62.6 million), representing a net debt to EBITDA ratio of 1.6x. Undrawn committed borrowing facilities at 30 September 2018 were £65.0 million (31 March 2018: £105.0 million).

The increase in net debt compared to the year end position arises as a result of a working capital outflow and continued investment in our fibre deployment. As in the prior year, an element of the working capital movement relates to timing which we expect to unwind in the second half of the year. There are however permanent differences principally relating to:

- the successful insource of a managed service arrangement with a key partner delivering overall cost benefit but with a one-off in year working capital outflow (half year impact of £11.0 million; full year impact expected to be approximately £13.0 million); and
- unwind of certain deferred revenue balances.

Underlying working capital continues to be well controlled. Both Days' Sales Outstanding and Days' Purchases Outstanding are consistent with the 30 September 2017 position.

Year end net debt is expected to be c.£115.0 million.

Dividend

Taking into account changes to the Group's medium-term trading performance, cash flow and net debt position, as previously announced, the Board has reviewed the Group's ongoing dividend policy and no longer considers it appropriate to pay an uncovered dividend. As such, the Board has resolved to pay a full-year dividend of not less than 3.00 pence per share for the financial year ending 31 March 2019.

The Group's interim dividend is 1.00 pence per share (30 September 2017: 2.00 pence). The dividend will be paid on 1 February 2019 to shareholders registered on 28 December 2018. The ex-dividend date is 27 December 2018.

Pensions

The IAS 19 pension position at 30 September 2018 is a (net) asset of £3.0 million (30 September 2017: £3.7 million (net) liability and 31 March 2018: £7.5 million liability). The movement from 31 March 2018 arises as a result of a higher discount rate used to calculate the schemes' liabilities (driven by increases in corporate bond yields) offset in part by a reduction in the expected return of schemes' assets.

The agreed level of deficit repair payments across both schemes for the current year is £6.9 million (rising in line with CPI until the year ending 31 March 2020 for the Data scheme and 31 March 2022 for the Main scheme). In addition, the Group makes pre-agreed payments to its pension schemes through the asset backed partnerships. The full year payment for the current year is £2.8 million (2018: £2.7 million). Our next actuarial review is due on 31 March 2019.

On 26 October, the High Court handed down a judgement involving the Lloyds Banking Group's defined benefit pension schemes. The judgement concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgement arise in relation to many other defined benefit pension schemes. We are working with the trustees of our pension schemes, and our actuarial and legal advisers, to understand the extent to which the judgement crystallises additional liabilities for KCOM Group PLC's pension schemes. The impact of this on KCOM Group PLC's pension schemes is currently being evaluated but for typical schemes it is estimated to be between 0% and 4% of total scheme liabilities.

Capital investment

Cash capital expenditure during the period was £18.2 million or £19.1 million before the impact of IFRS 15 (30 September 2017: £18.6 million). The major project in the period was the continued deployment of fibre and the transformation of our network in our Hull & East Yorkshire segment.

The Group's depreciation and amortisation charge for the period is £15.0 million or £16.1 million before the impact of IFRS 15 (30 September 2017: £15.1 million), the increase resulting from the higher capital investment in recent years, which has an ongoing impact on profit before tax.

We are in the process of reviewing our forward looking capital expenditure plans but, as indicated previously, expect a reduction in the year ending 31 March 2021 after completion of our fibre rollout and network transformation.

Tax

The Group's tax charge is £0.4 million (30 September 2017: £2.8 million). The effective tax rate is (2%), which is different to the prevailing rate of corporation tax of 19% principally due to the tax impact of the goodwill impairment. Adjusting for this the effective tax rate is 18% which is broadly in line with the prevailing rate of corporation tax.

Principal risks 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:

- growing revenue in our Enterprise segment to offset the decline of network-based revenue – revenue from legacy activities may decline faster than the revenue from new services grows;
- ability to attract and retain the key technical skills required in our Enterprise segment – many of the services provided by our Enterprise segment are technically complex and require skills that are hard to find and in high demand. Attracting and retaining the right skills is key to being able to deliver the services our customers require;
- substitute technologies entering the consumer market – the development of substitute technologies without the need for a fixed line could present a competitive threat within the consumer part of our business;
- upgrading of our network equipment – our equipment requires upgrading as demand for broadband and cloud-based services increases;
- accuracy, security and confidentiality of customer data – security of customer data is of paramount importance to our customers and therefore to us;
- customer service, contract governance and delivery – the delivery of our complex contracts is a key part of the success our Enterprise segment and providing exceptional service to our customers is one of our key strategic aims. Failure to govern contracts sufficiently may have reputational or financial impact;
- 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;
- a breach of our regulatory obligations – we take our regulatory responsibilities extremely seriously and seek to ensure we are compliant;
- health and safety – it is important to mitigate health and safety risks as far as possible to prevent incidents from occurring; and
- flooding – flooding (particularly in Hull) has become an increasingly regular occurrence and could impact our business if we don’t take appropriate steps to mitigate the risks.

More detail of the Group’s risks is shown on pages 28 to 32 of the Annual report and accounts for the year ended 31 March 2018 and it is the view of the directors that these risks and uncertainties remain appropriate for this interim statement.

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.

Consolidated interim income statement

	Notes	**Unaudited six months ended 30 Sept 2018 £'000**	Unaudited six months ended 30 Sept 2017 £'000	Audited year ended 31 Mar 2018 £'000
Revenue	5	**141,983**	151,308	301,898
Operating expenses		**(161,699)**	(135,420)	(265,462)
Operating (loss)/profit		**(19,716)**	15,888	36,436
Finance costs	7	**(1,293)**	(1,070)	(2,399)
Share of profit of associates		**8**	7	12
(Loss)/profit before tax	5	**(21,001)**	14,825	34,049
Tax	8	**(375)**	(2,803)	(6,571)
(Loss)/profit for the period attributable to owners of the parent		**(21,376)**	12,022	27,478

Operating (loss)/profit analysed as:				
EBITDA before exceptional items	5	**29,039**	29,780	68,270
Exceptional credits	6	**-**	1,918	2,361
Exceptional charges	6	**(33,761)**	(715)	(1,638)
Depreciation of property, plant and equipment		**(7,790)**	(7,971)	(16,906)
Amortisation of intangible assets		**(7,204)**	(7,124)	(15,651)
Operating (loss)/profit		**(19,716)**	15,888	36,436

The Group adopted IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments" on 1 April 2018 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity. Prior-year comparatives were not adjusted. Please refer to Note 4 for details.

(Loss)/earnings per share (pence)				
Basic	9	**(4.18)**	2.35	5.38
Diluted	9	**(4.18)**	2.33	5.33

Consolidated interim statement of comprehensive income

	Notes	**Unaudited six months ended 30 Sept 2018 £'000**	Unaudited six months ended 30 Sept 2017 £'000	Audited year ended 31 Mar 2018 £'000
(Loss)/profit for the period		**(21,376)**	12,022	27,478
Other comprehensive income:				
Items that will not be reclassified to profit or loss				
Remeasurements of retirement benefit obligations	12	**6,104**	12,061	4,203
Tax on items that will not be reclassified		**(1,038)**	(2,172)	(715)
Total items that will not be reclassified to profit or loss		**5,066**	9,889	3,488
Total comprehensive (expense)/ income for the period attributable to owners of the parent		**(16,310)**	21,911	30,966

Consolidated interim balance sheet

	Notes	**Unaudited as at 30 Sept 2018 £'000**	Unaudited as at 30 Sept 2017 £'000	Audited as at 31 Mar 2018 £'000
Assets				
Non-current assets				
Goodwill	11	**19,125**	51,372	51,372
Other intangible assets		**33,498**	43,380	36,816
Property, plant and equipment		**127,211**	110,915	122,928
Investments		**54**	52	46
Retirement benefit asset	12	**6,167**	3,078	-
Deferred tax assets		**5,134**	4,530	4,376
Contract costs		**4,398**	-	-
		195,587	213,327	215,538
Current assets				
Inventories		**3,558**	3,572	3,713
Contract assets		**3,390**	-	-
Trade and other receivables		**57,310**	64,252	53,568
Cash and cash equivalents	13	**9,713**	9,521	13,223
		73,971	77,345	70,504
Total assets		**269,558**	290,672	286,042
Liabilities				
Current liabilities				
Trade and other payables		**(50,991)**	(95,333)	(87,281)
Contract liabilities		**(16,305)**	-	-
Bank overdrafts	13	**(3,102)**	(684)	-
Finance leases	13	**(1,170)**	(1,846)	(1,722)
Provisions for other liabilities and charges		**(434)**	(295)	(471)
Non-current liabilities				
Bank loans	13	**(113,989)**	(73,679)	(73,821)
Retirement benefit obligation	12	**(3,138)**	(6,821)	(7,507)
Deferred tax liabilities		**(9,722)**	(7,135)	(8,016)
Finance leases	13	**-**	(1,116)	(285)
Provisions for other liabilities and changes		**(5,588)**	(1,858)	(5,746)
Total liabilities		**(204,439)**	(188,767)	(184,849)
Net assets		**65,119**	101,905	101,193
Equity				
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
Accumulated losses[1]		**(339,772)**	(302,986)	(303,698)
Total equity		**65,119**	101,905	101,193

[1] Included within accumulated losses for the six months ended 30 September 2018 is a loss after tax of £21.4 million.
[2] The Group adopted IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments" on 1 April 2018 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity. Prior-year comparatives were not adjusted. Please refer to Note 4 for details.

Consolidated interim statement of changes in shareholders' equity

	Notes	Share capital £'000	Share premium account £'000	Accumulated losses £'000	Total £'000
At 31 March 2017 (audited)		51,660	353,231	(305,003)	99,888
Profit for the period		-	-	12,022	12,022
Other comprehensive income		-	-	9,889	9,889
Total comprehensive income for the period ended 30 September 2017 (unaudited)		-	-	21,911	21,911
Deferred tax credit relating to share schemes		-	-	3	3
Purchase of ordinary shares		-	-	(150)	(150)
Employee share schemes		-	-	917	917
Dividends	10	-	-	(20,664)	(20,664)
		-	-	(19,894)	(19,894)
At 30 September 2017 (unaudited)		51,660	353,231	(302,986)	101,905
Profit for the period		-	-	15,456	15,456
Other comprehensive expense		-	-	(6,401)	(6,401)
Total comprehensive income for the period ended 31 March 2017 (audited)		-	-	9,055	9,055
Deferred tax charge relating to share schemes		-	-	(3)	(3)
Purchase of ordinary shares		-	-	(300)	(300)
Employee share schemes		-	-	868	868
Dividends	10	-	-	(10,332)	(10,332)
		-	-	(9,767)	(9,767)
At 31 March 2018 (audited)		51,660	353,231	(303,698)	101,193
Change in accounting standards	4	-	-	345	345
At 1 April 2018 (unaudited)		51,660	353,231	(303,353)	101,538
Loss for the period		-	-	(21,376)	(21,376)
Other comprehensive income		-	-	5,066	5,066
Total comprehensive expense for the period ended 30 September 2018 (unaudited)		-	-	**(16,310)**	**(16,310)**
Deferred tax credit relating to share schemes		-	-	11	11
Purchase of ordinary shares		-	-	(300)	(300)
Employee share schemes		-	-	844	844
Dividends	10	-	-	(20,664)	(20,664)
		-	-	(20,109)	(20,109)
At 30 September 2018 (unaudited)		**51,660**	**353,231**	**(339,772)**	**65,119**

The Group adopted IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments" on 1 April 2018 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity. Prior-year comparatives were not adjusted. Please refer to Note 4 for details.

Consolidated interim cash flow statement

	Notes	**Unaudited six months ended 30 Sept 2018 £'000**	Unaudited six months ended 30 Sept 2017 £'000	Audited year ended 31 Mar 2018 £'000
Cash flows from operating activities				
Operating (loss)/profit		**(19,716)**	15,888	36,436
Adjustments for:				
- depreciation and amortisation		**14,994**	15,095	32,557
- impairment of goodwill	11	**32,247**	-	-
- increase in working capital		**(28,731)**	(12,513)	(4,197)
- Loss/(profit) on sale of property, plant and equipment		**1**	(15)	(15)
- non-employee-related pension charges	12	**385**	625	1,100
- Share based payment charge		**844**	917	1,785
Payments made to defined benefit pension schemes	12	**(4,883)**	(4,732)	(9,470)
Tax paid		**(1,504)**	(1,706)	(3,698)
Net cash (used in)/generated from operations	13	**(6,363)**	13,559	54,498
Cash flows from investing activities				
Purchase of property, plant and equipment		**(13,534)**	(12,133)	(34,139)
Purchase of intangible assets		**(3,856)**	(5,388)	(7,697)
Proceeds from sale of property, plant and equipment	13	**-**	53	517
Net cash used in investing activities		**(17,390)**	(17,468)	(41,319)
Cash flows from financing activities				
Dividends paid	10	**(20,664)**	(20,664)	(30,996)
Interest paid	13	**(1,048)**	(516)	(1,601)
Capital element of finance lease repayments		**(847)**	(1,114)	(2,099)
Repayment of bank loans		**(5,000)**	(20,000)	(20,000)
Drawdown of bank loans		**45,000**	45,000	45,000
Purchase of ordinary shares	13	**(300)**	(150)	(450)
Net cash generated from/(used in) financing activities		**17,141**	2,556	(10,146)
(Decrease)/increase in cash and cash equivalents		**(6,612)**	(1,353)	3,033
Cash and cash equivalents at the beginning of the period		**13,223**	10,190	10,190
Cash and cash equivalents at the end of the period	13	**6,611**	8,837	13,223

Notes to the unaudited interim financial information

1. 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 4 to 5 and in the Strategic report in the Group's 2018 Annual report and accounts.

This condensed consolidated interim financial information was approved for issue on 27 November 2018.

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 2018 were approved by the Board of directors on 8 June 2018 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 39.

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 2018 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 2018, which have been prepared in accordance with IFRSs as adopted by the European Union.

Going concern

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 information.

Notes to the unaudited interim financial information continued

2. Accounting policies

The accounting policies adopted are consistent with those published in the Group's Annual report and accounts for the year ended 31 March 2018, with the exception of "taxation", described below, and those impacted by the initial application of new standards, interpretations, and amendments in the period, as described in Note 4.

Taxation

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

3. Significant judgements and estimates

In preparing this condensed consolidated interim financial information, 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 Annual report and accounts for the year ended 31 March 2018, in Note 3 on page 96-97, with the exception of changes in estimates that are required in determining the provision for income taxes (see Note 2) and those relating to significant contracts as a result of applying IFRS 15 for the first time.

Area	Critical accounting judgements	Key sources of estimation uncertainty
Significant and complex contracts		
The Group, at times enters into significant and complex contracts with customers. These contracts may contain multiple elements including, but not limited to, an "installation" or "project phase" and an "in-life" or "managed service". Under IFRS 15, the number of performance obligations must be identified and the transaction price allocated to each of them based on their standalone selling price. Provided the "installation" phase represents a performance obligation, revenue is recognised on a stage of completion basis if there is an enforceable right to payments. Otherwise costs are capitalised on the balance sheet and subject to impairment during the "installation" phase and upon completion revenue is recognised and the costs are released.	The Directors are required to make judgements when identifying the number of performance obligations within a contract and, due to the bespoke nature of the contracts, when allocating the transaction price between performance obligations. For performance obligations satisfied over time, the Directors are required to make judgements in determining the stage of completion.	Taking into account the number of contracts entered into the Directors do not consider there to be any individual estimates made which could have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4. New accounting standards

4.1 Initial application of new standards, interpretations and amendments

The following accounting standards, interpretations and amendments have been adopted by the Group in the current period:

- IFRS 9 "Financial Instruments"
- IFRS 15 "Revenue from Contracts with Customers"
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration"
- Amendments to the following standards:
  - IAS 40 "Transfers of Investment Property"
  - IFRS 2 "Classification and Measurement of Share-based Payment Transactions"
  - IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"
  - Clarifications to IFRS 15 "Revenue from Contracts with Customers"
  - Improvements to IFRSs (2014 – 2016)

Notes to the unaudited interim financial information continued

4. New accounting standards continued

4.1 Initial application of new standards, interpretations and amendments continued

The above new and amended standards do not have a material effect on the Group except as described below:

IFRS 9 "Financial instruments"

In July 2014, the IASB issued IFRS 9 "Financial Instruments", which replaces IAS 39 "Financial Instruments – Recognition and Measurement". Application of the standard is mandatory for annual periods beginning on or after 1 January 2018. Transition to IFRS 9 for the Group took place on 1 April 2018 and in accordance with the transitional provisions of IFRS 9, comparative figures have not been restated.

IFRS 9 introduces three key changes when compared to IAS 39 relating to: the classification and measurement of financial assets and financial liabilities; impairment of financial assets; and general hedge accounting.

Upon adoption of IFRS 9, no change in the classification of financial assets has arisen because, at the date of transition, all financial assets of the Group were held at amortised cost under IAS 39 and continue to be held at amortised cost under IFRS 9. There has also been no change in the classification of financial liabilities since the classification and measurement requirements of IAS 9 have been largely retained under IFRS 9.

The financial asset impairment requirements of IFRS 9 introduce a forward-looking expected credit loss model which results in earlier recognition of credit losses than the incurred loss model of IAS 39. The Group has adopted the simplified approach to provide for losses on receivables and contract assets resulting from transactions within the scope of IFRS 15. Receivables and contract assets have been grouped based on shared credit risk characteristics and days past due and a provision rate matrix derived from historical information has been applied to estimate the expected credit losses.

Adoption of the expected credit loss model has not had a significant impact on the financial statements of the Group. The loss allowances for trade receivables and contract assets as at 31 March 2018 reconcile to the opening loss allowances on 1 April 2018 as follows:

	Trade receivables £'000s	Contract assets £'000s	Total £'000s
At 31 March 2018 (calculated under IAS 39)	1,308	-	1,308
Amounts restated through opening retained earnings	(250)	17	(233)
Opening loss allowance as at 1 April 2018 (calculated under IFRS 9)	1,058	17	1,075

Cash and cash equivalents are also subject to the impairment requirements of IFRS 9 but the identified impairment loss was immaterial.

The hedge accounting requirements of IFRS 9 have also been simplified and are more closely aligned to an entity's risk management strategy. The Group does not currently hedge account, however IFRS 9 introduces a new hedge accounting model which is optional to apply and is closer aligned to commercial activities, such that it may be applied in the future if deemed appropriate.

Notes to the unaudited interim financial information continued

4. New accounting standards continued

4.1 Initial application of new standards, interpretations and amendments continued

IFRS 15 “Revenue from contracts with customers”

In May 2014, the IASB issued IFRS 15 “Revenue from Contracts with Customers” which replaces IAS 11 “Construction Contracts” and IAS 18 “Revenue”. Application of the standard is mandatory for annual periods beginning on or after 1 January 2018 and requires the Group to use a five step approach to allocate the revenue earned from contracts to individual performance obligations on a relative stand-alone basis.

Transition to IFRS 15 for the Group took place on 1 April 2018 and in accordance with the transition provisions of the standard we have adopted IFRS 15 using the modified retrospective transition method. Consequently, the prior period comparatives have not been restated, and the full cumulative impact of applying this standard retrospectively had been reflected in an adjustment to equity at the date of transition. The following adjustments were made to amounts recognised on the balance sheet at the date of initial application:

Notes to the unaudited interim financial information continued

4. New accounting standards continued

4.1 Initial application of new standards, interpretations and amendments continued

	Audited as at 31 Mar 2018 IAS11/IAS18 IAS 39[1] £'000	IFRS 15 Unaudited Reclassi-fication £'000	IFRS 15 Unaudited Remeasure-ments £'000	IFRS 9 Unaudited Remeasure-ments £'000	Unaudited as at 1 Apr 2018 IFRS 15 IFRS 9 £'000
Assets					
Non-current assets					
Goodwill	51,372	-	-	-	51,372
Other intangible assets	36,816	-	-	-	36,816
Property, plant and equipment *(i)*	122,928	-	(1,495)	-	121,433
Investments	46	-	-	-	46
Deferred tax assets	4,376	-	-	-	4,376
Contract costs *(ii) (iii) (iv) (v) (vi)*	-	-	5,204	-	5,204
	215,538	-	3,709	-	219,247
Current assets					
Inventories	3,713	-	-	-	3,713
Contract assets *(i) (iv) (v) (viii)*	-	2,147	915	(17)	3,045
Trade and other receivables *(ii) (viii)*	53,568	(2,147)	(215)	250	51,456
Cash and cash equivalents	13,223	-	-		13,223
	70,504	-	700	233	71,437
Total assets	286,042	-	4,409	233	290,684
Liabilities					
Current liabilities					
Trade and other payables *(viii)*	(87,281)	17,446	-	-	(69,835)
Contract liabilities *(ii) (iv) (vi) (v) (viii)*	-	(17,446)	(4,274)	-	(21,720)
Finance leases	(1,722)	-	-	-	(1,722)
Provisions for other liabilities and charges	(471)	-	-	-	(471)
Non-current liabilities					
Bank loans	(73,821)	-	-	-	(73,821)
Retirement benefit obligations	(7,507)	-	-	-	(7,507)
Deferred tax liabilities *(vii)*	(8,016)	-	(23)	-	(8,039)
Finance leases	(285)	-	-	-	(285)
Provisions for other liabilities and changes	(5,746)	-	-	-	(5,746)
Total liabilities	(184,849)	-	(4,297)	-	(189,146)
Net assets	101,193	-	112	233	101,538
Equity					
Capital and reserves, attributable to owners of the parent					
Share capital	51,660	-	-	-	51,660
Share premium account	353,231	-	-	-	353,231
Accumulated losses	(303,698)	-	112	233	(303,353)
Total equity	101,193	-	112	233	101,538

[1] The amounts stated in this column are as reported and therefore before the adjustments from the adoption of IFRS 9 or IFRS 15.

4. New accounting standards continued

4.1 Initial application of new standards, interpretations and amendments continued

(i) Routers

Under previous accounting, routers were capitalised and the expense recognised as depreciation over the term of the contract. Under IFRS 15 we will treat routers as a discrete sale and performance obligation, and as a result these assets will no longer be capitalised and the cost will be recognised as an operating expense at the point control passes to the customer. Therefore transition to IFRS 15 resulted in the de-recognition of routers previously capitalised (£1.5 million) and the creation of a contract asset arising from the earlier revenue recognition for the sale of routers which were previously accounted for as part of a bundle (£2.0 million).

(ii) Connection fees

Under IFRS 15, connection fees are included in the transaction price and allocated to the performance obligations identified in the contract resulting in later recognition of revenue. Due to the timing of connection fee payments from customers a contract liability balance of £2.2 million has arisen upon transition to IFRS 15 and unbilled receivables has decreased by £0.1m. Costs of £0.9 million associated with these connection activities have been capitalised on the balance sheet as costs of fulfilling a contract and will be amortised over the term of the contract on a systematic basis in line with the recognition of revenue.

(iii) Costs of obtaining a contract

IFRS 15 requires an asset to be recognised for the incremental costs incurred in obtaining a contract which is then amortised over the period in which the corresponding benefit is received. Therefore upon transition an asset of £1.8 million was recognised relating to deferred customer acquisition costs (e.g. sales commissions). Under previous accounting treatment, these would have been expensed as incurred and thus application of IFRS 15 results in later recognition of selling expenses in the contract lifetime.

(iv) Multi-element contracts

IFRS 15 introduces a clear link between the value provided to a customer and the timing of revenue recognition. A small number of contracts have been identified within the Enterprise operating segment for which we have previously recognised revenue relating to professional services rendered during the 'project phase' of the contract, but under IFRS 15 it has been determined that in these specific instances, the 'project phase' did not represent a separate performance obligation. Therefore, depending on timing of customer payments, for each contract identified there has either been a reduction in contract assets (cumulative impact £0.7 million) or the creation of a contract liability balance (cumulative impact £0.5 million) upon transition to IFRS 15. In a similar manner to the costs associated with connection activities detailed above, professional services costs incurred during the 'project phase' of £0.9 million have been capitalised on the balance sheet as costs of fulfilling a contract. Revenue is being recognised and the fulfilment assets are being amortised on a straight-line basis over the “managed service” phase of the contracts.

(v) Enforceable right to payment

Generally, the 'project phase' in Enterprise contracts does represent a performance obligation and results in the creation of an asset with no alternative use to the Group. Therefore, provided we have an enforceable right to payment, under IFRS 15 we can recognise revenue over time using a suitable stage of completion methodology similar to the accounting treatment previously used. In limited circumstances, where we do not have an enforceable right to payment during the “project phase”, a difference in accounting treatment arises. IFRS 15 dictates that if we do not have an enforceable right to payment for performance completed to date then revenue should not be recognised over the project phase, but instead at the point in time that control of the asset transfers to the customer resulting in later recognition of revenue. Upon transition to IFRS 15, this has resulted in a decrease in contract assets of £0.4 million, an increase in contract liabilities of £0.1 million and the creation of a contract fulfilment assets of £0.5 million.

4. New accounting standards continued

4.1 Initial application of new standards, interpretations and amendments continued

(vi) Licences

The Group frequently enters into multi-element contracts with customers which may include the provision of third party licences. Under previous accounting the revenue associated with the licences was recognised at the point in time that the licences were provided to the customer. Under IFRS 15 we recognise that, for the supply of some licences, we have an ongoing obligation to the customer with respect to these licences as part of the managed service provided and thus we will recognise associated with the licence over the shorter of the contract term and the licence term. Upon transition to IFRS 15 this has resulted in a contract liability of £1.5 million, reduction in unbilled receivables of £0.1m and an asset relating to the cost of fulfilling the contracts of £1.1 million.

(vii) Deferred tax

Due to the changes in the pattern and timing of revenue and cost recognition under IFRS 15, and remeasurements resulting in revenue and costs moving between past and future periods, the principles of IAS 12 give rise to a movement in the deferred tax liability due to temporary timing differences. In addition, a permanent difference arises from the derecognition of routers as capital assets. The net impact is negligible.

(viii) Presentation of contract assets and contract liabilities

The Group has voluntarily changed the presentation of certain amounts in the consolidated balance sheet to reflect the terminology of IFRS 15:

- Contract assets of £2.1 million in relation to incomplete projects where we do not have an unconditional right to consideration have been reclassified upon transition from trade and other receivables; and
- Contract liabilities of £17.4 million which were previously presented as deferred income within trade and other payables are now being presented separately on the balance sheet.

Comparative figures for the items of the financial statements affected by the first-time adoption of IFRS 15 and IFRS 9

The following tables present the consolidated income statement and the consolidated balance sheet as at 30 September 2018 in accordance with IFRS 15 and IFRS 9 as well as the previous accounting treatment in accordance with IAS 11/IAS 18, IAS 39 and related interpretations along with an explanation of the movements in balances:

Notes to the unaudited interim financial information continued

4. New accounting standards continued

4.1 Initial application of new standards, interpretations and amendments continued

Consolidated interim income statement

	Unaudited six months ended 30 Sept 2018 as reported IFRS 15 IFRS 9 £'000	Unaudited six months ended 30 Sept 2018 under IAS11/IAS18 IAS 39 £'000	Change £'000
Revenue	**141,983**	143,387	(1,404)
Operating expenses	**(161,699)**	(162,833)	1,134
Operating loss	**(19,716)**	(19,446)	(270)
Finance costs	**(1,293)**	(1,293)	-
Share of profit of associates	**8**	8	-
Loss before tax	**(21,001)**	(20,731)	(270)
Tax	**(375)**	(469)	94
Loss for the period attributable to owners of the parent	**(21,376)**	(21,200)	(176)

Operating loss analysed as:			
EBITDA before exceptional items	**29,039**	30,459	(1,420)
Exceptional charges	**(33,761)**	(33,761)	-
Depreciation of property, plant and equipment	**(7,790)**	(8,940)	1,150
Amortisation of intangible assets	**(7,204)**	(7,204)	-
Operating loss	**(19,716)**	(19,446)	(270)

Without the effect of IFRS 15, revenue would have amounted to £143.4 million, £1.4 million higher than reported. The most significant item contributing to this is the recognition of agency relationships. The guidance in IFRS 15 for the distinction between an agent and a principal is based on the concept of 'control' which differs to the previously applied notion of transfer of 'risks and rewards'. This has resulted in a reduction of revenue of £1.8 million within the Enterprise market segment due to sales previously recognised gross of costs being recognised net of costs under IFRS 15 as 'agency' revenue. The impact of this item is £Nil at operating loss, EBITDA and loss before tax. This has been partially offset by a £0.5 million increase in revenue resulting from the timing of project completion in instances where we did not have an enforceable right to payment during the project.

Application of IFRS 15 has also resulted in a decrease in EBITDA of £1.4 million, largely attributable to the change in accounting treatment for routers. Under previous accounting treatment, routers were capitalised and the expense recognised as depreciation over the term of the contract. Under IFRS 15 we will treat routers as a discrete sale and performance obligation, and as a result these assets will no longer be capitalised and the cost will be recognised as an operating expense at the point control passes to the customer. This reclassification of costs and the change in timing of revenue recognition mainly impacts our Hull & East Yorkshire market segment resulting in a reduction of segmental EBITDA of £0.9 million. The overall impact on Group EBITDA is £1.1 million, but the impact at operating loss and loss before tax is negligible due to a reduction in depreciation of £1.2 million.

4. New accounting standards continued

4.1 Initial application of new standards, interpretations and amendments continued

The impact of these factors is summarised below:

	Revenue £'000	EBITDA £'000	Loss before tax £'000s
Unaudited six months ended 30 Sept 2018 under IAS11/IAS18 and IAS 39	143,387	30,459	(20,731)
Agency relationships	(1,765)	-	-
Routers	(249)	(1,136)	14
Enforceable right to payment	460	19	19
Other	150	(303)	(303)
Unaudited six months ended 30 Sept 2018 as reported under IFRS 15 and IFRS 9	**141,983**	**29,039**	**(21,001)**

The other category relates to the cumulative impact of the following factors described in Note 4.1:

- connection fees;
- costs of obtaining a contract;
- multi-element contracts licences; and
- application of the forward-looking expected credit loss model.

Notes to the unaudited interim financial information continued

4. New accounting standards continued

4.1 Initial application of new standards, interpretations and amendments continued

Consolidated balance sheet

	Unaudited as at 30 Sep 2018 as reported IFRS 15 IFRS 9 £'000	Unaudited as at 30 Sep 2018 under IAS11/IAS18 IAS 39 £'000	Change £'000
Assets			
Non-current assets			
Goodwill	**19,125**	19,125	-
Other intangible assets	**33,498**	33,498	-
Property, plant and equipment	**127,211**	128,443	(1,232)
Investments	**54**	54	-
Retirement benefit asset	**6,167**	6,167	-
Deferred tax assets	**5,134**	5,134	-
Contract costs	**4,398**	-	4,398
	195,587	192,421	3,166
Current assets			
Inventories	**3,558**	3,558	-
Contract assets	**3,390**	-	3,390
Trade and other receivables	**57,310**	60,206	(2,896)
Cash and cash equivalents	**9,713**	9,713	-
	73,971	73,477	494
Total assets	**269,558**	265,898	3,660
Liabilities			
Current liabilities			
Trade and other payables	**(50,991)**	(63,734)	12,743
Contract liabilities	**(16,305)**	-	(16,305)
Bank overdrafts	**(3,102)**	(3,102)	-
Finance leases	**(1,170)**	(1,170)	-
Provisions for other liabilities and charges	**(434)**	(434)	-
Non-current liabilities			
Bank loans	**(113,989)**	(113,989)	-
Retirement benefit obligations	**(3,138)**	(3,138)	-
Deferred tax liabilities	**(9,722)**	(9,793)	71
Provisions for other liabilities and changes	**(5,588)**	(5,588)	-
Total liabilities	**(204,439)**	(200,948)	(3,491)
Net assets	**65,119**	64,950	169
Equity			
Capital and reserves, attributable to owners of the parent			
Share capital	**51,660**	51,660	-
Share premium account	**353,231**	353,231	-
Accumulated losses	**(339,772)**	(339,941)	169
Total equity	**65,119**	64,950	169

Notes to the unaudited interim financial information continued

4. New accounting standards continued

4.1 Initial application of new standards, interpretations and amendments continued

Upon application of IFRS 15, non-current assets have increased by £3.2 million in part due to the first time recognition of contract costs i.e. costs of obtaining and costs of fulfilling a contract of £4.4 million. Previous accounting treatment would have resulted in earlier costs recognition with these costs generally being recognised as incurred. This impact is offset by the derecognition of routers from property, plant and equipment of £1.2 million because under IFRS 15 these are being treated as a discrete sale and performance obligation satisfied at the point in time when the router is delivered to the customer**.**

Current assets are £0.5 million higher under IFRS 15 due to the recognition of a contract asset for the sale of routers £1.8 million. This is offset by a reduction in contract assets of £0.6 million arising from the de-recognition of revenue for specific contracts where the project phase has not been identified as a performance obligation under IFRS 15. This is also offset by the release of unbilled receivables (£0.7 million) in relation to: connection activities which we have concluded do not represent a performance obligation; and licences where we have concluded that we have an ongoing obligation and thus should not recognise all of the revenue attributable to the licence at the point in time that it is delivered to the customer.

Current liabilities have increased by £3.6 million due to the deferral of connection revenue of £1.9 million, the deferral of licence revenue of £1.2 million and the deferral of “project phase” revenue of £0.5 million.

The difference in the amounts recognised under deferred tax liabilities (£0.1 million) are due to the remeasurement effects in connection with the first-time and continuing application of IFRS 15 in the period to 30 September 2018.

Due to the change in terminology of IFRS 15 and IFRS 9, there has also been a reclassification of certain balances:

- £2.2 million from trade and other receivables to contract assets; and
- £12.7 million from trade and other payables to contract liabilities**.**

4.2 Standards, interpretations and amendments issued but not yet adopted by the Group

The following accounting standards, interpretations and amendments have been issued by the IASB but had either not been adopted by the European Union or were not yet effective in the European Union at 29 June 2018:

- IFRS 16 Leases
- IFRS 17 Insurance Contracts
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to the following standards:
  − IAS 19 Plan Amendment, Curtailment or Settlement
  − IAS 28 Long-term Interests in Associates and Joint Ventures
  − IFRS 9 Prepayment Features with Negative Compensation
  − Improvements to IFRSs (2015 – 2017)
  − References to the Conceptual Framework

Of these new standards, interpretations and amendments, only IFRS 16 is expected to have a material impact on the Group’s financial statements:

IFRS 16 “Leases”

IFRS 16 replaces IAS 17 “Leases” and will primarily change lease accounting for lessees. Lessor accounting under IFRS 16 is expected to be similar to IAS 17.

Notes to the unaudited interim financial information continued

4. New accounting standards continued

4.2 Standards, interpretations and amendments issued but not yet adopted by the Group continued

For lessees, an operating lease arrangement will give rise to the recognition of a non-current asset representing the right to use the leased item and a loan obligation for future lease payables. Lease costs will be recognised in the form of depreciation of the right to use assets and interest on the lease liability.

This new standard will be applicable to the Group for the year ended 31 March 2020. The Group is continuing to assess the impact of IFRS 16, which is expected to have an impact on the consolidated income statement and the consolidated balance sheet. We are yet to quantify this impact.

Transition to IFRS 16 will take place on 1 April 2019. In accordance with the standard we intend to apply the standard retrospectively with the cumulative effect of initial application being recognised as an adjustment to retained earnings. Under this method of transition, comparative information will not be restated.

5. Segmental analysis

The Group's operating segments are based on the reports reviewed by the KCOM Group PLC Board which are used to make strategic decisions. The chief operating decision-maker of the Group is the KCOM Group PLC Board.

The Board considered three "go to market" segments, Hull & East Yorkshire, Enterprise and National Network Services, along with a Central segment. These segments are consistent with those presented in our Annual report and accounts for the year ended 31 March 2018.

	Revenue			**EBITDA**		
	Unaudited six months ended 30 Sept 2018 £'000	Unaudited six months ended 30 Sept 2017 £'000	Audited year ended 31 Mar 2018 £'000	**Unaudited six months ended 30 Sept 2018 £'000**	Unaudited six months ended 30 Sept 2017 £'000	Audited year ended 31 Mar 2018 £'000
Before exceptional items						
Hull & East Yorkshire	**50,779**	51,057	104,216	**29,602**	30,507	65,660
Enterprise	**42,627**	43,847	88,285	**4,135**	(813)	5,115
National Network Services	**50,081**	58,439	113,212	**609**	5,806	9,021
Central	**(1,504)**	(2,035)	(3,815)	**(5,307)**	(5,720)	(11,526)
Total before exceptional items	**141,983**	151,308	301,898	**29,039**	29,780	68,270
Exceptional items						
Hull & East Yorkshire	**-**	-	-	**12**	(109)	(357)
Enterprise	**-**	-	-	**(613)**	(91)	(591)
National Network Services	**-**	-	-	**(32,510)**	1,735	2,059
Central	**-**	-	-	**(650)**	(332)	(388)
Total	**-**	-	-	**(33,761)**	1,203	723
Total after exceptional items	**141,983**	151,308	301,898	**(4,722)**	30,983	68,993

Notes to the unaudited interim financial information continued

5. Segmental analysis continued

A reconciliation of EBITDA to total (loss)/profit before tax is provided as follows:

	Unaudited six months ended 30 Sept 2018 £'000	Unaudited six months ended 30 Sept 2017 £'000	Audited year ended 31 Mar 2018 £'000
EBITDA post exceptional items	**(4,722)**	30,983	68,993
Depreciation	**(7,790)**	(7,971)	(16,906)
Amortisation	**(7,204)**	(7,124)	(15,651)
Finance costs	**(1,293)**	(1,070)	(2,399)
Share of profit of associates	**8**	7	12
(Loss)/profit before tax	**(21,001)**	14,825	34,049

The table below shows revenue disaggregated by segment and nature:

	Unaudited six months ended 30 Sept 2018 £'000	Unaudited six months ended 30 Sept 2017 £'000	Audited year ended 31 Mar 2018 £'000
Revenue			
Hull & East Yorkshire:			
Consumer	**29,958**	28,812	58,415
Business	**14,984**	14,361	30,531
Wholesale	**4,734**	5,289	10,828
Media	**964**	1,206	1,912
Contact Centres	**139**	1,389	2,530
Total Hull & East Yorkshire	**50,779**	51,057	104,216
Enterprise:			
Projects	**13,770**	15,701	30,065
Managed Service	**22,366**	21,525	45,224
Network	**6,491**	6,621	12,996
Total Enterprise	**42,627**	43,847	88,285
National Network Services:			
Connectivity	**31,822**	34,049	68,102
Voice	**12,327**	16,423	30,497
Hosting	**3,379**	3,677	7,331
Managed Service	**2,065**	2,898	5,055
Other	**488**	1,392	2,227
Total National Network Services	**50,081**	58,439	113,212
Central	**(1,504)**	(2,035)	(3,815)
Group total	**141,983**	151,308	301,898

Notes to the unaudited interim financial information continued

5. Segmental analysis continued

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

	Unaudited six months ended 30 Sept 2018 £'000	Unaudited six months ended 30 Sept 2017 £'000	Audited year ended 31 Mar 2018 £'000
Revenue from external customers			
Hull & East Yorkshire	**49,275**	49,022	100,375
Enterprise	**42,627**	43,847	88,285
National Network Services	**50,081**	58,439	113,212
Central	**-**	-	26
Total	**141,983**	151,308	301,898
Inter-segment revenue			
Hull & East Yorkshire	**1,504**	2,035	3,841
Central	**(1,504)**	(2,035)	(3,841)
Total	**-**	-	-
Group total	**141,983**	151,308	301,898

6. Exceptional items

Exceptional items are separately disclosed by virtue of their size or incidence to improve the understanding of the Group's financial performance.

	Notes	**Unaudited six months ended 30 Sept 2018 £'000**	Unaudited six months ended 30 Sept 2017 £'000	Audited year ended 31 Mar 2018 £'000
- Regulatory matters		**-**	(1,918)	(2,361)
Credited to income statement		**-**	(1,918)	(2,361)
- Impairment of goodwill	11	**32,247**	-	-
- Restructuring costs		**1,514**	715	1,638
Charged to income statement		**33,761**	715	1,638
Net charge/(credit) to income statement		**33,761**	(1,203)	(723)

The Directors continue to recognise the need to differentiate costs incurred outside the normal course of business from the underlying trading performance.

In accordance with IAS 36, the goodwill allocated to the National Network Services segment was tested for impairment after the Directors deemed the performance of the segment in the period to be an indication of impairment. The impairment test resulted in the full impairment of goodwill allocated to the National Network Services segment and as such a charge of £32.2 million has been recognised in the consolidated income statement. This is a non-cash item and is treated as exceptional in line with our accounting policy. See Note 11 for further details.

6. Exceptional items continued

During the period exceptional restructuring costs of £1.5 million were incurred (six months ending 30 September 2017: £0.7 million). Management scrutinises all restructuring costs on a line by line basis to determine whether they meet the exceptional criteria. During the period restructuring costs were incurred in relation to three main areas:

- Termination and recruitment costs associated with Executive Directors (£0.6 million). In line with the Group's accounting policy these costs are always classified as exceptional.
- Transformation of project delivery capability (£0.4 million). The Group has undertaken a discrete project designed to improve and de-risk our delivery of complex customer contracts. The transformation will enable us to deliver in-flight and future contracts more profitably and help avoid a reoccurrence of the losses on specific contracts incurred in prior years. Costs were also incurred in relation to this project in the prior year. We now consider this project to be complete.
- Transformation of central functions (£0.5 million). The Group has completed the process of centralisation of the technical and customer support teams into centres of excellence designed to provide an improved customer experience, which commenced in the prior year. The Group has also begun a structural re-organisation of its Product and Propositions teams to help design and create new offerings for the go-to-market segments, which is scheduled to complete in the second half of this financial year.

In the six months ended 30 September 2017, the Group recorded an exceptional credit of £1.9 million relating to regulatory matters. The credit resulted from an industry wide settlement which arose as a result of a breach in BT Openreach's contractual and regulatory obligations relating to compensation for misapplying 'Deemed Consent'.

The combined effect of these items is a credit of £0.3 million (6 months ending 30 September 2017: charge of £0.2 million) in respect of current tax and a credit of £1.6 million (6 months ending 30 September 2017: £Nil) in respect of deferred tax.

Cash flow impact of exceptional items was an outflow of £1.7 million (6 months ending 30 September 2017: £1.8 million). The impact on working capital of exceptional items was an outflow of £0.2 million (6 months ending 30 September 2017: outflow of £1.1 million).

7. Finance costs

	Unaudited six months ended 30 Sept 2018 £'000	Unaudited six months ended 30 Sept 2017 £'000	Audited year ended 31 Mar 2018 £'000
Bank loans, overdrafts and other loans	**1,053**	593	1,583
Retirement benefit obligations	**66**	220	389
Finance lease and hire purchase contracts	**19**	40	69
	1,138	853	2,041
Amortisation of loan arrangement fees	**155**	217	234
Provision: unwind of discount	**-**	-	124
Total	**1,293**	1,070	2,399

8. Tax

Taxes on income in interim periods are accrued using the tax rate that would be applicable to the expected total annual earnings. The Group's effective rate is -2% (2017: 19%). The effective rate is 18% if the impact of the goodwill impairment is excluded.

9. (Loss)/earnings per share

	Unaudited six months ended 30 Sept 2018 Number	Unaudited six months ended 30 Sept 2017 Number	Audited year ended 31 Mar 2018 Number
Weighted average number of shares			
For basic earnings per share	**511,525,870**	510,987,620	511,133,847
Share options in issue	**5,299,156**	5,327,084	4,730,273
For diluted earnings per share	**516,825,026**	516,314,704	515,864,120
	£'000	£'000	£'000
Earnings			
(Loss)/profit attributable to equity holders of the company	**(21,376)**	12,022	27,478
Adjustments:			
Exceptional items	**33,761**	(1,203)	(723)
Tax on exceptional items	**(1,862)**	229	137
Adjusted profit attributable to equity holders of the company	**10,523**	11,048	26,892
	Pence	Pence	Pence
(Loss)/earnings per share			
Basic	**(4.18)**	2.35	5.38
Diluted	**(4.18)**	2.33	5.33
Adjusted basic	**2.06**	2.16	5.26
Adjusted diluted	**2.04**	2.14	5.21

Notes to the unaudited interim financial information continued

10. Dividends

	Unaudited six months ended 30 Sept 2018 £'000	Unaudited six months ended 30 Sept 2017 £'000	Audited year ended 31 Mar 2018 £'000
Final dividend for the year ended 31 March 2017 of 4.00 pence per share	**-**	20,664	20,664
Interim dividend for the year ended 31 March 2018 of 2.00 pence per share	**-**	-	10,332
Final dividend for the year ended 31 March 2018 of 4.00 pence per share	**20,664**	-	-
Total	**20,664**	20,664	30,996

The proposed interim dividend for the six months ended 30 September 2018 is 1.00 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 these financial statements.

11. Goodwill

	Total £'000
Cost	
At 1 April 2018 (audited) and 30 September 2018 (unaudited)	**85,272**
Provisions for impairment	
At 1 April 2018 (audited)	33,900
Charge for the period	32,247
At 30 September 2018 (unaudited)	**66,147**
Net book value	
At 30 September 2018 (unaudited)	**19,125**
At 1 April 2018 (audited)	51,372

Goodwill acquired in a business combination is allocated at the date of acquisition to the cash generating unit (CGU) that is expected to benefit from that business combination.

CGUs represent the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other groups of assets. As in previous years, KCOM's CGUs are based on customer type and geographic service location.

Goodwill is tested annually for impairment, or more frequently if there are indications that goodwill may be impaired. The Directors considered that the performance of the National Network Services segment in the period was an indicator that the goodwill allocated to this segment may have been impaired and therefore a test for impairment was undertaken. The Directors did not consider that there were any indicators of impairment relating to the goodwill allocated to the Enterprise segment.

For the National Network Services segment the recoverable amount of the CGU was determined from a value in use calculation. The key assumptions for the value in use calculation relate to forecast cash flows, discount rate and growth rate. The Directors estimated the discount rate using a pre-tax rate that reflects current market assessments of the time value of money and the level of risk. The growth rate reflects the long-term growth rate prospects for the UK economy. The estimates used within the value in use calculation takes into account historical experience and the Board's estimate of future events.

Notes to the unaudited interim financial information continued

11. Goodwill continued

The discount rate and growth rate (in perpetuity) used for value in use calculations are as follows:

	Unaudited as at 30 Sep 2018	Audited as at 31 Mar 2018
Discount rate (pre-tax)	**8.2**	9.4
Growth rate (in perpetuity) %	**1.0**	2.0

The cash flow forecast was prepared by adjusting the Board approved operating budget to reflect operational and market changes that have arisen since the last impairment review. The forecast covers a five year period and an appropriate extrapolation of cash flows beyond this.

The results of our impairment test indicated that an impairment for the full value of goodwill allocated to National Network Services segment, £32,247,000 (31 March 2018: £Nil), was required. The impairment loss has been treated as an exceptional item

Following the Group's impairment charge, the carrying amount of goodwill of £19,125,000 (31 March 2018: £51,372,000) is allocated as follows:

CGUs	**Unaudited as at 30 Sep 2018 £'000s**	Unaudited as at 30 Sep 2017 £'000s	Audited as at 31 Mar 2018 £'000s
Enterprise	**19,125**	19,125	19,125
National Network Services	**-**	32,247	32,247
Total	**19,125**	51,372	51,372

12. Retirement benefit asset/(obligation)

The net post-retirement scheme surplus as at 30 September 2018 is calculated on a year to date basis, using the most recent formal triennial actuarial valuation for 31 March 2016, updated to 30 September 2018.

The Group operates two schemes; Kingston Communications Pension Scheme and Kingston Communications (Data) Pension Scheme referred to in this disclosure as the main scheme and the data scheme respectively.

Movements in the net post-retirement position recognised in the balance sheet were as follows:

Reconciliation of funded status to balance sheet

	Main Scheme £'000	**Data Scheme £'000**	**Total £'000**
At 1 April 2018 (audited)	**(2,719)**	**(4,788)**	**(7,507)**
Net finance costs	(14)	(52)	(66)
Net administrative expenses	(295)	(90)	(385)
Contributions by employer	1,219	167	1,386
Deficit repair payments	2,340	1,157	3,497
Remeasurements of retirement benefit obligations	5,636	468	6,104
At 30 September 2018 (unaudited)	**6,167**	**(3,138)**	**3,029**

Notes to the unaudited interim financial information continued

12. Retirement benefit asset/(obligation) continued

Comprised of:

	Main Scheme £'000	Data Scheme £'000	Total £'000
At 30 September 2018 (unaudited)			
Present value of defined benefit obligations	(210,613)	(37,855)	(248,468)
Fair value of plan assets	216,780	34,717	251,497
Surplus/(deficit)	**6,167**	**(3,138)**	**3,029**
At 31 March 2018 (audited)			
Present value of defined benefit obligations	(221,282)	(40,502)	(261,784)
Fair value of plan assets	218,563	35,714	254,277
Deficit	**(2,719)**	**(4,788)**	**(7,507)**

Main financial assumptions:

Main scheme

	Unaudited six months ended 30 Sept 2018 %	Unaudited six months ended 30 Sept 2017 %	Audited year ended 31 Mar 2018 %
RPI Inflation	**3.20**	3.15	3.10
CPI Inflation	**2.20**	2.15	2.10
Rate of increase to pensions in payment	**2.01**	1.97	1.93
Discount rate for scheme liabilities	**2.80**	2.60	2.50

Data scheme

	Unaudited six months ended 30 Sept 2018 %	Unaudited six months ended 30 Sept 2017 %	Audited year ended 31 Mar 2018 %
RPI Inflation	**3.20**	3.15	3.10
CPI Inflation	**2.20**	2.15	2.10
Rate of increase to pensions in payment	**3.80**	3.78	3.78
Discount rate for scheme liabilities	**2.80**	2.60	2.50

Notes to the unaudited interim financial information continued

13. Movement in net debt

	Unaudited six months ended 30 Sept 2018 £'000	Unaudited six months ended 30 Sept 2017 £'000	Audited year ended 31 Mar 2018 £'000
Opening net debt	**(62,605)**	(42,433)	(42,433)
Closing net debt	**(108,548)**	(67,804)	(62,605)
Increase in the period	**(45,943)**	(25,371)	(20,172)
Reconciliation of movement in the period			
Net cash flow from operations	**(6,363)**	13,559	54,498
Cash capital expenditure[1]	**(18,237)**	(18,635)	(43,935)
Proceeds on sale of property, plant and equipment	**-**	53	517
Interest	**(1,048)**	(516)	(1,601)
Dividends	**(20,664)**	(20,664)	(30,996)
Purchase of ordinary shares	**(300)**	(150)	(450)
Finance leases[2]	**837**	1,074	2,029
Other	**(168)**	(92)	(234)
Increase in the period	**(45,943)**	(25,371)	(20,172)

[1] For definition of cash capital expenditure see glossary.
[2] Represents the movement in finance lease liabilities during the period.

Net debt comprises:

	Unaudited six months ended 30 Sept 2018 £'000	Unaudited six months ended 30 Sept 2017 £'000	Audited year ended 31 Mar 2018 £'000
Cash and cash equivalents (including bank overdrafts)	**6,611**	8,837	13,223
Bank loans (net of debt issue costs)	**(113,989)**	(73,679)	(73,821)
Finance leases	**(1,170)**	(2,962)	(2,007)
Total net debt	**(108,548)**	(67,804)	(62,605)

The Group's bank facilities comprise a multi-currency revolving credit facility of £180.0 million, provided by a group of four core relationship banks. The facility matures in December 2021.

14. 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 information does 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 2018. There have been no changes in the Group's risk management processes or policies since the year end.

14. Financial risk management and financial instruments continued

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;

1. Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
2. 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)
3. Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Consistent with the March 2018 year end, all of the Group's financial instruments fall into hierarchy level 2.

15. Related party transactions

There are no material related party transactions.

16. Post balance sheet events

KCOM Group plc's defined benefit pension schemes

On 26 October, the High Court handed down a judgement involving the Lloyds Banking Group's defined benefit pension schemes. The judgement concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgement arise in relation to many other defined benefit pension schemes. We are working with the trustees of our pension schemes, and our actuarial and legal advisers, to understand the extent to which the judgement crystallises additional liabilities for KCOM Group PLC's pension schemes. The impact of this on KCOM Group PLC's pension schemes is currently being evaluated but for typical schemes it is estimated to be between 0% and 4% of total scheme liabilities.

17. Statement of directors' responsibilities

The Directors confirm that this condensed interim financial information has been prepared in accordance with IAS 34 as adopted by the European Union and the guidance set out in the Accounting Standards Board's 2007 Statement Half-Yearly Reports.

The Directors also confirm 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 2018 Annual report and accounts.

The Directors of KCOM Group PLC are listed in the KCOM Group Annual report and accounts for the year ended 31 March 2018 with the exception of Graham Sutherland who was appointed as Chief Executive on 15 October 2018.

Signed by Order of the Board on 27 November 2018 by:

Glossary

Alternative Performance Measures

In response to the Guidelines on Alternative Performance Measures (APMs) issued by the European Securities and Markets Authority (ESMA), we have provided additional information on the APMs used by the Group. The Directors use the APMs listed below as they are critical to the understanding of the financial performance of the Group. As they are not defined by IFRS, they may not be directly comparable with other companies who use similar measures.

Measures	Closest equivalent IFRS measure	Definition and purpose	Reconciliation to closest equivalent IFRS measure
Profit measures			
EBITDA before exceptional items ('EBITDA')	Profit/Loss before tax	EBITDA before exceptional items is the key measure used by management to monitor the underlying performance of the Group. EBITDA before exceptional items is also reported to the Board, is incorporated in banking covenants and is an important measure for setting remuneration. EBITDA before exceptional items is important to the users of the accounts as it assists with comparing performance from previous periods. The items classified as exceptional items are described in Note 6. EBITDA before exceptional items is defined as 'profit before tax' before share of profit before associates, finance costs, amortisation, depreciation and exceptional items.	Loss before tax as quoted in the consolidated income statement (£21.0 million), add back finance costs (£1.3 million) as quoted on the consolidated income statement, less share of profit of associate (£0.0 million) as quoted on the consolidated income statement, add back depreciation and amortisation (£15.0 million) as quoted on the consolidated cash flow statement, add back exceptional charge (£33.8 million) as quoted in Note 6.
Profit before tax before exceptional items	Profit/Loss before tax	Profit before tax before exceptional items provides an additional metric for analysising the underlying profitability of the Group. It also assists the comparison between periods.	Loss before tax as quoted in the consolidated income statement (£21.0 million) add back exceptional charge (£33.8 million) as quoted in Note 6.
Adjusted basic earnings per share	Basic earnings per share	This provides additional information regarding earnings per share attributable to the underlying activities of the business. Basic earnings per share based upon profit after tax adjusted for the impact of exceptional items.	A reconciliation of this measure is provided in Note 9 of the interim financial information.
Adjusted diluted earnings per share	Diluted earnings per share	This provides additional information regarding diluted earnings per share attributable to the underlying activities of the business. Diluted earnings per share based upon profit after tax adjusted for the impact of exceptional items.	A reconciliation of this measure is provided in Note 9 of the interim financial information.

Glossary continued

Alternative Performance Measures continued

Measures	**Closest equivalent IFRS measure**	**Definition and purpose**	**Reconciliation to closest equivalent IFRS measure**
Cash flows and net debt measures			
Net debt	Cash and cash equivalents, bank overdrafts, finance leases (current and non-current) and bank loans	Net debt is important as it allows management to assess available funds by calculating how much headroom there is within the Group's borrowing facilities. It is used in the monitoring, reporting and planning of cash flows, and for the purpose of monitoring compliance with the terms of the Group's facilities. Net debt to EBITDA is a key ratio used by external stakeholders. Net debt is cash and cash equivalents, bank overdrafts, finance leases (current and non-current) and bank loans.	A reconciliation of this measure is provided in Note 13 of the interim financial information.
Cash capital expenditure	Net cash used in investing activities	A proportion of our capital expenditure is obtained under financing arrangements therefore, compared to capital additions, this measure allows management to monitor, report and plan the cash flows relating to capital projects. This measure is important to the users of the accounts as it provides the outflow of cash expenditure in the current year relating to assets purchased in the current and prior years. Cash capital expenditure is net cash used in investing activities before proceeds from sale of property, plant and equipment plus capital element of finance lease repayments.	Reported in the consolidated cash flow statement: Net cash used in investing activities (£17.4 million) add back proceeds from sale of property, plant and equipment (£0.0 million) plus capital element of finance lease repayments (£0.9 million).

Independent review report to KCOM Group PLC

Report on the interim financial information

Our conclusion

We have reviewed KCOM Group PLC's interim financial information (the "interim financial statements") in the half-yearly report of KCOM Group PLC for the 6 month period ended 30 September 2018. 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 Guidance and Transparency Rules sourcebook 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 2018;
- the consolidated interim income statement and consolidated interim 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 interim financial statements.

The interim financial statements included in the half-yearly report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.
As disclosed in Note 1 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 information and the review

Our responsibilities and those of the directors

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

Our responsibility is to express a conclusion on the interim financial statements in the half-yearly 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 Guidance and Transparency Rules sourcebook 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 information 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.

Independent review report to KCOM Group PLC continued

Report on the interim financial information continued

What a review of interim financial information involves continued

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) 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 half-yearly report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
London
27 November 2018