Finding new and better ways to connect people

KCOM Group PLC

Annual report and accounts 2013/14

Registered number: 2150618

Better ways to connect people

KCOM Group is a leading provider of communications services to organisations and consumers.

We apply the collective knowledge and expertise of our people and our partners to help customers harness the power of communications.

Highlights of our year

- Group performance in line with expectations
- Strengthening competitive position in target markets
- Continued successful fibre deployment in Hull and East Yorkshire
- Growing reputation across key strategic areas
- Full year dividend of 4.88 pence per share, an increase of 10 per cent
- Strong funding and cash generation providing scope for selective investment options

Revenue £m

£370.7m ↓ 0.6%

2014	**370.7**
2013	372.9

Profit before tax[1] £m

£49.9m ↓ 0.2%

2014	**49.9**
2013[2]	50.0

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EBITDA[1] £m

£75.3m ↑ 0.5%

2014	**75.3**
2013[2]	74.9

Operating profit[1] £m

£55.0m ↓ 0.4%

2014	**55.0**
2013[2]	55.2

Net debt £m

£75.0m ↓ 15%

2014	**75.0**
2013	88.2

Proposed full year dividend per share[3] p

4.88p ↑ 10%

2014	**4.88**
2013	4.44

1. Before exceptionals.
2. 2013 restated to reflect the impact of the revised IAS 19 standard.
3. Actual proposed full year dividend is 4.884p per share.

Strategic report

Directors' report

Financial statements

KCOM Group is the partner of choice for consumers and organisations wanting to harness the power of communications

Our strategic vision is to passionately pursue better ways to connect people and to deliver inspiring customer experiences

Our strategic pillars

Customers

People

Partners

Processes and systems

14 See also
Our strategy

Our ambition

To become an acknowledged leader in the markets we serve and an automatic partner of choice for consumers and organisations in those markets.

We provide communications services to organisations and consumers

We report our activities under two segments

KC segment

Consumers, businesses and public sector organisations in the Hull and East Yorkshire region
Telecommunications and internet-based services

Kcom segment

UK-based businesses and public sector organisations
Communications solutions to support business goals

7 See also
Our business model

Our key partners

- Amazon Web Services
- Avaya
- BT
- Cisco
- Cobweb
- Comms-Care
- ForgeRock
- IBM
- Microsoft

We operate responsibly – the way we do business is as important as what we do

Our focus for Corporate Responsibility (CR)

Community

People

Environment

Supply chain

24 See also Corporate responsibility

Employees by gender (as at 31 March 2014)

1,900 people

37% Female

63% Male

We serve customers across the UK from eight office locations

Our main office locations

1. Brighton
2. Exeter
3. Hemel Hempstead
4. Hull
5. Ipswich
6. London
7. Reading
8. Wakefield

Some of our customers

- Admiral Group
- ASDA
- Association of Train Operating Companies
- Aviva
- Domino's Pizza
- Dorset PSN
- East Midlands PSN
- HM Revenue & Customs
- Molson Coors
- Morrisons
- National Farmers Union Mutual
- Phones4u
- RNLI
- RSPB
- United Utilities
- Visa

The growing role of technology

At KCOM Group, we believe we have a significant opportunity to help people and organisations harness the power of technology. We create services to satisfy the requirements of the markets we serve by:

- Monitoring future trends in technology and business
- Listening to our customers' plans and needs
- Designing and shaping the services we can offer now, and in the future

Technology plays an increasing role in business and everyday life. We live in an always-on, 24/7 connected society. At home, activities such as internet shopping and online gaming are part of day-to-day life. At work, the way organisations and the people within them interact and collaborate has changed significantly. We are increasingly dependent on being able to harness the power of communications technologies.

Using the capabilities of our Group and its partners we can help people and organisations harness that technological power by creating services that satisfy the varied requirements of the markets we serve. By monitoring future trends in technology and business, and by listening to our customers' plans and needs, we design and shape the services we can offer now and in the future.

The rise of the data hungry household
Over the past five years, demand for faster broadband speeds and data usage has grown dramatically, and it's easy to see why. With more and more households owning multiple devices – tablets, computers, games consoles and smart TVs – there is a constant stream of data flowing into and out of the home.

Alongside this, we have become used to accessing services like Netflix and YouTube, where the speed and download capacity of our internet connection is key. This is driving demand for faster and faster broadband services.

Looking to the future, with more devices and services set to join this online world – including telehealth for monitoring patients in their own homes and smart appliances which send data back to an external organisation, as with smart metering services – the thirst for bandwidth and superfast internet is set to continue.

Building better businesses
Today connectivity is crucial for businesses of all sizes. The internet has made the world a much smaller place and businesses now have to contend not only with traditional bricks and mortar based operations but also lower cost, internet-based competition in the UK and abroad.

For the small enterprise owner, balancing the need to focus on growing business with being able to access a range of technologies can be a challenge. Much like consumers, they want bundled solutions that can deliver all their communications needs. Having access to customer and technical support is also vital, as small organisations typically have limited specialist in-house IT resource.

For larger organisations, the challenges become more complex, driven not only by new demands from customers but also the need to leverage talent across the organisation.

As the marketplace becomes increasingly competitive, organisations are looking for new ways to stand out from the crowd. The ability to deliver consistent and high standards of customer service can be a challenge when there is also pressure to deliver more for less.

Customer service

Organisations that can adapt to key trends in customer service will be able to deliver an experience that will empower customers and provide a competitive advantage.

The explosion in broadband, smartphone and social media adoption, and the pace of technological change present opportunities for personalisation, enhanced customer service and innovation to differentiate organisations against the background of a 'more for less' environment.

The economic environment has been very challenging for some time causing organisations to re-think their plans. Alongside cost reduction programmes, management teams are now looking to embrace innovation and IT to create a competitive advantage and find new ways to interact with their customers, deliver services and manage their operations and supply chain.

By integrating online channels into their contact strategy, organisations can build a single view of the customer, tailor their service to customer needs, and respond in the timeframe that today's consumers expect. As some online channels are effectively self-service, there is an opportunity for organisations to become more efficient in the way they handle customer contact.

Research we've undertaken in partnership with the Contact Centre Association (CCA) has shown that 60 per cent of customers want to talk to a person, rather than an automated system – this is in stark contrast to figures that show up to 80 per cent of businesses want to increase self-service features for their customers. There are however certain transactions that customers prefer to handle via self-service or automated systems. There is an opportunity for organisations to find a balance between human interaction and automated services and take a multi-channel approach to delivering customer service which will increase both satisfaction and efficiency.

The future of work

In just over 20 years, we've gone from a paper-driven society to one that is almost entirely digital - and we are now connected in ways that would have seemed like science fiction in the early 1990s.

Organisations that have been traditionally based upon hierarchical, pyramid, command and control models are now flattening their structures and evolving organisational design thinking from a 'built to last' approach to one that is 'built to change'. Social software, collaborative technologies, workflow automation and task tracking are enabling organisations to become more flexible and agile. A key component of this new, agile structure is the application of tools and technologies that can create virtual networks and allow greater mobility of skills and knowledge.

At the same time, changes in workplace demographics, and a drive towards greater work/life flexibility have coincided with faster access speeds and the emergence of new technology such as 4G to create an expectation from an increasingly specialised workforce for collaboration and communications tools that enhance productivity and speed up innovation.

Creating work/life flexibility will be a priority for organisations seeking to attract and retain talent. Empowering employees to deliver the best results and an enhanced customer experience will make collaboration tools and off-site connectivity a key success factor. Technology has gone mobile, the use of video and gamification in business is growing, and employees are pushing for choice as consumer devices outpace corporate ones in terms of functionality and ease of use.

Business leaders and end users are already bringing their own tablets and smartphones into the workplace and using cloud applications such as Dropbox, Evernote and SkyDrive to store and transfer corporate data. While this presents an opportunity for employees to be more productive, it creates an information security risk to the organisation.

Being prepared for, and embracing, such opportunities is critical for both organisations and individuals. Organisations are increasingly becoming aware that people are a key strategic asset, so finding ways to foster innovation and productivity is key to success. Technology, particularly enterprise-grade communications and collaboration tools, can have a big impact on how employees interact and solve problems. Being ready to meet the challenges of security and device management will be critical to success.

Organisations are looking for trusted partners to help them navigate through the latest trends in business and IT, and identify and deliver new, compelling capabilities in the areas of collaboration, contact, mobility and Bring Your Own Device (BYOD) services that add demonstrable value.

Connectivity is at the heart of everything

In order to exploit these technologies in the workplace to the best effect, organisations are increasingly looking to pay for what they use, rather than owning technology assets outright. Connectivity will be key to delivering hybrid cloud solutions that allow organisations to accelerate innovation, explore new ideas and reduce the time to bring new products to market. These solutions will help them stay poised to take advantage of rapid technological advances, and give them the agility, flexibility and scalability to respond to opportunities, all for a predictable cost. To exploit these opportunities, organisations require much more from their networks than ever before and thinking of the network in a strategic way has never been more important. Networks will become intelligent, contextual and service-aware, and they will be judged on what they enable rather than what they are.

Market opportunities continued

Connectivity is at the heart of everything continued
In an increasingly competitive world, successful organisations must look to embrace the opportunities and seek out innovative methods for facing everyday challenges.

It's more than the possibility of using technology to avoid undesirable tasks through automation and the streamlining of processes. It's about harnessing knowledge and information to provide a richer view of our customers and allowing technology to empower us by innovating and expanding our existing capabilities; ultimately being augmented rather than replaced by technology.

The challenge for IT teams
Because it is such a driver for change, understanding the potential that can be realised by technology is a must for organisations that want to create a high-performance workplace.

In the past, IT innovation took place in the workplace first and then, when commoditised, became available in the consumer space. Since 2009 this has been reversed. Consumer IT has delivered transformational innovation that is now being embraced in the enterprise.

End users want a consumer IT experience and the IT function wants secure, enterprise-grade IT services. The reality is that it's possible for both. Cloud, social media, mobility and Big Data are a nexus of forces that is transforming the way businesses will function in the future.

Rapid innovation and the proliferation of technology have changed the way we live and work. Organisations want more from their IT networks, not just in terms of speed, but also functionality, connectivity and reliability.

This means that organisations must focus on IT now more than ever, finding new ways to integrate technology into the company strategy to enhance communication, streamline operations, increase revenue and transform the business.

In this context, IT becomes a strategic enabler for business, unlocking the potential of people across organisations through new collaboration, contact and mobility services and experiences to customers, employees and partner networks.

Not only are organisations becoming more tech savvy, so are their consumers and employees, and end users are seeking increased personalisation, integration and connectivity in all facets of technology.

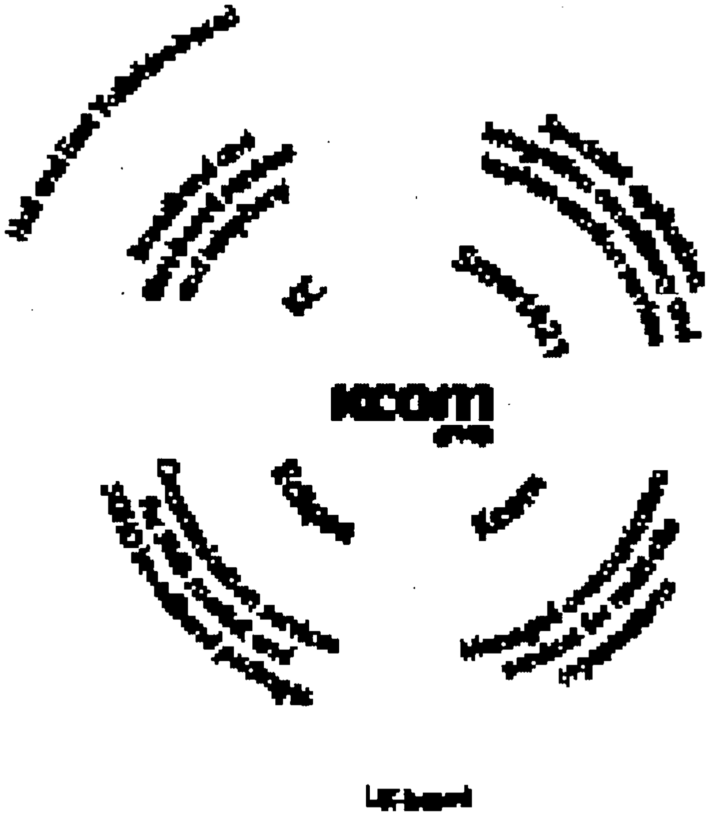
Whatever the market segment, it's clear that customers are looking for some key things from their technology partner: the skills and capability to create and integrate solutions; great customer service to anticipate and meet their needs, innovative thinking and access to the right products and services.

What it means for KCOM Group
At KCOM Group, we bring all these elements together to create the right solutions for customers across our markets. We base our strategy on four strategic pillars:

- our **customer** focus – through each of our brands we tailor our offer to the needs of a particular set of customers and deliver an experience to match their requirements;
- our **people** – making sure we leverage their skills and capabilities and create the right environment for them to achieve their full potential;
- our **partners** – who help us to deliver a wide breadth of services which we can bring together using our expertise and experience; and
- our **processes and systems** – making sure they give us the flexibility and agility to serve our customers.

Find out more about our approach in the 'Our business model' section of this report on pages 7 to 9.

Our business model



Whatever the market segment, it's clear that customers are looking for some key things from their technology partner

We use our skills and capabilities to create the right solutions for customers in each of our target markets

Market segment	Market dynamics	Our opportunity	
Consumers	• increased popularity of activities such as online gaming, video calls, home shopping and social networking; • access to subscription TV and on demand programming; • increasing use of smart devices – smart metering, remote heating controls, CCTV; and • increased number of connected devices in the home: tablets, PCs, smartphones, smart TVs.	**• delivery of higher broadband speeds; • greater download usage; and • delivery of over-the-top services.**	
Small/medium businesses (SMBs)	• business requirements vary from simple connectivity such as telephone lines and broadband connections to ready to use online e-commerce solutions to handle internet sales; • small businesses are often focused on operating with the lowest cost base possible. IT needs to represent good value, with low upfront investment; • low levels of in-house IT support so services need to be simple to set up and access to support and advice is required; and • reliability is key so that time can be focused on running core business.	**• subscription-based services with low set up costs; • services that are simple to implement and manage; and • customer/technical support 24/7 for support and advice.**	
Enterprise and public sector	Complex requirements including: • IT seen as a fundamental part of business strategy; • managing multiple ways for customers to get in touch – live chat, email, social media, contact centre services; • ability to reduce cost through application of new technology and, in the public sector, through better use of sharing resources; • introducing new ways of working within the business to increase employee productivity and satisfaction; • ability to make use of large amounts of data being captured across the business to build greater customer insight; • migration of business critical IT platforms and systems onto new technology; • creation of systems roadmaps that align with organisational strategy; • unique IT landscapes including bespoke and proprietary systems designed to handle specific business requirements; and • IT resource usually in-house with the requirement for independent advice and consultancy for large business transformation programmes.	**• consultative approach to understand customer challenges and desired organisational outcomes; • ability to manage and integrate multiple services on behalf of the customer; • specialist IT integration knowledge and consultancy; • ability to design and integrate multiple services to support outcomes; • high level of service and support to manage ongoing communications requirements; and • independent vendor advice from a range of partners.**	

	Our service offering	Reporting segment	Brand	Example customers

	• ***bundled services including:***
	  • ADSL and fibre-based broadband;
	  • TV service (YouView);
	  • mobile;
	• **Talk packages; and**
	• **public WiFi.**
		KC		• *over 130,000 consumer households.*

	• **phone services;** • **ADSL and fibre-based broadband;** • **leased line connectivity;** • **Wide Area Networks; and** • **hosted services including HD CCTV email, backup, collaboration and e-commerce services.**	**KC** **Kcom**		• Foot Anstey; • Furniture Village; • Hull College Group; • RNLI; • RSPB; and • The Range.
	• **managed communications services;** • **network services;** • **collaboration services;** • **contact centre services;** • **hosting and data centre solutions; and** • **cloud services.** **Consultancy, solution delivery and service management in areas including:** • **application and integration;** • **infrastructure management and hosting;** • **Big Data; and** • **architecture services and cloud.**	**Kcom**		• Admiral Group; • Aviva; • Association of Train Operating Companies (ATOC); • British Airways; • Domino's Pizza; • East Midlands PSN; • HM Revenue & Customs • Kuoni; • Mid Yorkshire Hospitals NHS Trust; • Morrisons; and • Suffolk County Council.

The business has successfully refocused on those activities that deliver most value to customers

At the same time, we are mindful that how we operate as a business is as important as the services we offer

Dear shareholder
The Group has performed well during the past financial year, with progress being made in all our target markets. Subject to shareholder approval at the AGM in July, the Board is proposing a final dividend of 3.25 pence per share, which is in line with our existing commitment to increase the full year dividend by 10 per cent per annum until March 2016. This financial year also marks a key point in the transformation for our Group.

Graham Holden
Chairman

Over the past five years, Bill Halbert has led the Board and the Group as Executive Chairman. During that period, the business has successfully refocused on those activities that deliver most value to our customers and offer opportunities to grow our market presence; at the same time, we have been able to provide progressive dividend growth to shareholders. Having completed that stage of the Group's transition, the Board agreed it was an appropriate time to move to a more traditional Board structure, with separate Chairman and Chief Executive Officer roles. This provides Bill Halbert, as Chief Executive, with additional capacity to drive forward the Group's strategy and I am delighted and proud to have taken up the role of Chairman.

Having seen the Group develop and transform during my time as a Non-Executive Director, I know that there is a wealth of talent within the organisation and it has such a great heritage on which to build. In my role as Chairman, my focus will be to ensure that your Board operates effectively and in line with good governance. I am also committed to being an ambassador for the Group both internally and externally, supporting Bill and his leadership team as they steer the business through its next stage of transformation.

We have an extremely effective Board, with strong, experienced Non-Executive Directors with a range of skills and experience which enables a good level of debate and challenge. Having transitioned to a new Board structure, we have been looking to appoint an additional Non-Executive Director and are mindful that one of the key challenges facing many publicly quoted companies is that of reflecting diversity on their Boards. As a Group, we are committed to reflecting diversity of all kinds, and gender in particular. This forms an important part of our People Strategy and has been a key area of focus in our selection process for a new Non-Executive Director. While the selection process is ongoing, our aim is to bring wider diversity to the Board within the next 12 months, subject to finding a candidate with the right experience and skills. Any new appointments to the Board will stand for election by shareholders at the AGM in 2015.

Kevin Walsh, one of our Executive Directors, announced his intention to retire from the Group during the summer of 2014 and he will not be seeking re-election at the AGM. Kevin joined the business in May 2004 and, alongside his Executive Director role, was responsible for the management of our KC brand for the past 10 years. During that time, he oversaw its transition into the UK's leading provider of fibre-based services. On behalf of the Board, I'd like to thank him for his contribution and insight and wish him well with his retirement plans.

As part of our ongoing transformation, we are mindful that how we operate as a business is as important as the services we offer. There has been a great deal of progress in both areas. KC has been shortlisted in three categories in this year's Internet Service Providers (ISPA) Awards including Best Superfast Broadband, Best Business Customer Service and Best Business Use of Cloud for our fibre-based CCTV offering. Our Eclipse brand was recognised in the Comms National Awards in the SME Vertical Solution category for its supply of ICT products and services. Our community programmes, which offer employees the chance to give something back to their local area, remain very popular with individuals and as team building opportunities. As part of our patronage of the Prince's Trust, people across the Group have donated over 2,000 volunteering hours, in this year alone, to help disadvantaged young people to find work.

Finally, I'd like to acknowledge the immense contribution made by everyone across our organisation. Working against a backdrop of economic uncertainty and ongoing business transformation, it is challenging to deliver such progress. I'd like to thank everyone for their efforts over the past year. It is their commitment to providing inspiring customer experiences that builds our growing reputation in the market.

Graham Holden
Non-Executive Chairman
18 June 2014

This year's results reflect the progress we have made in key areas across the Group

We are now moving into the next stage of the Group's development

This year's results reflect the progress we have made in key focus areas across the Group, underpinned by the highly cash-generative nature of the business.

The vision for our Group is to passionately pursue better ways to connect people and this underpins all our activity. In today's world, connecting people is more than just providing simple network connections; it's about collaboration and value-adding interactions, whether that is direct communication between people, or interactions that occur through the vast array of applications and systems we use at home and at work. As a business, we focus on helping our customers harness the power of those technologies that enable such connections to take place.

Bill Halbert
Chief Executive

In our consumer market, there continues to be growing demand for our fibre-based services, with the take-up rate of 27 per cent being ahead of our initial expectations and above UK averages. Over 29,000 premises now have access to superfast fibre broadband and we remain on target to pass 45,000 by March 2015. The investment we are making in this infrastructure today, which takes fibre directly to the premise, provides us with a future-proof network capable of satisfying both current and any future demand for high bandwidth services.

Alongside the deployment of fibre across our network, we are looking at opportunities to provide innovative 'over the top' services. We recently launched a high definition, cloud-based CCTV service and are talking to a number of other potential partners that provide a range of business and consumer services. The range of services available is evolving rapidly as more people gain access to fibre services.

The success that we have achieved to date with our superfast fibre deployment has helped shape our thinking as we begin to scope the next phase. We expect to outline our future plans when we announce our half year results in November 2014.

Across the other areas of the Group, we continue to build our reputation in the design, delivery and management of value-added services in the wider enterprise market. There have been a number of notable contract wins and renewals. New customers include HM Revenue & Customs, RNLI and National Farmers Union Mutual, all of whom are taking a range of services that we will manage on their behalf. This ability to attract, and importantly, retain customers is a reflection of our growing reputation in the market.

There is continued growth in both Smart421 and Eclipse. Both brands are establishing strong reputations in the provision of cloud-based services. Eclipse has launched a range of hosted services aimed at small to medium businesses who typically need a technology and communications partner to support them.

There is also an increasing interest in the use of cloud technology in the enterprise market and we have successfully positioned ourselves, alongside our partner, Amazon Web Services, as a leading integrator and consultant for organisations looking to embrace cloud-based solutions. For example, in May, we successfully migrated all the UK's rail ticketing systems on behalf of the Association of Train Operating Companies.

As the economy begins to recover, we expect to see further opportunities across both the public and enterprise sectors, as many organisations begin to make IT investments to underpin their renewed ambitions.

Internally, we have started to invest in strengthening our Group capability, introducing new ways of working and increasing our ability to leverage the wide range of skills and capability of our people across the business. As part of this, we are undertaking substantial investment in our core IT systems in support of some of these new ways of operating.

Outlook

We are now moving into the next stage of the Group's development as we continue to grow our capabilities and help our customers to harness the power of communications.

The Group is well positioned to continue exploiting the opportunities that exist in its key markets. We will continue to invest in expanding the reach of, and building customer demand for, our fibre-based broadband services and similarly in growing our share of the wider enterprise market we serve. While, as we do so, we expect to see a continued decline in some traditional carrier revenue, we are confident of achieving successful growth in our value-added services.

With the strong underlying cash flow of the Group, refinancing finalised and the positive indicators within the Group, we will consider also opportunities for investment in these focus areas going forward.

I would like to take this opportunity to thank everyone across the Group for helping make this year one of further progress on our transformation journey. I look forward to continued achievement and success, as we progress our plans.

Bill Halbert
Chief Executive
18 June 2014

Our strategic vision is about passionately pursuing better ways to connect people and delivering inspiring customer experiences

Our long-term plan

The Group's vision is underpinned by four strategic pillars that support our ambition and focus our investment. Those pillars support us in our pursuit of operational excellence, as we seek to achieve a market-leading position in our selected markets and deliver increasing shareholder value.

16 See also Key performance indicators

Strategic pillar	Description	
Customers We understand and anticipate the needs of our customers and align our products, services and solutions to meet those needs and create a unique brand experience.	Our focus on exceptional service delivery has resulted in increasing customer advocacy, new contracts with large enterprise customers and further business from existing customers. We target and align our capabilities to the requirements of our customers and markets.	
People Achieving our vision is dependent upon the skills and capabilities of our people. Creating a value-driven, high performance culture is about providing an environment where we attract, develop, sustain and enable all of our people to demonstrate and apply their capabilities, providing opportunities for everyone to reach their full potential.	In order to achieve that, we are evolving the way we work together, harnessing the power of all 1,900 people so that all our customers can benefit from our collective experience and skills. We continue to reward and recognise our people when they go the extra mile to deliver excellence, not just by what they achieve, but also how they achieve it, through their behaviour and attitude.	
Partners We harness the skills and capabilities of our partners to support the focus of our brands.	We have strong relationships in place with organisations including BT, Microsoft, IBM, Cisco, Avaya and Amazon Web Services. With access to their skills, experience and technologies, overlaid with our managed service capability, we are able to fulfil our long-term vision. As a result of those relationships, leading organisations increasingly are recognising the capabilities of the Group and its exceptional service delivery.	
Processes and systems Our pursuit of customer service excellence is underpinned by our processes and systems.	To achieve our long-term aims, we are focused on ensuring we have processes and systems that are both efficient and scalable, to enable us both to grow our business and continue to drive operational efficiency.	

	Progress	Priorities	Key performance indicators
	In each of our markets, we have focused on deploying additional service offerings, including significantly faster broadband speeds in Hull and East Yorkshire, by developing fibre, and a new suite of hosted managed communication services. Increasingly, our enterprise customers want to benefit from our specialist integration and consultancy services alongside managed communications.	• build reputation for delivery, design and management of value-added services through: – delivering growth in the provision of managed services to UK-based multi-site organisations; – continuing the deployment and take-up of fibre-based broadband services to customers in Hull and East Yorkshire; – continuing to grow market share through our ongoing focus on delivering inspiring customer experiences; and – thought leadership.	• **revenue and gross margin;** • **EBITDA;** • **net cash inflow from operations;** • **net debt;** • **uplift in ARPU;** • **market share; and** • **customer service awards.**
	We launched the Building our Future initiative to support our business goals of delivering and recognising excellence. Throughout the year we brought people together to create Group-wide teams responsible for network-related activities and project management.	• continue developing the skills and capabilities of our people to drive the achievement of our strategic objectives in line with our growth ambition; and • reward and recognise employees who demonstrate excellence in their performance.	• **employee engagement in the Group's employee benefits programme;** • **environmental impact (CO_2e emissions);** • **community volunteering hours; and** • **employee satisfaction.**
	We have created a Group-wide team responsible for all network-related activities and for leveraging our partnership with BT particularly. Our partnerships support our ability to achieve a level of innovation and deliver solutions and experiences that cannot be gained elsewhere, as customers experience improved ways to connect, collaborate and interact, using the power of technology.	• invest in partnerships that support our customers' objectives; • continue to exploit our strategic relationships to deliver market-leading innovative services; and • leverage our hosted and cloud collaboration services and unified communication services offerings.	• **revenue;** • **EBITDA;** • **profit before tax;** • **net cash inflow from operations;** • **net debt; and** • **environmental impact (CO_2e emissions).**
	We are upgrading some of our core IT systems to introduce new ways of working within our finance function. This activity is expected to complete in December 2014. At the same time, development in our customer facing portals will create more self-service capability.	• implement efficient scalable back-office processes and systems in our finance function; • extend and improve our customer self-service capability; and • deliver best-in-class levels of customer service.	• **cost base;** • **EBITDA;** • **profit before tax; and** • **employee satisfaction.**

Key performance indicators

The success of our strategy will be measured over time and has other KPIs. These measures show the immediate and near-term result of it

Financial KPIs

Revenue £m

£370.7m ↓ 0.6%

The total amount of money that the Group earns from the sale of goods or services.

2014	370.7
2013	372.9

Comment
Headline financial metrics were broadly flat reflecting our focus on exploiting emerging markets trends.

EBITDA[2] £m

£75.3m ↑ 0.5%

Earnings before interest, tax, depreciation and amortisation. A measure of profitability.

2014	75.3
2013[1]	74.9

Profit before tax[2] £m

£49.9m ↓ 0.2%

A measure of profit that looks at a Group's profits before it has to pay corporation tax.

2014	49.9
2013[1]	50.0

Net cash inflow from operations £m

£71.2m ↑ 41.6%

Cash flow from operating activities adjusted for non-cash items.

2014	71.2
2013	50.3

Comment
The Group continues to be highly cash generative and recorded strong cash collection in the second half of the year.

Net debt £m

£75.0m ↓ 15%

A metric that shows the Group's indebtedness.

2014	75.0
2013	88.2

Comment
The Group's ability to generate cash resulted in reduced net debt at the year end, with the net debt to EBITDA ratio of 1x (2013: 1.2x).

1. 2013 restated to reflect the impact of the revised IAS 19 standard.
2. Before exceptionals.

How we measure our performance

We track a series of financial and non-financial metrics that demonstrate the progress we are making against our four strategic pillars.

Customers

People

Partners

Processes and systems

Non-financial KPIs

Employee engagement in the Group's employee benefits programme

Number of people logging into the new employee benefits portal.

80% ↑ 21.2%

2014	80
2013	63

Comment
The new flexible benefits platform launched in April has increased the number of people logging on to 80 per cent (2013 : 63 per cent) and has led to significantly higher take-up rates.

Vacancies filled internally

Number of vacancies filled by internal candidates.

43% ↑ 10.9%

2014	43
2013	38

Comment
We have focused our efforts on providing opportunities for people within the business. This not only gives people access to career development but also reduces costs and timescales associated with filling roles.

Environmental impact CO_2e emissions

Total gross emissions in CO_2e.

21,491 ↓ 10.4%

2014	21,491
2013	23,982

Comment
Our total emissions have reduced by 10.4 per cent mainly as a result of a reduction in our electricity consumption in the year.

Community volunteering hours

Number of hours our employees have donated to volunteering projects.

3,843 ↑ 156.2%

2014	3,843
2013	1,500

Comment
Volunteering hours have increased. 2,000 of these volunteering hours supported the Prince's Trust.

Risk management

Principal risks and uncertainties

As with all businesses, we are affected by a number of risks and uncertainties, of which some are beyond our control. The table below shows the principal risks and uncertainties which could have a material adverse effect on the Group and have been identified through the risk management framework on page 37.

This is not an exhaustive list and there may be risks and uncertainties of which currently we are unaware, or which are believed to be immaterial, which could have an adverse effect on the business.

In the previous year we also included risks in relation to business continuity, increasing compliance requirements from customers and competition in the Hull and East Yorkshire area. We are still closely managing these risks, but these are not currently considered to be among the key risks facing the business and therefore these have not been reported on specifically below.

Area	Change in level of risk	Why is it important?	
Risks continuing from last year			
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. The risk in the year has increased due to an increase in external security threats, including larger volume of attacks intended to create a denial of service.	
Accuracy, security and confidentiality of customer data		Security of customer data, whether it belongs to a business or an individual, is of paramount importance to our customers and therefore to us. The potential risk to data security has increased in the year as a result of the increased volume of external attacks seen across all industries.	
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		Recruiting and retaining the right people is crucial for the success of the Group in meeting our objectives. This applies not only to being able to recruit people who embody our values, but also to recruiting people with specific technical skills where needed, some of which may be in short supply. It also involves developing the skills in-house and creating internal mobility around deploying those skills.	
Reliance on key third party partners and suppliers		Our business model means that we are reliant on several key partners to deliver service to our customers and to provide the equipment that we need to deliver the right solutions; such as BT, Comms-Care, ForgeRock, Cisco, Avaya, Amazon Web Services, Microsoft and IBM.	

Change in level of risk key:

No change Increased risk Decreased risk

	What are we doing to mitigate the risk?	How does this link to our Group strategy?
	As the risk has increased, so has our work to mitigate the risk. We have implemented increased security and we continue to closely monitor any attempted attacks and take actions where necessary to ensure we have robust security in place. We have held the ISO 27001 Information Security Management standard since 2007 and also comply with other security standards as required by our customers.	This links directly to our **processes and systems**, as well as being key to our **customer** pillar as ensuring security of our networks and IT systems is a clear customer need.
	We have rolled out mandatory information security training and data protection training to all our people and have a clear Data Governance policy in place, which contains specific handling guidelines for different types of data. Any incidents, however minor, are investigated and control improvements implemented where necessary to ensure that we keep our customer data secure at all times.	This has a direct impact on our **customers** and also links to our **processes and systems** pillar as our processes and systems play a pivotal role in keeping our data accurate, secure and confidential.
	We have continued to invest in our people and our systems to ensure that we have the right people in the right roles and that they have the right tools to provide an exceptional service. We also work closely with our partners to ensure that they are aligned with us in delivering the best service possible.	This links to all aspects of our Group strategy and is key to the whole of our business.
	Our People Strategy is focused on creating a workplace which not only attracts top talent but also retains those people that are key to delivering on our objectives. During the year we have focused on communicating total reward packages to our people to ensure that everyone understands their total reward. We have also been creating a competency framework across the Group, which will enable us to create more career opportunities for individuals internally and to respond to our customers with greater agility.	Recruiting and retaining the right people is part of the **people** pillar of our Group strategy, whilst also having an impact on our **customers** and the level of service that they receive.
	We have dedicated teams to work alongside our key partners and we monitor all of our partnerships closely so that any potential issues are identified and resolved before becoming significant. We have also multiple partners in key risk areas to mitigate the risk in the event of failure of one partner.	This links directly to the **partners** pillar of our Group strategy and also impacts upon our **customers**.

Strategic pillars key:

Customers **People** **Partners** **Processes and systems**

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

In summary

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

Paul Simpson
Chief Financial Officer

Growing consumer demand for fibre-based services

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

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

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

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

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

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

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

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

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

Building long-term customer relationships

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

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

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

Net debt, cash flow and refinancing

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

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

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

Dividend

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

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

Performance review continued

Operating profit[1] £m

£55.0m ↓ 0.4%

2013[2]: £55.2m

Profit before tax[1] £m

£49.9m ↓ 0.2%

2013[2]: £50.0m

Net debt £m

£75.0m ↓ 15.0%

2013: £88.2m

Basic earnings per share p

7.64p ↑ 7.9%

2013[2]: 7.08p

1. Before exceptionals.
2. 2013 restated to reflect the impact of the revised IAS 19 standard.

Pensions

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

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

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

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

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

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

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

Group and segmental performance

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

The KC segment reported revenue of £105.0 million (2013: £104.6 million) representing a strong consumer performance (particularly in the take-up of fibre-based services), offset by slightly lower business revenue.

Ongoing efficient cost management resulted in EBITDA before exceptional items increasing by 3.1 per cent to £56.2 million (2013: £54.5 million).

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

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

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

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

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

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

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

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

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

Paul Simpson
Chief Financial Officer
18 June 2014

It is extremely important to us that we not only achieve our strategic vision but that we do this in the right way

We seek to ensure our business is sustainable while also behaving responsibly in relation to our key stakeholders, including the communities in which we operate, our people and the environment.

Our Corporate Responsibility (CR) strategy covers four key areas:

Governance

Community **People**

Environment **Supply chain**

The four key areas of focus are not separate and overlap in many ways.

The strategy for our people, the community and the environment has been well-established and communicated across our Group for a number of years. Our supply chain strategy has previously operated at a brand level resulting in different levels of focus. As we move towards our One Group business model, we are linking together the different elements of our supply chain strategy to produce a more coherent and consistent strategy across the Group.

All four elements of our CR strategy are taken into consideration when key business decisions are made and the Board receives regular reports during the year on the key areas. Responsibility for the overall CR strategy sits with our Chief Executive.

The governance around the four key areas is to ensure that we have a consistent approach to risk management, strategy development and measuring progress against each key area.

The overall aims of our CR strategy are to:

- use our knowledge and expertise to create a positive impact on all our stakeholders and the communities in which we operate;
- develop and promote a culture driven by our Group values, which in turn is reflected in how we conduct our business; and
- engage, enable and empower our people so that they can make a positive contribution to our CR strategy and the causes that matter to them.

Why is this part of our CR strategy?	How does this link to the Group strategy?
Community	
We have a responsibility to the communities in which we operate; in particular our KC brand has a significant impact on the local community in Hull and East Yorkshire. Our community strategy is key to ensuring that we take our responsibility seriously in all of our local communities.	This links directly to our **customers** strategic pillar as our community strategy, particularly in the Hull and East Yorkshire area, impacts directly on the brand experience of our customers.
People	
People are key to our business and to our ongoing sustainability. We listen to our people as key stakeholders in our business and ensure also that we meet our legal and moral obligations in relation to the health, safety and wellbeing of our people and anyone else who comes into contact with our business.	This links directly to our **people** strategic pillar, which seeks to attract, develop, sustain and enable all of our people to achieve their full potential. It also links to our **partners** strategic pillar as our partners working alongside us are directly affected by our people strategies.
Environment	
We are not a significant polluter from an environmental perspective; however, we need to ensure that we meet our obligations in relation to environmental reporting requirements and environmental legislation. It is important that we measure and monitor our environmental impact so that we can make informed decisions in relation to environmental matters. We must also consider wider environmental impacts on the Group as part of our ongoing strategy to protect the sustainability of the business.	This links to all of our strategic pillars: • the manner in which we manage our environmental impacts and the impacts of the environment on our business directly affects our customers and therefore our **customers** strategic pillar; • having a clear environmental strategy and enabling our people to identify how they can contribute to this is a motivational factor for our **people**; • environmental impacts, such as flooding, can have a direct impact on our **processes and systems** if we do not adequately plan to mitigate these risks; and • environmental impacts on our suppliers and partners can also directly impact our business if we do not adequately plan for these; therefore linking directly also to our **partners** strategic pillar.
Supply chain	
Our supply chain is crucial to the success of the business and it is essential that this is managed effectively in order to manage the risk relating to continuity of supply. We believe also that we have an obligation to ensure that we source goods and services from suppliers with the right ethical priorities and from sustainable sources wherever possible.	This links directly to our **partners** strategic pillar, which focuses on closely collaborating with our partners and suppliers which in turn directly leads to supply chain strategy. Our supply chain choices also impact on our customers and therefore also link to our **customers** strategic pillar across the Group.

Community

We have no material social issues, however we are very aware of our potential impact in the local communities in which we operate, particularly in the Hull and East Yorkshire region where we employ over 1,000 people, support a further 400 full-time local jobs and contribute over £150 million each year[1] to the local economy.

We are proud to be part of local life and the potential impact on the local community is considered in all decisions made by the Group.

Supporting local economic growth and business success
As businesses and consumers increasingly rely on online services to communicate and do business, we have invested significantly in rolling out superfast fibre-based broadband services in the Hull and East Yorkshire area to help boost the region's economy and to transform the online lives of our customers, with download speeds including 100Mbps and 350Mbps. We announced the start of the fibre roll-out in 2012 and as at 31 March 2014 we have passed 29,700 premises, with a commitment to pass 45,000 premises by 31 March 2015.

Unemployment rates in Hull are high in comparison to England as a whole[2], we therefore believe that we have a responsibility to support the local economy whenever we can. We proactively adopt a 'buy local' approach when purchasing goods and services, which means that two-thirds of these come from over 240 local suppliers.

In 2011 we launched an investment fund, called KC Invest, to provide start-up and growth financing for local businesses in the digital and technology sectors. The aim of this fund is to stimulate business growth in the local economy and help create new, sustainable jobs. Since it was introduced, KC Invest has provided loan financing to 20 start-ups and small businesses, which in turn have supported 72 local jobs.

Community engagement prior to the launch of KC Invest highlighted that a key area in which small businesses need support is with sales and marketing skills. We therefore launched a series of Boost Your Business events featuring expert speakers, which are free for small businesses to attend. The first series of events was so successful that a second series was launched in May 2013, with events now taking place quarterly.

We have also supported 17 young people with grants through the Hull Youth Enterprise Bank to help them set up and develop their businesses. We firmly believe that the enterprising young people of today are the employers of tomorrow and therefore it is vital that we provide practical and financial support where we can to help these businesses get started.

We are active supporters of the Hull Employability Charter and in the past year have taken on six apprentices to demonstrate our support.

Volunteering
In addition to our activities in the Hull region, we also encourage all of our people to become involved in local community projects wherever they are based.

We have formal partnerships in place with schools, charities and projects in areas where we operate across the UK. During the year, our people donated 3,843 hours to community volunteering through our various community programmes.

Our commitment to the local community was recognised in November 2013 when the KC brand was awarded the Community Involvement Award at the annual Hull Daily Mail Business Awards.

We continued also this year our patronage of the Prince's Trust, the UK's leading youth charity. The Trust aims to change lives by offering training, personal development, business start-up support, mentoring and advice to young people. As part of our support we entered two teams into the Million Makers corporate challenge, in which each team aims to raise money for the Trust by setting up their own mini enterprise. Our two teams raised over £17,000 for the Trust, with our Eclipse team winning first place in the South West region for their fundraising.

In addition, we have sponsored and hosted a number of events to recognise the achievement of young people on Prince's Trust programmes and to encourage wider membership from business contacts.

Group charity partner
We work with a charity partner, chosen by our people who vote on a shortlist of UK-registered national charities. In April 2012 we began a partnership with Sparks, a charity dedicated to funding pioneering research into conditions affecting babies, children and mums-to-be. The focus of Sparks is on improving the quality of life for children and families affected by serious illness or disability, while seeking ways to better diagnose, treat and prevent these conditions in the future through medical research.

Since the partnership began in 2012 we have raised almost £150,000 for Sparks through the dedication of our people participating in sporting challenges, dress down days, auctions, cake bakes and many other activities. We have extended our partnership to 31 March 2015 after consulting with our charity champions and key fundraisers.

1. DTZ Consulting, 2011.
2. For the 12 months to 30 September 2013 unemployment in the Hull City Council area was 14.61% compared to 7.91% for England as a whole. Data taken from the Humber Data Observatory.

People

Our people are essential to our success as a Group and are one of our key differentiators when we are seeking to win business. It is therefore crucial to us that we can continue to attract the right skills, behaviour and talent for the Group, whilst continuing to motivate and develop the talented individuals already within our organisation. We launched our current People Strategy in 2010 with these aims in mind.

Values
Our values are to be open and considerate, team-minded, flexible, inspiring and innovative and we have invested in activities to communicate and embed these values across our Group since 2010. Part of this has been through a series of workshops entitled 'It Starts with Me', which have been attended by over 1,000 of our employees.

Development
Since the launch of our People Strategy we have provided comprehensive leadership training to all of our people managers, covering all areas of people management and providing 360 degree feedback to all participants, plus access to one-on-one coaching for all employees and managers.

We are working also on the production of a competency-based framework across our organisation to enable greater career management and personal development opportunities for those within our organisation.

Human rights
We respect fundamental human rights consistent with the United Nations Universal Declaration of Human Rights and we ensure that all of our internal policies are consistent with this. We do not have any current human rights issues.

Health, safety and wellbeing
The health, safety and wellbeing of our people is of paramount importance to us, along with the health, safety and wellbeing of our contractors, partners, customers and any members of the public who may be affected by our work.

We have rigorous training and clear Safe Systems of Work for all of our people engaged in manual work; we also have training for our office-based workers and we undertake risk assessments with those who drive on company business, providing additional driver training for individuals deemed to be at a higher risk.

We work with a number of partners when performing manual work and we have clear processes in place to ensure that our partners are competent and are operating in a healthy and safe manner. We require all of our suppliers of physical services to hold safe contractor status and seek to work with any smaller suppliers without this to help them achieve this status.

We have held our annual health and wellbeing screening sessions, for the fifth consecutive year. These are open to all of our people and provide a free and confidential health assessment measuring such things as blood pressure, blood sugar levels, Body Mass Index and lung capacity. 592 of our colleagues attended these sessions in the year. In addition we provide employees with the option to purchase other medical and dental services through our flexible benefits scheme.

We continue to maintain our accreditation to the BS OHSAS 18001 Health and Safety management standard and there were no fatalities or health and safety enforcement notices in the year. We experienced two Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) incidents (2013: one). There were 13 working days lost in the year as a result of health and safety incidents (2013: 17.5).

Gender diversity
It is important to us that we achieve gender diversity at all levels of the organisation. The gender diversity of the Group as at 31 March 2014 is set out below:

	Male	Female	Female %
Board Directors	6	0	0%
Senior management team	11	6	35%
Other employees	1,198	702	37%

We are supportive of flexible working whenever possible and 15 per cent of our workforce works flexible hours, including 34 per cent of our female employees.

Environment

As a Group we take our impact on the environment seriously and over the years have sought to reduce our emissions wherever possible. We have recycling facilities at all of our main offices and we have a network of Green Champions across the Group, who help to raise awareness of environmental matters in their local area.

Our emissions
Our main environmental impact arises from the use of electricity, which accounts for over 85 per cent of our CO_2e emissions. This includes electricity used at our offices, as well as at our data centres and network sites. During the year our electricity usage has reduced by eight per cent from the prior year. This is a result of energy efficiencies achieved through various IT initiatives and more detailed reporting of usage by site enabling opportunities for energy savings to be more easily identified and implemented.

The table below sets out our annual emissions in tonnes of CO_2e.

Area	Year ended 31 March 2014 CO_2e	Year ended 31 March 2013 CO_2e
Combustion of fuel and operation of facilities	3,147	3,968
Purchase of electricity	18,344	20,014
Total	21,491	23,982[1]
Tonnes of CO_2e per £'000 of revenue	0.058	0.064

1. Last year we reported total emissions of 26,600 tonnes of CO_2e. We have now restated the comparatives to reflect changes in the assumptions set out by the Department for Environment, Food and Rural Affairs (Defra) to ensure consistency with the emissions reported this year.

We have calculated our emissions data using the GHG Reporting Protocol.

Breakdown of our emissions %

85% Premises – Electricity

7% Premises – Other fuel and waste

8% Business travel

The impact of climate change
There has been a significant amount of flooding across Great Britain during the year under review. Despite a tidal surge affecting the centre of Hull, we are pleased to report that our business continuity process provided adequate protection and none of our buildings or equipment were affected. However, we take the risk of flooding seriously and over the last few years have installed powerful water pumps and flood alarms at the sites we have identified as having a potential flood risk, as well as installing flood barriers to doors leading to basements and replacing air bricks at selected sites.

Last year we also reported on CO_2e arising from business travel, the proportion of waste recycled and the amount of printer and photocopier paper used. We set ourselves targets to maintain all of these at 2012/13 levels. During the year we achieved all of these targets.

We will continue to monitor these figures going forward, however we do not believe that these are material to understanding our business performance and therefore will not report these in our Corporate Responsibility report in future years. If you would like any further information on our environmental performance or further detail on any of our emissions then please contact our Company Secretary, Kathy Smith.

Our environmental measures:

Area	Target 2013/14	Target met	Actual	Target 2014/15
Total CO_2e emissions	Not to exceed 2012/13 levels of 23,982 CO_2e		21,491 tonnes	Not to exceed 2013/14 levels
Landfill	Not to exceed 2012/13 levels of 16 tonnes		12 tonnes	Not to exceed 2013/14 levels

Supply chain

We believe that we have responsibilities in relation to our supply chain, not only to try to ensure continuity of supply but also to do as much as we can to ensure that our suppliers operate with the same ethics and standards as us. In devising our supply chain strategy we have considered the key risks in relation to the current supply chain.

Ethical sourcing

The vast majority of products that we purchase come from suppliers within the UK. During the year we imported only one per cent of the goods we bought, all of which came from Europe, North America, Australia and New Zealand. In our KC brand we have a specific policy of 'buying local' so two-thirds of our spend to support our KC brand was with over 240 local suppliers.

We have a supplier code of conduct which all of our suppliers are required to adhere to. This includes our requirements in relation to laws and ethical standards, labour practices, risk management and business continuity. We are also in the process of meeting with our top 10 suppliers to see first-hand how they approach ethical issues and how they ensure compliance with our code of conduct.

Continuity of supply

We review continually our supply chain to ensure that we are able to have continuity of supply, or a viable alternative, should one of our key suppliers unexpectedly fail. Electricity is clearly key to much of our business and therefore the threat of a significant power outage has been identified as a potential risk to the Group. To mitigate this risk, each of our key sites has an on-site dedicated power supply back-up, with either permanent or mobile generator support in the event of long-term power outages. These are all tested at regular intervals.

Contractual risk

One of the key areas in which we need to manage risk in our supply chain is in our contracts with suppliers and subcontractors. We have an in-house Legal team that is responsible for overseeing all of our bespoke contracts and they work hard to ensure that the Group does not take on an exposure which is outside of our control and that we contract fairly while mitigating risk where possible.

Signed on behalf of the Board

Kathy Smith
Company Secretary
18 June 2014

Suppliers by geography

99% UK

1% Europe, North America, Australia and New Zealand

Board of Directors

Graham Holden (54)

Non-Executive Chairman
(previously Non-Executive Director to 31 March 2014)

Term of office
Graham joined the Board as Non-Executive Director in November 2007. On 1 April 2014 he became Non-Executive Chairman for the Group.

Previous experience
Graham is a Chartered Accountant and graduate of the Harvard Advanced Management Programme. He was Chief Executive of Marshalls plc until his retirement in October 2013. He was with the Company for 27 years and served as Group Financial Director from 1992 until 2001.

External appointments
Graham is a Visiting Fellow in the School of Management at Cranfield University.

Responsibilities
As Chairman, Graham is responsible for leading the Board.

Board Committees
To 31 March 2014: A R N
From 1 April 2014: A R N

Bill Halbert (66)

Chief Executive
(previously Executive Chairman to 31 March 2014)

Term of office
Bill was appointed Executive Chairman of the KCOM Group in July 2009 having joined the Board as a Non-Executive Director in September 2006. On 1 April 2014 he became the Chief Executive for the Group.

Previous experience
Bill has worked in the information technology industry for over 40 years and brings a wealth of experience and strategic insight to the KCOM Group Board. During his time in the industry he founded and was the CEO for 13 years for Syntegra, BT's global consultancy and systems integration subsidiary.

External appointments
Bill's other directorships include Excelsys Ltd, Jade Solutions Limited and Tacit Connexions Ltd.

Responsibilities
As Chief Executive, Bill has overall executive responsibility for the day-to-day leadership of the Group and its brands.

Board Committees
A R N

Paul Simpson (45)

Chief Financial Officer

Term of office
Paul was appointed Chief Financial Officer in May 2004, having joined the Group in 2000.

Previous experience
Paul is a graduate in Economics and qualified with Price Waterhouse. He is a fellow of the Institute of Chartered Accountants in England and Wales. Prior to joining the Group, Paul worked in transaction services at Ernst and Young, which included working on the flotation of the KCOM Group.

External appointments
None.

Responsibilities
Paul has responsibility for all finance matters across the Group. In addition, he has responsibility for the leadership of the IT, Project Management, Technology, Service and Operations and Risk teams.

Board Committees
A R N

Board Committees

- **A** Audit Committee Member
- **R** Remuneration Committee Member
- **N** Nomination Committee Member
- ○ Committee Chairman
- ☐ Not a member

35 **See also Committees in detail**

Kevin Walsh (61)

Executive Director

Term of office
Kevin joined the Board in May 2004, having joined the Group in 2000. He has indicated his intention to retire from the Board in the summer of 2014.

Previous experience
Kevin was Managing Director of a new media start-up and held a number of senior director roles within the Electrolux Group. He brings to the KCOM Group Board a wealth of business knowledge including a significant amount of consumer business experience.

External appointments
In February 2014, Kevin was appointed as Chairman of Manx Telecom Plc. Kevin is also a member of Business in the Community's Yorkshire and Humber Advisory Board and the City Leadership Board of Hull City Council.

Responsibilities
Kevin had responsibility for the management of the Group's KC brand up to 31 March 2014 and will continue to offer support to the KC brand and the rest of the business up until his retirement.

Board Committees
A R N

Tony Illsley (57)

Senior Independent Non-Executive Director

Term of office
Tony joined the Board in June 2009.

Previous experience
Tony has held a variety of senior business positions including Chief Executive of Telewest Communications PLC, President of Pepsi Cola Asia Pacific and Senior Independent Non-Executive Director of easyJet plc.

External appointments
Tony is Chairman of Plastic Logic Ltd and is a Non-Executive Director of Camelot Global Services Limited and Camelot UK Lotteries Limited.

Board Committees
To 31 March 2014: **A R N**
From 1 April 2014: **A R N**
(Tony is acting as interim Chairman of the Remuneration Committee with effect from 1 April 2014.)

Martin Towers (61)

Non-Executive Director

Term of office
Martin joined the Board in June 2009.

Previous experience
Martin is a fellow of the Institute of Chartered Accountants in England and Wales and has held a number of senior finance roles including Group Finance Director at Kelda Group PLC, Allied Textile Group PLC and the Spring Ram Corporation PLC.

External appointments
Martin is Chairman of Norcros PLC and is a Non-Executive Director of RPC Group PLC and Tyman PLC.

Board Committees
A R N

Corporate governance

Appointment and replacement of Directors

It is the policy of the Board that all Directors wishing to continue in office will stand for election or re-election each year at the AGM, in accordance with Provision B.7.1 of the UK Corporate Governance Code.

The Articles of Association allow the Board to appoint a new Director at any time; however the Articles state that the new Director will only hold office until the next AGM, at which point he or she must stand for election or vacate the office.

The Nomination Committee, and the Board as a whole, has reviewed the performance and contribution of Bill Halbert, Graham Holden, Tony Illsley, Paul Simpson and Martin Towers and has no hesitation in proposing the re-appointment of each of these Board members. Kevin Walsh has indicated his intention to retire from the Board during the summer of 2014 and therefore will not stand for re-election at the AGM.

The Articles of Association state also that the Company may remove a Director by ordinary resolution with special notice before the expiration of their period of office. There have been no Directors removed from office during the year.

Independence

The two Non-Executive Directors and the Non-Executive Chairman, are considered to be independent in relation to the criteria set out in Provision B.1.1 of the UK Corporate Governance Code and the National Association of Pension Funds (NAPF) Corporate Governance Voting Policy and Guidelines.

The Board reviews the independence of the Non-Executive Directors each year, taking into account the length of tenure, relationships and circumstances as well as considering the behaviour of each Director at Board meetings and whether or not they contribute to unbiased and independent debate. All of the Non-Executive Directors and the Non-Executive Chairman were independent upon appointment and the Board believes that all three remain wholly independent.

Commitments of the Chairman

During the year under review, Bill Halbert worked full-time for the Company as Executive Chairman. He also sat on the boards of a number of smaller private limited companies but these did not require a significant time commitment and he managed successfully these commitments alongside his role at KCOM Group. His commitments have not changed significantly in the year.

From 1 April 2014, Graham Holden was appointed as Non-Executive Chairman. Graham currently has no other significant commitments.

The combined roles of Chairman and Chief Executive

From July 2009 to the end of March 2014, Bill Halbert held the role of Executive Chairman, combining the roles of Chairman and Chief Executive. Given the particular circumstances of the Group in 2009, the decision to combine the two roles was taken with the support of our largest shareholders, to provide strong leadership through a period of transformation for the business. This transformation continued through the economic downturn and, in both 2011 and 2012, consultation with our largest shareholders indicated that there was strong support for Bill to continue in his dual role.

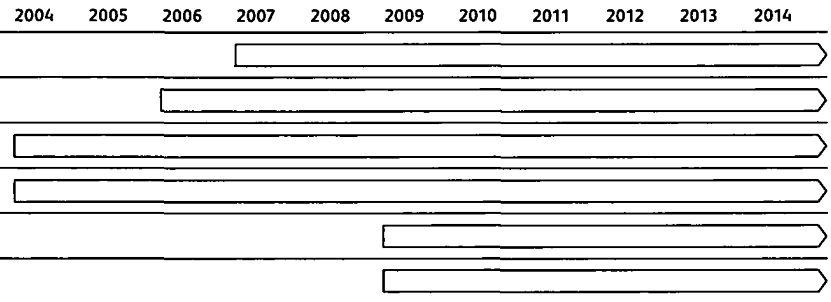
The combined role was reviewed regularly by the Nomination Committee and during the year it was agreed that the Group had progressed beyond the specific circumstances requiring the dual role and that therefore it was the right thing for the Group to split the role once again, to ensure compliance with best practice. Therefore from 1 April 2014 the roles of Chairman and Chief Executive have been separated, with Bill becoming the Chief Executive and Graham Holden, previously one of our Non-Executive Directors, becoming Non-Executive Chairman.

Having a combined Executive Chairman role is in breach of Provision A.2.1 of the UK Corporate Governance Code. The main principle of the Code, which is supported by Provision A.2.1, is 'There should be a clear division of responsibilities at the head of the Company between the running of the Board and the executive responsibility for the running of the Company's business. No one individual should have unfettered powers of decision.' To ensure that we complied with this principle while the dual role was in operation, we had the following measures in place throughout:

- we had a strong Board, including experienced Non-Executive Directors. Our Senior Independent Director, Tony Illsley, along with the Executive Chairman and the other Non-Executive Directors, was responsible for ensuring that there was a culture of openness, debate and challenge among the Board members. Also, Tony Illsley and the other Non-Executive Directors were always available to any shareholders who requested a meeting or wanted to voice concerns, although no such meetings were requested;
- we had an equal number of Executive and Non-Executive Directors on the Board and a clear schedule of Matters Reserved for the Board so that no single group or individual was able to dominate decision-making;
- the Company Secretary, along with the Executive Chairman, was responsible for ensuring that there was the right flow of information to the Board and that the Board agenda covered all of the topics that the Board should be considering;
- each of our four operating brands has its own Managing Director, separate from the Executive Chairman, who all had access to the other Executive Directors and, along with other members of senior management, met with the Non-Executive Directors on a regular basis to enable information to be exchanged first hand and to provide the Non-Executive Directors with greater insight and understanding of Group operations outside of the boardroom; and
- our Executive Chairman received training on his responsibilities as an Executive Director and as the Chairman of the Board and was careful to ensure that he did not perform one role at the expense of the other. The Senior Independent Director supported him in this and acted as a sounding board for the Executive Chairman when required.

Board length of service

Director	Appointment
Graham Holden	27 November 2007
Bill Halbert	1 September 2006
Paul Simpson	24 May 2004
Kevin Walsh	24 May 2004
Tony Illsley	2 June 2009
Martin Towers	2 June 2009



UK Corporate Governance Code

Apart from the exception noted opposite, the Board considers that it has complied with all the detailed provisions of the UK Corporate Governance Code throughout the year ended 31 March 2014.

Since 1 April 2014, following Graham Holden's appointment as Chairman of the Board, there are currently two Non-Executive Directors and three Executive Directors which is in breach of provision B.1.2 of the code, which requires at least half of the Board excluding the Chairman to be independent Non-Executive Directors. The Board is actively seeking a new Non-Executive Director to correct this imbalance. In addition, Kevin Walsh has chosen not to stand for re-election at the AGM which will reduce the number of Executive Directors to two. In addition, provision C.3.1 of the code requires the Audit Committee membership to be made up of at least three independent Non-Executive Directors. Since 1 April 2014 the Group has therefore been in breach of this requirement, but will rectify this when the new Non-Executive Director is appointed to the Board.

The Board as a whole is committed entirely to the principle of achieving and maintaining a high standard of corporate governance. The UK Corporate Governance Code is available on the Financial Reporting Council website at www.frc.org.uk.

How the Board operates

The Board has eight scheduled meetings a year, with other adhoc meetings held as needed. During the year, the Board met 10 times. The two additional meetings were specifically held to review the details of a significant sales contract and to review progress in relation to a large-scale internal project. Attendance at the meetings during the year is shown in the table opposite. Five of the meetings were preceded the evening before by an informal meeting, allowing more time to debate issues in depth.

At each meeting the Board considers all aspects of Group performance, including past performance and the future long-term success and strategic aims of the Group.

The Board agenda is set each month by the Chairman with input from the Executive Directors and the Company Secretary. In addition, any of the Non-Executive Directors can request a matter to be added to the agenda at any time.

The Board receives reports each month on financial performance, people matters, investor relations, governance, compliance and risk. These reports are circulated every month, regardless of whether or not a Board meeting is scheduled. There are also regular updates on key projects and strategic programmes and regular reports on health, safety and environmental matters and other areas of corporate responsibility.

Board meetings are held at various KCOM Group sites throughout the year and the Board seeks to regularly meet with senior management from the four brands to gain further insight into the day-to-day operation of the business and the key risks and opportunities facing each part of the business.

There is a schedule of Matters Reserved for the Board which is reviewed and updated each year. This schedule requires that specific matters relating to budgets, strategy, performance against objectives, financial reporting, internal controls, communications, remuneration and governance, along with any proposed changes to business operations or the structure and capital of the Company, are referred to the Board for consideration and approval.

The Board reviews also contractual clauses escalated to the Board through our contracting risk framework and business cases escalated in accordance with our Group-wide delegations of authority.

The Board considers the role of the Company Secretary to be pivotal in ensuring that the Group and the Board has the right governance in place and that Board processes follow best practice. Our Company Secretary, Kathy Smith, was appointed to the role in 2010 and has been with the Group for over eight years. She is a Chartered Accountant and Graduate member of the Institute of Chartered Secretaries and Administrators.

The Company Secretary meets with each of the Directors individually as necessary to discuss governance-related matters and provides a governance report to the Board on a monthly basis. The Directors are able also to obtain independent professional advice at the Group's expense whenever necessary.

Attendance at Board meetings

Director	Number of meetings	Out of possible
Graham Holden	10	10
Bill Halbert*	10	10
Paul Simpson	10	10
Kevin Walsh	10	10
Tony Illsley	10	10
Martin Towers	10	10

* Chairman for the year under review.

Balance of Executive and Non-Executive Directors (as at 31 March)

Executive Directors
50%

Non-Executive Directors
50%

Senior management team by gender, excluding Directors (as at 31 March)

Female
6

Male
11

The balance of the Board
The Nomination Committee is responsible for reviewing the balance of the Board to ensure that it continues to meet the current and future requirements of the Group.

There is a Board Appointments policy in place, which sets out the procedure that will be followed in the event of a Board vacancy being identified, along with the approach of the Board to diversity.

The key principle set out in the policy is that the Board will seek always to appoint on merit, in line with the current and foreseeable future requirements of the Group. The Board recognises the benefits of diversity of all types, including gender diversity, and will aim always to develop the diversity of the Board, while remaining true to the key principle of appointing on merit. The Board is currently actively seeking a new independent Non-Executive Director and has specifically requested that there should be female candidates on the shortlist. The Board has committed to appoint at least one female director to the Board by the time of the AGM in 2015, whether it is through this next appointment or an additional future appointment.

The Board Appointments policy states also that the Nomination Committee will ensure that it only uses executive search firms that have signed up to the voluntary Code of Conduct addressing gender diversity and best practice, that female applicants are given the same consideration and opportunity as male applicants and that gender diversity is considered specifically when drawing up a list of potential candidates.

In addition, through the Board Appointments policy, the Board has committed to:

- continue to seek to identify and develop the talented individuals in the Group, regardless of gender;
- eview regularly the proportion of women at each level in the organisation to ensure that equal opportunities are being presented to individuals at every level; and
- ensure always that there is a confidential way in which concerns can be raised without fear of repercussion if anyone, regardless of gender, has a concern about the opportunities available to them.

While we do not have currently any female representation on the Group's Board of Directors, 35 per cent of our senior management team is female. This is broadly comparable with the proportion of women across the Group as a whole, which sits at 37 per cent.

Training and development
The Board receives monthly updates on governance-related matters and more formal training where appropriate. Potential training needs are discussed as part of individual performance evaluation, plus each Director is given the opportunity to flag any additional training requirements which they may have identified as part of the annual Board evaluation process.

Performance evaluation
For the previous 10 years the Board has undertaken a formal internal process to evaluate the effectiveness of its own performance, as well as that of its various Committees. Following the admission of the Group back into the FTSE 350 in September 2011, the Board wishes to comply with the requirements of the UK Corporate Governance Code to perform an externally facilitated evaluation in 2014. Given the changes to the Board that were announced in November 2013, which came into effect on 1 April 2014, it was decided to delay this external review until the new Board structure was in place. The review is therefore currently underway and is being facilitated by Independent Audit Limited, who do not provide any other services to the Group.

In addition to the evaluation process, the Executive Chairman met with each Board member individually during the year to discuss their own performance and the Non-Executive Directors met separately to discuss the performance of the Executive Chairman. The feedback from this meeting was then passed on to the Executive Chairman by the Senior Independent Director. The individual evaluation process will continue under the new Chairman, with feedback to the Non-Executive Chairman again being provided by the Senior Independent Director.

The Non-Executive Directors have regular dialogue with each other concerning Board matters and the Executive Chairman met with the Non-Executive Directors, without the other Directors present, at regular intervals during the year. The Non-Executive Directors also met formally during the year without any of the Executive Directors present to discuss matters, including the performance of the Executive Chairman.

In 2013 the areas of focus that were identified through the Board evaluation process were:

Area identified	What have we done?
Succession planning at both a Board and senior management level.	Succession planning at a Board level has been much discussed during the year as a result of the Board changes that have been announced. At a senior management level there has also been a greater focus and it has been agreed that this will be a regular area for Board discussion in the future.
Future brand strategy in relation to changing customer requirements as a result of developing technology.	There have been regular brand strategy updates provided to the Board throughout the year, including presentations from each of the brand Managing Directors. Future customer requirements are frequently discussed, as well as new developments in technology.

Attendance at Committee meetings

Audit Committee

Director	Number of meetings	Out of possible
Martin Towers (Chairman)	3	3
Graham Holden	3	3
Tony Illsley	3	3

Nomination Committee

Director	Number of meetings	Out of possible
Tony Illsley (Chairman)	4	4
Graham Holden	4	4
Martin Towers	4	4

Remuneration Committee

Director	Number of meetings	Out of possible
Graham Holden (Chairman)	3	3
Tony Illsley	3	3
Martin Towers	3	3

Board Committees
The Board has established and delegated specific responsibilities to the following Committees. Each Committee reports back to the Board after each meeting and minutes of Committee meetings are circulated to all Board members, where appropriate, to ensure that the whole Board is aware of the matters considered by the Committees.

Audit Committee
The membership and attendance at Committee meetings during the year is shown in the table above. Details of the role of the Audit Committee are given on pages 38 to 40. From 1 April 2014 Graham Holden stepped down from the Audit Committee. The Board is currently actively seeking a new independent Non-Executive Director, who will join the Audit Committee on appointment.

Nomination Committee
The membership and attendance at Committee meetings during the year is shown in the table above.

From 1 April 2014 Tony Illsley stepped down as Chairman of the Nomination Committee and Graham Holden has been appointed as Committee Chairman in his place. Tony will continue as a committee member going forward, alongside Martin Towers.

The Nomination Committee meets as often as required and is responsible for reviewing the structure, size and composition of the Board and ensuring that the balance of skills, knowledge and experience of the Board is right for the Group, both in terms of the current challenges and opportunities facing the Group and the skills and expertise that are expected to be needed on the Board in the future. The approach of the Nomination Committee to diversity on the Board is noted on the page opposite.

When Board vacancies arise, the Nomination Committee is responsible for preparing a description of the role and capabilities required for a particular appointment and then identifying and nominating candidates for the approval of the Board. In order to identify suitable candidates the Committee uses open advertising or the services of external advisors to facilitate the search, where appropriate.

The Board is currently seeking a new Non-Executive Director and appointed CTPartners as the executive search firm to lead the search. The Nomination Committee provided the criteria for the required candidate to CTPartners and specifically requested that there should be female candidates on the shortlist. CTPartners does not provide any other services to the Group.

During the year, the decision was taken to appoint Graham Holden as Chairman of the Board. This was a recommendation to the Board from the Nomination Committee, following consultations with our largest shareholders and detailed discussions relating to the skills and experience required from the Chairman.

It was decided following these discussions, and taking into account his existing experience of the Group, that Graham was the best candidate for the role and that an external search would therefore not be beneficial for the Group.

The Committee is responsible also for considering succession planning for the Directors and for key senior management across the Group, although this is a matter considered also by the full Board.

The Nomination Committee reviews annually the time required from each of the Directors to perform their role effectively. Following this review in the year, the Committee is satisfied that each of the Directors has committed sufficient time during the year to fulfil their duties as Directors of the Company.

The Committee reviews the re-appointment of all of the Directors standing for re-election at the AGM, giving regard to their performance and ability to continue to contribute to the requirements of the Board. The Nomination Committee then makes recommendations to the Board on whether each Director should be put forward for re-election.

The Committee's Terms of Reference are in line with the recommendations in the UK Corporate Governance Code and the ICSA Guidance on Terms of Reference for Nomination Committees. Copies of the Terms of Reference are available from the Company Secretary and are on our website, www.kcomplc.com.

Remuneration Committee
The membership and attendance at Committee meetings during the year is shown in the table above. The report of the Remuneration Committee and details of its role are given on pages 44 to 60.

Relations with shareholders
We place a great deal of importance on communicating with our shareholders and understanding their views. Our Chief Executive and Chief Financial Officer meet regularly with our institutional shareholders to discuss the strategy, performance and governance of the Company and to obtain feedback. During the year, meetings have been held with 26 such shareholders. There are also general presentations following the half year and final results announcements each year.

Feedback from meetings with shareholders is included as part of the monthly report to the Board and discussed at each Board meeting, along with details of any analyst reports, to ensure that each of our Directors has a clear understanding of the views of our shareholders. Our Non-Executive Directors and Non-Executive Chairman are available to meet face-to-face with our institutional shareholders if requested to do so, although no such requests have been received during the year.

A large number of our individual shareholders live in the Hull and East Yorkshire region and, as a Group; we are very much involved in local life in the area. More information about our community activities is on page 26. We believe that being a part of local life enables us to learn more about our local shareholders and the issues that matter to them.

We consider our AGM to be an important means of communication between our shareholders and Directors. All of our Directors are available at the AGM to answer questions and we seek to encourage shareholder participation by inviting questions in advance.

We use electronic voting at our AGM each year. The results of voting, including the proxy votes lodged, are shown to shareholders in the meeting and are made available subsequently on our website.

All of our Company announcements are published on our website, **www.kcomplc.com**, together with presentation materials and financial reports, so that all of our shareholders can keep up to date with our news.

Business model and key performance indicators
Details of our business model can be found on pages 7 to 9 and our key performance indicators are on pages 16 and 17.

Proposal to re-appoint the external auditors
PricewaterhouseCoopers LLP have advised of their willingness to continue in office and have confirmed their continued independence. Following consideration of the relationship with the external auditors, as described on page 40, the Audit Committee has recommended to the Board that PricewaterhouseCoopers LLP are re-appointed and a resolution to re-appoint them will be proposed at the AGM. They have provided an independent audit opinion on these accounts which can be found on pages 61 to 63.

Powers of the Directors
The business of the Company is managed by the Directors, who may exercise all the powers of the Company, subject to the provisions of the Articles of Association, relevant statutes and any special resolution of the Company.

The Articles of Association give the Directors the power to authorise conflicts of interest in relation to transactions or arrangements with the Company, in accordance with the Companies Act 2006. Conflicts of interest are a standing agenda item at Board meetings and each Director proposes any potential conflicts for consideration as soon as they become aware of them. The Director with the potential conflict is excluded from the vote to authorise the transaction or arrangement.

Any conflicts that are authorised are then logged on a register, along with details of any specific terms imposed upon authorisation. Internal controls are in place to ensure that transactions or arrangements which may lead to a potential conflict of interest are conducted on an arm's length basis.

Managing risk effectively is key to everything that we do.

We believe that by understanding and anticipating our risks we can manage them properly; we therefore do not seek to eliminate risk but instead we take considered risks where necessary to help the business remain competitive and to achieve our objectives.

Risk management is built into all our processes. We also have a Risk team, which has specific responsibility for health, safety, environmental and legal risks, internal audit, insurance, governance and all matters relating to standards and compliance.

We recognise that our internal control systems can provide only reasonable and not absolute assurance against material misstatement or loss.

Risk management framework

We have a risk management framework in place to help us to formally identify, assess, measure, manage and monitor our key risks. We define key risks to be anything that may prevent us from meeting our objectives. The framework has been developed in accordance with guidance from the Financial Reporting Council and provides us with a single picture of the threats and uncertainties we face. This enables the Board and senior management to make appropriate decisions to manage the key risks.

Risk identification

- By our people
- By our whistleblowing process
- By external or internal audits

Risk recording

- Risks are added to our risk register and rated for probability and impact
- Risks are assigned a senior management owner who is responsible for documenting a mitigation plan on the risk register

Auditing

- If a risk is auditable it is added to the internal audit plan
- Audit issues are assigned a senior management owner to determine the action plan to mitigate the issue
- Audit issues, management responses and progress against action plans are reported to the Audit Committee three times a year

Risk reporting

- The risk registers are reviewed and updated by the risk owners on a regular basis
- The risk registers are reviewed by the Risk Committee three times a year for completeness and consistency in ratings
- The risk registers are reported to the Board three times a year

Risk management responsibilities

The Board

The Board has overall responsibility for deciding the acceptable level of risk that the Group may take to achieve its objectives. It is responsible also for ensuring that the Group maintains sound internal control and risk management systems, as well as reviewing the effectiveness of those systems. In order to do this, the Board receives regular reports from senior management, the Internal Audit team and the external auditors, via the Audit Committee, on the effectiveness of the systems of internal control and risk management. The Board is satisfied that the systems are embedded within the day-to-day activities of the business and cover all material controls, including financial, operational and compliance controls and that the Group continues to be compliant with the provisions of the UK Corporate Governance Code relating to internal control.

Risk Committee

The Risk Committee consists of senior management representatives from across the Group and meets bi-monthly to consider all types of risk. External advisors and subject-matter experts from within the Group are invited to attend the meetings as and when appropriate to provide insight or expertise on particular risk topics.

The Committee is responsible for reviewing progress in mitigating risks and discussing and agreeing actions relating to any new risks that have been identified. The Committee prepares a report for the Board after each meeting.

Audit Committee

Responsibilities

The Audit Committee is a sub-committee of the Board and is responsible for reviewing all aspects of the financial reporting of the Group and all aspects of internal control. In doing so, the Committee represents the interests of the shareholders of the Group in relation to the integrity of information and the effectiveness of the audit processes in place.

Composition

The Audit Committee during the year under review has consisted of the three Non-Executive Directors. Further information on the membership and meeting attendance is on page 35. From 1 April 2014 Graham Holden was appointed to the role of Non-Executive Chairman and consequently stepped down from the Audit Committee, in accordance with the requirements of the UK Corporate Governance Code. The Board is currently seeking an additional Non-Executive Director and, when appointed, the new Non-Executive Director will become a member of the Audit Committee.

The Committee is chaired by Martin Towers, who has significant recent financial experience. He is a fellow of the Institute of Chartered Accountants in England and Wales and has held a number of senior finance roles, including working as Group Finance Director at Kelda Group PLC until 2008. The Board considers therefore that he has the relevant financial experience to fulfil the role of Chairman of the Audit Committee.

Committee meetings are also attended by the Executive Directors, the Group Financial Controller, the Company Secretary, the Head of Internal Audit and representatives from the external auditors. The external auditors meet also with individual members of the Audit Committee during the year, without the other attendees present. The Head of Internal Audit also meets separately with the Chairman of the Audit Committee without the other attendees present.

18 See also Risk management

Meetings

There were three meetings held in the year; in June, November and March. The June meeting was used to review the year end external audit and year end financial reporting, the November meeting to consider the half year review and financial reporting and the March meeting to consider the planning for the year end.

Each meeting included agenda items relating to internal audit, financial reporting and external audit. The areas discussed under each item are noted in the table below:

Area	Discussion
Internal audit	The internal audit agenda item focuses on the audits performed in the period, including any significant issues identified. A report setting out previous audit issues raised and the progress made to mitigate the issues is also discussed at each meeting. A review of the internal audit plan for the period to the next Audit Committee meeting also takes place.
Financial reporting	The Group Financial Controller talks through the key judgement areas in relation to financial reporting and sets out the decisions made and the rationale behind these. These are covered in more detail on page 20.
External audit	The representatives from PricewaterhouseCoopers LLP set out the audit approach, the key audit risks, an overview of internal controls and a view on the key audit and accounting matters, as well as how PricewaterhouseCoopers LLP ensures its continuing independence from the Group.

Each year the Audit Committee is also responsible for:

- seeking the view of the external auditors on any accounting judgements made in the year;
- considering the consistency and appropriateness of the accounting policies adopted;
- reviewing the financial statements of the Group and the clarity of the disclosures made, although the ultimate responsibility for reviewing and approving the annual report and financial statements remains with the Board;
- reviewing the adequacy of the whistleblowing procedures in place to enable employees and third parties to raise concerns in confidence, as well as the effectiveness and independence of any investigations undertaken as a result of such concerns being raised;
- reviewing the procedures in place for the detection of fraud and the prevention of bribery across the Group; and
- overseeing the relationship with the external auditors, as noted in more detail on page 40.

The Committee's Terms of Reference are in line with the recommendations in the UK Corporate Governance Code and the Institute of Chartered Secretaries and Administrators Guidance on Terms of Reference for Audit Committees. Copies of the Terms of Reference are available from the Company Secretary and are on our website at **www.kcomplc.com**.

Audit Committee continued

Significant issues relating to the financial statements
The specific issues considered by the Audit Committee in the year under review, in relation to the financial statements, are shown in the table below.

Nature of the issue	How the Committee was satisfied with the treatment adopted by management	Any changes arising from discussion by the Committee
Pension accounting assumptions		
Pension accounting is complex and there are a number of assumptions that have to be made, which can have a significant impact on the valuation of scheme liabilities. This is a recurring matter.	The approach to the assumptions made was in line with previous years and the Committee was satisfied that this was satisfactory given the reasonable nature of the previous assumptions and the fact that there were no reasons identified to require a revision to these assumptions.	The assumptions were debated by the Committee. No changes were made as the Committee concluded that it was in agreement with the treatment adopted by management.
Capitalisation of intangible assets on internal projects		
There is a significant internal project currently ongoing to implement a new back office system. Costs relating to this are being capitalised in line with accounting standards but there have been judgements made in relation to the proportion of internal salaries that should be capitalised for this project and the recoverability of the carrying value of the asset. This will be a recurring matter while there are significant internal projects ongoing.	The approach adopted by management in relation to the capitalisation of internal salaries was consistent with that previously adopted for other IT projects. Management also noted that the expected benefits of the project were still believed to be in line with the original business case and therefore there was no trigger to indicate a potential impairment of the asset carrying value.	The Committee challenged the approach to the capitalisation and the proposed useful economic life and concluded that it was in agreement with the treatment adopted by management.
Valuation of goodwill and other intangible assets		
Testing goodwill and other intangible assets for potential impairment is complex and requires a number of management estimates to be made, which inevitably require judgement. This is a recurring matter.	A full impairment assessment was performed at the year end and this was discussed in detail by the Committee, along with the assumptions made and the sensitivities in relation to the assumptions. It was concluded that there was no indication of impairment and that the assumptions made were reasonable.	The Committee challenged the assumptions and concluded that no changes were required.
Accounting for judgements in significant contracts		
There are a number of significant contracts in place within the Group, some of which have changed during the year. The contract changes require some management judgement in relation to how to account for the changes. This is a matter that is specific to the year under review.	The rationale for each judgement was clearly set out to the Committee and discussed at length. It was concluded that the rationale for each was reasonable and consistent with previous years, where applicable.	The Committee discussed the rationale for each area of judgement and agreed with the rationale applied by management.
Exceptional costs		
Management judgement around when costs should be treated as exceptional is always an area for review. This is a recurring matter.	There is an established and well-defined policy in place in relation to the classification of costs as exceptional and this has not changed in the year. Management had followed this policy and therefore the Committee was satisfied with the treatment adopted by management.	No changes were made as the Committee was in agreement with the treatment adopted by management.

Corporate governance continued

Audit Committee continued

External audit

The Audit Committee is responsible for overseeing the relationship with the external auditors to ensure that the external auditors continue to be independent, objective and effective in their work, as well as considering the re-appointment of the auditors each year.

PricewaterhouseCoopers LLP were appointed as auditors in 2006 following a comprehensive tender process. Following a partner rotation, the current audit partner, Ian Morrison, was appointed to the audit in 2011. Each year the Committee considers the continued independence of the external auditors and the effectiveness of the external audit process, to determine whether to recommend to the Board that the current auditors be re-appointed, also taking into consideration the desire to comply with the requirement of the UK Corporate Governance Code to tender the external audit at least every 10 years and the transitional arrangements in place in relation to this.

There are no contractual obligations in place which would restrict the choice of external auditors by the Committee.

The Audit Committee has reviewed the effectiveness of the external audit process in the year through the reports received from the external auditors and the close working of the internal audit team with the external auditors. The Committee has concluded that the external audit process was effective and is satisfied that the scope of the audit is appropriate and that significant judgements have been robustly challenged.

In addition PricewaterhouseCoopers LLP has formally confirmed its continued independence and the measures they have taken to ensure that they comply with best practice and professional and regulatory requirements in this area. The Committee believes that audit partner rotation is a significant factor in ensuring continued independence and objectivity by reducing the risk of familiarity while retaining the detailed understanding of the business which the external auditors have gained over time.

We have an 'Engagement of External Auditors' policy which covers the selection of firms to perform non-audit work. This policy excludes the auditors from providing certain services, such as internal audit services, litigation support, remuneration advice and legal advice services. All other non-audit work is assessed separately and is awarded to the firm considered best suited to perform the work. Any such work with a fee greater than 25 per cent of the annual audit fee must be approved by the Chairman of the Audit Committee before the external auditors may be appointed.

During the year the fee for the external audit of the Group and its subsidiaries, along with other services pursuant to legislation, was £263,000 (2013: £228,000). In addition to this, the external auditors provided services to the value of £111,000 (2013: £21,000) relating to tax advisory services and pensions-related work. In these areas the auditors were considered the most appropriate firm to perform the work.

Risk management and internal control

The Audit Committee reviews the Group's internal controls and risk management systems through the work performed by the internal and external auditors and reports to the Board on the effectiveness of such systems. The internal control and risk management systems have not changed during the year and the Committee is satisfied that any audit issues raised by either the internal or external auditors are being adequately followed up and closed down on a timely basis.

Internal audit

Our Internal Audit team consists of two qualified accountants, both with a 'Big Four' background. The team performs financial, operational and compliance audits, assessing each potential audit area according to the risk associated with it and the level of assurance already in place; this then enables the audit to be appropriately prioritised and built into the audit plan as necessary. The audit plan is brought to each Audit Committee meeting, where it is considered and approved.

The internal auditors report to the Audit Committee at each meeting on the adequacy and effectiveness of the financial, operational and compliance controls in place across the Group. The Audit Committee is responsible for monitoring and reviewing the effectiveness of the internal audit team and does this through reviewing the internal audit reports presented to the Committee and through the Chairman of the Audit Committee meeting separately with the Head of Internal Audit outside of the Committee.

The Committee also reviews the adequacy of management responses to the audit issues raised and monitors the closure of issues on a timely basis through a regular report from the internal audit team.

The internal and external audit teams work closely together to ensure that all key risk areas are covered and that the work performed by one team feeds into the work of the other.

Financial risk management

Each part of our business produces an annual budget which is reviewed by senior management and ultimately approved by the Board. A longer-term six year plan is also in place which is updated annually and approved by the Board to enable it to have a clear longer-term view of financial projections.

We also prepare a quarterly forecast and performance against budget and quarterly forecast is monitored at monthly senior management meetings and reported to, and reviewed by, the Board each month. Further information about the financial risk management policies in place, and in particular the way in which credit risk, liquidity risk, interest rate risk and foreign currency risk are managed, is in note 26 to the accounts.

Controls around consolidation

The basis of consolidation for the financial statements is detailed in note 2 to the accounts. Strong controls are in place around the process for preparing consolidated accounts. The work of consolidation is performed by experienced, qualified accountants and a review of the consolidation forms part of the audit work performed by our external auditors.

Principal risks and uncertainties

The principal risks and uncertainties facing the Group are set out on pages 18 and 19 of the Strategic report.

Other disclosures

General information
General information is provided in the note 1 of the financial statements.

Disclosure of all relevant information to auditors
The Directors who approved this report are satisfied that, as far as they are aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditors are unaware. Each of the Directors has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Directors
The names and biographical details of our Directors as at 31 March 2014 are on pages 30 and 31. Further information regarding the Directors who served during the year can be found on pages 44 to 60 in the Remuneration report.

Political donations
No political donations were made by the Group during the year (2013: £Nil).

Employees
Our people make all the difference to the service we can provide to our customers and enable us to differentiate ourselves from our competitors. We therefore take great care to have employment strategies in place that drive business performance but also help our people to develop to their full potential. Our employment policies are designed to provide equal opportunities irrespective of age, disability, ethnicity, gender, gender reassignment, marital status and civil partnership, nationality, pregnancy and maternity, race, religion and belief and sexual orientation.

All employees, whether part-time or full-time, temporary or permanent, are treated fairly and equally. We select employees for employment, promotion, training or other matters affecting their employment on the basis of aptitude and ability.

We take every opportunity to involve and consult with our employees and we believe that employee involvement is an essential contributor to the development of our business. Our Executive Directors regularly visit our different office locations to meet with our employees, provide updates on the performance of the Group and to receive suggestions and feedback, through both roadshow presentations and informal meetings.

Regular video and news updates are provided to all employees through our intranet, and a weekly round-up bulletin via email to keep them informed of activities and Group performance. There is also a monthly briefing document for managers to share with their teams.

In March 2013 we undertook our second Group-wide employee survey in two years, to obtain feedback on a range of topics. The results of this were fed back to employees and action plans were developed to address the key matters raised.

We encourage our employees to become shareholders by offering a Share Incentive Plan (SIP) as we believe this is one opportunity to encourage greater employee engagement. More information about this can be found on page 59.

Share capital
The Company has a single class of share capital which is divided into ordinary shares of 10 pence.

Rights and obligations attaching to shares
In a general meeting of the Company voting is as follows:

- on a show of hands, every member present in person shall have one vote;
- on a show of hands, every proxy present who has been duly appointed by one or more members shall have one vote; and
- on a poll, every member who is present in person or by proxy shall have one vote for every share of which he or she is the holder.

A member is not entitled to vote in respect of any share in the capital of the Company held by him or her, if there are sums payable to the Company in respect of such share which remain unpaid.

Full details of the deadline for exercising voting rights in respect of the resolutions to be considered at the AGM to be held on 29 July 2014 are set out in the Notice of Meeting.

All dividends are paid proportionately to the amounts paid up on the shares and are paid to those members whose names are on the share register at the date at which the dividend is declared, or at such other date as determined by the Directors or by an ordinary resolution of the Company.

If the Company is wound up, the liquidator, with the sanction of a special resolution of the Company or any other sanction required by law, may divide the whole or any part of the assets of the Company among the shareholders and may determine how the division of the assets will be carried out.

Transfer of shares
All transfers of uncertificated shares must be made in accordance with, and be subject to, the Uncertificated Securities Regulations 2001 and in accordance with any arrangements made by the Board.

All transfers of certificated shares must be in writing in a form which has been approved by the Directors; this is known as 'the Instrument of Transfer'. The Instrument of Transfer must be signed by, or on behalf of, the transferor and the transferor will remain as the holder of the share until the name of the transferee is entered into the share register.

The Directors may refuse to register the transfer of any share which is not fully paid or which is in favour of more than four persons jointly. The Directors may also refuse to recognise an Instrument of Transfer if it is not lodged at the Company's registered office or at any other place which the Directors have determined.

If the Directors refuse to register a transfer they will send to the transferee a notice of the refusal and the Instrument of Transfer within two months of the date on which the transfer was lodged with the Company.

Other disclosures continued

Allotment of shares
At the AGM in 2013, the Company was authorised by the members to allot shares up to an aggregate nominal amount of £17,220,130. Authority was also given at the same time for the partial disapplication of pre-emption rights, up to a maximum aggregate value of £2,583,019. As at the date of this report no shares had been allotted under this authority.

Repurchase of shares
At the AGM in 2013, the Company was authorised by members to purchase its own shares, up to a maximum of 51,660,391. During the year, the Company did not purchase any of its own shares.

The Company funds Employee Share Trusts (ESTs) to meet its obligations under the Company's share schemes. During the year the ESTs purchased 12,043,000 (2013: 15,130,000) shares on the London Stock Exchange at a cost of £1,778,000 (2013: £11,053,000) with a nominal value of £1,204,300 (2013: £1,513,000). These shares represent 2.33 per cent of the called-up share capital and are held in trust until they vest; therefore the purchase of these shares does not reduce the share capital in issue. The total number of shares held in trust to meet obligations under the Company's share schemes is:

	000's of shares
As at 1 April 2013	9,524
As at 31 March 2014	205

Further details around the purchase of shares in the year are set out in note 25 to the financial statements.

Shares held by ESTs
The trustees of the Kingston Communications 2000 EST and the Kingston Communications All Employee Share Plan vote any shares held in the ESTs as they wish, having due regard to the interests of the employees as potential beneficiaries.

There are two other ESTs, the Kingston Communications Qualifying Employee Share Ownership Trust and the KCOM Group PLC Employee Benefit Trust, that are currently dormant and hold no shares.

Significant agreements – change of control
The following significant agreements contain provisions entitling the counterparties to exercise termination or other rights in the event of a change of control of the Company:

- under our £200 million multi-currency revolving facility agreement dated 4 June 2014, the Company must notify Lloyds Bank PLC, the Agent of the agreement, within seven days of becoming aware of a change of control of the Company. Any bank or financial institution named within the facility agreement may then notify the Agent within seven days that they wish to cancel their commitments. The Agent must then give at least 21 days' notice to the Company of this and all outstanding amounts due to that bank or financial institution will become immediately due and payable. For these purposes, a 'change of control' occurs if any person or group of persons acting in concert gains control of the Company; and
- the Company's share schemes, details of which are contained in the Remuneration report on pages 44 to 60, contain provisions which take effect in the event of a change of control, as a result of which options and awards may vest and become exercisable. The provisions do not entitle participants to a greater interest in the shares of the Company than that created by the initial grant or award under the relevant scheme.

The Company does not have any agreements with any Director or employee that would provide compensation for loss of office or employment resulting from a takeover.

Strategic report
Pursuant to section 414c of the Companies Act 2006 the Strategic report on pages 2 to 29 contains disclosures in relation to future developments, dividends, financial risk management and the disclosure of the Greenhouse Gas emissions for which the Company is responsible.

Annual General Meeting
Our AGM will be held at the KC Stadium, Hull, on Tuesday 29 July 2014 at 11.00am. The Notice of Meeting accompanies this annual report and is also available on our Group website at www.kcomplc.com. Four resolutions will be proposed as special business. Explanatory notes on these resolutions are set out in the Notice of Meeting.

The Directors consider that all the resolutions proposed are in the best interests of the Company and it is their recommendation that shareholders support these proposals as they intend to do so in respect of their own holdings.

Substantial shareholdings
As at 31 March 2014, the Company had been notified of the following interests amounting to three per cent or more of the voting rights in the issued ordinary share capital of the Company. As at 18 June 2014, there had been no additional disclosures received.

	Number of shares with voting rights	% of total voting rights
Invesco Asset Management	70,171,901	13.58
Aviva Investors	24,599,612	4.76
Aberforth Partners LLP	24,336,606	4.71
Scottish Widows Investment Partnerships	22,773,730	4.41
Legal & General Investment Management	16,285,090	3.15
Norges Bank Investment Management	15,933,680	3.08

Directors' responsibilities statement

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the EU have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Group's website, www.kcomplc.com. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' statement pursuant to the Disclosure and Transparency Rules

Each of the Directors whose names and functions are listed on pages 30 and 31 confirm that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group and Company; and
- the Strategic report and Directors' report contained in the annual report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

Conclusion on the annual report

The Board is responsible for reviewing the annual report and, after consideration, has concluded that the annual report, taken as a whole, is fair, balanced and understandable and that it provides the necessary information for shareholders to assess performance, business model and strategy. In reaching this conclusion, the Board has considered the different types of shareholders that the Group has, the reports and presentations that the Board has received during the year and the reports submitted to the Audit Committee during the year by both the internal and external auditors and combined this with the Board's collective knowledge of the business, gained through both formal and informal meetings and personal interactions across the Group at all levels.

Amendments to the Company's Articles of Association

Any amendments to the Company's Articles of Association may be made by passing a special resolution at a general meeting of the shareholders.

Going concern

The Directors confirm that, having reviewed the Group's budget and forecasts along with the principal risks and uncertainties facing the Group, they are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly the Group continues to adopt the going concern basis in preparing the financial statements.

This report has been reviewed and approved by the Board of KCOM Group PLC.

Signed on behalf of the Board

Kathy Smith
Company Secretary
18 June 2014

Remuneration report

"The philosophy of the Remuneration Committee is to reward performance fairly, which normally means paying around the median market rate for good performance, providing the opportunity for greater rewards for extraordinary performance and ensuring that we do not pay additional reward where performance is below par."

Statement from the Chairmen of the Remuneration Committee

Dear shareholder
This has been a relatively quiet year for the Remuneration Committee in terms of remuneration decisions; there have been no long-term incentive schemes vesting in the year and there have been no significant changes to the Remuneration policy in the year.

This is the first year of the new disclosure requirements in relation to remuneration and therefore the Committee has spent time reviewing the requirements and the disclosures made to ensure that we present our information as clearly and fully as possible.

The Committee has focused during the year on reviewing the Remuneration policy in place and ensuring that this meets the requirements of the business, aligns with the expectations of our shareholders and also enables us to continue to attract and retain the right individuals to the Board.

The philosophy of the Remuneration Committee is to reward performance fairly, which normally means paying around the median market rate for good performance, providing the opportunity for greater rewards for extraordinary performance and ensuring that we do not pay additional reward where performance is below par. The Committee is mindful of the need for balance between risk and reward and has risk mitigation elements in place through clawback provisions and share ownership guidelines for Executive Directors.

In looking at performance we consider both the current performance of the Group and the longer-term sustainability of the business. This is reflected through our policy to have an annual bonus linked to the performance of the Group in the year and a long-term incentive scheme that rewards Total Shareholder Return (TSR) performance over a three year period. We ensure that the final decision over vesting of LTIP awards is dependent on the Committee agreeing that the performance of the Group over the three years is representative of the continued success of the business into the future.

Decisions made
There have been no pay increases for the Executive Directors since 1 July 2011. In the meantime the performance of the Group has remained strong and the share price has moved from 77.75 pence as at 30 June 2011 to 99.2 pence as at 31 March 2014. Across the Group, all employees have been eligible for a pay award, based on performance and the market rate for the role which they perform. The average pay award given to employees will be 1.66 per cent, which will take effect from 1 July 2014. All employees, other than the Executive Directors and senior management, also received a two per cent increase on 1 July 2012. Taking these factors into consideration, along with individual performance, the Remuneration Committee has proposed that an increase of 2.75 per cent is awarded to both Bill Halbert and Paul Simpson, with effect from 1 July 2014. The same award has not been proposed for Kevin Walsh as he has indicated his plans to retire from the company in the summer of 2014 and will not be standing for re-election at the AGM.

Graham Holden
Former Chairman,
Remuneration Committee

Tony Illsley
Interim Chairman,
Remuneration Committee

"The Committee recognises the importance of taking account of shareholders' views and believes they can add considerable value to the process of policy formulation."

The annual bonus scheme for the forthcoming year has been reviewed by the Committee and it has been agreed to retain the current metrics operated, with a slight increase in the targets for the 2014/15 year, which are set out in more detail on pages 52 and 53. During the year the Group achieved EBITDA above the target level required to trigger a bonus payment and bonus payments for the year of 14 per cent of the on-target bonus entitlement have been awarded. The Committee has considered this and believes that this is a fair reflection of the performance of the business in the year; it is also consistent with the average percentage of bonus entitlement that has been triggered for bonus scheme participants across the Group.

No LTIP awards were due to vest based on performance ending in, or substantially ending in, 2013/14. During the year new awards were granted under the LTIP scheme to each of the Executive Directors, equivalent to 100 per cent of base salary. This is consistent with awards made in the previous year and was considered by the Committee to reflect the continued good performance of the Group, and to provide a longer-term incentive to the Executive Directors as these awards will not vest until 2016 and are dependent on TSR measured over a three year performance period from the date of grant. The Committee is happy that TSR remains appropriate as the performance measure for the LTIP scheme.

Change of Committee Chairman
From 1 April 2014, Graham Holden has been appointed as Chairman of KCOM Group PLC, which means that he has had to step down from the role of Chairman of the Remuneration Committee in order to comply with the requirements of the UK Corporate Governance Code. Graham remains a member of the Committee and will provide support to the new Chairman. From 1 April 2014, Tony Illsley has stepped up to take on the role of Committee Chairman. Tony has significant experience as a Non-Executive Director and has performed the role of Remuneration Committee Chairman at three other listed companies, therefore bringing considerable experience to the role. The Board is currently actively seeking a new Non-Executive Director and on appointment the new Director may take on the role of Chairman of the Remuneration Committee, subject to experience.

Director retirement
On 26 November 2013, Kevin Walsh indicated to the Board that he will be retiring from the Group in the summer of 2014 and he will therefore not be standing for re-election at the AGM. The policy of the Committee is to reward retiring colleagues fairly for the period for which they work, whilst avoiding significant payments in lieu of notice wherever possible. In line with the policy, it has been agreed with Kevin that he will sign a new service contract in the summer of 2014 which will reduce his notice period from 12 months to three months, therefore relieving the Group from the obligation to make a 12 month payment in lieu of notice from the date on which he formally tenders his resignation and ensuring that his notice period does not extend beyond 26 November 2014, which would be 12 months from the date of his initial indication.

In order to ensure an orderly succession, Kevin continues to offer support to the KC brand and the rest of the business and will continue to do so until late summer 2014.

New reporting requirements
Last year we adopted early some of the new reporting requirements in relation to remuneration. This is the first year in which we have been required to comply fully with the new disclosure requirements and we welcome the move towards greater transparency and clearer reporting.

Views of the shareholders
The Committee recognises the importance of taking account of shareholders' views and believes they can add considerable value to the process of policy formulation. Any feedback would therefore be welcomed and may be directed to the Chairman of the Committee or to our Company Secretary, Kathy Smith.

Graham Holden
Former Chairman, Remuneration Committee
18 June 2014

Tony Illsley
Interim Chairman, Remuneration Committee
18 June 2014

This Directors' Remuneration report sets out details of the Remuneration policy for Executive and Non-Executive Directors, describes the implementation of the policy and discloses the amounts paid for the year ended 31 March 2014. The report complies with the provisions of the Companies Act 2006 and Schedule 8 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and has been prepared in line with the recommendations of the UK Corporate Governance Code and the requirements of the UKLA Listing Rules.

Policy report

This part of the Directors' Remuneration report sets out the proposed Directors' Remuneration policy of the Group. The Policy report will be put to a binding shareholder vote at the AGM on 29 July 2014, in accordance with Section 439A of the Companies Act 2006. If approved, the policy will then take effect from that date.

Executive Directors' policy table

Element and how it supports the KCOM Group strategy	How does this operate and what is the maximum that may be paid?
Base salary Setting the base salary at the right level enables us to attract and retain the right individual for the role, whilst reflecting appropriately the status, responsibility and experience of the individual.	Base salaries are normally reviewed at least annually. Salaries are typically set following comparison with broad industry based peer companies and companies of a similar size. We aim to pay salaries around the median; however we also take into account a number of other specific factors, including the experience and performance of the individual, the criticality of the individual to the success of the Group, pay and conditions throughout the Group and the wider economic climate. Increases will not ordinarily exceed the general level of increase for the Group's employees however, increases beyond those awarded to the Group's employees may be awarded in certain circumstances, for example, where there is a change in responsibility, progression in the role, experience, or where there is a significant increase in the scale of the role or the size and/or complexity of the Group. Details of the base salary for each of the Executive Directors are shown in the annual report on remuneration on pages 52 and 53.
Benefits Paying the right amount of benefits helps us to attract and retain the right individual for the role.	The provision of benefits is set based upon market practice at similar companies, taking into account also the benefits available to other employees across the Group. The benefits available to all Executive Directors are: • private medical insurance for the Executive and their immediate family; • income protection; • life assurance; • car allowance of up to £16,000 per annum for the Chief Executive and £14,000 per annum for other Executive Directors, or an equivalent company car; • fully expensed fuel card; • medical screening; and • the opportunity to participate in any all-employee share plans operated by the Company, in line with HMRC guidelines. The cost of insured benefits may vary from year to year and there is no maximum level set. Additional benefits can be purchased through the flexible benefits arrangements available to all employees.
Retirement benefits Retirement benefits are paid as part of a market competitive package which, in turn, helps us to attract and retain high calibre individuals.	All Executive Directors are entitled to receive an employer pension contribution of 20 per cent of base salary. This can either be paid as a contribution direct to the Group Stakeholder Pension Plan or as cash to the individual. Contributions to the Group Stakeholder Pension Plan are dependent on a minimum employee pension contribution of three per cent per annum.
Annual bonus The annual bonus is designed to reward the achievement of stretching Group objectives and therefore drive operational excellence.	All payments are at the discretion of the Committee. Payments are considered and approved by the Committee and are payable annually following publication of the Group's full year results. Up to 10 per cent of maximum bonus is dependent on achieving the threshold hurdle with sliding scale targets set for payments above this level. Target performance receives up to 50 per cent of salary. Performance above-target results in a higher percentage up to a maximum of 100 per cent of salary.
Long-term incentives Long-term incentive schemes are used to drive growth in shareholder value and to ensure that there is a direct link between reward and superior shareholder returns.	Awards are normally made annually and performance is measured over a three year period. The plan rules state that a maximum of 150 per cent of salary per annum may be awarded (200 per cent of salary may be made in exceptional circumstances). In the first year of the policy awards will be made at 100 per cent of salary. In later years actual award levels will be disclosed in the Annual report on remuneration.

Policy overview
In designing the Remuneration policy for the Executive Directors, the Committee seeks to align the policy to the strategic objectives of the Group and reward strong performance to ensure the long-term success of the business, whilst not encouraging unnecessary risk taking or irresponsible behaviour.

The Committee also considers the pay and employment conditions of employees across the Group when setting the Remuneration policy for the Executive Directors, to ensure that these are aligned where appropriate.

The Committee does not consult directly with employees when drawing up the Directors' Remuneration policy; however, a regular employee satisfaction survey is conducted across the Group, which includes questions around remuneration. The latest survey was held in March 2013. The results of this are taken into consideration when making decisions around remuneration.

The Committee is always open to hearing the views of shareholders in relation to Directors' remuneration and any views expressed will be considered as part of the process when setting the Remuneration policy.

	What performance measures are used and why?	Are there any provisions to recover sums paid?
	No specific performance measures are used in relation to determining base salary, but individual and business performance are considered as part of the discussion when setting the base salary levels.	There are no provisions to recover any sums paid.
	Benefits are not performance related.	There are no provisions to recover any sums paid.
	Retirement benefits are not performance related.	There are no provisions to recover any sums paid.
	The performance measures will be financial measures, such as EBITDA. The measures chosen will be those that the Committee believes most closely align Executive Director and shareholder interests and are important to the long-term success of the Group.	Clawback may be invoked for the annual bonus for: • material misstatement of the accounts; • error in assessing performance conditions; or • gross misconduct.
	The performance measure used in the LTIP is Total Shareholder Return (TSR). The Committee believes that a relative TSR measure offers a robust measure of performance over the long-term as it takes into account changes in the economic cycle, while maintaining a focus on shareholder returns. KCOM Group's TSR must rank at least median to the TSR performance of the companies within a comparator group. Performance at median would result in 25 per cent of the awards vesting, with performance between median and upper quartile resulting in vesting of awards on a straight-line basis with 100 per cent vesting at upper quartile performance. In addition, there is an underpin that the Committee must be satisfied that the Group's financial and non-financial performance over the performance period warrants the level of vesting, having regard to a number of factors such as share price progression, dividend policy and Earnings Per Share (EPS) performance.	Clawback may be invoked for the LTIP for: • material misstatement of the accounts; • error in assessing performance conditions; or • gross misconduct.

Policy report continued

Awards granted prior to the effective date
For the avoidance of doubt, in approving this Policy report, authority is given to the Company to honour any commitments entered into with current or former Directors that have been disclosed to shareholders in previous Remuneration reports. Details of any payments to former Directors will be set out in the Annual report on remuneration as they arise.

Discretion retained in operating incentive plans
The annual bonus plan and LTIP will be operated according to the rules of each respective plan and consistent with normal market practice and the Listing Rules. The quantum and performance targets applicable to awards will be within the parameters described above. Subject to that, the Committee has certain flexibility and the ability to exercise judgement in a number of regards, including:

- who participates in the plans;
- when to make awards and payments;
- how to determine the size of an award, a payment, or when and how much of an award should vest;
- how to deal with a change of control or restructuring of the Group;
- whether a Director is a good or bad leaver and whether and what proportion of awards vest at the time of leaving and at the original vesting date(s);
- how and whether an award may be adjusted in certain circumstances (e.g. for a rights issue, corporate restructuring or special dividend); and
- what the weighting, measures and targets should be for the annual bonus and LTIP from year to year.

The Committee also retains the discretion within the policy to adjust targets and/or set different measures and alter weightings for the annual bonus plan and to adjust targets for the LTIP if events happen that cause it to determine that the conditions are unable to fulfil their original intended purpose. However, varied performance conditions must in the Committee's opinion not be materially easier or more difficult to satisfy than the original conditions were when they were set.

All historic awards that were granted under any current or previous share schemes operated by the Company but remain outstanding remain eligible to vest based on their original award terms.

Share ownership requirement
The Committee's policy is to have shareholding requirements for the Executive Directors which create greater alignment between their interests and those of shareholders and reduce the potential for behaviours and actions which are detrimental to the long-term health of the Company. The required level is set at 100 per cent of salary.

Non-Executive Directors' policy table

Element and how it supports the KCOM Group strategy	How does this operate and what is the maximum that may be paid?
Fees Fees are set to recognise the responsibility and experience of the individual and enable us to attract and retain the right calibre of individual.	Fees are normally reviewed at least annually and may be adjusted as necessary to align with market rates in companies of a comparable size and to take account of factors such as the time commitment of the role. The Chairman is paid an all-encompassing fee to take account of all Board responsibilities. The other Non-Executive Directors receive a base fee with additional fees paid for additional responsibility, such as the chairing of a Committee and performing the role of Senior Independent Director. No Non-Executive Directors participate in any of the Company's incentive arrangements and no benefits or other remuneration are provided. Non-Executive Directors will be reimbursed for any normal business related expenses.
	What performance measures are used and why?
	Fees are not performance-related; however performance is addressed through regular one-to-one meetings between the Chairman and each Non-Executive Director.
	Are there any provisions to recover sums paid?
	There are no provisions to recover any sums paid.

How does the Remuneration policy for Executive Directors differ from that of other employees?

Overall, the Remuneration policy set for the Executive Directors ensures their remuneration is more heavily weighted towards performance-related variable pay than for other employees. As such, a greater proportion of their remuneration is dependent upon the successful delivery of the business strategy.

Base salary

- As for the Executive Directors, the basic pay for each employee is reviewed at least annually in comparison to market rate information and individual performance and increased if appropriate, also taking into account the overall financial performance of the Group.

Benefits

- Flexible benefits can be purchased each year by all employees and include dental cover, childcare vouchers, additional life assurance, additional income protection and employees also have the opportunity to buy or sell holiday entitlement. In addition senior employees are entitled to private medical insurance, either as part of their package or as an option to purchase as a flexible benefit.

Retirement benefits

- All employees are entitled to pension contributions from the Group, which increase as the employee contribution increases.

Annual bonus

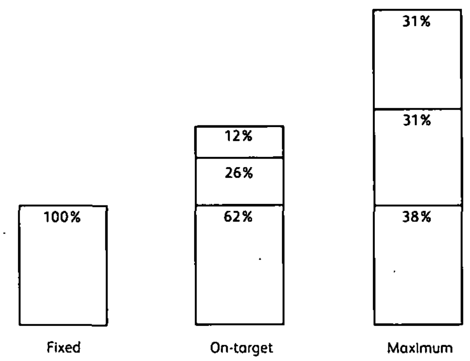
- All employees, other than those eligible for commission payments, are entitled to participate in the bonus scheme in which the Executive Directors participate, with maximum awards set as a percentage of salary, depending on seniority. Performance is measured in the same way as for the Executive Directors but with more challenging targets for the Executive Directors to achieve maximum pay-out.

Long-term incentives

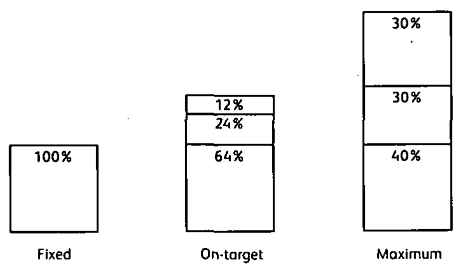
- Long-term incentive awards are reserved for those individuals most able to directly influence Company strategy. Along with the Executive Directors, selected senior managers are also invited to participate in the LTIP scheme. The performance targets and performance period for these awards are the same as those for the Executive Directors.

What might Executive Directors be paid under the Remuneration policy?

Bill Halbert



Paul Simpson



Fixed remuneration Annual bonus Long-term share awards

Chart assumptions

The charts above show how much Bill Halbert and Paul Simpson could earn under KCOM Group's Remuneration policy as detailed on pages 46 and 47. The different scenarios shown in the graphs are:

- fixed, where performance is below threshold and Executive Directors receive fixed pay only with no vesting under the LTIP and no annual bonus;
- on-target, where Executive Directors receive their fixed pay plus a bonus at the mid-point of the range, representing 50 per cent of the maximum opportunity and vesting of 25 per cent of the maximum under the LTIP; and
- maximum, where performance meets or exceeds the maximum and the Executive Directors receive their fixed pay plus the maximum bonus and maximum vesting of the LTIP.

Fixed pay comprises:

- salaries, with an increase of 2.75 per cent effective from 1 July 2014;
- benefits, equivalent to the amount received by each Executive Director in the year to 31 March 2014; and
- pension, equivalent to 20 per cent of the base salary for the year.

It should be noted that since the analysis above shows what could be earned by the Executive Directors based on the 2014/15 financial year Remuneration policy described on pages 46 and 47, the numbers will be different to the values included in the table on page 53 detailing what was actually earned by the Executive Directors in the year to 31 March 2014, since these values are based on the actual levels of performance to 31 March 2014.

The charts above do not include what Kevin Walsh might be paid given that he will no longer be a Director on the date the policy becomes effective.

Recruitment policy

This table sets out the Company's policy on recruitment of new permanent Executive Directors for each element of the remuneration package.

Remuneration element	Policy on recruitment
Base salary	The Remuneration Committee will typically offer salaries around the median market level for comparative roles, but salaries above or below this level may be set to recognise the experience of the individual, the wider economic climate and pay and conditions throughout the Group. Where it is appropriate to set a lower salary initially, a series of increases above the level awarded to the wider workforce may be given over the proceeding few years until the desired positioning is achieved, subject to individual performance. This may apply to those promoted internally in the Group as well as to those recruited from outside.
Benefits	The Remuneration Committee will offer a benefits package that will be set in line with its policy for existing Executive Directors. In addition to the benefits currently available to existing Executive Directors, the Committee may also offer an allowance to cover relocation expenses as appropriate.
Retirement benefits	The maximum pension contribution will be set in line with the Company's policy for existing Executive Directors at 20 per cent of base salary.
Annual bonus	The Remuneration Committee will offer an annual bonus in line with its policy for existing Executive Directors of up to 100 per cent of salary. Different performance measures may be set initially depending on the point in the financial year at which the individual joined. The opportunity for an annual bonus will be pro-rated for the period of employment.
Long-term incentives	On an ongoing basis awards will be made in line with the policy for other Directors. In the year of recruitment a higher award may be made within the approved limits of the plan (200 per cent of salary in exceptional circumstances, such as recruitment).
'Buy-outs'	The Committee may offer additional cash and/or share-based elements when it considers these to be in the best interests of shareholders and the Company. Any such payments would be based solely on remuneration relinquished when leaving the former employer and would reflect (as far as possible) the nature and time horizons attaching to that remuneration and the impact of any performance conditions. The Remuneration Committee's policy on the 'buying-out' of existing incentives granted by the Executive's previous employer will depend on the circumstances of recruitment and will be negotiated on a case-by-case basis. There will not be a presumption in favour of buy-out but it will be considered if necessary to attract the right candidate.

In total the maximum variable pay level in the year of appointment – excluding the value of any buy-out awards – will be 300 per cent of salary.

For an internal executive appointment, any variable pay element awarded in respect of the prior role would be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment. In addition, any other ongoing remuneration obligations existing prior to appointment would continue.

Non-Executive Directors
On the appointment of a new Non-Executive Chairman or Non-Executive Director, fees will be set to take account of the calibre and experience of the individual, prevailing market rates in companies of a similar size and the expected time commitment associated with the role.

Service contracts and letters of appointment policy

Service contracts
It is the policy of the Group that the notice period for Executive Directors is set at six months for either party. Prior to 2008, the notice period for Executive Directors was set at 12 months. The decision has been taken not to retrospectively alter the notice period for those Directors appointed with a 12 month notice period.

Letter of appointment
Non-Executive Directors are appointed by letters of appointment rather than service contracts and the notice period in all letters of appointment is set at six months for either party.

Copies of the Directors' service contracts and letters of appointment are available for inspection during office hours at our head office at 37 Carr Lane, Hull, HU1 3RE. There are no obligations on the Group in any of the service contracts or letters of appointment to make payments beyond those disclosed in this report.

Payments for loss of office

This table sets out the policy on exit payments in relation to each remuneration element for Executive Directors.

The Committee is clear that there will be a consistent approach to exit payments and no reward for poor performance. No amount is payable if an Executive Director is dismissed for serious breach of contract, serious misconduct or under-performance or acts that bring the Executive Director or Group into serious disrepute.

The Non-Executive Directors' letters of appointment do not include any compensation for loss of office.

Remuneration element	Treatment on exit
Base salary	Salary will be paid over the contractual notice period. In all cases the Company will seek to mitigate any payments due and the Executive Directors have a contractual duty to use reasonable endeavours to obtain alternative income, which can then be used to reduce the salary if being paid by instalments. However, the Company has discretion to make a lump sum payment on termination in lieu of notice.
Benefits and retirement benefits	Benefits and retirement benefits will normally continue to be provided over the notice period. In all cases the Company will seek to mitigate any payments due. However, the Company has discretion to make a lump sum payment on termination equal to the value of the benefits payable during the notice period.
Annual bonus	Whether an annual bonus payment is made is entirely at the discretion of the Remuneration Committee and would be pro-rated to the time of active service in the year of cessation. The decision of the Committee would take into consideration the performance of the individual, the circumstances of the departure and the financial performance of the Group.
LTIP	Normally awards will lapse on cessation of employment, unless the Company determines and the Remuneration Committee agrees that the Executive is a good leaver. Good leaver status is usually conferred for one of the following reasons; death, ill-health, injury or disability, retirement, redundancy, or other circumstances at the discretion of the Committee. Good leavers will be treated in accordance with the rules of the LTIP, as approved by shareholders. In these circumstances a participant's awards vest on a time pro-rata basis subject to the satisfaction of the relevant performance criteria over the original period, with the balance of the awards lapsing. The Committee retains discretion to decide not to pro-rate, to alter the basis of time pro-rating, and to alter the date on which performance is calculated if it feels such decisions are appropriate in particular circumstances.

Payments on a change of control, where a Director's employment is adversely changed, will be as on termination. There will be no enhanced provisions on a change of control.

Policy on outside appointments

We believe that where Board members hold directorships in other companies the Group can benefit from their experience. As a result, and subject to the Board's prior approval, Executive Directors may take on more than one external non-executive directorship and retain the fees earned.

Annual report on remuneration

This part of the Directors' Remuneration report sets out the amounts paid to Directors for the year ended 31 March 2014 and describes how policy will be implemented in 2014/15. The Annual report on remuneration, along with the statement from the Chairman of the Remuneration Committee, will be put to an advisory vote at the AGM on 29 July 2014.

Implementation of policy for 2014/15
The table below sets out how the Remuneration policy will be implemented for the 2014/15 financial year:

Executive Directors

	Bill Halbert	Paul Simpson	Kevin Walsh
Base salary	From 1 July 2014 Bill's base salary has been increased to £396,872. This is an increase of 2.75 per cent.	From 1 July 2014 Paul's base salary has been increased to £262,126. This is an increase of 2.75 per cent.	Kevin's base salary will remain the same as in 2013/14, up to the date of his retirement, at £242,050.
Benefits	The benefits to be provided remain unchanged from 2013/14. These include private medical insurance for the Executive and his immediate family, income protection, life assurance, a car allowance of £16,000 per annum for Bill and £14,000 per annum for Paul and Kevin or an equivalent company car, a fully-expensed fuel card, medical screening and the opportunity to participate in the all-employee Share Incentive Plan. The Executive Directors are also able to purchase additional flexible benefits which are available to all employees. The benefits for Kevin in 2014/15 will be pro-rated to his date of retirement.		
Retirement benefits	*Each Executive Director is entitled to an employer pension contribution of 20 per cent of base salary.*		
Annual bonus	The performance measures for the annual bonus scheme are growth in EBITDA and growth in revenue, measured for the 2014/15 financial year. Both Bill and Paul have a target annual bonus entitlement of 50 per cent of base salary. Up to 20 per cent of the target entitlement, equivalent to 10 per cent of base salary, is triggered upon exceeding a specific targeted level of EBITDA. If the EBITDA achieved in the year is greater than that required to trigger the full 20 per cent payment then further bonus payments begin to accrue, however payment of any bonus beyond the 20 per cent is dependent on an underpin of revenue growth in the year. Even more stretching financial targets are in place for a bonus of between 50 per cent and 100 per cent of base salary. The exact targets set are commercially sensitive and therefore cannot be disclosed here.		Kevin will not be entitled to a bonus for the 2014/15 financial year, given his indication of his intention to retire in the summer of 2014.
Long-term incentives	It is proposed to award LTIP awards to Bill and Paul in July 2014 under the current scheme, which will be equivalent to 100 per cent of their base salary at the date of grant. These awards will have a three year performance period and therefore will be due to vest in July 2017.		Kevin will not be eligible for an LTIP award in July 2014, given his intention to retire in the summer of 2014.

Base salary increases
The base salaries of the Executive Directors have not increased since 1 July 2011. On 1 July 2012 all employees, excluding Executive Directors and senior managers, were awarded a two per cent increase. From 1 July 2014 an average pay rise of 1.66 per cent will be awarded to employees across the Group based on individual performance and the market rate for their role.

The Remuneration Committee has reviewed the performance of the Group, the individual performance of the Executive Directors and the pay awards made elsewhere in the Group since the last increase for Executive Directors in 2011 and has proposed a 2.75 per cent increase for Bill Halbert and Paul Simpson effective from 1 July 2014. Following this increase we can confirm that the salaries for Bill and Paul are consistent with median market rates.

Non-Executive Directors

	Graham Holden	Tony Illsley	Martin Towers
Fees	From 1 April 2014, Graham was appointed to the role of Chairman and from that date his fee became £125,000 per annum, which is in line with the median market rate for his role.	The fee for Tony will be increased to £43,000 from 1 July 2014 to reflect an increase in the median market rate for the role. This is an increase of 2.4 per cent and is the first increase in three years. Tony will also receive an additional fee of £11,000 for his role as Senior Independent Director.	The fee for Martin will be increased to £43,000 from 1 July 2014 to reflect an increase in the median market rate for the role. This is an increase of 2.4 per cent and is the first increase in three years. Martin will also receive an additional fee of £6,000 for his role as Chairman of the Audit Committee.

Annual report on remuneration continued

Executive Directors

Single total figure table (audited)	Bill Halbert FY2014 £'000	Bill Halbert FY2013 £'000	Paul Simpson FY2014 £'000	Paul Simpson FY2013 £'000	Kevin Walsh FY2014 £'000	Kevin Walsh FY2013 £'000	Total FY2014 £'000	Total FY2013 £'000
Fixed pay								
Base salary	386	386	255	273	241	242	882	901
Taxable benefits	16	16	24	17	17	26	57	59
Pension-related benefits	66	66	49	51	47	46	162	163
Sub-total	**468**	**468**	**328**	**341**	**305**	**314**	**1,101**	**1,123**
Performance-related pay								
Bonus receivable for the year	27	—	18	—	17	—	62	—
Long-term incentives	—	4,323	413	699	413	699	826	5,721
Sub-total	**27**	**4,323**	**431**	**699**	**430**	**699**	**888**	**5,721**
Total	**495**	**4,791**	**759**	**1,040**	**735**	**1,013**	**1,989**	**6,844**

Non-Executive Directors

Single total figure table (audited)	Graham Holden FY2014 £'000	Graham Holden FY2013 £'000	Tony Illsley FY2014 £'000	Tony Illsley FY2013 £'000	Martin Towers FY2014 £'000	Martin Towers FY2013 £'000	Total FY2014 £'000	Total FY2013 £'000
Fees	47	47	52	52	47	47	146	146
Total	**47**	**47**	**52**	**52**	**47**	**47**	**146**	**146**

Explanatory notes

Salary
In 2012/13 Paul Simpson's salary included an annual allowance for dual responsibility of £18,000 in relation to his temporary responsibility for the Kcom brand. This allowance was not pensionable or subject to bonus and ceased on 1 April 2013.

The salary for Kevin Walsh has remained consistent with the prior year at £242,050; however his actual pay in the year was slightly lower due to some unpaid leave that Kevin requested to take in the year.

Taxable benefits
Bill Halbert received a car allowance of £16,000 but elected not to receive any other benefits from the Group. The taxable benefits for Paul Simpson and Kevin Walsh include private medical insurance, income protection, life assurance, medical screening, a company car equivalent to a £14,000 per annum car allowance, fully-expensed fuel cards and membership of the all-employee Share Incentive Plan.

Pension-related benefits
Bill Halbert has elected not to be a member of the Group pension scheme and, accordingly, the Group made no contributions on his behalf. Instead he received cash payments totalling £65,905 (2013: £65,905) which are disclosed above within pension-related benefits.

Paul Simpson and Kevin Walsh elected to receive part of their pension contribution entitlement in cash due to their Pension Lifetime Allowance contributions being reached. These amounts were £15,000 (2013: £5,000) and £12,000 (2013: £14,000) respectively and are included in the table above within pension-related benefits.

None of the Directors have any prospective entitlement to defined benefits or cash balance benefits in respect of qualifying services.

Bonus receivable for the year
The annual bonus was dependent on the achievement of Group financial performance targets around growth in Group EBITDA and Group revenue. Up to 20 per cent of the target bonus entitlement (of 50 per cent of salary) was dependent on exceeding a targeted level of Group EBITDA. Further bonus awards would then accrue on a straight-line basis up to 50 per cent of salary, dependent on the amount of Group EBITDA achieved and with an underpin of Group revenue growth. Even more stretching targets were then in place to achieve a bonus above the targets bonus entitlement, up to 100 per cent of salary.

The performance in the year exceeded the targeted level of Group EBITDA required to trigger a bonus and indicated that a bonus of 14 per cent of the target bonus entitlement (equivalent to seven per cent of salary) was payable. This was reviewed by the Remuneration Committee, along with the individual performance of the Executive Directors, and it was agreed that 14 per cent of the target bonus entitlement should be awarded.

Long-term incentives
In the prior year, two long-term incentive schemes vested: the Long-Term Co Investment Plan (LTCIP) and the Executive Incentive Plan (EIP). In the year under review further shares were released from the EIP to Paul Simpson and Kevin Walsh. Further details on these schemes are included on page 55.

Included within the EIP vesting figures were dividends of £Nil (2013: £485,000) for Bill Halbert, £58,000 (2013: £78,000) for Paul Simpson and £58,000 (2013: £78,000) for Kevin Walsh.

Non-Executive Directors
The fees for the Non-executive Directors were set at £42,000 per annum with an additional £5,000 per annum for the responsibility of chairing the Remuneration or Audit Committee and an additional £10,000 for the role of Senior Independent Director.

Share awards outstanding at the year end

The Long Term Incentive Plan (LTIP)

On 19 July 2012 a new long-term incentive scheme, the LTIP, was approved by shareholders. The scheme authorises the Remuneration Committee to grant nil-cost share options to the Executive Directors and selected senior managers on an annual basis.

Awards made under the LTIP scheme (audited)

	Date of grant	Share price at date of grant	Nil cost options outstanding on 1 April 2013 000's of options	Nil cost option awarded in the year 000's of options	Nil cost options outstanding on 31 March 2014 000's of options	Face value of maximum award[1] £'000	Award that would vest at threshold performance[2] 000's of options	End of performance period
Bill Halbert	19 July 2012	76.35p	518	–	518	396	130	19 July 2015
	17 July 2013	82.50p	–	468	468	386	97	17 July 2016
Paul Simpson	19 July 2012	76.35p	342	–	342	261	86	19 July 2015
	17 July 2013	82.50p	–	309	309	255	64	17 July 2016
Kevin Walsh	19 July 2012	76.35p	325	–	325	248	81	19 July 2015
	17 July 2013	82.50p	–	293	293	242	60	17 July 2016

1. Face value has been calculated using the share price at the date of grant.
2. Threshold performance is 25 per cent.

The scheme measures TSR performance over a three year performance period from the date of grant, relative to the TSR performance of each company within a comparator group, comprising those companies within the FTSE 250 (excluding investment trusts) as at the start of the performance period.

No part of the awards may vest unless the Company's TSR performance ranks at least median to the TSR performance of the comparator group. Performance at median would result in 25 per cent of the awards vesting, with performance between median and upper quartile resulting in a vesting of awards on a straight-line basis with 100 per cent vesting at upper quartile performance.

In addition, regardless of TSR performance, no awards shall vest unless the Remuneration Committee is satisfied that the Company's financial and non-financial performance over the performance period warrants the level of vesting set out in the vesting schedule. The Committee will consider the Company's share price progression, dividend policy and EPS performance as part of this review.

The first awards under the scheme were made on 19 July 2012 with a second award made on 17 July 2013. The maximum award granted to each Director at each award date was equivalent to 100 per cent of base salary at the time of the award.

Shares released during the year

EIP

The EIP was introduced in 2009 at the request of shareholders, as the Group's main long-term incentive scheme. All the Executive Directors participated in this scheme and were granted a conditional right to a number of ordinary shares in the Group which would vest after three years to the extent that the associated TSR performance condition was met. No further awards will be made under the EIP.

The maximum awards and amounts vested for the EIP (audited)

	Date of grant	Market price at date of grant	Maximum award 000's of shares	Actual award vested at 24 July 2012 000's of shares	Market price at date of vesting	Released on 24 July 2012 000's of shares	Value of shares released on 24 July 2012 £'000	Released on 24 July 2013 000's of shares	Value of shares released on 24 July 2013 £'000	To be released on 24 July 2014 000's of shares
Current Directors										
Bill Halbert	24 July 2009	28.25p	7,480	5,187	74.0p	5,187	3,838	—	—	—
Paul Simpson	24 July 2009	28.25p	2,420	1,678	74.0p	839	621	420	355	420
Kevin Walsh	24 July 2009	28.25p	2,420	1,678	74.0p	839	621	420	355	420
Previous Director										
Paul Renucci	24 July 2009	28.25p	1,028	713	74.0p	357	264	178	151	178

For full vesting, KCOM Group's average TSR over any three month period in the three years to 24 July 2012 had to equal or exceed 100 pence. This reduced to 10 per cent vesting on a straight-line basis for a TSR of 45 pence, with no vesting below 45 pence. During the performance period the highest rolling three month TSR achieved was 81.26 pence which meant that 69.34 per cent of the maximum awards vested on 24 July 2012.

Vesting was also subject to the Remuneration Committee being satisfied that there had been a demonstrable and sustainable improvement in the Group's financial and non-financial performance over the performance period. This was considered and the Remuneration Committee took into account the increase in shareholder value over the same period, comparing the market capitalisation of the Group at 24 July 2009 of £145.9 million with the market capitalisation of the Group at 24 July 2012 of £382.3 million, showing a 162.0 per cent increase.

In addition over the performance period, dividends of £48.3 million had been paid, resulting in a total increase in shareholder value over the performance period of £284.7 million. The awards granted to the Executive Directors on the vesting of the scheme on 24 July 2012 had a market value on vesting of £6.8 million, representing just 2.4 per cent of the total increase in shareholder value over the three years of the scheme.

The vested shares were released in full to Bill Halbert at the end of the performance period as, at the time the scheme was introduced, this timescale was better aligned to his expected tenure in his role.

Paul Simpson, Kevin Walsh and former Director, Paul Renucci, all received 50 per cent of their vested shares on 24 July 2012 and 25 per cent on 24 July 2013. The remaining 25 per cent is due to be released on 24 July 2014.

Share scheme vesting in prior year

LTCIP

The LTCIP was established in 2007 with participation restricted to the Executive Directors at that time. The scheme required an Executive Director to purchase and hold KCOM Group shares for up to five years (either by transferring existing shares or through new share purchases). Purchased shares and transferred-in shares had to be held in the plan for a minimum of 12 months. Following the introduction of the EIP in 2009 no further shares could be lodged in the LTCIP.

There were three performance periods for TSR and absolute share price growth, all starting from the adoption date of the plan on 1 September 2007, and ending consecutively on 31 August 2010, 2011 and 2012. The performance periods ended on 31 August 2010 and 31 August 2011 did not result in any shares vesting. The outcome for the performance period ended on 31 August 2012 resulted in the vesting shown in the table below. Further information on the performance measures and vesting of the scheme can be found in the Directors' Remuneration report in the 2013 Annual report and accounts.

	Date of grant	Market price at date of grant[1]	Maximum potential vesting at 31 March 2012 000's of shares	Vested on 31 August 2012 000's of shares	Lapsed on 31 August 2012 000's of shares	Market price at date of vesting
Current Directors						
Paul Simpson	1 September 2007	40.86p	2,159	1,267	892	81.5p
Kevin Walsh	1 September 2007	40.86p	3,281	2,097	1,184	81.5p
Previous Director						
Paul Renucci	1 September 2007	40.86p	1,376	732	644	81.5p

1. The price on grant is an average price based on the share price at the date when purchased or transferred-in shares were entered into the plan and potential share awards were granted.

Remuneration of the Chief Executive Officer

Bill Halbert became the Chief Executive of the Group on 1 April 2014, having previously been the Executive Chairman and performing a dual role of both Chief Executive and Chairman. The table below sets out the remuneration for Bill Halbert in his role as Executive Chairman in each of the last five years:

	FY2014 £'000	FY2013 £'000	FY2012 £'000	FY2011 £'000	FY2010 £'000
Total remuneration	495	4,791	522	476	523
Annual bonus paid against maximum opportunity	7%	0%	10%	0%	40%
Long-term incentive vesting against maximum opportunity	N/A[1]	69.34%	N/A[1]	N/A[1]	N/A[1]

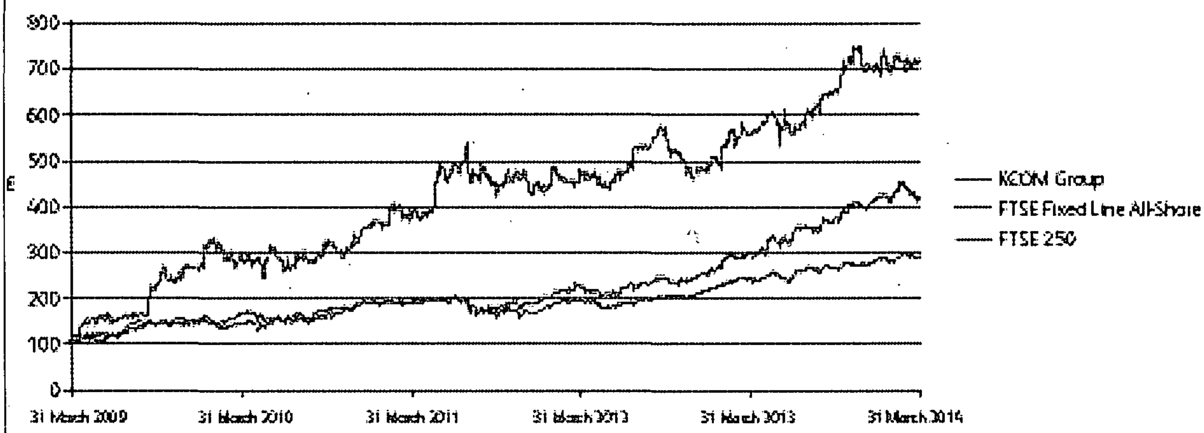
1. There was no long-term incentive scheme scheduled to vest based on performance ending in the financial years ending 31 March 2010, 2011, 2012 or 2014.

Relative Group performance

The graph below shows, for the financial year ended 31 March 2014 and for each of the previous four financial years, the TSR on a holding of the Group's ordinary shares compared with a hypothetical holding of shares in the FTSE Fixed Line All-Share and the FTSE 250. These indices have been chosen as appropriate comparators because they reflect the performance of other companies most similar to KCOM Group in terms of product and service offering and market capital.

TSR performance since 31 March 2009
KCOM Group vs. FTSE Fixed Line All-Share and FTSE 250

Value of £100 invested at 31 March 2009



Relative Group performance continued

The table below sets out the increase in the remuneration of the Executive Chairman from the prior year in comparison to the average percentage change in respect of the employees of the Group as a whole:

	Bill Halbert	Average per employee
Percentage change in the year to 31 March 2014		
Base salary	0%	1%
Benefits	0%	10%
Annual bonus	100%	100%

1. The average per employee has been calculated on a per head basis using all of the employees in the Group who have remained in the same role throughout the year, excluding the Executive Directors. This group has been selected to enable a like-for-like comparison with the Executive Chairman.

Relative spend on pay

The table below sets out the relative spend on pay for the entire KCOM Group in comparison to distributions to shareholders:

	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000	Percentage change
Total remuneration cost for all employees[1]	85,450	84,618	1%
Dividend payments to shareholders	23,764	21,387	10%

1. The total remuneration cost for all employees is taken from note 8 to the accounts on page 77 and includes wages and salaries, social security costs, other pension costs and share scheme costs.

Service contracts and letters of appointment

	Date of Board appointment	*Date of current service contract or letter of appointment*	*Notice period (months)*
Executive Directors			
Bill Halbert	1 September 2006[1]	17 June 2011	6
Paul Simpson	24 May 2004	20 June 2011	12
Kevin Walsh	24 May 2004	6 June 2011	12[2]
Non-Executive Directors			
Graham Holden	27 November 2007[3]	13 May 2014	6
Tony Illsley	2 June 2009	29 May 2009	6
Martin Towers	2 June 2009	1 June 2009	6

1. Bill Halbert was a Non-Executive Director of the Group from the date of his Board appointment until 25 November 2008, when he became Executive Deputy Chairman. On 24 July 2009 he moved into the role of Executive Chairman. From 1 April 2014 the role of the Executive Chairman was split and Bill moved into his current role as Chief Executive.
2. In November 2013 Kevin Walsh indicated that it was his intention to retire from the Group in the summer of 2014. Kevin has worked closely with the rest of the Board and the Senior Management team within the KC brand since that time to ensure a smooth and seamless transition in his operational responsibilities. As part of the planning for his departure, Kevin has agreed to sign a new service contract in the summer of 2014 which will reduce his notice period to just three months; therefore relieving the Group from the obligation to make a 12 month payment in lieu of notice from the date that he formally tenders his resignation and ensuring that his notice period does not extend beyond 12 months from the date of his initial indication.
3. Graham Holden was a Non-Executive Director of the Group from the date of his Board appointment until 1 April 2014, when he was appointed as Non-Executive Chairman.

The Remuneration Committee

The Remuneration Committee has three scheduled meetings a year and meets for additional meetings as and when required. For the year under review there were no additional meetings held.

The membership and attendance at Committee meetings is shown on page 35. Meetings were attended also during the year by the Executive Chairman, the Group HR Director and the Company Secretary, although none were present when their own reward was under discussion.

During the year under review, the Committee received advice on all aspects of remuneration from independent remuneration consultants New Bridge Street, a trading name of Aon Hewitt Limited, an Aon plc company, who were appointed by the Committee in August 2011 following a comprehensive tender process. New Bridge Street is a signatory to the Remuneration Consultants Group Code of Conduct and any advice received is governed by that code. The fee paid to New Bridge Street during the year for this advice was £45,000 which is charged as a fixed annual fee for recurring work, with separate fees agreed as appropriate for additional adhoc work.

The Committee has reviewed the operating processes in place at New Bridge Street and remains satisfied that the advice it receives is independent and objective. Aon Hewitt also provide actuarial and investment consultancy advice to the Trustees of the Group's two defined benefit pension schemes, which the Committee considers does not produce a conflict of interest.

In accordance with its Terms of Reference, the Committee is responsible for:

- determining and agreeing the Remuneration policy for the Executive Chairman or Chief Executive, the Executive Directors and senior management across the Group;
- having regard to remuneration trends across the Group and remuneration in other companies when setting Remuneration policy, as well as to environmental, social and governance matters when appropriate;
- selecting, appointing and setting the Terms of Reference for any remuneration consultants who advise the Committee;
- approving the design of, and determining targets for, any performance-related pay schemes operated by the Group and approving the total annual payments made under such schemes;
- reviewing the design of all share incentive plans for approval by the Board and shareholders and determining each year whether awards will be made and, if so, the overall amount of such awards, the individual awards and the performance targets to be used;
- determining the policy for, and scope of, pension arrangements for each Executive Director and senior management; and
- ensuring that contractual terms on termination, and any payments made, are fair to the individual and the Group, that failure is not rewarded and that the duty to mitigate loss is fully recognised.

The Committee's Terms of Reference are in line with the recommendations in the UK Corporate Governance Code and the Institute of Chartered Secretaries and Administrators' Guidance on Terms of Reference for Remuneration Committees. Copies of the Terms of Reference are available from the Company Secretary or on our website, **www.kcomplc.com**.

The specific matters considered by the Committee during the year were:

Description	What the Committee has done
Reviewing the Executive Directors' remuneration packages	The Committee reviewed benchmark analysis of the remuneration packages of the Executive Directors and the Senior Management team against comparable roles and considered market trends in remuneration across the industry and in similar sized companies.
Reviewing the proposed annual bonus scheme for the 2013/14 financial year and performance against the scheme for 2012/13	The proposed scheme for 2013/14 was reviewed by the Committee with particular emphasis on the need to ensure that the proportion of retained profit above the bonus target was appropriate. The Committee confirmed that the financial performance of the Group had not triggered a bonus payment for 2012/13 and that therefore it was correct that no bonus should be paid.
Reviewing progress on the LTIP scheme and determining the awards for 2013	The awards made in July 2013 under the LTIP scheme were reviewed and approved by the Committee. There was also a review at each meeting of progress against the performance measures, as well as a discussion around the appropriateness of the use of TSR as a single measure and the peer group used, which concluded that these were still appropriate.
Reviewing the Directors' Remuneration report in the annual report and accounts	The Directors' Remuneration report in the 2013 annual report and accounts was reviewed by the Committee during the year. Post year end the Committee has reviewed the new disclosures required under Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and has approved the current Remuneration report as compliant with the new requirements.
Reviewing the approach to pay reviews across the Group and specifically for senior management	The approach to pay reviews across the Group was discussed by the Committee, in particular in relation to how it aligned with the pay review approach for Executive Directors.
Reviewing the leaving arrangements in relation to the retirement of Kevin Walsh	On 26 November 2013, Kevin Walsh indicated his intention to retire in the summer of 2014 which prompted a review of the leaving arrangements in place for retiring Directors. It was agreed between Kevin Walsh and the Committee that, upon formally retiring, his notice period would reduce to just three months to relieve the Group of the obligation to pay 12 months' notice from the date of his formal notice and to ensure that his notice period does not extend beyond 12 months from the date of his initial indication.

Directors' interests in shares (audited)

	As at 31 March 2014					
	Shares owned outright	Shares subject to deferral	Nil-cost share options subject to performance conditions[2]	Actual share ownership as a percentage of salary on 31 March 2014[3]	Required share ownership as a percentage of salary	Requirement met?
Executive Directors						
Bill Halbert	2,482,371	—	986,637	638%	100%	Yes
Paul Simpson	520,205[1]	419,507	651,654	202%	100%	Yes
Kevin Walsh	608,772[1]	419,507	618,292	250%	100%	Yes
Non-Executive Directors						
Graham Holden	50,000	—	—	—	—	—
Tony Illsley	—	—	—	—	—	—
Martin Towers	237,990	—	—	—	—	—

1. This includes matching shares awarded under the SIP which may be subject to forfeiture in certain circumstances.
2. These are awards made under the LTIP scheme, further details of which can be found on page 54.
3. Calculated using the closing mid-market price of KCOM Group PLC shares on 31 March 2014 and only those shares owned outright by the Executive Directors and their connected persons.

The table above sets out the interests of all the Directors (as listed on pages 30 and 31) and their connected persons in the Group's shares.

The Group Share Incentive Plan (SIP) is open to all employees and offers free matching shares on a sliding scale from 2:1 for monthly contributions of £20 to 1:3 for monthly contributions over £51. Currently over 850 employees participate in the scheme, including two of the Executive Directors

There has been a change since the end of the year where the Executive Directors participate in the SIP, for which we make monthly announcements as required under Section 5.6.1 of the Disclosure and Transparency Rules. This has resulted in the following additional shares being held:

	Shares owned outright
Executive Directors	
Paul Simpson	700[1]
Kevin Walsh	769[1]

1. This includes matching shares awarded under the SIP which may be subject to forfeiture in certain circumstances.

Remuneration report continued

Shareholder views
At the 2013 AGM there was an advisory vote taken on the Directors' Remuneration report as a whole, in accordance with the previous legislation. The outcome of this vote was:

Total votes cast[1]
366,547,373

Votes for
Votes against

Votes for
361,403,839 (98.6%)
Votes against
5,143,534 (1.4%)
Votes withheld[2]
6,507,672

1. The total votes cast represents 70.95% of the total issued share capital.
2. A 'vote withheld' is not a vote in law and is therefore not counted in the calculation of the proportion of votes 'for' and 'against'.

Outside appointments
In 2013/14 Bill Halbert received no direct remuneration for his external non-executive positions. On 10 February 2014 Kevin Walsh was appointed as chairman of Manx Telecom Plc. His remuneration for the period to 31 March 2014 was £11,360, which the Board has agreed he should retain.

General information (audited)
The closing mid-market price of KCOM Group PLC shares on 31 March 2014 was 99.2 pence. The high and low closing mid-market share prices during the year were 105.00 pence and 76.85 pence respectively.

Signed on behalf of the Board.

Kathy Smith
Company Secretary
18 June 2014

Independent auditors' report

to the members of KCOM Group PLC

Report on the financial statements

Our opinion

In our opinion:

- the financial statements, defined below, give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2014 and of the Group's profit and of the Group's and Parent Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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

What we have audited

The Group financial statements and Parent Company financial statements (the 'financial statements'), which are prepared by KCOM Group PLC, comprise:

- the Consolidated and Parent Company balance sheets as at 31 March 2014;
- the Consolidated income statement and statement of comprehensive income for the year then ended;
- the Consolidated and Parent Company statements of changes in equity and cash flow statements for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and IFRSs as adopted by the European Union and, as regards the Parent Company, as applied in accordance with the provisions of the Companies Act 2006.

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual report and accounts (the 'Annual Report'), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)'). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and Parent Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Overview of our audit approach

Materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the Group financial statements as a whole to be £2.5 million, being five per cent of the Group's consolidated profit before tax. We have had regard to profit before tax as we believe this is the most appropriate measure of Group performance.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.1 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Overview of the scope of our audit

The Group is structured along two business segments, being KC and Kcom. Within these segments are five individual trading subsidiary entities (the 'trading entities'). Together with the Group's centralised PLC function, these trading entities form the consolidated financial statements.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed by us at each trading entity to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. We determined that each of the trading entities required an audit of their complete financial information. This together with the audit of the Group's centralised PLC function, including the consolidation, gave us the evidence we needed for our opinion on the Group financial statements.

Areas of particular audit focus

In preparing the financial statements, the Directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In summary, we considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of focus identified by our audit. We discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on page 39.

Independent auditors' report continued

to the members of KCOM Group PLC

Area of focus	How the scope of our audit addressed the area of focus
Valuation of goodwill and other intangible assets We focused on this area due to the size of goodwill and other intangible asset balances and because the directors' assessment of the carrying value of the Group's cash generating units ('CGUs') involves subjective judgements about the future results of the Kcom, Smart421 and Eclipse parts of the business.	*We evaluated the Directors' future cash flow forecasts, and the process by which they* were drawn up, including comparing them to the latest Board approved budgets, and testing the underlying calculations. We challenged: • the Directors' key assumptions for long-term growth rates in the forecasts by comparing them to historical results and long-term growth forecasts for the economy; and • the discount rate by assessing the cost of capital for the company and comparable organisations. We also performed sensitivity analysis around the key drivers of the cash flow forecasts, being projected revenue and EBITDA growth in the respective CGUs. Having ascertained the extent of change in those assumptions that either individually or collectively would be required for the goodwill and other intangible assets to be impaired, we considered the likelihood of such a movement in those key assumptions arising and whether there was adequate disclosure of such sensitivities in the financial statements.
Valuation of defined benefit pension scheme liabilities We focused on this area because the Group operates two defined benefit pension scheme arrangements and the valuation of each scheme's liability is sensitive to a number of judgemental assumptions made by the directors, in particular the discount rate and inflation rate. A small change in these assumptions can have a material impact on the financial statements.	We considered and challenged the reasonableness of the key assumptions (including the discount rate and inflation rate) by comparing the Directors' assumptions to benchmark assumptions and evaluating the sensitivity of the valuation of the liabilities to movements in those assumptions, both individually and in aggregate. We also assessed whether the methods used to determine the key assumptions were consistently applied year-on-year.
Capitalisation of internal project costs We focused on this area because the Group is investing significantly in its back office systems and core IT applications. In the year this has resulted in the capitalisation of £4.6 million of internal salary costs. There is a degree of judgement involved in determining the element of internal salaries that is directly attributable to this project and as such should be capitalised. There is also judgement involved in assessing the recoverability of the carrying value of the asset created from the project.	We tested capitalised salary costs to supporting payroll records to agree the existence of individuals, hours charged and to evaluate whether the costs were directly attributable to the capital project. The Directors made an assessment of the recoverability of the carrying value of the capitalised asset. The Directors assessed and compared actual spend to date to budgeted spend; and total forecast spend to the forecast cost savings and payback period, compared to the carrying value and estimated useful life of the asset created. We evaluated the Directors' assessment by testing costs capitalised to date by agreeing to supporting evidence and assessing these costs against the original Board approved business case.
Accounting for judgements in significant contracts We focused on this area because a number of significant customer and supplier contracts exist within the Group. The accounting for each of these contracts requires judgement in terms of both the timing and amount of both revenue and cost recognition.	We challenged the judgements made by management in the calculation of certain contractual revenues, including whether the Group was entitled to, and appropriately recognised revenue in line with their contractual obligations and revenue recognition policy. We also tested the related cost recognition and evaluated the consistency of this against the revenue recognition policy and the completeness of costs recognised.
Fraud in revenue recognition ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition because of the pressure management may feel to achieve the planned results. We focused on the risk that revenue may have been recognised in all revenue streams for transactions that had not occurred.	We evaluated the relevant IT systems and tested the operating effectiveness of internal controls, relating to calls and rentals, designed to verify whether revenue transactions had occurred and were entitled to be recognised in the financial statements We also tested the reconciliations between the revenue systems used by the Group and its financial ledgers. Our testing of contractual revenue streams to assess whether a service had been provided or a product sale had occurred focused on understanding whether cash had been received and agreeing the timing of services performed to supporting documentation including customer contracts and, where relevant, project information including timesheets. We also tested journal entries posted to revenue accounts to obtain evidence for unusual or irregular items.
Risk of management override of internal controls ISAs (UK & Ireland) require that we consider this.	We assessed the overall control environment of the Group, including the arrangements for staff to 'whistle-blow' inappropriate actions, and interviewed senior management and the Group's internal audit function. We examined the significant accounting estimates and judgements relevant to the financial statements for evidence of bias by the Directors that may represent a risk of material misstatement due to fraud. We also tested manual journal entries to determine that the adjustments made were appropriate.

Report on the financial statements continued

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 43, in relation to going concern. We have nothing to report having performed our review.

As noted in the directors' statement, the directors have concluded that it is appropriate to prepare the Group's and Parent Company's financial statements using the going concern basis of accounting. The going concern basis presumes that the Group and Parent Company have adequate resources to remain in operation, and that the directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and the Parent Company's ability to continue as a going concern.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law have not been made. We have no exceptions to report arising from this responsibility.

Corporate Governance Statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Parent Company's compliance with nine provisions of the UK Corporate Governance Code ('the Code'). We have nothing to report having performed our review.

On page 43 of the Annual Report, as required by the Code Provision C.1.1, the directors state that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy. On page 39, as required by C.3.8 of the Code, the Audit Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- the statement given by the directors is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report arising from this responsibility.

Other information in the Annual Report

Under ISAs (UK & Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Parent Company acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' responsibilities statement set out on page 43, the directors are responsible for the preparation of the Group and Parent Company financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the Group and Parent Company financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Ian Morrison

Ian Morrison (Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
18 June 2014

Consolidated income statement

for the year ended 31 March 2014

	Notes	2014 £'000	Restated[1] 2013 £'000
Revenue	4	**370,697**	372,869
Operating expenses	5	**(315,090)**	(319,929)
Operating profit		**55,607**	52,940
Analysed as:			
EBITDA before exceptional items	4	**75,291**	74,862
Exceptional items	7	**588**	(2,310)
Depreciation of property, plant and equipment	4	**(16,882)**	(15,890)
Amortisation of intangible assets	4	**(3,390)**	(3,722)
Finance costs	9	**(5,075)**	(5,241)
Share of (loss)/profit of associates	4	**(2)**	10
Profit before taxation	4	**50,530**	47,709
Taxation	10	**(11,760)**	(11,864)
Profit for the year attributable to owners of the parent		**38,770**	35,845
Earnings per share			
Basic	12	**7.64p**	7.08p
Diluted	12	**7.55p**	6.99p

The Company has elected to take the exemption under Section 408 of the Companies Act 2006 not to present the Parent company income statement or statement of comprehensive income.

The profit for the Parent company for the year was £23,764,000 (2013: £32,785,000).

Consolidated statement of comprehensive income

for the year ended 31 March 2014

	Notes	2014 £'000	Restated[1] 2013 £'000
Profit for the year		**38,770**	35,845
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurements of retirement benefit obligations	28	**(16,630)**	4,705
Tax on items that will not be reclassified	24	**2,997**	(1,593)
Total items that will not be reclassified to profit or loss		**(13,633)**	3,112
Items that may be reclassified subsequently to profit or loss			
Cash flow hedge fair value movements	26	**1,377**	582
Tax on items that may be reclassified	24	**(275)**	(133)
Total items that may be reclassified subsequently to profit or loss		**1,102**	449
Total comprehensive income for the year attributable to owners of the parent		**26,239**	39,406

The notes on pages 69 to 94 are an integral part of these consolidated financial statements.

1. The comparative results have been restated for changes in IAS 19 (Employee benefits). See note 28 for further details.

Balance sheets
as at 31 March 2014

	Notes	Consolidated 2014 £'000	Consolidated 2013 £'000	Parent company 2014 £'000	Parent company 2013 £'000
Assets					
Non-current assets					
Goodwill	14	**85,272**	85,272	**—**	—
Other intangible assets	15	**22,669**	14,354	**—**	—
Property, plant and equipment	16	**123,839**	119,270	**—**	—
Investments	17	**20**	22	**494,461**	494,461
Deferred tax assets	24	**10,351**	16,528	**—**	—
		242,151	235,446	**494,461**	494,461
Current assets					
Inventories	18	**2,647**	2,244	**—**	—
Trade and other receivables	19	**74,135**	70,214	**5**	4
Cash and cash equivalents	22	**9,441**	15,719	**—**	—
Derivative financial instruments	26	**—**	52	**—**	—
		86,223	88,229	**5**	4
Total assets		**328,374**	323,675	**494,466**	494,465
Liabilities					
Current liabilities					
Trade and other payables	20	**(129,708)**	(121,671)	**—**	—
Derivative financial instruments	26	**(137)**	—	**—**	—
Provisions for other liabilities and charges	23	**(365)**	(1,921)	**—**	—
Non-current liabilities					
Trade and other payables	20	**—**	—	**(2,865)**	(801)
Bank loans	21	**(84,417)**	(103,937)	**—**	—
Retirement benefit obligation	28	**(26,500)**	(9,758)	**—**	—
Derivative financial instruments	26	**(1,669)**	(3,235)	**—**	—
Provisions for other liabilities and charges	23	**(425)**	(511)	**—**	—
Total liabilities		**(243,221)**	(241,033)	**(2,865)**	(801)
Net assets		**85,153**	82,642	**491,601**	493,664
Equity					
Capital and reserves attributable to owners of the parent					
Share capital	25	**51,660**	51,660	**51,660**	51,660
Share premium account		**353,231**	353,231	**353,231**	353,231
Hedging and translation reserve	26	**(986)**	(2,363)	**—**	—
(Accumulated losses)/retained earnings		**(318,752)**	(319,886)	**86,710**	88,773
Total equity		**85,153**	82,642	**491,601**	493,664

The notes on pages 69 to 94 are an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 18 June 2014.

They were signed on its behalf by:

Bill Halbert
Chief Executive Officer
18 June 2014

Paul Simpson
Chief Financial Officer

KCOM Group PLC
Registered number: 2150618

Consolidated statement of changes in shareholders' equity

for the year ended 31 March 2014

	Notes	Share capital £'000	Share premium account £'000	Hedging and translation reserve £'000	Accumulated losses £'000	Total £'000
At 1 April 2012		51,660	353,231	(2,945)	(328,489)	73,457
Profit for the year		—	—	—	35,845	35,845
Other comprehensive income		—	—	582	2,979	3,561
Total comprehensive income for the year ended 31 March 2013 (restated[1])		—	—	582	38,824	39,406
Deferred tax charge relating to share schemes		—	—	—	(996)	(996)
Current tax credit relating to share schemes		—	—	—	2,092	2,092
Purchase of ordinary shares		—	—	—	(10,872)	(10,872)
Employee share schemes		—	—	—	942	942
Dividends	11	—	—	—	(21,387)	(21,387)
Transactions with owners		—	—	—	(30,221)	(30,221)
At 31 March 2013 (restated[1])		51,660	353,231	(2,363)	(319,886)	82,642
Profit for the year		—	—	—	38,770	38,770
Other comprehensive income		—	—	1,377	(13,908)	(12,531)
Total comprehensive income for the year ended 31 March 2014		**—**	**—**	**1,377**	**24,862**	**26,239**
Deferred tax credit relating to share schemes	24	—	—	—	134	134
Current tax credit relating to share schemes		—	—	—	301	301
Purchase of ordinary shares		—	—	—	(1,764)	(1,764)
Employee share schemes		—	—	—	1,365	1,365
Dividends	11	—	—	—	(23,764)	(23,764)
Transactions with owners		—	—	—	(23,728)	(23,728)
At 31 March 2014		**51,660**	**353,231**	**(986)**	**(318,752)**	**85,153**

The notes on pages 69 to 94 are an integral part of these consolidated financial statements.

1. The comparative results have been restated for changes in IAS 19 (Employee benefits). See note 28 for further details.

Parent company statement of changes in shareholders' equity
for the year ended 31 March 2014

	Notes	Share capital £'000	Share premium account £'000	Retained earnings £'000	Total £'000
At 1 April 2012		51,660	353,231	89,148	494,039
Profit for the year		—	—	32,785	32,785
Total comprehensive income for the year ended 31 March 2013		—	—	32,785	32,785
Purchase of ordinary shares		—	—	(10,872)	(10,872)
Employee share schemes		—	—	(901)	(901)
Dividends	11	—	—	(21,387)	(21,387)
Transactions with owners		—	—	(33,160)	(33,160)
At 31 March 2013		51,660	353,231	88,773	493,664
Profit for the year		—	—	23,764	23,764
Total comprehensive income for the year ended 31 March 2014		**—**	**—**	**23,764**	**23,764**
Purchase of ordinary shares		—	—	(1,764)	(1,764)
Employee share schemes		—	—	(299)	(299)
Dividends	11	—	—	(23,764)	(23,764)
Transactions with owners		—	—	(25,827)	(25,827)
At 31 March 2014		**51,660**	**353,231**	**86,710**	**491,601**

The notes on pages 69 to 94 are an integral part of these consolidated financial statements.

Cash flow statements

for the year ended 31 March 2014

	Notes	Consolidated 2014 £'000	Consolidated Restated[1] 2013 £'000	Parent company 2014 £'000	Parent company Restated[1] 2013 £'000
Cash flows from operating activities					
Operating profit		**55,607**	52,940	**—**	—
Adjustments for:					
– depreciation and amortisation	4	**20,272**	19,612	**—**	—
– decrease/(increase) in working capital		**1,537**	(16,211)	**2,065**	372
– restructuring cost and onerous lease payments		**(3,375)**	(4,462)	**—**	—
– pension deficit payment		**(788)**	(575)	**—**	—
Tax paid		**(1,531)**	—	**—**	—
Profit on sale of property, plant and equipment		**(456)**	(138)	**—**	—
Profit on sale of investments		**—**	(857)	**—**	—
Net cash generated from operations		**71,266**	50,309	**2,065**	372
Cash flows from investing activities					
Purchase of property, plant and equipment		**(16,207)**	(16,964)	**—**	—
Purchase of intangible assets		**(11,705)**	(11,032)	**—**	—
Proceeds from sale of property, plant and equipment		**633**	477	**—**	—
Proceeds from sale of investments		**—**	1,895	**—**	—
Dividends received		**—**	—	**23,764**	32,785
Net cash used in investing activities		**(27,279)**	(25,624)	**23,764**	32,785
Cash flows from financing activities					
Dividends paid	11	**(23,764)**	(21,387)	**(23,764)**	(21,387)
Dividend equivalent paid to participants of share schemes		**(301)**	(898)	**(301)**	(898)
Interest paid		**(4,436)**	(4,006)	**—**	—
Capital element of finance lease repayments		**—**	(136)	**—**	—
Repayment of bank loans	21	**(85,000)**	(70,000)	**—**	—
Drawdown of bank loans	21	**65,000**	90,000	**—**	—
Purchase of ordinary shares	25	**(1,764)**	(10,872)	**(1,764)**	(10,872)
Net cash used in financing activities		**(50,265)**	(17,299)	**(25,829)**	(33,157)
(Decrease)/increase in cash and cash equivalents		**(6,278)**	7,386	**—**	—
Cash and cash equivalents at the beginning of the year		**15,719**	8,333	**—**	—
Cash and cash equivalents at the end of the year	22	**9,441**	15,719	**—**	—

The notes on pages 69 to 94 are an integral part of these consolidated financial statements.

1. The comparative results have been restated for changes in IAS 19 (Employee benefits). See note 28 for further details.

Notes to the financial statements
for the year ended 31 March 2014

01 General information
KCOM Group PLC is a public limited company, which is listed on the London Stock Exchange and incorporated and domiciled in the United Kingdom. The address of the registered office is 37 Carr Lane, Hull, HU1 3RE. The nature of the Group's operations is described within the 'Strategic report' on pages 7 to 9.

02 Accounting policies
The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of accounting
The consolidated and Parent company financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss. The consolidated financial statements have been prepared on a going concern basis.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 3.

There were no new standards, amendments and interpretations that were adopted by the Group and effective for the first time for the financial year beginning 1 April 2014 that were material to the Group, with the exception of the amendments to IAS 19 'Employee Benefits (revised)'.

This standard replaces the interest cost on pension scheme liabilities and expected return on pension scheme assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability/asset. The financial statements for the year ended 31 March 2013 have been restated to apply this standard and the net impact has been an additional charge of £2.7 million to profit before tax in the income statement, see note 28 for further detail.

A number of new standards, amendments and interpretations are effective for annual periods beginning after 1 January 2013 and have not yet been applied in preparing these financial statements. None of these are expected to have a significant effect or material impact on the financial statements of the Group.

The Directors anticipate that the adoption of the other standards and interpretations on the effective date will not have a significant impact on the Group's financial results.

Basis of consolidation
Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The consolidated financial statements include the financial statements of the Company and its undertakings made up to 31 March 2014. The results of new subsidiary undertakings are included from the dates of acquisition using the purchase method of consolidation. Where a company has ceased to be a subsidiary undertaking during the year, its results are included to the date of cessation.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the income statement in the period of acquisition.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's share of its associates' profits or losses is recognised in the income statement. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

Partnerships are controlled when the Group has the power, directly or indirectly, to govern the financial and operating policies of the partnership so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The consolidated financial statements include the financial statements of the KCOM Central Asset Reserve Limited Partnership and its undertakings made up to 31 March 2014. The results of new partnership undertakings are included from the dates of acquisition using the purchase method of consolidation. Where a company has ceased to be a partnership undertaking during the year, its results are included to the date of cessation.

Segment reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the KCOM Group PLC Board of Directors. As described in note 4, the Board assessed that 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.

Revenue recognition
Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods supplied, stated net of discounts, returns and value-added taxes. The Group recognises revenue when the amount of revenue can be reliably measured when it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from calls is recognised in the Consolidated income statement at the time the call is made over the Group's network. Revenue from rentals is recognised evenly over the rental period.

02 Accounting policies continued
Revenue recognition continued
Revenue from product sales is recognised at the point of effective transfer of risk and reward. Revenue from production of directories is recognised at the point when the directory is published. For large long-term annuity and multiple element customer contracts the Group is able to distinguish between the installation and the in-life service phases of a contract. Revenue is allocated based on the fair value of the consideration which represents the market value of such services, or amounts per contracts, and will be recognised on the following basis for each phase:

- installation – within this phase revenue relating to resources and services is accounted for on a stage of completion basis where revenue is recognised with reference to the proportion of total costs incurred to date. Revenue related to equipment is accounted for based on the point of effective transfer of risks and rewards (shipment); and
- in-life service – revenue for this phase is recognised in line with the obligation to provide service as dictated by customer contracts.

Pre-contract costs, such as bid costs, on key contract wins are expensed as and when incurred.

Revenue arising from the provision of other services, including maintenance contracts, is recognised in the accounting period in which services are rendered, by reference to stage of completion of the specific transaction and assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Exceptional items
Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide better understanding of the financial performance of the Group. They are material items of income or expense that have been shown separately due to the significance of their nature or amount. In particular costs associated with organisational restructuring, costs and provisions associated with onerous contracts, profits or losses on the sale of an operation and one-off pension costs and credits are treated as exceptional items.

Intangible assets
Goodwill
Goodwill represents amounts arising on acquisition of subsidiary undertakings and is the difference between the cost of the acquisition and the fair value of the net identifiable assets at the date of acquisition.

Goodwill is stated at cost less any accumulated impairment losses and is tested annually or more frequently if events or changes in circumstances indicate potential impairment. Impairment losses on goodwill are not reversed.

Goodwill is allocated to cash-generating units (CGUs) for the purpose of impairment testing. The allocation is made to those CGUs that are expected to benefit from the business combination in which the goodwill arose. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Development costs
An internally generated intangible asset arising from the Group's internal development activities is recognised only if all of the following conditions are met:

- an asset is created that can be identified (such as software and new processes);
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Internally generated intangible assets are carried at cost less accumulated amortisation and are amortised on a straight-line basis over their useful lives. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred. Research costs are expensed to the income statement as and when they are incurred.

Customer and supplier relationships
Contractual customer and supplier relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer and supplier relations have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the relationship. These intangible assets are amortised on a straight-line basis over their useful lives.

Technology and brand
Technology and brand acquired through business combinations are recorded at fair value at the date of acquisition. Assumptions are used in estimating the fair values of acquired intangible assets and include management's estimates of revenue and profits to be generated by the acquired businesses. These intangible assets are amortised on a straight-line basis over their useful lives.

Software
Software comprises computer software purchased from third parties and also the cost of internally developed software. Computer software purchased from third parties and internally developed software is initially recorded at cost.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the criteria detailed above is met. These intangible assets are amortised on a straight-line basis over their useful lives.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

02 Accounting policies continued
Intangible assets continued
Amortisation
Amortisation of intangible assets is charged to the income statement on a straight-line basis over the estimated useful lives of each intangible asset. Intangible assets are amortised from the date they are available for use.

The estimated useful lives are as follows:

Customer and supplier relationships	up to 8 years
Technology and brand	up to 10 years
Software	up to 5 years
Development costs	3 years

Property, plant and equipment
Property, plant and equipment is stated at historical cost less accumulated depreciation and any provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Network infrastructure and related equipment (included within exchange equipment and external plant) is recorded at cost including labour costs directly attributable to the cost of the network construction. Depreciation is provided so as to write off the cost of assets to residual values on a straight-line basis over the assets' useful estimated lives as follows:

Freehold buildings	40 years
Leasehold buildings and improvements	period of lease
Exchange equipment	10 years
External plant	10 to 20 years
Vehicles, other apparatus and equipment	3 to 10 years

Freehold land is not depreciated.

The residual value, if not insignificant, is reassessed annually. Depreciation of network infrastructure and related equipment is provided for from the date the network comes into operation.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

Fixed asset investments
Fixed asset investments are shown at cost less provision for impairment. They are reviewed at each reporting date for possible reversal of the impairment.

Impairment of non-financial assets
Assets that have an indefinite useful life – for example, goodwill – are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Recoverable amount is the higher of fair value less selling costs and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units (CGUs) are allocated first to reduce the carrying amount of any goodwill allocated to CGUs and then to reduce the carrying amount of other assets in the unit on a pro-rata basis.

Inventories
Inventories are stated at the lower of cost or net realisable value. Cost is determined using the weighted average cost method. Costs include raw materials and, where appropriate, direct overhead expenses. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Provision is made for obsolete, slow moving or defective items where appropriate.

Trade receivables
Trade receivables are recognised initially at fair value and measured subsequently at amortised cost, using the effective interest method, less any impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts written off are credited against operating expenses in the income statement.

02 Accounting policies continued

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, short-term deposits and other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet, unless a right of offset exists.

Trade payables

Trade payables are recognised initially at fair value and measured subsequently at amortised cost using the effective interest method.

Share capital

Ordinary shares are classified as equity.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax payable is currently based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and/or items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised generally for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced or increased to the extent that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items recognised in other comprehensive income or directly to equity. In this case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Financial instruments and hedge accounting

Financial assets and liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its Treasury Policy, the Group does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are initially and subsequently recognised at fair value. Any gain or loss on remeasurement to fair value is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of the resultant gain or loss depends on the nature of the item being hedged.

The fair value of the interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in other comprehensive income and the ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in other comprehensive income are included in the initial measurement of the asset or liability. For hedges that do not result in recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement in the period.

Foreign currency translation

These financial statements are presented in Pounds Sterling which is the currency of the primary economic environment in which the Group operates.

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

02 Accounting policies continued

Leasing and hire purchase commitments

Leases where the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet at their fair value or, if lower, the present value of the future minimum lease payments and are depreciated over their useful economic lives. The capital elements of future obligations under finance leases and hire purchase contracts are included as liabilities in the balance sheet. The interest elements of the rental obligations are charged to the income statement over the periods of the leases and hire purchase contracts. The finance charge is allocated to each period during the lease so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the lease term.

Bank borrowings and issue costs

Bank borrowings are stated at the amount of proceeds after deduction of issue costs, which are amortised over the period of the loan. Finance charges, including direct issue costs are accounted for in the income statement on an accruals basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Borrowings are carried subsequently at amortised cost and any differences between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Pensions

Defined contribution

Obligations for contributions to the defined contribution (money purchase) scheme are charged to the income statement in the period they fall due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Defined benefit

For defined benefit retirement schemes, the cost of providing benefits is determined using a building block approach, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur and are recognised in equity and presented in the Consolidated statement of comprehensive income.

The current and past service costs of the scheme (the increase in the present value of employees' future benefits attributable to the current or prior periods) are charged to the income statement in the period. The cost or benefit of committed settlements and curtailments is recognised immediately in the income statement. The interest cost of the scheme (the expected return on scheme assets, less interest on scheme liabilities) is recognised in the income statement in the period to which it relates.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Employee share schemes and share-based payments

The Group has applied the requirements of IFRS 2. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 April 2005.

The Group issues equity settled share-based payments to certain employees.

Equity-settled employee schemes, including employee share options and discretionary long-term incentive schemes, provide employees with the option to acquire shares of the Company. Employee share options and long-term incentive schemes are generally subject to performance or service conditions.

The fair value of equity-settled share-based payments is measured at the date of grant and charged to the income statement over the period during which performance or service conditions are required to be met, or immediately where no performance or service criteria exist. The fair value of equity settled share-based payments granted is measured using either the Black-Scholes or Monte Carlo model, depending on the terms under which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of employee share options that vest, except where forfeiture is only due to market-based performance criteria not being met.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The Group also operates a Share Incentive Plan (SIP) under which employees have the option to purchase shares in the Company each month and offers employees free matching and partnership shares on a sliding scale of between 1:3 to 2:1. The Group recognises the free shares as an expense over the period of any applicable service condition, or immediately when no service condition exists.

Dividends

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or, in the case of interim dividends, paid.

Dividend income is recognised when the right to receive payment is established.

02 Accounting policies continued

Provisions

A provision is recognised in the balance sheet when the Group has a present, legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

03 Critical accounting judgements and key sources of estimation uncertainty

Impairment of non-current assets

Determining whether a non-current asset is impaired requires an estimation of the value in use and/or the estimated recoverable amount of the asset derived from the business, or part of the business, CGU, to which the non-current asset has been allocated. The value in use calculation requires an estimate of the present value of future cash flows expected to arise from the CGU, by applying an appropriate discount rate to the timing and amount of future cash flows.

The Directors are required to make judgements regarding the timing and amount of future cash flows applicable to the CGU, based on current budgets and forecasts, and extrapolated for an appropriate period taking into account growth rates and expected changes to selling prices and operating costs. The Directors estimate the appropriate discount rate using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the individual CGU.

Post-employment benefits

The Group operates two defined benefit schemes. All post-employment benefits associated with these schemes have been accounted for in accordance with IAS 19 'Employee Benefits (revised)'. As detailed within the accounting policies note, in accordance with IAS 19, all actuarial gains and losses have been recognised immediately through the Consolidated statement of comprehensive income.

For all defined benefit pension schemes, pension valuations have been performed using specialist advice obtained from independent qualified actuaries. In performing these valuations, judgements, assumptions and estimates have been made. These assumptions have been disclosed within note 28.

04 Segmental analysis

Management has determined the operating segments based on the reports reviewed by the KCOM Group PLC Board that are used to make strategic decisions. 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 Hull and East Yorkshire customers and the Eclipse, Kcom and Smart421 brands serve enterprise, public sector organisations and small business markets across the UK.

The Board assessed that the Eclipse, Kcom and Smart421 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 Eclipse, Kcom and Smart421 brands are aggregated together and reported as the 'Kcom' segment for the year ended 31 March 2014. 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.

The segment information provided to the KCOM Group PLC Board for the reportable segments, for the year ended 31 March 2014 and for the year ended 31 March 2013, is as follows:

	Revenue		EBITDA	
	2014 £'000	2013 £'000	**2014 £'000**	Restated[1] 2013 £'000
Before exceptional items				
KC	**105,021**	104,564	**56,155**	54,483
Kcom	**270,891**	273,446	**28,714**	29,379
PLC[2]	**(5,215)**	(5,141)	**(9,578)**	(9,000)
Activities before exceptional items	**370,697**	372,869	**75,291**	74,862
Exceptional items				
KC	**—**	—	**(499)**	(788)
Kcom	**—**	—	**1,864**	(1,001)
PLC[2]	**—**	—	**(777)**	(521)
Total (note 7)	**—**	—	**588**	(2,310)
Total	**370,697**	372,869	**75,879**	72,552

1. The comparative results have been restated for changes in IAS 19 (Employee benefits). See note 28 for further details.

2. PLC includes Public Company central and share scheme expenses, inter-segment eliminations and the costs, excluding current and past service costs, associated with the Group's defined benefit pension schemes and the related assets and liabilities.

04 Segmental analysis continued

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

	Notes	2014 £'000	Restated[1] 2013 £'000
EBITDA post-exceptional items		**75,879**	72,552
Depreciation	16	**(16,882)**	(15,890)
Amortisation	15	**(3,390)**	(3,722)
Finance costs	9	**(5,075)**	(5,241)
Share of (loss)/profit of associate	17	**(2)**	10
Profit before tax		**50,530**	47,709

Disclosure has not been made of segmental assets and liabilities. This is in accordance with IFRS 8 as this measure is not provided regularly to the KCOM Group PLC Board.

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

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

1. The comparative results have been restated for changes in IAS 19 (Employee benefits). See note 28 for further details.

2. PLC includes Public Company central and share scheme expenses, inter-segment eliminations and the costs, excluding current and past service costs, associated with the Group's defined benefit pension schemes and the related assets and liabilities.

Inter-segment sales are charged at prevailing market prices.

None of the revenue, operating profit or net operating assets arising outside the United Kingdom are material to the Group.

The Group is not dependent upon a single or small number of external customers.

The analysis of the Group's revenue between sale of goods and the provision of services is as follows:

	2014 £'000	2013 £'000
Sale of goods	**11,606**	17,246
Provision of services	**359,091**	355,623
Group total	**370,697**	372,869

Notes to the financial statements continued

for the year ended 31 March 2014

05 Operating expenses

Consolidated	Notes	2014 £'000	Restated[1] 2013 £'000
Staff costs		**85,953**	84,618
Restructuring costs relating to employees	7	**1,121**	2,272
Total staff costs	8	**87,074**	86,890
Own work capitalised	8	**(5,906)**	(5,504)
Other external charges[2]		**203,703**	201,518
Non-employee related pension charges	28	**500**	500
Operating lease rentals		**5,022**	4,004
Auditors' remuneration	6	**356**	249
Cost of inventories recognised as an expense		**7,412**	13,074
Foreign exchange gain		**(1,178)**	(314)
Depreciation of property, plant and equipment	16	**16,882**	15,890
Amortisation of intangible assets	15	**3,390**	3,722
Profit on disposal of property, plant and equipment		**(456)**	(138)
Profit on disposal of investments	17	**—**	(857)
Strategic pensions advice costs	7	**700**	895
Onerous lease costs	7	**178**	—
Credit on termination of contracts	7	**(2,587)**	—
Total		**315,090**	319,929

1. The comparative results have been restated for changes in IAS 19 (Employee benefits). See note 28 for further details.

2. Other external charges mainly relate to costs from key partners, such as BT wholesale.

Non-employee related pension charges represent the cost of administrating the pension schemes as set out in note 28.

06 Auditors' remuneration

During the year the Group obtained the following services from the Company's Auditors:

Consolidated	2014 £'000	2013 £'000
Fees payable to the Company's Auditors for the audit of the Company's annual financial statements and the consolidated financial statements	**62**	62
Fees payable to the Company's Auditors and its associates for other services:		
– the audit of the Company's subsidiaries	**163**	146
– audit-related assurance services	**20**	20
– tax advisory services	**35**	17
– other non-audit services	**76**	4
Total	**356**	249

07 Exceptional items

Consolidated	2014 £'000	2013 £'000
Credit on termination of contracts	**(2,587)**	—
Restructuring costs relating to employees	**1,121**	2,272
Strategic pensions advice costs	**700**	895
Onerous lease costs	**178**	—
Profit on sale of investments	**—**	(857)
(Credited)/charged to profit before taxation	**(588)**	2,310

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

Restructuring costs arise as a result of organisational changes.

Strategic pensions advice costs relate to the costs incurred for the agreements reached with the Trustees of the Group's defined benefit pension schemes to provide the Group with an efficient mechanism of funding the Schemes' current deficit position. The level of costs reflects both company and Schemes' advisor costs.

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

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

The combined tax effect of these items is a charge of £135,000 (2013: credit of £760,000) in respect of current tax and a credit of £Nil (2013: £Nil) in respect of deferred tax.

08 Employees and remuneration

The average monthly numbers (including Executive Directors) employed by the Group during the year were as follows:

	Number of employees	
	2014	2013
KC	**650**	605
Kcom	**984**	986
PLC	**273**	275
Total	**1,907**	1,866

The costs incurred in respect of these employees were:

	Notes	2014 £'000	2013 £'000
Wages and salaries		**71,746**	69,733
Social security costs		**8,357**	8,402
Other pension costs	28	**3,931**	3,747
Share scheme costs	13	**1,919**	2,736
Restructuring costs relating to employees	7	**1,121**	2,272
Total		**87,074**	86,890
Less own work capitalised	15,16	**(5,906)**	(5,504)
Charged to income statement		**81,168**	81,386

All the Group's employees are employed by the Company with the exception of 371 (2013: 324) employees employed by KC Contact Centres Limited and Smart421 Limited.

Disclosures required by the Companies Act 2006 on Directors' remuneration, including salaries, performance related bonuses, pension contributions and pension entitlements, including disclosure in respect of the highest paid Director, are to be found in the tables on pages 53 to 60 within the Remuneration report and form part of these financial statements.

09 Finance costs

Consolidated	Notes	2014 £'000	Restated[1] 2013 £'000
On bank loans, overdrafts and other loans		**4,195**	4,085
On retirement benefit obligations	28	**400**	652
Finance lease and hire purchase contracts		**—**	31
		4,595	4,768
Amortisation of loan arrangement fees		**480**	473
Total		**5,075**	5,241

1. The comparative results have been restated for changes in IAS 19 (Employee benefits). See note 28 for further details.

Notes to the financial statements continued

for the year ended 31 March 2014

10 Taxation

Analysis of tax charge in the year

The charge based on the profit for the year comprises:

Consolidated	Notes	2014 £'000	Restated[1] 2013 £'000
UK corporation tax:			
– current tax on profits for the year		**3,223**	3,058
– adjustment in respect of prior years		**(651)**	(315)
Total current tax		**2,572**	2,743
UK deferred tax:			
Origination and reversal of timing differences in respect of:			
– profit for the year		**8,527**	9,224
– change in rate		**912**	780
– adjustment in respect of prior years		**(193)**	(315)
– credit in respect of intangible asset amortisation		**—**	(63)
– charge in respect of retirement benefit obligation		**(58)**	(505)
Total deferred tax	24	**9,188**	9,121
Total taxation charge for the year		**11,760**	11,864

Factors affecting tax charge for the year

Consolidated	2014 £'000	2013 £'000
Profit before taxation	**50,530**	47,709
Profit before taxation at the standard rate of corporation tax in the UK of 23% (2013: 24%)	**11,622**	11,450
Effects of:		
– permanent differences	**69**	(51)
– adjustments relating to prior year tax	**(843)**	(315)
– change in rate reflected in the deferred tax asset	**912**	780
Total taxation charge for the year	**11,760**	11,864

1. The comparative results have been restated for changes in IAS 19 (Employee benefits). See note 28 for further details.

The current tax charge of £2,572,000 (2013: £2,743,000) includes a charge relating to the vesting of the share schemes of £301,000 (2013: £2,092,000) which is a reclassification from the reserves on the unwind of the deferred tax asset.

Factors affecting the current and future tax charges

As a result of the change in the UK main corporation tax rate from 23% to 20% that was enacted substantively at the balance sheet date and that became effective from July 2013, the relevant deferred tax balances have been remeasured. This change in rate will become effective from 1 April 2015. The UK main corporation tax rate became 21% on 1 April 2014 before it will reduce to 20% on 1 April 2015.

11 Dividends

	2014 £'000	2013 £'000
Amounts recognised as distributions to equity holders in the period:		
– final dividend for the year ended 31 March 2012 of 2.67 pence per share	**—**	13,793
– interim dividend for the year ended 31 March 2013 of 1.47 pence per share	**—**	7,594
– final dividend for the year ended 31 March 2013 of 2.97 pence per share	**15,343**	—
– interim dividend for the year ended 31 March 2014 of 1.63 pence per share	**8,421**	—
Total	**23,764**	21,387

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

12 Earnings per share

The calculation of basic and diluted earnings per share is based on the following numbers of shares and earnings:

Consolidated	2014 Number	2013 Number
Weighted average number of shares		
For basic earnings per share	**507,645,664**	506,268,452
Share options in issue	**5,704,438**	6,273,766
For diluted earnings per share	**513,350,102**	512,542,218

	2014 £'000	Restated[1] 2013 £'000
Earnings		
Profit attributable to owners of the parent	**38,770**	35,845
Adjustments		
Exceptional items	**(588)**	2,310
Tax on exceptional items	**135**	(760)
Adjusted profit attributable to owners of the parent	**38,317**	37,395

Consolidated	2014 Pence	2013 Pence
Earnings per share		
Basic	**7.64**	7.08
Diluted	**7.55**	6.99
Adjusted basic	**7.55**	7.39
Adjusted diluted	**7.46**	7.30

1. The comparative results have been restated for changes in IAS 19 (Employee benefits). See note 28 for further details.

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Company and held in trust.

Adjusted basic earnings per share is calculated by adjusting the profit attributable to equity holders of the Company for the exceptional items net of taxation and dividing this adjusted figure by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held in trust.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive ordinary shares. The dilutive potential ordinary shares are in the form of share options. A calculation has been done to determine the number of shares that would have been issued assuming the exercise of the share options.

13 Share-based payments

The Group had five share-based payment schemes (2013: six) in existence during the year ended 31 March 2014. The Group recognised a total charge of £1,919,000 (2013: £2,736,000) in the year relating to equity settled share-based payment transactions.

Details of each of the schemes are provided below.

Share options and Long-Term Incentive Scheme (LTIS)
Share options including LTIS (issued after 7 November 2002)

	Options	Weighted average exercise price (pence)
Outstanding at the beginning of year and end of year	42,189	Nil

The share options, including LTIS, outstanding at 31 March 2014 had a weighted average exercise price of Nil pence and a weighted average remaining contractual life of Nil years (the Directors have assumed all shares will vest at the earliest available date). Options were granted at £Nil cost for this equity settled scheme. No options were granted in the year ended 31 March 2014. The options become exercisable between three and 10 years from grant date, provided that the employee remains in employment. Out of the 42,189 outstanding options (2013: 42,189), all were exercisable at 31 March 2014.

The assumptions used in the Monte Carlo model for the options outstanding at the beginning of the year are as follows:

	2006 grant	2005 grant	2004 grant	2003 grant
Share price (on date of official grant) (pence)	65.9	60.4	64.8	54.3
Exercise price (pence)	Nil	Nil	Nil	56.8
Expected dividend payments (%)	2	1	Nil	Nil
Expected term (years)	3	3	3	6.5

Notes to the financial statements continued

for the year ended 31 March 2014

13 Share-based payments continued

Share Incentive Plan (SIP)

The SIP is open to all employees and offers partnership, matching and free shares (the basis depends on the individual's contribution into the scheme). No performance criteria are attached to these matching shares other than an employee must remain employed by the Group for five years from the date of grant to be able to have their free and matching shares. In 2013/14, 1,399,194 (2013: 1,524,850) matching shares were granted during the year.

	Number	Weighted average exercise price (pence)
Outstanding at the beginning of year	8,680,318	Nil
Granted during the year	1,399,194	Nil
Lapsed during the year	(1,810,258)	Nil
Outstanding at the end of the year	**8,269,254**	**Nil**

Smart421 Incentive Scheme (SIS)

The SIS is an equity settled share-based payment scheme open to senior management in the Smart421 brand. The awards were granted at £Nil cost on 1 August 2011 and vest dependent on specific non-market performance conditions over a three year performance period. The plans performance target measures annual and cumulative profit before tax of Smart421 Limited for the 2012, 2013 and 2014 financial years.

	Number	Weighted average exercise price (pence)
Outstanding at the beginning of the year and end of the year	**1,500,000**	**Nil**

None of these awards were exercisable at the year end.

The awards have been valued using a Black-Scholes model.

The average assumptions used are as follows:

Share price at date of grant (pence)	84
Exercise price (pence)	Nil
Volatility (%)	50
Risk free rate (%)	2.00
Dividend yield (%)	—

Executive Incentive Plan (EIP)

For the EIP, the performance condition was based on the TSR of share price plus dividends paid and was measured on a rolling three month basis during a three year performance period. For further information on the performance conditions and the vesting of the scheme see the Remuneration report on page 55.

Award date	Vesting release date	Number	Number at date of grant	Outstanding at beginning of the year	Vested and released	Outstanding at end of the year	FV (pence)
EIP awards							
24/07/2009	24/07/2013	1	7,480,000	—	—	—	12
24/07/2009	24/07/2013	3	3,630,000	—	—	—	11
24/07/2009	24/07/2014	3	1,815,000	1,017,268	(1,017,268)	—	11
24/07/2009	24/07/2014	3	1,815,000	1,017,268	—	1,017,268	11
19/11/2009	19/11/2013	17	3,038,364	—	—	—	27
19/11/2009	19/11/2014	17	1,519,182	951,587	(951,587)	—	26
19/11/2009	19/11/2014	17	1,519,182	906,902	—	906,902	25
25/02/2010	25/02/2014	17	591,636	—	—	—	32
25/02/2010	25/02/2014	17	295,818	175,723	(175,723)	—	31
25/02/2010	25/02/2015	17	295,818	168,478	—	168,478	30
Total			**22,000,000**	**4,237,226**	**(2,144,578)**	**2,092,648**	

The awards have been valued using a Monte Carlo simulation model.

The weighted average exercise price of these awards is £Nil (2013: £Nil).

13 Share-based payments continued

Executive Incentive Plan (EIP) continued

The weighted average assumptions used during the year are as follows:

Share price at valuation date (pence)	33
Exercise price (pence)	3
Expected volatility (%)	51.00
Risk free rate (%)	2.43
Dividend yield (%)	—

Long-Term Incentive Plan (LTIP)

The LTIP is an equity settled share-based payment scheme open to the Executive Directors and selected senior employees at the discretion of the Remuneration Committee. The Awards were granted at £Nil cost and vest dependent on TSR performance over a three year performance period relative to the TSR performance of each company within a comparator group. For further information on the grants and the performance conditions see the Remuneration report on page 54.

	Number	Weighted average exercise price (pence)
Outstanding at the beginning of year	2,036,542	Nil
Granted during the year	1,575,020	Nil
Lapsed during the year	—	Nil
Outstanding at the end of the year	**3,611,562**	**Nil**

None of these awards were exercisable at the year end.

The awards have been valued using a Monte Carlo simulation model.

The average assumptions used are as follows:

Share price at date of grant (pence)	76.35
Exercise price (pence)	Nil
Volatility (%)	33.28
Risk free rate (%)	0.18
Dividend yield (%)	—

14 Goodwill

Consolidated	£'000
Cost and carrying amount	
At 1 April 2013 and at 31 March 2014	**85,272**

Goodwill acquired in a business combination is allocated at the date of acquisition to the CGU that is expected to benefit from that business combination. The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for these value in use calculations are those regarding discount rates, growth rates and forecast cash flows. The Directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the individual CGU. Growth rates reflect long-term growth rate prospects for the UK economy.

The Group prepares cash flow forecasts using the current operating budget approved by the Directors which covers a five year period and an appropriate extrapolation of cash flows beyond this. The cash flow forecasts assume revenue and EBITDA growth in line with our strategic priorities.

The carrying amount of goodwill of £85,272,000 (2013: £85,272,000) has been allocated across multiple CGUs as follows:

CGUs	£'000
Eclipse	7,862
Kcom	72,324
Smart421	5,086
At 1 April 2013 and 31 March 2014	**85,272**

Notes to the financial statements continued

for the year ended 31 March 2014

14 Goodwill continued

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

	2014	2013
Discount rate (pre-tax) %	**10.5**	11.3
Growth rate (in perpetuity) %	**2.0**	1.5

The goodwill which has been allocated to the Kcom CGU is considered significant in comparison with the Group's total carrying amount of goodwill. The recoverable amount of the Kcom CGU has been determined using an internal value in use calculation. Given the materiality of goodwill allocated to this CGU, together with the relative headroom derived by the calculations, sensitivity analysis has been performed on the key assumption used in the value in use calculations. The estimated recoverable amount of the Kcom CGU exceeds its carrying value by £31 million. The key assumption to which this calculation is most sensitive is the forecast net cash flows into perpetuity of £135 million. Specific sensitivity analysis with regard to this assumption shows that a reduction in the net cash flows into perpetuity of 23% would need to arise before any impairment would be triggered.

For the other CGUs, management has considered the level of headroom resulting from the impairment tests. Where appropriate, further sensitivity analysis has been performed by changing the base case assumptions applicable to each CGU. The analysis has indicated that no reasonably possible changes in any individual key assumption would cause the carrying amount of the business to exceed its recoverable amount.

As at 31 March 2014 and 2013, based on these valuations, the recoverable value of goodwill required no impairment.

15 Other intangible assets

Consolidated	Notes	Development costs £'000	Software £'000	Customer and supplier relationship £'000	Technology and brand £'000	Total £'000
Cost						
At 1 April 2012		4,436	21,681	49,257	6,294	81,668
Additions		115	5,841	—	—	5,956
Own work capitalised	8	2,005	3,071	—	—	5,076
Disposals		(2,345)	(2,052)	—	—	(4,397)
At 31 March 2013		4,211	28,541	49,257	6,294	88,303
Additions		587	6,474	—	—	7,061
Own work capitalised	8	1,970	2,674	—	—	4,644
At 31 March 2014		**6,768**	**37,689**	**49,257**	**6,294**	**100,008**
Accumulated amortisation						
At 1 April 2012		3,789	15,558	49,257	6,020	74,624
Charge for the year		1,613	1,835	—	274	3,722
Disposals		(2,345)	(2,052)	—	—	(4,397)
At 31 March 2013		3,057	15,341	49,257	6,294	73,949
Charge for the year		1,328	2,062	—	—	3,390
At 31 March 2014		**4,385**	**17,403**	**49,257**	**6,294**	**77,339**
Carrying amount						
At 31 March 2014		**2,383**	**20,286**	**—**	**—**	**22,669**
At 31 March 2013		1,154	13,200	—	—	14,354
At 1 April 2012		647	6,123	—	274	7,044

Development costs are predominantly capitalised staff costs associated with new products and services.

Included in software above are assets under construction of £14,130,000 (2013: £7,502,000) relating to strategic IT investment to allow the Group to move towards common systems and processes.

16 Property, plant and equipment

Consolidated	Notes	Land and buildings £'000	Exchange equipment £'000	External plant £'000	Vehicles, other apparatus and equipment £'000	Total £'000
Cost						
At 1 April 2012		17,609	193,005	151,690	37,477	399,781
Additions		—	8,371	5,784	3,015	17,170
Own work capitalised	8	—	164	264	—	428
Disposals		(1,657)	(1,036)	(4,402)	(5,154)	(12,249)
At 31 March 2013		15,952	200,504	153,336	35,338	405,130
Additions		101	6,077	4,371	9,817	20,366
Own work capitalised	8	—	349	913	—	1,262
Disposals		(1,159)	(2)	(2)	(1,695)	(2,858)
At 31 March 2014		**14,894**	**206,928**	**158,618**	**43,460**	**423,900**
Accumulated depreciation						
At 1 April 2012		11,640	149,482	94,588	26,170	281,880
Charge for the year		468	4,293	8,387	2,742	15,890
Disposals		(1,331)	(1,036)	(4,400)	(5,143)	(11,910)
At 31 March 2013		10,777	152,739	98,575	23,769	285,860
Charge for the year		391	4,480	7,767	4,244	16,882
Disposals		(1,002)	—	—	(1,679)	(2,681)
At 31 March 2014		**10,166**	**157,219**	**106,342**	**26,334**	**300,061**
Net book value						
At 31 March 2014		**4,728**	**49,709**	**52,276**	**17,126**	**123,839**
At 31 March 2013		5,175	47,765	54,761	11,569	119,270
At 1 April 2012		5,969	43,523	57,102	11,307	117,901

17 Investments

Consolidated	Unlisted investments £'000	Shares in associates £'000	Total £'000
Cost			
At 1 April 2012	2,744	12	2,756
Share of net profit for the year	—	10	10
Disposals	(2,744)	—	(2,744)
At 31 March 2013	—	22	22
Share of net loss for the year	—	(2)	(2)
At 31 March 2014	**—**	**20**	**20**
Amounts written off			
At 31 March 2013 and 31 March 2014	—	—	—
Net book value			
At 31 March 2014	**—**	**20**	**20**
At 31 March 2013	—	22	22

Notes to the financial statements continued

for the year ended 31 March 2014

17 Investments continued

Parent company	Shares in subsidiary undertakings £'000
Cost	
At 31 March 2013 and 2014	**494,511**
Amounts written off	
At 31 March 2013 and 2014	**50**
Net book value	
At 31 March 2013 and 2014	**494,461**

Subsidiary undertakings (as at 31 March 2014)

The shares in subsidiary undertakings are held in KCH (Holdings) Limited, an intermediary holding company registered in England. In accordance with section 410(2)(a) of the Companies Act 2006 the details of the undertakings whose results or financial position, in the opinion of the Directors, principally affect the figures shown in these accounts are listed below. A full list will be appended to the Company's next Annual Return. All of the following companies are indirectly 100% owned by the Company via KCH (Holdings) Limited and are all registered in England.

Name of company	Business activity
Kingston Communications Limited	Telecommunications services
Affiniti Integrated Solutions Ltd	Supplier of integrated and converged communication services
Kingston Information Services Limited	Publication of telephone directories
KC Contact Centres Limited	Provision of call centre services
Smart421 Limited	Provision of IT solutions and application service management

All subsidiary undertakings are included in the consolidation of the Group.

Associates

The Group's associate is Smartintegrator Technology Limited, in which the Company indirectly holds 50% of the ordinary shares. Under an agreement between the shareholders of Smartintegrator Technology Limited, neither the Group nor the shareholders are able to exercise control over the operational and financial policies of Smartintegrator Technology Limited. The associate is registered in England and its main business activity is software development.

18 Inventories

Consolidated	2014 £'000	2013 £'000
Raw materials and consumables	**2,269**	1,811
Equipment for resale	**378**	433
Total	**2,647**	2,244

There is no material difference between the carrying value and the replacement cost of inventories.

19 Trade and other receivables

	Consolidated		Parent company	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Trade receivables (net)	**36,266**	37,167	**—**	—
Other receivables	**820**	737	**—**	—
Prepayments	**19,400**	18,317	**5**	4
Accrued income	**17,649**	13,993	**—**	—
Total	**74,135**	70,214	**5**	4

All of the Group's receivables are due within one year in both 2014 and 2013. An allowance has been made for estimated irrecoverable amounts from the sale of goods and services of £1,489,000 (2013: £2,065,000). The Directors consider that the carrying amount of trade and other receivables approximate to their fair value.

19 Trade and other receivables continued

Movements on the Group provision for impairment of trade receivables are as follows:

	2014 £'000
At 1 April 2013	(2,065)
Written off in the year	994
Unused amounts reversed	365
Amounts provided for in the year	(783)
At 31 March 2014	**(1,489)**

The majority of the Group's trade and other receivables are denominated in Sterling.

Credit risk

The Group's principal financial assets are cash balances and trade and other receivables. The Group's credit risk is attributable primarily to its trade receivables for which an allowance has been made for the estimated irrecoverable amounts. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. The Group has no significant concentration of credit risk, with exposure spread over a large number of customers.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

As of 31 March 2014, trade receivables of £5,817,000 were impaired (2013: £3,431,0000). The amount of the provision was £1,489,000 as of 31 March 2014 (2013: £2,065,000). The individually impaired receivables mainly relate to customers who are in unexpectedly difficult economic situations. It was assessed that a portion of the impaired balance is expected to be recovered.

The ageing of these receivables is as follows:

	2014 £'000	2013 £'000
0–3 months	**421**	434
3–6 months	**3,689**	1,178
6 months +	**1,707**	1,819
	5,817	3,431

As of 31 March 2014, trade receivables of £8,994,000 (2013: £6,295,000) were past due but not impaired. These relate to a number of independent customers of whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2014 £'000	2013 £'000
0–3 months	**4,720**	4,971
3–6 months	**3,756**	1,198
6 months +	**518**	126
	8,994	6,295

20 Trade and other payables

	Consolidated		Parent company	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Current				
Trade payables	**40,257**	39,096	**—**	—
Corporation tax	**1,391**	651	**—**	—
Other taxes and social security costs	**5,178**	4,915	**—**	—
Other payables	**3,461**	4,478	**—**	—
Accruals	**53,467**	45,736	**—**	—
Deferred income	**25,954**	26,795	**—**	—
Total	**129,708**	121,671	**—**	—
Non-current				
Amounts due to subsidiary undertakings	**—**	—	**2,865**	801
Total	**—**	—	**2,865**	801

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The Directors consider that the carrying amount of current liabilities approximates to their fair value.

Amounts owed to subsidiary undertakings are unsecured and have no fixed date of repayment. However, the subsidiary undertakings have confirmed that none of the amounts are due within one year. Interest at market rates is charged on amounts due to subsidiary undertakings due after more than one year, except for amounts due to dormant entities where nil interest is charged.

Notes to the financial statements continued

for the year ended 31 March 2014

21 Bank loans

	Consolidated 2014 £'000	2013 £'000
Bank borrowings		
Amount falling due:		
– between two and five years	**85,000**	105,000
	85,000	105,000
Loan issue costs	**(583)**	(1,063)
	84,417	103,937

The loan facility was secured by guarantees given by all material subsidiaries of KCOM Group PLC in favour of the lending banks.

The bank borrowings are fully repayable in July 2015 and attract an interest rate of LIBOR plus a margin dependent on specific covenants. For further information on interest rate swaps see note 27. The above bank facilities were refinanced in June 2014. See note 26 for further detail.

The fair value of bank borrowings is £80.7 million (2013: £96.5 million). The fair value of cash flows has been estimated using a rate based on the weighted average borrowing rate of 3.9% (2013: 3.6%).

22 Net debt

	Notes	Consolidated 2014 £'000	2013 £'000
Cash		**9,441**	15,719
Cash and cash equivalents		**9,441**	15,719
Borrowings	21	**(84,417)**	(103,937)
Total net debt		**(74,976)**	(88,218)

Cash and cash equivalents, which are presented as a single class of assets on the face of the balance sheet, comprise cash at bank, short-term deposits and other short-term highly liquid investments with maturity of three months or less.

23 Provisions

	Notes	Onerous leases £'000	Restructuring £'000	Total £'000
At 1 April 2013		1,047	1,385	2,432
Established in the year	7	178	1,121	1,299
Utilised in the year		(677)	(2,264)	(2,941)
At 31 March 2014		**548**	**242**	**790**
Total provisions for liabilities and charges 2014				
Included in current liabilities		149	216	365
Included in non-current liabilities		399	26	425
At 31 March 2014		**548**	**242**	**790**
Total provisions for liabilities and charges 2013				
Included in current liabilities		569	1,352	1,921
Included in non-current liabilities		478	33	511
At 31 March 2013		1,047	1,385	2,432

Provision has been made for the estimated fair value of unavoidable lease payments on unoccupied buildings. It is expected that these payments will arise over the next one to three years.

The restructuring provision represents the future costs of the Group's ongoing restructuring programme which are committed to at the balance sheet date. The amounts included within current liabilities above are expected to be utilised within the next 12 months.

24 Deferred taxation assets and liabilities

Deferred tax assets/(liabilities) are attributable to the following:

Consolidated	Assets 2014 £'000	Assets 2013 £'000	Liabilities 2014 £'000	Liabilities 2013 £'000	Net 2014 £'000	Net 2013 £'000
Property, plant and equipment	**7,978**	13,840	**—**	—	**7,978**	13,840
Other timing differences	**2,130**	2,757	**—**	—	**2,130**	2,757
Retirement benefit obligation	**5,300**	2,245	**—**	—	**5,300**	2,245
Intangible assets on acquisition	**—**	—	**(14)**	(14)	**(14)**	(14)
Asset backed partnership	**—**	—	**(5,043)**	(2,300)	**(5,043)**	(2,300)
	15,408	18,842	**(5,057)**	(2,314)	**10,351**	16,528

Movements in net deferred tax assets/(liabilities) are as follows:

Consolidated	Notes	Property, plant and equipment £'000	Other timing differences £'000	Retirement benefit obligation £'000	Intangible assets arising on acquisition £'000	Asset-backed partnerships £'000	Total £'000
At 1 April 2012		19,987	5,128	3,333	(76)	—	28,372
(Charged)/credited to the income statement	10	(6,147)	(3,542)	505	63	—	(9,121)
Credited directly to equity and other comprehensive income		—	1,171	(1,593)	(1)	(2,300)	(2,723)
At 31 March 2013		13,840	2,757	2,245	(14)	(2,300)	16,528
(Charged)/credited to the income statement	10	*(5,862)*	*(484)*	*58*	*—*	*(2,900)*	*(9,188)*
(Charged)/credited directly to equity and other comprehensive income		*—*	*(143)*	*2,997*	*—*	*157*	*3,011*
At 31 March 2014		**7,978**	**2,130**	**5,300**	**(14)**	**(5,043)**	**10,351**

There are £Nil deferred tax assets in the Parent company (2013: £Nil).

The analysis of deferred tax assets is as follows:

	2014 £'000	2013 £'000
Deferred tax assets to be recovered after more than 12 months	**9,806**	9,659
Deferred tax assets to be recovered within 12 months	**5,602**	9,183
	15,408	18,842

The analysis of deferred tax liabilities is as follows:

	2014 £'000	2013 £'000
Deferred tax liabilities to be recovered after more than 12 months	**(4,603)**	(1,770)
Deferred tax liabilities to be recovered within 12 months	**(454)**	(544)
	(5,057)	(2,314)

The major components of the deferred taxation asset not recognised are as follows:

	Not recognised 2014 £'000	Not recognised 2013 £'000
Losses	**1,126**	1,295

Deferred tax assets relating to property, plant and equipment and short-term timing differences of £8.3 million (2013: £14.6 million) have been recognised in those subsidiary companies in which there is sufficient available evidence that suitable taxable profits will arise against which these assets are expected to reverse. There are additional deferred tax assets of £1.1 million (2013: £1.3 million) which have not been recognised, as there is insufficient evidence as to the generation of suitable profits against which these assets can be offset. The utilisation of these assets would reduce the Group's tax charge in future periods. All deferred tax assets and liabilities are provided for at the future rate of corporation tax that is substantively enacted at the balance sheet date, being 20% (2013: 23%).

25 Called-up share capital

	2014 £'000	2013 £'000
Allotted, called-up and fully paid		
516,603,910 (2013: 516,603,910) ordinary shares of 10 pence each	**51,660**	51,660

During the financial year, the Company did not purchase any of its own shares (2013: Nil), however the Company funds Employee Share Trusts to meet its obligations under the Company's share schemes. During the year the Trusts purchased 2,043,000 (2013: 15,130,000) of the Company's ordinary shares through purchases on the London Stock Exchange for a total cash consideration of £1,778,000 (2013: £11,053,000) in order to meet future obligations under the Company's SIP, EIP and LTIP schemes. The total amount paid to acquire the shares, net of expenses and cash received for the exercise of share options, of £1,764,000 (2013: £10,872,000) has been deducted from retained earnings.

As of 31 March 2014, the total number of ordinary shares held by the Trusts to meet obligations under the Company's share schemes was 205,000 (2013: 9,524,000).

26 Financial instruments and risk management
The Group's principal financial instruments during the year comprised bank loans, cash on short-term deposits, interest rate swaps and forward foreign exchange contracts. The main purpose of these financial instruments is to finance the Group's operations, to manage the interest rate risk arising from its sources of finance and to minimise the impact of fluctuations in exchange rates on future cash flows. The Group has various other financial instruments such as short-term receivables and payables which arise directly from its operations.

The Group regularly reviews its exposure to interest, liquidity and foreign currency risk. Where appropriate the Group will take action, in accordance with a Board approved Treasury Policy, to minimise the impact on the business of movements in interest rates and currency rates.

The Group only enters into derivative instruments with members of the banking group to ensure appropriate counterparty credit quality.

Liquidity risk
The Group keeps its short, medium and long-term funding requirements under constant review. Its policy is to have sufficient committed funds available to meet medium-term requirements, with flexibility and headroom to make minor acquisitions for cash if the opportunity should arise.

The Group's bank facilities were refinanced in June 2014 to replace existing facilities. These bank facilities comprise a multi-currency revolving credit facility of £200.0 million, provided by a group of five core relationship banks. The facility matures in June 2019. The Group considers that this facility will provide sufficient funding to meet the organic and inorganic investment needs of the business. In addition, short-term flexibility of funding is available under the £10.0 million overdraft facility provided by the Group's clearing bankers.

The net debt position of £88.2 million at the beginning of the financial year has decreased during the year to net debt of £75.0 million. The Group generated positive cash flow after investing activities of £44.0 million for the year (2013: £24.7 million).

The table below analyses the Group's financial liabilities which will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Notional interest is included for the period from the year end up to the contractual maturity date of the debt, calculated on the amount of debt drawn down at the year end.

	Less than one year £'000	One to three years £'000	Over three years £'000
At 31 March 2013			
Borrowings	3,485	109,635	—
Trade and other payables	116,105	—	—
Cash flow hedges	—	3,235	—
Total	119,590	112,870	—
At 31 March 2014			
Borrowings	2,604	85,868	—
Trade and other payables	123,139	—	—
Cash flow hedges	137	1,669	—
Total	**125,880**	**87,537**	**—**

The table below sets out the year end fair value of derivative financial instruments by category:

	2014		2013	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Interest rate swaps – cash flow hedges	—	**1,806**	—	3,235
Forward foreign exchange contracts – cash flow hedges	—	—	52	—
Total	—	**1,806**	52	3,235
Less non-current portion:				
Interest rate swaps – cash flow hedges	—	**1,669**	—	3,235
Forward foreign exchange contracts – cash flow hedges	—	—	—	—
	—	**1,669**	—	3,235
Current portion	—	**137**	52	—

Interest rate risks
Sterling interest rate swaps were held during the year that fixed approximately 80% (2013: 68%) of the year end net debt. The weighted average fixed interest rate payable (including margin) was 3.90% (2013: 3.60%). The weighted average rate of current interest rate swaps in place at the year end was 1.63% (excluding margin). Maturity dates of the current interest rate swaps are all July 2015 and reflect the forecast profile of net debt over the period. The weighted average period over which the interest rates are fixed is 1.3 years (2013: 2.3 years). Interest rate exposures will continue to be hedged in accordance with the Treasury Policy.

26 Financial instruments and risk management continued

Interest rate risks continued

The impact of an increase in interest rates of 100 basis points is shown in the following table:

	2014 £'000	2013 £'000
Reduction in profit before tax	**(150)**	(282)
Increase in fair value of derivatives taken to equity	**—**	—

The sensitivity of profit before tax is calculated based on floating rate borrowings at the balance sheet date, after deducting floating rate financial assets and amounts hedged into fixed rates by interest rate swaps.

Foreign currency risk

Cash flow exposure

The Group's only major foreign currency risk arises due to the purchase of equipment invoiced in US Dollars. Whenever possible the Group resells this equipment in US Dollars. The remaining exposure is managed principally through the use of forward foreign exchange contracts in order to minimise the impact of fluctuations in exchange rates on future cash flows and gross margin.

The Group has also some Euro cash flows but these are not material on a net basis and are not hedged.

Net asset exposure

The Dollar denominated trading described above results in a balance sheet exposure since debtor days are longer than creditor days. It is the Group's policy not to hedge this exposure. If Sterling strengthened by 5% against both the US Dollar and the Euro this would reduce net assets at the balance sheet date by £43,719 (2013: £69,808).

Credit risk

Credit risk arises from cash and cash equivalents and derivative financial instruments, as well as credit exposures to business and retail customers.

Credit ratings of institutions which hold the Group's financial assets are regularly monitored to ensure they meet the minimum credit criteria set by the Board through the Group Treasury Policy. At the year end all the institutions holding the Group's financial assets were rated A-/A- or higher by Standard and Poor's.

The credit quality of customers is assessed by taking into account their financial position, past experience and other factors. Individual risk limits are set and the utilisation of credit limits monitored regularly.

Currency and interest rate risk profile of financial assets and financial liabilities

Financial assets

The Group had financial assets of £9.4 million at the year end (2013: £15.7 million), comprising cash on overnight money market deposits and cash at bank. This attracts floating rates of interest.

The currency profile of the Group's financial assets at 31 March 2014 and 31 March 2013 was:

	2014 £'000	2013 £'000
Currency		
Sterling	**7,955**	13,616
US Dollar	**909**	1,871
Euro	**577**	232
Total	**9,441**	15,719

Foreign currency cash balances are held on a short-term basis to fund cash flow requirements in these currencies.

At the year end £1.3 million (2013: £1.3 million) of cash collateral was held by Barclays in respect of a bank guarantee given under OFCOM's 'Funds for Liabilities' regulations.

Financial liabilities

The currency and interest rate risk profile of the Group's financial borrowings at 31 March 2014 and 31 March 2013 was:

	2014			2013		
	Floating £'000	Fixed £'000	Total £'000	Floating £'000	Fixed £'000	Total £'000
Sterling	**24,417**	**60,000**	**84,417**	43,937	60,000	103,937

Undrawn committed borrowing facilities at the year end were £115.0 million (2013: £95.0 million).

Interest on amounts drawn under the committed borrowing facility is based on the relevant LIBOR plus margin.

Notes to the financial statements continued

for the year ended 31 March 2014

26 Financial instruments and risk management continued

Fair values of financial assets and financial liabilities

The mark to market value of the interest rate swaps and forward contracts at 31 March 2014 was a liability of £1.8 million (2013: £3.2million). Interest rate swaps are accounted for by adjusting the interest cost on the floating debt return. The fair value of financial assets and financial liabilities is obtained from third party sources. The movement in mark to market value is reflected in reserves and is shown below:

	£'000
Hedging reserve	
31 March 2013	(2,363)
Movement in the year	1,377
31 March 2014	**(986)**

The effectiveness of the interest rate swaps was tested quarterly throughout the period, and at the year end, and all are considered to be effective cash flow hedges. There are no other significant differences between the fair value of the Group's financial assets and liabilities and their book value.

IFRS 7 requires disclosure of fair value measurements by level of the following fair value measurement 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); and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

All of the Group's financial instruments fall into hierarchy level 2.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, support the growth of the business and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Group monitors capital on the basis of its gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the Consolidated balance sheet) less cash and cash equivalents.

Total capital is shown in the table below and is calculated as 'equity' as shown in the Consolidated balance sheet plus net debt.

	2014 £'000	2013 £'000
Net debt	**74,976**	88,218
Total equity	**85,153**	82,642
Total capital	**160,129**	170,860

Under the Group's £200 million revolving credit facility the Group is required to comply annually with certain financial and non-financial covenants. The Group is required to maintain a minimum interest cover ratio and a maximum net debt: EBITDA ratio. Both financial covenants were tested and complied with throughout the year and at the year end. The Board monitors both covenant compliance and net debt performance on a regular basis.

27 Financial commitments

Authorised future capital expenditure and financial investment amounted to:

	Consolidated	
	2014 £'000	2013 £'000
Property, plant and equipment	**6,354**	1,146
Intangible assets	**2,575**	270
Total	**8,929**	1,416

27 Financial commitments continued

The Group as lessee

The future aggregate minimum lease rental commitments under non-cancellable operating leases were as follows:

	Consolidated 2014 £'000	2013 £'000
Leasehold buildings:		
– within 12 months	**3,871**	3,730
– in 1 to 5 years	**9,600**	8,405
– after 5 years	**7,217**	6,363
Total	**20,688**	18,498
Plant and equipment:		
– within 12 months	**899**	1,777
– in 1 to 5 years	**1,618**	3,665
Total	**2,517**	5,442

None of the Group's lease arrangements include any contingent rent payments and there are no renewal or purchase options or escalation clauses. There are also no restrictions imposed by the Group's lease arrangements.

28 Retirement benefit obligation – consolidated

Defined contribution schemes

The Company operates defined contribution schemes, which are open to all eligible employees. Contributions charged to the income statement in respect of defined contribution schemes amounted to £3.9 million (2013: £3.7 million).

Defined benefit schemes

The principal defined benefit scheme at 31 March 2014 was the Kingston Communications Pension Scheme, which is a funded scheme and provides defined benefits based on final pensionable salary. The assets of the scheme are held separately from the assets of the Group in trustee administered funds. The Company operates also a second funded defined benefit scheme, the Kingston Communications (Data) Pension Scheme. Both schemes are closed to both new members and future accrual.

The defined benefit schemes are operated in the UK under the same regulatory frameworks. Both of the schemes are final salary pension schemes, which provide benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement. In the schemes, pensions in payment are generally updated in line with the retail price index. In addition to this inflationary risk, the schemes face the same risks, as described below.

All of the benefit payments are from trustee administered funds. Plan assets held in trusts are governed by local regulations and practice, as is the nature of the relationship between the Group and the trustees (or equivalent) and their composition. Responsibility for governance of the plans – including investment decisions and contribution schedules – lies jointly with the Group and the Trustees. The Trustees must be composed of representatives of the Group and scheme participants in accordance with the scheme's regulations.

Parent company

KCH (Holdings) Limited, a wholly owned subsidiary of the Parent, is responsible for all obligations and liabilities of the schemes. An equivalent liability has been provided in the accounts of KCH (Holdings) Limited.

The Parent company provides a guarantee to both defined benefit schemes, whereby if KCH (Holdings) Limited is unable to meet its obligations to the schemes, such obligations would be met by the Parent company. No liability has been recognised in respect of the guarantee at 31 March 2014 (2013: £Nil).

Most recent valuations

The most recent formal valuation for the Kingston Communications Pension Scheme was at 31 March 2013. The main long-term financial assumptions used in that valuation were:

	Per annum %
Rate of return on scheme assets	3.90
Rate of future salary inflation	2.90

The most recent formal valuation for the Kingston Communications (Data) Pension Scheme was at 31 March 2013. The main long-term financial assumptions used in that valuation were:

	Per annum %
Rate of return on scheme assets	4.10
Rate of future salary inflation	2.90

28 Retirement benefit obligation – consolidated continued

Funding

Asset-backed partnership

On 24 March 2014, the Group reached an agreement with the Trustees to provide further funding of the Schemes' current deficit position through the asset-backed Partnership ("the Partnership") that had been previously established during the year ended 31 March 2013.

As part of this agreement, a loan note of £20.0 million was secured over the Group network assets. As partner in the Partnership, the pension schemes are entitled to an annual income distribution of £1.6 million, rising in line with the Consumer Price Index (CPI) (capped at 5%) over a potential period of 15 years. The total value of this income distribution to the Schemes is £16.0 million which provided an immediate improvement to the funding deficit. As part of the agreement with the Trustees, there is no requirement for the Group to pay any deficit payments in the year ended 31 March 2014.

Under IAS 19, the investment held by the pension schemes in the Partnership does not represent a plan asset for the purpose of the Group's consolidated accounts. The distribution of the Partnership's profits to the pension schemes are reflected as pension contributions in these Group accounts on a cash basis.

Employer contributions for the year ended 31 March 2014

The disclosures below are for the two schemes combined.

Contributions into the two defined benefit schemes during the year were as follows:

	2014 £'000	2013 £'000
Deficit payments	**788**	575

Existing committed deficit recovery payments due over the financial years ending 31 March 2015 and 31 March 2016 are £2.0 million per annum.

Main financial assumptions

	2014 per annum %	2013 per annum %
RPI inflation	**3.40**	3.40
CPI inflation	**2.40**	2.40
Rate of increase to pensions in payment	**2.40**	2.40
Discount rate for scheme liabilities	**4.30**	4.60
Expected return on plan assets	**—**	5.56

The mortality assumptions are based on standard mortality tables, which allow for future improvements in life expectancy. The effect of these tables are that:

- a future pensioner aged 65 at retirement will live on average to age 89.0 (2013: 89.0) if they are male and on average to age 91.2 (2013: 90.9) if they are female; and
- a current pensioner aged 65 will live on average to age 87.1 (2013: 87.2) if they are male and on average to age 89.1 (2013: 89.1) if they are female.

The defined benefit obligation reflects the assumption that 20% (2013: 20%) of deferred members will transfer out of the scheme over its life. Where such transfers take place, the value of such transfers are assumed to be 0% (2013: 0%) above the current IAS 19 value for individual members.

The key assumptions used for IAS 19 are discount rate, inflation and mortality. The sensitivity of the retirement benefit obligation deficit to changes in the assumptions is as follows:

	Impact on the retirement benefit obligation		
	Sensitivity	Of increase	Of decrease
RPI inflation	0.1%	11.3%	(10.9%)
Discount rate for scheme liabilities	0.1%	(12.8%)	13.6%
Mortality	1 year	24.5%	(24.5%)

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the retirement benefit obligation deficit to significant actuarial assumptions the same method (present value of the defined benefit liability calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the retirement benefit obligation deficit recognised in the Group balance sheet.

28 Retirement benefit obligation – consolidated continued

Fair value of assets

	Value at 2014 £'000	Value at 2013 £'000
Equities	**34,300**	59,100
Hedge funds	**45,000**	27,458
Index linked gilts	**26,200**	27,400
Corporate bonds	**41,300**	39,900
Other	**44,300**	39,684
Total fair value of assets	**191,100**	193,542

History of asset values, defined benefit obligation, deficit in scheme and experience gains and losses

	2014 £'000	Restated[1] 2013 £'000	2012 £'000	2011 £'000	2010 £'000
As at 31 March					
Present value of defined benefit obligation	**(217,600)**	(203,300)	(199,377)	(175,716)	(207,241)
Fair value of plan assets	**191,100**	193,542	185,491	168,789	156,868
Deficit	**(26,500)**	(9,758)	(13,886)	(6,927)	(50,373)
Experience (losses)/gains on plan assets	**(3,130)**	7,715	(2,860)	(507)	(33,350)
Experience (losses)/gains on plan liabilities	**(13,500)**	(3,010)	(22,606)	32,011	1,670

The Group employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles.

Reconciliation of funded status to balance sheet

	2014 £'000	Restated[1] 2013 £'000
Fair value of assets	**191,100**	193,542
Present value of funded defined benefit obligations	**(217,600)**	(203,300)
Liability recognised on the balance sheet	**(26,500)**	(9,758)
Analysis of income and expenditure charge:		
– administration expenses	**500**	500
– finance costs	**400**	652
Charge recognised in income statement	**900**	1,152

	2014 £'000	2013 £'000
Changes to the present value of the defined benefit obligation during the year		
Opening defined benefit obligation	**203,300**	199,377
Finance costs	**9,100**	9,215
Remeasurements	**13,500**	3,010
Net benefits paid out	**(8,300)**	(8,302)
Closing defined benefit obligation	**217,600**	203,300

	2014 £'000	Restated[1] 2013 £'000
Changes to the fair value of scheme assets		
Opening fair value of assets	**193,542**	185,491
Finance income	**8,700**	8,563
Administration expenses	**(500)**	(500)
Remeasurements	**(3,130)**	7,715
Contributions by the employer	**788**	575
Net benefits paid out	**(8,300)**	(8,302)
Closing fair value of assets	**191,100**	193,542

1. The comparative results have been restated for changes in IAS 19 (Employee benefits).

Notes to the financial statements continued

for the year ended 31 March 2014

28 Retirement benefit obligation – consolidated continued

Adoption of IAS 19 (revised)

The revised employee benefit standard introduces changes to the recognition, measurement, presentation and disclosure of post-employment benefits. The standard also requires net interest expense to be calculated as the product of the net defined benefit liability and the discount rate as determined at the beginning of the year. The effect of this is to remove the previous concept of recognising an expected return on plan assets.

The effects of the changes on prior year's previously disclosed figures are as follows:

	2013 as previously stated £'000	Impact of IAS 19 (revised) £'000	Restated 2013 £'000
Income statement			
EBITDA	74,567	(2,015)	72,552
Depreciation and amortisation	(19,612)	—	(19,612)
Finance costs	(4,589)	(652)	(5,241)
Share of profit of associates	10	—	10
Profit before taxation	50,376	(2,667)	47,709
Taxation	(12,478)	614	(11,864)
Profit for the year attributable to owners of the parent	37,898	(2,053)	35,845
Consolidated statement of comprehensive income			
Profit for the year	37,898	(2,053)	35,845
Other comprehensive income:			
– remeasurements of retirement benefit obligations	2,038	2,667	4,705
– tax on items that will not be reclassified	(979)	(614)	(1,593)
Total items that will not be reclassified to profit or loss	1,059	2,053	3,112
Total items that may be reclassified subsequently to profit or loss	449	—	449
Total comprehensive income for the year	39,406	—	39,406

There is no impact on the balance sheet following the adoption of the revised IAS 19. In the cash flow statement, as the revised standard has no impact on Group net debt, the reduction in profit above is offset by an increase in working capital. The impact of the revised standard on basic EPS was a 0.41 pence reduction.

29 Other commitments and contingent liabilities

Contingent liabilities existed at 31 March 2014 and at 31 March 2013 in respect of guarantees given by the Parent company on behalf of subsidiary undertakings, together with contingencies arising in the normal course of the Group's business in respect of overdraft facilities. None of these guarantees are considered material in the context of the net assets of the Group.

30 Related party transactions

Remuneration of key management personnel

The remuneration of the Directors who are the key management personnel of KCOM Group PLC is provided in the audited part of the Directors' Remuneration report on pages 44 to 60 and form part of these financial statements.

Intra-Group transactions

Amounts payable by the Company to subsidiaries totalled £2.9 million (2013: £0.8 million) as at 31 March 2014.

Five year summary of consolidated figures

as at 31 March 2014

	2014 £'000	2013 £'000	2012 £'000	2011 £'000	2010 £'000
Income statement (total operations)					
Revenue	**370,697**	372,869	387,316	395,412	412,800
EBITDA before exceptional items	**75,291**	74,862	77,875	75,963	69,795
Group operating profit before exceptional items	**55,019**	55,250	57,770	48,631	36,755
Profit after taxation before exceptional items[1]	**38,317**	37,395	37,727	28,624	26,624
Profit after taxation (reported)	**38,770**	35,845	37,727	22,621	17,693
Balance sheet					
Non-current assets	**242,151**	235,446	239,639	242,272	277,045
Current assets (excluding cash)	**76,782**	72,510	75,530	72,943	80,535
Current liabilities (excluding finance leases)	**(130,210)**	(123,592)	(146,367)	(151,154)	(143,981)
Net debt (including finance leases)	**(74,976)**	(88,218)	(75,267)	(81,996)	(116,796)
Provisions and other non-current liabilities (excluding finance leases)	**(28,594)**	(13,504)	(20,078)	(8,871)	(61,046)
Total equity	**85,153**	82,642	73,457	73,194	35,757
Movement in debt					
Net cash flow from:					
– operating activities	**71,266**	50,309	55,994	68,009	74,612
– capital expenditure	**(27,912)**	(27,996)	(22,148)	(13,948)	(17,595)
– interest	**(4,436)**	(4,006)	(7,363)	(8,574)	(7,302)
– equity dividends paid	**(23,764)**	(21,387)	(19,786)	(12,140)	(7,725)
– other	**(1,912)**	(9,871)	33	1,452	(886)
Decrease/(increase) in net debt	**13,242**	(12,951)	6,730	34,799	41,104
Ratios and other key information					
Average number of employees	**1,907**	1,886	1,792	1,801	2,094
EBITDA before exceptional items to revenue (%)	**20.3**	20.0	20.1	19.2	16.9
Group operating profit before exceptional items to revenue (%)	**14.8**	14.8	14.9	12.3	8.9
Basic earnings per share (pence)	**7.64**	7.08	7.41	4.44	3.47
Dividend per share relating to the financial year (pence)	**4.88**	4.44	4.00	3.60	1.75

1. Including the tax impact of exceptional items.

Shareholder information

Analysis of ordinary shareholders
(at 31 March 2014 by category)

	Number of holders	Number of shares	% of capital
Private shareholders	54,243	50,843,292	9.84
Insurance companies	1	87,590	0.02
Investment trusts	6	108,901	0.02
Nominee companies	1,022	373,151,289	72.23
Limited companies	67	493,844	0.10
Bank and bank nominees	18	91,727,682	17.75
Other institutions	13	191,312	0.04
Total	**55,370**	**516,603,910**	**100.00**

Financial calendar

AGM	29 July 2014
Half year results announcement (provisional)	25 November 2014
Final results announcement (provisional)	5 June 2015

Information relating to beneficial owners of shares with 'information rights'
Please note that beneficial owners of shares who have been nominated by the registered holder of those shares to receive information rights under Section 146 of the Companies Act 2006 are required to direct all communications to the registered holder of their shares rather than to the Group's registrar, Capita Asset Services, or to KCOM Group PLC directly.

Company information

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Registered in England and Wales

Company number
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