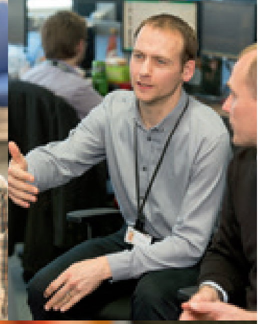
Connecting people

KCOM Group PLC
Annual report and accounts 2014/15

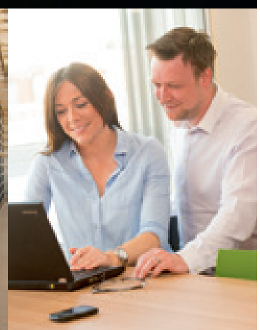
KCOM group

We are a leading provider of communications services to organisations and consumers in the UK.





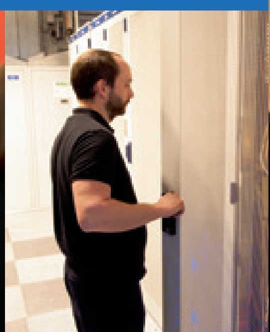
Small and medium-sized businesses

Supporting small and medium-sized businesses to exploit the benefits of cloud services

Enterprises

Enabling enterprises to achieve business outcomes through technology





Consumers

Helping consumers live more connected lives

Highlights

Operational highlights

- Performance in line with expectations
- Progress across all key focus areas
  - Success of and growth in demand for IP-based 'Workplaces' portfolio, including successful HM Revenue & Customs (HMRC) implementation and further significant opportunities in pipeline
  - Acceleration of fibre deployment in Hull and East Yorkshire, following continued strong demand for fibre and broadband services, well ahead of national average
- Business transformation continues to create a more agile operating model
  - Integration of brands to focus investment on growth in the enterprise, small and medium-sized business (SMB) and consumer markets
  - Continued move towards effective, efficient support services/back-office operations and implementation of common systems and processes supports consolidation of teams

Financial highlights

Revenue £m

£348.0m ↓ 6.1%

2015	348.0
2014	370.7

EBITDA[1] £m

£74.3m ↓ 1.3%

2015	74.3
2014	75.3

Operating profit[1] £m

£57.2m ↑ 4.0%

2015	57.2
2014	55.0

Profit before tax[1] £m

£51.5m ↑ 3.2%

2015	51.5
2014	49.9

Net debt £m

£99.3m ↑ 32.4%

2015	99.3
2014	75.0

Proposed full year dividend per share p

5.37p ↑ 10.0%

2015	5.37
2014	4.88

1. Before exceptionals.

Performance review
page 8

KPIs
page 18

Strategic report
page 2

Directors' report
page 28

Our business at a glance

We are the partner of choice for organisations and consumers seeking to harness the power of communications

Our goal is to become an acknowledged leader in the markets we serve and an automatic partner of choice for organisations and consumers in those markets.

We aim to help our customers exploit the communications revolution and its associated technologies to improve the performance of their organisations and to enhance their personal communications experience.

Further information:

Our business model
page 10

Market opportunities and trends
page 12

Case studies
page 15

Enterprises

We help customers meet their business needs, growth and cost outcomes through the integration of collaboration and communications tools.

Our customers in this market include Admiral, Association of Train Operating Companies (ATOC), Aviva, Domino's, HMRC, Kuoni, Morrisons and NFUM.

Served by

Smart421 and Kcom

Small and medium-sized businesses

Our connectivity and IT services help businesses operate more efficiently, provide better customer service and achieve growth.

Our customers in this market include Foot Anstey, Furniture Village, Hull College Group, RNLI, RSPB and The Range.

Served by

KC and Eclipse

Consumers

Our broadband-based services help people communicate and live their lives in a digital age.

Our customers in this market include more than 130,000 households in Hull and East Yorkshire.

Served by

KC

Chairman's statement

We have seen clear progress in terms of growing customer demand and increased operational effectiveness

In summary

- Business continues to progress its transformation
- New Board appointments bring fresh perspectives and contributions
- Focus and discussion on strategic milestones and succession planning
- Continued dividend growth reflects strength of the business

The executive team continues to lead the transformation of the business

Dear shareholder

The business continues to perform well, progressing its transformation journey to become more tightly focused on the markets in which it operates. While this journey will continue into the coming financial year, we have seen clear progress in terms of growing customer demand and increased operational effectiveness.

Dividend

As a result of this progress and our confidence in the strength of the business, the Board is proposing a final dividend of 3.58 pence per share (2014: 3.25 pence). Subject to shareholder approval at this year's AGM, the final dividend will be paid on 4 August 2015 to shareholders registered on 26 June 2015. The ex-dividend date is 25 June 2015.

The proposed total dividend of 5.37 pence per share (2014: 4.88 pence) would result in a sixth year of 10 per cent growth in the total dividend. This is consistent with the Board's previously stated commitment to grow full-year dividends by at least 10 per cent per annum and this commitment remains in place until 31 March 2016.

Employees have consistently demonstrated commitment to delivering inspiring customer experiences

Strategic focus

As the executive team continues to lead the transformation of the business, a great deal of the Board's time has been focused on evaluating progress against key strategic milestones. We continue to have an effective Board in place, with debate and constructive challenge on all of the key areas of the business. Given the strong focus on the strategy of the Group, there has been a standing agenda item at each Board meeting to discuss strategy, with contributions from across the Board.

Board appointments

We reported last year that we were seeking an additional Non-Executive Director to join the Board and we were delighted to appoint Peter Smith to the Board in January 2015. Peter brings with him a wealth of experience in assisting businesses across different industries in developing and delivering their strategies.

Earlier this year, Martin Towers notified us of his intention to retire from the Board at the AGM in July 2015. In seeking a successor for Martin's role, we welcomed Liz Barber to the Board in April 2015. She has significant financial experience and expertise and will become Audit Committee Chairman following Martin's departure.

We believe that both Peter and Liz will bring new perspectives to our Board discussions and will contribute significantly to the ongoing effectiveness of the Board. We used external recruitment consultants who are completely independent of the business for both appointments.

Board effectiveness

We continually consider the effectiveness of the Board and have a formal evaluation annually, which in 2014 was performed by an independent external firm. The conclusion from the evaluation was that we are operating effectively but there were some minor areas for improvement, which are detailed further on page 32. We have taken action in all the areas identified as we strive to be as effective as we can be.

We always seek to ensure that we have appropriate succession plans in place both for the Board and for the senior management team of the business and this has been another regular topic of discussion during the year.

Looking ahead

Over the coming year, there are a number of priorities for the Board.

The first is for Peter and Liz to continue to familiarise themselves with the business and spend time with members of the senior management team. We believe that having a clear understanding of how the business operates is key to the Board's ability to measure progress and contribute to its future success.

As the transformation of the business continues, I anticipate that a great deal of the Board's time and focus will be on reviewing progress against the key strategic milestones set out by the senior management team.

Given the growing dependency on the strength of our people, the Board will increasingly dedicate time to further discussions around succession planning and to making sure that plans are in place to retain and develop talent.

Good governance and responsible business

We believe that good governance is essential to the Group and we seek to adopt best practice in all areas of governance where it is possible to do so. We also believe it is vital that the Board lives the values according to which the Group conducts itself; those of being open and considerate, team-minded, flexible, inspiring and innovative. I believe that our current Board achieves this and we will seek to continue to demonstrate these values in all that we do.

Those values have been embraced by employees and we continue to have a high level of engagement in community programmes right across the business, and particularly in Hull and East Yorkshire.

At the end of this year, we came to the end of our three-year Charity Partnership with Sparks, during which, through a wide variety of fundraising activities, we were able to raise over £235,000 for the charity. This money will support Sparks' ongoing work to fund pioneering research into conditions that affect babies, children and mothers-to-be.

At the start of this financial year, we began our new partnership with the Teenage Cancer Trust and I am sure that we will see equally enthusiastic support.

Finally, I would like to acknowledge once more the significant contribution made by our employees. An environment of transition and change inevitably results in a level of uncertainty. Since we began this journey in 2008, our employees have consistently demonstrated their commitment to delivering inspiring experiences to our customers and I have every confidence in their ability to rise to the challenges ahead. I thank them for their focus, hard work and commitment.

Graham Holden
Non-Executive Chairman
17 June 2015

Continued progress as we transform the business

In summary

- Progress towards becoming an integrated business
- Continue transformation through tighter focus on three key markets
- Integration of brands to align resource
- Journey continues into coming year

We continue to shift towards sustainable, higher value services

Dear shareholder

During the last year we have continued with the transformation of the business, building on the progress made since we began this journey back in 2008. Our full year financial results were broadly as anticipated and I am pleased to report that there has been continued progress in our focus areas, as we transform into an integrated business.

Within the Kcom segment, made up of the activities relating to our Kcom, Smart421 and Eclipse brands, we continued our shift away from the provision of declining network-based voice and associated commodity services and towards more sustainable, higher value managed IP-based services. Those services included our contract to provide HMRC with a range of contact centre services, exploiting our investment in our market leading 'Workplaces' platform. This was delivered successfully and in place ahead of the personal tax self-assessment deadline at the end of January.

We launched also a number of cloud-based packages, primarily aimed at small and medium-sized businesses. These include a managed Office 365 service, with increased levels of customer support and tailored migration. During the year, our Eclipse brand became one of Microsoft's first official Cloud Solution Provider partners.

We will seek to accelerate the progress we have made

Across all brands, we continue to see growing interest in our cloud and collaboration related capabilities.

As a result of this continued shift, the revenue and margins from some of our more traditional legacy activities have continued to decline. Recognising this, and their diminishing importance and contribution to future growth, an exceptional impairment charge has been recognised against the goodwill balance associated with those related historic acquisitions made in 2004.

In the KC segment, our Lightstream fibre network is supporting the demand for cloud-based services among SMBs, with continued interest for example in our high definition cloud-based CCTV service. Demand is driven also by Hull's inclusion in the Government's Superfast Britain voucher scheme, aimed at supporting SMBs with improved digital connectivity.

We have seen continued strong demand for our fibre-based services among consumers in the region with take-up well in excess of national rates. As a result, we have taken the decision to accelerate the rate of deployment and, by March 2017, over 100,000 homes will be able to access the service.

We have seen that fibre customers consume over twice as much data compared to those using a standard copper-based broadband connection. This demonstrates the growing importance of high bandwidth connections as customers look to make use of the wide range of 'over the top' services that are being developed such as on-demand content.

While many of those services are developed by third parties, we have begun to develop regionally-focused content for consumers, including coverage of local sporting and cultural events. Our content offering is in the early stages of development and we will be making more content available, particularly in the run up to Hull becoming the UK City of Culture in 2017.

These are the key opportunities for future growth and in the coming year, we will seek to accelerate the progress we've made to date.

Ofcom

In March, the industry regulator, Ofcom, announced its intention to undertake a strategic review of the UK's digital communications market, to ensure that communications providers and services continue to meet the needs of consumers and businesses. It will examine competition, investment, innovation and the availability of products in the broadband, mobile and landline markets.

The first phase of the review will examine current and future market factors that may affect digital communications services, and current regulatory approaches. Ofcom expects to publish a discussion document in the near future.

We will play an active part in this review, continuing our active and constructive dialogue with the regulator and other communications providers.

Looking ahead

Over the coming year, we will continue to tighten our focus on the three key markets we serve: enterprise, small and medium-sized business and consumer.

To do this, we will begin the process of integrating our existing brands in order to align resources with those target markets and prioritise investment more tightly to support our strategic growth areas, where we see increasing opportunity. We see this, in particular, being the provision of cloud-based services, the integration of collaborative systems and their related consultancy, design and integration activities and the development of fibre-based propositions. Building on the progress to date, we will continue consolidating our business-wide operational and support services to remove overlaps and duplication creating a more scalable, agile operating model.

Our achievements so far on the journey are a testament to the capability, commitment and collaboration of everyone across the business and it is that strength and combination of qualities that will see us continue our successful transformation, while continuing to deliver the highest standards of customer service.

Bill Halbert
Chief Executive
17 June 2015

Performance review

The Group is well positioned to deliver value-added services in our target markets

In summary

- Performance in line with expectations
- Progress across all key focus areas
- Pre-exceptional operating profit up 4% to £57.2m (2014: £55.0m), reported operating profit £22.4m (2014: £55.6m)
- Adjusted basic EPS up 5% to 7.91p (2014: 7.55p)
- Proposed final dividend of 3.58p (2014: 3.25p), representing sixth year of at least 10 per cent dividend growth

We are increasingly recognised as a partner of choice for the delivery of complex integration projects

Revenue £m

£348.0m ↓ 6.1%

EBITDA[1] £m

£74.3m ↓ 1.3%

Operating profit[1] £m

£57.2m ↑ 4.0%

1. Before exceptionals.

Business update

Businesses of all sizes are looking for a technology partner that can provide solutions that deliver against clear business outcomes.

In the enterprise market, we are becoming recognised as a partner of choice for the delivery of complex integration projects, as is evidenced by the successful implementation of a private cloud, contact solution for HMRC. This success reflects our decision to invest in higher value services and migrate the business away from the provision of declining voice and volume-based connectivity services.

Within the SMB market, we provide and support a range of subscription-based IT and communications packages. We have seen growing demand particularly for cloud-based services, across both new and existing customers, resulting in continued revenue and EBITDA margin growth in this area.

In the consumer market, data usage continues to grow exponentially, driving demand for both fibre-based and traditional broadband services. Our fibre deployment in Hull and East Yorkshire has achieved take-up of 33 per cent of premises passed, significantly above the national average. Based on this strong demand, we have accelerated our deployment of fibre and, by 2017, over 50 per cent of customers will have access to these services. The majority of our fibre services are delivered direct to the premises, allowing us to offer speeds and capacity that can grow readily, to match future customer demand.

Set against this progress, the revenue and margins from some of our more traditional legacy activities have continued to decline. Recognising this, and their diminishing importance and contribution to future growth, an exceptional, non-cash impairment charge of £33.9 million has been recognised against the goodwill balance associated with the related acquisitions made in 2004.

KC

The KC reporting segment covers communications services for consumers and SMBs within Hull and East Yorkshire, and provides contact centre and publishing services. Key features of the year include:

- continued growth in consumer revenue and profitability driven by growing demand for broadband services and increasing penetration of bundled products with an accelerating demand for fibre services;
- consumer Average Revenue Per User (ARPU) continues to increase as a result of new broadband customers and fibre take-up;
- slightly weaker business performance, pipeline strengthening particularly for fibre services; and
- an expected lower publishing EBITDA, reflecting anticipated decline in the Hull Colour Pages directory.

The fibre deployment across Hull and East Yorkshire continues to achieve customer take-up well in excess of national trends. As at 31 April 2015, approximately 48,000 premises had access to fibre with take-up of 33 per cent. As a result, we have accelerated our rate of deployment and by March 2017, we expect to reach 100,000 customers, covering 50 per cent of our network area.

Hull is included in a government funding scheme aimed at supporting SMBs with improved digital connectivity. KC has registered as a provider under the scheme and since launching on 1 April has achieved 110 sales with pipeline building to 450 registered interests. Fibre take-up rates in the business sector are significantly ahead of initial expectations, at approximately 50 per cent of premises passed.

Kcom

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

- investment in cloud-based contact services underpins successful implementation of HMRC contract within Kcom;
- overall revenue and profit in Kcom brand impacted by continued decline in legacy activities;
- cloud services contributing to a growing revenue and market share within Eclipse; and
- strategic progress and stronger second half order intake in Smart421, particularly in cloud-based integration and consultancy services.

The substantial government contract to provide a cloud-based contact centre for HMRC was delivered successfully, ahead of the 31 January self-assessment deadline. This initial deployment was the start of our engagement with HMRC's digital roadmap.

Refinancing, net debt and cash flow

During the year, the Group refinanced through the agreement of a £200 million revolving credit facility, secured on improved terms. This new arrangement, which expires on 30 June 2019, provides sufficient funding to support the Group's growth.

Exceptional items

The Group's net exceptional charge is £34.8 million (see Note 7 to the financial statements). Significant items include:

- £33.9 million impairment charge against the goodwill balance of legacy activities associated with historical acquisitions made in 2004. This is a non-cash item and is treated as exceptional in line with our accounting policy;
- £7.5 million restructuring costs relating to cost reduction, strategic IT investment and the move towards an integrated operating model; offset by
- £5.3 million cash receipt in relation to a rebate of prior year network rates.

As anticipated year end net debt increased to £99.3 million (2014: £75.0 million), representing a net debt to pre-exceptional EBITDA ratio of 1.3 x (2014: 1.0 x). The year on year movement in net debt was anticipated following planned increases relating to our services to HMRC. The Group's working capital outflow in the year principally arose as a result of a partial reversal of the strong cash collection in March 2014.

Dividend

The Board is proposing a final dividend of 3.58 pence per share (2014: 3.25 pence), representing a total dividend for the year of 5.37 pence per share (2014: 4.88 pence). This represents 10.0 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 31 July 2015, the final dividend will be paid on 4 August 2015 to shareholders registered on 26 June 2015. The ex-dividend date is 25 June 2015.

Pensions

The year end IAS 19 pension liability was £31.4 million (2014: £26.5 million). The year on year increase arose as a result of:

- £22.6 million increase in liabilities, principally due to a 1.05 per cent decrease in the discount rate, mitigated in part by a reduction in the assumed rate of inflation; offset by
- £17.7 million increase on assets, due to stronger investment returns (equity and bonds) over the year.

The agreed level of deficit repair payment (across both schemes) for the year ended 31 March 2016 is £2.0 million.

Capital investment

The Group's investment profile is consistent with previous guidance and cash capital expenditure during the year was £32.0 million (2014: £27.9 million). Specific projects include:

- the continued deployment of fibre;
- strategic IT investment, including the implementation of SAP financials, driving the Group's move towards common systems and processes; and
- targeted customer specific investment.

The Group's depreciation and amortisation charge for the year is £17.1 million (2014: £20.3 million). In line with its accounting policy and in light of market activity relating to network assets, the Group has assessed the appropriateness of the residual values of its network assets. This has resulted in higher residual values and a £4.9 million reduction in the depreciation charge for these assets in the year.

Tax

The Group's tax charge is £4.1 million (2014: £11.8 million). The current year effective tax rate is 21.6 per cent, broadly in line with the prevailing rate of corporation tax. The overall effective tax rate is 24.9 per cent reflecting the impact of prior year items.

Paul Simpson
Chief Financial Officer
17 June 2015

Harnessing technology to create better ways to connect people and organisations

Our key relationships

Our customers

Our strategic partners

The communities we serve in Hull and East Yorkshire

Our key inputs

The skills, expertise and experience of our people

Services and technologies from our partners

Our technology platforms

Fibre investment in Hull and East Yorkshire

How we generate revenue

Enterprises

Providing communications technology consultancy, solution delivery and service management

Served by
Smart421 and Kcom

Small and medium-sized businesses

Providing and managing connectivity, network services and cloud services

Served by
KC and Eclipse

Consumers

Providing broadband, talk, TV and other packaged communications services in Hull and East Yorkshire

Served by
KC

We report our activities under two reporting segments

KC segment
Consumers and businesses in Hull and East Yorkshire

Kcom segment
Businesses and public sector organisations across the UK

How we create value

For shareholders
Strong funding and cash generation

Long-term investment opportunity with increasing returns

For customers
We help enterprises use collaboration and communication tools to enhance their business performance

We help small and medium-sized businesses to operate more effectively, provide better customer service and achieve growth

We help consumers live more connected lives

For employees
Personal growth and development opportunities

Flexible benefits and wellbeing initiatives

For local communities in Hull and East Yorkshire
High-quality employment opportunities

Contribution to local economy

Support of local business and community initiatives

Our key strengths

Managing complexity
We manage complexity for customers. We take the time to understand their desired outcomes, better exploiting existing systems alongside integrating new systems.

Deploying our expertise
Our people are experts not just in communications and IT but also in the increasingly important fields of business innovation, technology change and digital transformation.

Our approach to technology
We believe technology is key to creating value. Our skills in integration and design mean we can bring together multiple services to deliver tangible business outcomes.

Enterprise market

Technology to support the evolving enterprise

The UK Systems Integration market is expected to grow at a Compound Annual Growth Rate (CAGR) of 15.3 per cent until 2018

UK Systems Integrations Market, MicromarketMonitor, 2014

Enterprises are increasingly looking for a technology partner to provide solutions that deliver clear business outcomes

Today's large corporate and public sector organisations face the challenge of developing technology strategies, designs and services that meet their rapidly evolving needs.

They recognise the value of being better connected – to customers, partners, employees and other assets and resources – and they understand that a joined-up technology architecture is the route to achieving this.

There are benefits that can be exploited across a number of technology layers:

Technology architecture: organisations are increasingly seeking external support to address digital challenges and opportunities. We are well positioned to provide insight on emerging technologies and have a strong track record in designing and delivering IT transformation plans to meet business goals.

Contact and collaboration: organisations want to reap the benefits of increased collaboration between employees and with partners, and manage contact with customers across multiple channels. We have the experience and capability to add value in this service area by creating flexible, rapidly deployable and easily scalable solutions.

Systems integration: as enterprises seek to extend their networks to connect customers, partners and a growing number of applications, we have the expertise to deliver seamless integration of existing systems and create a technology environment that facilitates new connections.

Cloud adoption and integration: hosting systems and applications in the cloud present the opportunity for enterprises to reduce capital and operational expenditure on IT while increasing business agility and flexibility. We are a premier partner of Amazon Web Services and the leading UK provider of cutting-edge cloud technology projects.

Identity and access management: a more connected enterprise, with authorised users sitting both within and beyond the traditional boundaries of an organisation's IT services, can increase exposure to risks. We are uniquely able to use voice and biometric analytics to enhance identity and access management and can support bespoke solutions to manage cyber threats.

Data and voice analytics: large enterprises have much to gain by using the vast amounts of data generated by customer contact to create insight that can help identify new opportunities. The cost of storing and processing this data means it has remains largely unexploited but our experience in cloud computing means we can help organisations deliver a 'Big Data' solution cost-effectively.

Our opportunity within this market is to exploit our deep communications and application knowledge and expertise, and that of our partners, to build, integrate and manage technology solutions that maximise business value for our customers.

End-to-end solutions covering consultancy, solution delivery and service management

The propositions we offer to the enterprise market match our capability with the opportunities set out by leading global technology analysts based on the prevailing CIO agenda.

We offer consultancy, solution delivery and service management and support to target sectors including central government, transport and logistics, financial services, travel and leisure, retail, utilities and manufacturing.

We expect to see consistent growth in the UK enterprise market over the medium to long term for our key offerings

Small and medium-sized business market

Enabling operational flexibility and growth

84 per cent of UK organisations have formally adopted at least one cloud service, with the cloud services market estimated to reach £2.7 billion by 2017

Cloud Industry Forums, 2014

SMBs of all types and sizes need reliable connectivity to run their operations

While many rely on their phone and internet services chiefly to sell goods and services, connect to customers and suppliers and communicate within the workplace, the growing availability of fast and affordable connectivity means SMBs are in a better position than ever to exploit cloud-based services to address business challenges and achieve growth.

Cloud technologies include IT infrastructure, platforms and software managed and maintained by a third party, delivered over a network connection and paid for based on usage. In contrast to traditional technology purchasing, where a business buys and owns a fixed IT asset such as a server or a software license, cloud technology offers benefits that are particularly attractive to the SMB sector, including:

Scalability: the capacity of cloud services can be rapidly scaled up and down to cope with growth or changing demand.

Cost: cloud services reduce the need for up-front investment in hardware and software, and give SMBs access to technical expertise without the cost of dedicated IT resource.

Flexibility: cloud services support mobility, allowing employees to work from any location.

Security: data and systems are stored remotely, supporting business continuity in the event of disaster, while automatic software updates address online threats.

Our focus in recent years on developing our portfolio of cloud-based services means we are well-placed to capitalise on forecast growth within this market, both through our expanded offering to our existing SMB customer base and by attracting new customers to whom we can offer both connectivity and cloud services.

A significant opportunity lies in the area of cloud-based communication and collaboration services, where across our Eclipse and KC brands we have an established offering including hosted business voice services, business-class email including security and archiving, web and phone conferencing, instant collaboration and mobile device management.

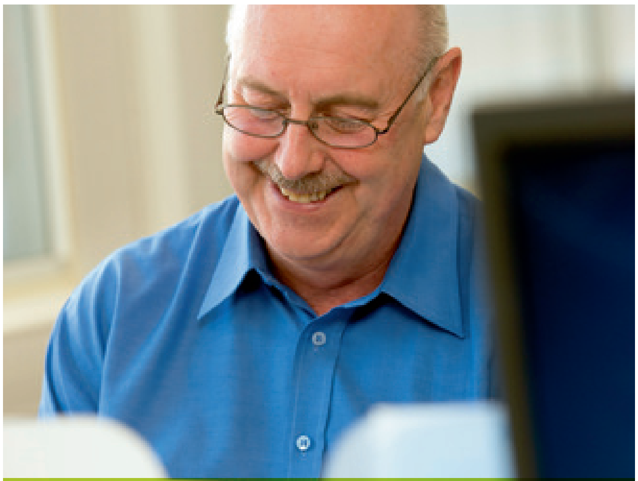
We are seeing an increasing number of SMBs switch to hosted voice services when it comes time to upgrade their in-house telephone system. Likewise, the need to renew software licenses for services such as email and other standard business applications is a key factor triggering consideration of a move to a cloud-based solution.

Superfast broadband remains a key opportunity in Hull and East Yorkshire

We have continued to see high take-up of our fibre-based broadband service among SMBs in Hull and East Yorkshire. The expansion in April 2015 of a Government scheme that provides funding for SMBs to connect to superfast broadband means we are now able to offer the service to businesses beyond our planned roll-out areas.

We are seeing an increasing number of SMBs switch to hosted voice services when it comes time to upgrade their in-house systems

Consumer market
Meeting the needs of the connected consumer



2+ times

KC's fibre broadband customers download more than twice as much data as those using non-fibre connections

Consumers are using more devices to connect to more online services
UK consumers are increasingly using the internet to improve almost every aspect of their lives. This trend continues to drive growth in the overall number of broadband connections and demand for faster download speeds.

Whether for general browsing, gaming, social media, shopping or on-demand TV and video, consumers of all ages are spending more time online thanks to developments in both technology devices and services.

Ofcom's 2013 UK Communications Market Report showed that UK households have an average of three different types of internet-connected device, while a survey by Microsoft later that year indicated that the typical UK household has six devices connected to the internet including laptops, tablets, smartphones, games consoles and smart TVs.

The use of data-hungry services and applications including free on-demand TV and subscription-based content services such as Netflix and Amazon Prime Instant Video has also continued to grow.

The combination of these trends has resulted in significantly increased data traffic across our Hull and East Yorkshire network, with the average KC consumer broadband customer now downloading more than three times as much data each month than in 2012.

Addressing demand through new propositions
One of the ways in which we are addressing the market opportunity for growth in fixed-line consumer broadband services is by developing new propositions to appeal to the needs of a wider range of customers.

Since 2012 the volume of data downloaded by our consumer customers has trebled

These include low-cost broadband packages aimed at households new to fixed-line broadband, and low-cost PCs, laptops and tablets aimed at households where the cost of a device is a significant barrier to switching to fixed-line broadband.

We have begun a trial of a pay-as-you-go broadband service, aimed at consumers who are unable to commit to a fixed-term contract.

We are also seeking opportunities to enhance the content delivered by our YouView-based TV service including regionally focused programmes.

Accelerating our deployment of fibre-based broadband
The second way in which we are addressing the market trend for increased data usage and demand for faster download speeds is by accelerating the deployment of our fibre-based broadband service, KC Lightstream, across our Hull and East Yorkshire network.

We have reached our target of making KC Lightstream available to more than 45,000 properties by 31 March 2015. The high take-up rates achieved have given us the confidence to double the speed of our implementation over the next two years so that by 31 March 2017 it will be available to more than 100,000 local properties.

The typical Lightstream-connected household downloads more than twice as much data each month than the average household with a standard copper broadband connection.

Our Lightstream packages accommodate this demand by delivering download speeds of 50Mbps (megabits per second), 75Mbps, 100Mbps and 250Mbps. They also offer significantly larger data allowances than our standard copper broadband products.

Video downloads by KC consumer customers have increased sixfold since 2012

Case studies
How customers benefit from our services

Enterprises

HM Revenue & Customs

As the UK's tax authority, HM Revenue & Customs (HMRC) ensures money is available to fund public services through its collection, compliance and enforcement activities.

HMRC selected Kcom to provide its new virtual contact centre, which enabled over 8,000 advisors to deal with more than six million phone calls during January, the month leading up to the self-assessment deadline.

The new cloud-based platform uses speech recognition to enable customers to speak directly to the advisor best placed to help them. Through secure integration with HMRC's systems, advisors also have instant access to the caller's history.

Other benefits of the cloud-based platforms we develop for enterprise customers include:

- better handling of fluctuations in demand, improving customer experience and advisor productivity;
- multi-channel capability to support customer contact preferences;
- lower costs through a usage-based commercial model; and
- rapid deployment and integration with existing infrastructure.

Small and medium-sized businesses

BPL Business Media Ltd

BPL Business Media Ltd is the leading digital media, print, events and research company covering the IT, telecom and broadcast sectors. Eclipse's reputation for service and support led BPL to choose it to manage the migration of key Microsoft applications to the cloud.

As technology industry experts, BPL understood the productivity and cost benefits offered by cloud services. When the time came to upgrade licenses for key applications it chose instead to streamline its IT infrastructure and evolve to Microsoft's cloud-based Office 365. The solution provided by Eclipse delivers benefits including:

- fully-managed migration of data with minimal interruption to operations;
- access to the latest versions of Microsoft applications across all devices and from any location;
- a financially-backed service level agreement guaranteeing 99.9 per cent uptime;
- service continuity and support from an official Microsoft Cloud Solution Provider (CSP) Partner; and
- a predictable monthly fee per user that reduces the total cost of ownership of key IT services.

Consumers

Hull and East Yorkshire residents

As digital services become the default option for accessing public services, information and entertainment, KC's broadband services are helping households across Hull and East Yorkshire make the most of all the internet offers.

Take-up of broadband across KC's network grew by 5.9 per cent during the year, supported by the introduction of affordable devices and low-cost packages aimed at first-time users. The many benefits of being online were set out in the UK Broadband Impact Study published by the Department of Culture in November 2013 and include:

- improved job prospects, as being digitally capable is critical in finding and securing a job;
- reduced costs of living. Households offline are missing out on savings of £560 per year from shopping and paying bills online; and
- improved quality of life, especially for older people: 81 per cent of people over 55 say being online makes them feel part of modern society and less lonely.

Our vision is underpinned by four strategic pillars that support us in our pursuit of operational excellence as we seek to achieve a leading position in our selected markets

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.

Priorities for 2014/15

- 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.

Progress for 2014/15

We have:

- achieved our target of passing a further 15,000 premises with our Hull and East Yorkshire fibre deployment, maintaining a take-up rate in excess of 30 per cent;
- continued to win new service management contracts and new contracts for cloud-based services within the enterprise market; and
- delivered successfully our first major project for HMRC.

Priorities for 2015/16

We will:

- accelerate our deployment of fibre-based broadband to pass a further 60,000 properties over the next two years, building on current take-up rates;
- deliver growth in the provision of complex communications solutions to the enterprise market; and
- grow our share of the small and medium-sized business market.

People

We want to provide 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.

Priorities for 2014/15

- continue to develop 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.

Progress for 2014/15

We have:

- brought together finance teams from across the business to create a business-wide finance team in a single location and with a single set of processes;
- established a joint working approach between our Kcom and Smart421 brands to better address opportunities in the enterprise market;
- introduced a competency framework that will set out the skills and behaviours required for each role within the business. It will be used to deploy our people more flexibly, identify skills gaps, manage performance, support employee development and inform succession planning; and
- implemented a new reward framework that gives managers greater flexibility to reward and recognise excellent performance.

Priorities for 2015/16

We will:

- Simplify our business to create a single, agile operating model where our people can be deployed flexibly and efficiently for the benefit or our customers.

Partners

We recognise that our customer needs are better met if we work seamlessly with carefully selected partners to create combined service offerings.

Priorities for 2014/15

- invest in partnerships that support our customers' objectives;
- continue to exploit our strategic relationships to deliver market-leading, innovative services; and
- maximise our hosted and cloud collaboration services and unified communication services offerings.

Progress for 2014/15

We have:

- continued to invest in partnerships that support our customers' objectives, such as that with Amazon Web Services; and
- put in place plans with strategic partners to transform key networks and technology platforms.

Priorities for 2015/16

We will:

- exploit the scale and innovation offered by our strategic partnerships to deliver market-leading services to customers in our target markets.

Processes and systems

Customer service excellence is underpinned by robust processes and systems.

Priorities for 2014/15

- 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.

Progress for 2014/15

We have:

- implemented an SAP system and efficient and scalable back-office processes within our business-wide finance team; and
- introduced an e-commerce portal that extends the ability of customers to buy online and self-serve.

Priorities for 2015/16

We will:

- optimise more of our back-office systems to support a simplified operating model;
- enhance the capability of our e-commerce platform to generate further online sales and encourage self-service; and
- improve cross-business collaboration through the introduction of new technology platforms.

Key performance indicators (KPIs)

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

Financial

Revenue £m

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

£348.0m ↓ 6.1%

Comment

Headline financial metrics broadly in line with expectations.

Revenue impacted by continued decline in legacy activities.

Anticipated increase in net debt as a result of planned increases in capital expenditure.

EBITDA[1] £m

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

£74.3m ↓ 1.3%

Profit before tax[1] £m

A measure of profit that does not take into account the cost of corporation tax.

£51.5m ↑ 3.2%

Net cash inflow from operations £m

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

£50.8m ↓ 29.0%

Net debt

A metric that shows the Group's indebtedness.

£99.3 ↑ 32.4%

1. Before exceptionals.

Performance review
page 8

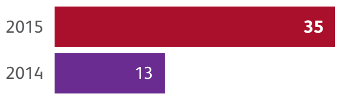
Key: Customers People Partners Processes and systems

Non-financial

Impact of health and safety incidents

Number of days lost due to health and safety incidents.

35 169.2%

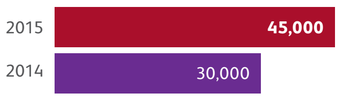


Comment
We focus on continuous education and implementation of improved ways of working that keep health and safety incidents to a minimum. The working days lost relate to just three incidents, with one incident accounting for 26 days. All incidents are thoroughly investigated and action is taken to prevent recurrence wherever possible.

Availability of fibre-based broadband

Number of premises passed in Hull and East Yorkshire by our roll-out of KC Lightstream.

45,000 50.0%



Comment
We achieved our target of making our fibre-based broadband services available to 45,000 homes and businesses in Hull and East Yorkshire, by March 2015.

Roles with a competency profile

Number of role profiles which have been mapped against our new behaviour and technical competencies.

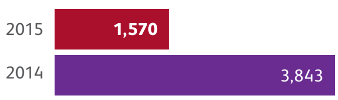
1,233 70%

Comment
We introduced a competency framework in 2014/15 to enable better utilisation of our people skills and support career progression.

Employee volunteering

Number of employee hours we have donated to community projects.

1,570 59%



Comment
In 2014, 2,000 additional volunteering hours were devoted to delivering a specific Prince's Trust activity.

In 2015, schools, charities and community groups across Hull and East Yorkshire have benefited from our employees' time and skills during the year.

Corporate responsibility
page 22

As with all businesses, we are affected by a number of risks and uncertainties

Principal risks and uncertainties

This table shows the principal risks and uncertainties, some of which are beyond our control, that could have a material adverse effect on the Group and have been identified through our risk management framework.

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

Further information on risk management and our internal control systems can be found on page 35.

Our strategy
page 16

Risk management framework

Risk identification

Risk recording

Auditing

Risk reporting

Risk management and internal controls
page 35

Security and resilience of our networks and IT systems

Why is it important?	What are we doing to mitigate the risk?	Change in level of risk
We place significant reliance on the networks and IT systems both within our business and in the services we provide to our customers. It is therefore essential that we build security and resilience into the networks and systems to mitigate the risk from attacks.	We continue to monitor closely 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 comply also with other security standards as required by our customers. We have also made significant investment in our IT infrastructure to improve the resilience of our key systems.	Risk decreased

How does this link to our strategy?

This links directly to our **processes and systems**, as well as being key to the **customer** pillar of our strategy as ensuring security of our networks and IT systems is a clear customer need.

Accuracy, security and confidentiality of customer data

Why is it important?	What are we doing to mitigate the risk?	Change in level of risk
Security of customer data, whether it belongs to a business or an individual, is of paramount importance to us. The risk to data security remains high as a result of the volume of external attacks seen across all industries.	We have run an information security awareness programme throughout the year to regularly remind our people of the importance of information security and their responsibilities in relation to this. We have a clear Data Governance policy in place and in the year have appointed data governance owners across the business to form a virtual team with responsibility for all matters relating to data governance. Any incidents, however minor, are investigated and control improvements are implemented where necessary to ensure that we keep our customer data secure at all times.	No change

How does this link to our strategy?

This has a direct impact on our **customers** and also links to our **processes and systems** pillar of our strategy as our processes and systems play a pivotal role in keeping our data accurate, secure and confidential.

Key: Customers People Partners Processes and systems

Customer service and delivery

Why is it important?	What are we doing to mitigate the risk?	Change in level of risk
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.	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.	Risk decreased

How does this link to our strategy?

This links to all aspects of our strategy and is key to the whole of our business.

Recruitment and retention of the right people

Why is it important?	What are we doing to mitigate the risk?	Change in level of risk
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.	We are focused on creating a workplace that both attracts and retains people with the skills and behaviour that we need. During the year we have created a competency framework which will help us identify skills gaps for recruitment, enable us to create more opportunities for personal growth development. It also links into our performance management to help us ensure we are identifying and rewarding the people that embody the competencies we need to drive the business forward.	Risk increased

How does this link to our strategy?

Recruiting and retaining the right people is part of the **people** pillar of our strategy, whilst also having an impact on our **customers** and the level of service that they receive.

Reliance on key partners and suppliers

Why is it important?	What are we doing to mitigate the risk?	Change in level of risk
Our business model means that we work with several key partners to deliver service to our customers; they include Amazon Web Services, BT, Cisco, ForgeRock, Microsoft.	We have dedicated teams to work alongside our key partners and we monitor all of our partnerships closely to ensure that our partners embody our key values and we can work together to resolve any minor issues before they become significant. We also have multiple partners in key risk areas to mitigate the risk in the event of failure of one partner.	No change

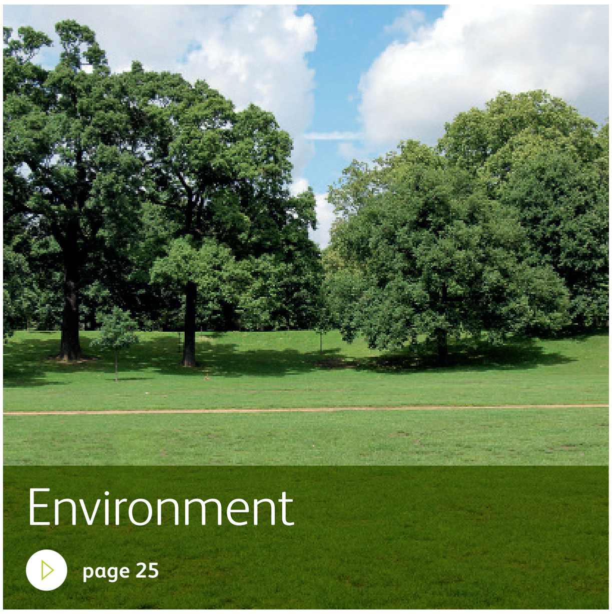
How does this link to our strategy?

This links directly to the **partners** pillar of our strategy and also impacts upon our **customers**.

We seek to ensure our business is sustainable and acts responsibly

People

page 24



Environment

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Governance

Community

page 26

Customers and suppliers

page 27

We have a number of key stakeholders that are influenced by the way that we choose to do business. Our Corporate Responsibility (CR) strategy seeks to ensure that we behave consciously in a way that has a positive effect on the communities in which we operate, on the people we employ and on our customers and suppliers, while minimising our impact on the environment. We also acknowledge that CR is of importance to our shareholders and that our ethical behaviour as a listed company has an influence on the market on which our shares are traded.

As one of the largest employers in the Hull and East Yorkshire region, we believe that we have a particular responsibility to make a positive difference in the region and much of the community work we do is aimed at benefiting the Hull and East Yorkshire community.

There are three key objectives which underpin our CR strategy:

- to use our expertise in communications technology to create a positive impact on all our stakeholders and the communities in which we operate;
- to promote our values, both internally and in the way in which we do business with external stakeholders; and
- to engage and empower our people so that they can make a positive contribution to our CR strategy and the causes that matter to them.

Our CR strategy covers four key areas

All four areas are taken into consideration in key business decisions and the Board receives reports on each of these areas as and when appropriate. Responsibility for the overall CR strategy sits with our Chief Executive, Bill Halbert.

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

Why have we chosen these four key areas?

Our **people** are fundamental to all we do and the way that we operate as a business clearly has an impact on how valued our people feel and whether or not we are the type of organisation that they want to work for.

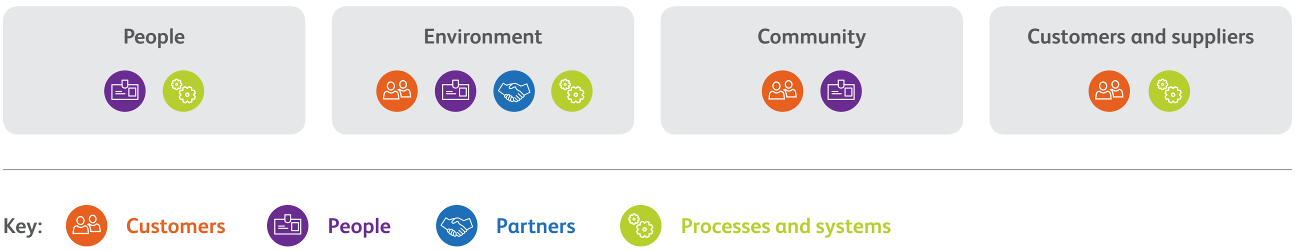
We believe the **environment** is a key concern for all businesses and that we all have a responsibility to minimise our negative environmental impact and make decisions with environmental sustainability in mind.

We operate in a number of different communities across the country, particularly in Hull and East Yorkshire where we have a significant presence. We take seriously our responsibility to operate in a manner that benefits the local **community** as well as our strategic aims as a business.

Our **customers and suppliers** are also key stakeholders in the business and we believe that we have a responsibility to behave ethically with both suppliers and customers. We know also that there are issues that are important to our customers that go beyond the products or services that they buy from us, and we also seek to address these as part of our CR strategy.

How does the CR strategy link to business strategy?

The key areas of our CR strategy are fully inter-linked with the main pillars of our strategy, as shown in the diagram below. We seek to ensure that CR initiatives are fully aligned with our overall strategy and that CR considerations are built into all strategic decisions across the business.



People

Development

Our people are one of our key differentiators. We place great importance on seeking talented individuals to join our business and motivating and developing those who are already part of our team.

Our aim is for our people to embody our values of being open and considerate, team-minded, flexible, inspiring and innovative. Many of our training programmes and activities focus on these values and the behaviours arising from them. We believe demonstrating the right behaviours is as important as having the right skills to perform a role.

During the year under review we have started to implement a competency framework, which sets out the required competencies for every role, covering both behaviour and technical expertise. The framework will enable us not only to carry out more effective and meaningful performance management but will also open up more development opportunities for our people by showing more clearly the competencies required to move to another part of the business or to progress.

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

We continue to place the utmost importance on the health, safety and wellbeing of our people, as well as the health, safety and wellbeing of our contractors, partners, customers and any members of the public who may be affected by our work.

Some of our people are engaged in manual work and we have thorough training in place for all of these people, as well as clear Safe Systems of Work that must be followed at all times. We launched a mandatory health, safety and environment e-learning module towards the end of the year for all of our employees. This covered fire safety, workplace hazards, health and wellbeing, environmental sustainability, driving safely, and responsibilities and reporting.

A number of our people have to drive on company business and we perform risk assessments and provide additional driver training for individuals deemed to be at a higher risk.

We work also with a number of partners when performing manual work and we follow clear processes to ensure that our partners are competent and operate in a healthy and safe manner. We require all of our suppliers of physical services to hold accreditation to a member scheme of Safety Schemes in Procurement (SSIP) and we will work with those without this to assist them in reaching the required level of competence.

We have been accredited to the BS OHSAS 18001 Health and Safety Management standard since 2011 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 (2014: two). There were 35 working days lost in the year as a result of just three health and safety incidents (2014: 13 working days). Health and safety incidents are closely monitored by the Health and Safety team to ensure that any appropriate actions arising as a result are identified and then fully implemented.

Education is a key part of our approach to wellbeing. Each year we hold health and wellbeing screening sessions which are open to all employees and contractors. These are provided by an independent third party and provide a free and confidential health assessment measuring such things as blood pressure, blood sugar levels, Body Mass Index and cholesterol. 585 of our colleagues attended these sessions in the year, representing approximately 32 per cent of the workforce. We provide also employees with the option to purchase other medical and dental services through our flexible benefits scheme.

During the year we launched a new programme called 'Live Well, Work Well' which provides self-help tools and ideas to our people to encourage them to think about their mental and physical wellbeing and to seek support and help when they need it to achieve a healthy work-life balance. Many of our employees have embraced the programme and have shared their ideas and tips through our internal social media platform.

Gender diversity

Gender diversity is the subject of much focus at the current time and we believe unreservedly in equal opportunities for all regardless of gender. We have clear policies in place which mean that men and women are given equal opportunities, both when we are recruiting and then in developing and progressing once with us. Since the year end we have welcomed a female Director to the Board. As at the year end the gender diversity of the Group was as set out in the table below:

	Male	Female	Female %
Board Directors	6	0	0%
Senior management team[1]	11	5	31%
Other employees	1,165	635	35%

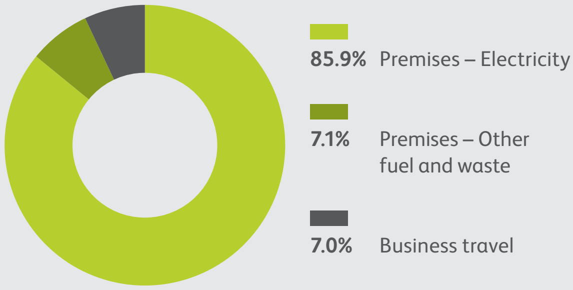
1. The senior management team is defined as those reporting directly to the Board of Directors and other leaders of key areas of the business.

We are supportive of flexible working wherever possible and 14 per cent of our workforce works flexible hours, including 34 per cent of our female employees.

During the year we launched a new programme called 'Live Well, Work Well' which provides self-help tools and ideas to our people

Environment

Breakdown of our emissions %



The main environmental impact of the business arises from our use of electricity, which makes up 85.9 per cent of our CO_2e emissions. This includes all our premises, such as offices, data centres and our various network sites both nationally and in the Hull and East Yorkshire region.

As a business, we continue to work on reducing our emissions wherever possible. We have recycling facilities at all of our main offices and have introduced recycling bins for dry mixed materials during the year to make it easier for more items to be recycled. This has led to 94.1 per cent of our waste being recycled in 2014/15 compared to 92.5 per cent in the prior year. We report our environmental performance internally through a 'Green Dashboard' on our intranet and we have a network of volunteer Green Champions across the business, that helps to raise awareness of environmental matters.

Emissions in the year

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

Area	Year ended 31 March 2015 CO_2e	Year ended 31 March 2014 CO_2e Restated[1]
Combustion of fuel and operation of facilities	3,110	2,962
Purchase of electricity	18,953	18,344
Total	22,063	21,306
Tonnes of CO_2e per £'000 of revenue	0.063	0.057

1. The reported figures for 2013/14 have been restated to use the UK Government conversion factors for 2014 and methods of calculation which are consistent with those used in 2014/15.

During the year the CO_2e created from the combustion of fuel and operation of facilities has increased by 5.0 per cent. This reflects a slightly higher use of refrigerant gases in the year as a result of the replacement of the, now obsolete, R22 gas in a number of our air conditioning systems, plus an increase of 3.7 per cent in our business travel, the majority of which is due to an increase in domestic and short haul air travel. Whilst we always encourage our employees to travel only when necessary, we acknowledge also that some travel is necessary in order to do business.

We will continue to monitor our emissions in these areas and will continue to enforce the message to minimise our emissions wherever possible.

The CO_2e from electricity purchased has increased by 3.3 per cent in the year which reflects an increase in the conversion factor applied to electricity in the year. The actual amount of kilowatt-hours of electricity used has reduced in the year by 6.9 per cent.

Information for our carbon emissions reporting comes from our own internal systems, third party travel companies, suppliers of fuel and waste collection and recycling services and from our electricity supplier. The method of calculation has been audited in previous years by our Internal Audit team and uses the UK Government conversion factors for company reporting.

Environmental measures

Area	Actual	Target 2014/15	Target met	Target 2015/16
Total CO_2e emissions	22,063 tonnes	Not to exceed 2013/14 levels of 21,306 tonnes[1]	✗	To return to 2013/14 levels of 21,306 tonnes
Waste sent to landfill	20.2 tonnes	Not to exceed 2013/14 levels of 27.8 tonnes[2]	✓	Not to exceed 2014/15 levels of 20.2 tonnes

1. The target for 2014/15 has been adjusted to reflect the restated comparatives for 2013/14. The restatement is to show the 2013/14 emissions as calculated using the same methodology and assumptions as in 2014/15, which are fully compliant with the UK Government conversion factors for company reporting for the relevant years.
2. This number reflects actual tonnes of waste sent to landfill rather than CO_2e tonnes, which can be subject to changes in assumptions or methods of calculation year on year. The target for 2014/15 was previously shown in CO_2e tonnes.

The impact of climate change

There has been a significant amount of flooding across the country over recent years and we take the risk of flooding seriously. Over the last few years we 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 basement doors and replacing air bricks at selected sites. During the year none of our buildings or equipment have been affected by flooding but we continue to monitor the risk and regularly practice our business continuity procedures to ensure we are prepared should an incident occur.

We report our environmental performance internally and a network of volunteer Green Champions raises awareness of environmental matters

Community

Supporting the local economy in Hull and East Yorkshire

The Hull and East Yorkshire region is the birthplace of our business and we are proud to play our part in local life in the area. We employ 957 people in Hull, representing 53 per cent of our Group, and we contribute over £150 million to the local economy each year[1]. We make our business decisions with the potential impact on the local community very much in mind, both in Hull and East Yorkshire and in the other communities in which our people are located. We have no material social issues.

Unemployment rates in Hull have fallen over the last year but continue to be high in comparison to England as a whole[2]; this has strengthened our resolve to support the local economy wherever we can. Our KC brand's 'buy local' approach when purchasing goods and services has resulted in us directly supporting over 175 local suppliers over the last year.

Our KC Invest fund, which was launched in 2011 to provide start-up and growth financing for local businesses in the digital and technology sectors, continues to operate. During the year we also became a key partner of a community interest company called For Entrepreneurs Only, which is based in Hull and seeks to help boost the local economy by creating more private sector jobs for the future. We have provided financial support and our people have acted as guest speakers at events to help entrepreneurs learn more about the reality of running a business.

We continue to support the Hull's John Cracknell Youth Enterprise Bank, which has provided grants to 14 young people to help them set up and develop their businesses over the last year. We believe that supporting young people at the outset of their careers helps to develop the employers of the future, thereby supporting the long-term local economy. As part of this we support the Hull Employability Charter and have taken on 12 apprentices over the past year to demonstrate our commitment. During the year we have also engaged with 23 primary schools, eight secondary schools and three colleges to support the development of employability skills, provide one to one reading support, take part in careers events and inspire interest in science, technology, engineering and maths.

1. DTZ Consulting, 2015.
2. For the 12 months to 30 September 2014 unemployment in the Hull City Council area was 12.75 per cent compared to 6.61 per cent for England as a whole. Data taken from the Humber Data Observatory.

Increasing broadband penetration in Hull and East Yorkshire

The government has highlighted 'digital exclusion' as a key risk facing the UK at the current time. People may be digitally excluded due a lack of internet access or a lack of digital skills. Digital inclusion results in people feeling more connected with their families and communities, increases the job opportunities available and even enables people to save money through shopping online, and to access government services that are increasingly moving online.

We are looking to help tackle digital inclusion in a number of ways:

- we are making a significant investment in the provision of superfast broadband, to enable people to communicate and do business online at download speeds including 250Mbps. Our fibre deployment began in 2012 and has continued throughout the year, with more than 45,000 premises passed as at 31 March 2015 and a commitment to have passed 100,000 premises by 31 March 2017;
- we have introduced new products and packages that provide low-cost PCs, tablets or laptops to new customers. We have also launched our cheapest ever broadband package to encourage more people to get online; and
- we are working with local councils and other organisations to provide equipment and volunteers to run courses and drop-in sessions to teach digital skills, including in local community centres.

Improving wellbeing in Hull and East Yorkshire

During the year we announced a partnership with Hull 2020 to introduce a number of 'Safe at Home' services to be used across the region. Hull 2020 is a group of nine public service organisations committed to enabling the people of Hull to improve their own health and wellbeing.

In October 2014 we began trialling a 'cold alarm', which is a wireless device that monitors the temperature in a home and sends an alert via the internet to an alert centre or family member if the temperature falls below an agreed threshold. The devices can be used in the homes of people at risk from the cold, including older people and those with long-term health problems.

By launching technology-enabled care services such as the cold alarm, we aim to help give vulnerable people and their relatives peace of mind and give people an opportunity to live independently in their own homes for longer.

Volunteering

Our people are keen to volunteer to help with local community activities. We continue to operate formal partnerships with schools, charities and projects in the areas local to our offices across the country. In total our people donated 1,570 hours to community volunteering during the year to 31 March 2015.

We have continued this year in 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. This year we have hosted and supported events to help The Trust expand its work in Hull and East Yorkshire.

Group charity partner

For the last nine years we have focused employee fundraising around a charity partnership. Every three years, we work with a charity partner chosen by our people from 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 mothers-to-be. In the three years to 31 March 2015 our people raised over £235,000 for Sparks through a variety of sporting challenges, dress down days, auctions, cake bakes and many other activities.

From 1 April 2015 our new charity partner is Teenage Cancer Trust, selected again by our people. Teenage Cancer Trust is dedicated to ensuring that young people diagnosed with cancer receive the very best care and support from the moment they are diagnosed.

Customers and suppliers

Ethical sourcing

We believe that we have responsibilities in relation to our customers and suppliers, to treat them fairly and to do business with them in the right way.

We also have a responsibility to make sure that our suppliers operate with the same ethics and standards as us. All of our suppliers are expected to sign up to our Supplier Code of Conduct; this sets out our expectations in relation to laws and ethical standards, labour practices, risk management and business continuity. We have regular meetings with our key suppliers and work closely with them to ensure that we understand the way in which their business operates and their approach to sustainability and their own corporate responsibility.

We also know that we have a responsibility to our customers to ensure we tackle the issues that are important to them, beyond the products and services that they buy from us.

Online safety

One area in which we believe we have a corporate responsibility to our customers is in relation to online safety. In October 2014 we launched free parental controls on our broadband service which any consumer customer may sign up for. We are applying these controls automatically for all new customers, with customers able to opt out if they wish to.

We have also provided funding to a local theatre group to develop and perform plays addressing cyber bullying and online grooming. These plays have been performed in primary schools across the region to teach children about the importance of online safety.

Continuity of supply

We believe that continuity of supply is essential for many of our customers who rely on us for their business communications or for access to online services. We therefore continually review our partners and suppliers to ensure that we are able to have continuity of supply, or a viable alternative, should one of our key suppliers unexpectedly fail.

We are reliant on electricity across much of our business and therefore the threat of a significant power outage has been identified as a potential risk to the business. 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. We have also invested significantly in recent years to ensure that our internal systems have resilience and back-up support should any of our key systems fail.

Signed on behalf of the Board

Kathy Smith
Company Secretary
17 June 2015

We have a responsibility to our customers to ensure we tackle the issues that are important to them

Board of Directors

Graham Holden (55)
Non-Executive Chairman

Liz Barber (49)
Non-Executive Director

Bill Halbert (67)
Chief Executive

Tony Illsley (58)
Senior Independent Non-Executive Director

Term of office

Graham joined the Board as a Non-Executive Director in November 2007 and became Non-Executive Chairman on 1 April 2014.

Liz joined the Board in April 2015.

Bill joined the Board as a Non-Executive Director in September 2006 before stepping up to become Executive Chairman in July 2009. Bill then was appointed as Chief Executive on 1 April 2014.

Tony joined the Board in June 2009.

Previous experience

Graham is a Chartered Accountant and graduate of the Harvard Advanced Management Programme. He was Chief Executive of Marshalls plc from 2001 until his retirement in October 2013, having previously been the Group Financial Director from 1992 to 2001.

Liz is a Fellow of the Institute of Chartered Accountants, qualifying with Ernst & Young in 1991 and being promoted to Partner in 2001. She was then Head of Audit for the North of England from 2006 to 2010, when she joined Kelda Group as Group Director of Finance.

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.

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.

Board Committees

Graham is the Chairman of the Nomination Committee and a member of the Remuneration Committee.

Liz became a member of the Audit, Remuneration and Nomination Committees on appointment and will become Chairman of the Audit Committee from the AGM on 31 July 2015.

Bill is not a member of any of the Board Committees.

Tony is currently Chairman of the Remuneration Committee and is also a member of the Audit and Nomination Committees.

External appointments

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

Liz works full-time as the Group Director of Finance, Regulation and Markets for Kelda Group. She is a Non-Executive member of the Board Council for Leeds University, a member of the Prince of Wales Accounting for Sustainability Group and a Steering Group member of the Two Percent Club which seeks to support more balanced board memberships.

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

Tony is a Non-Executive Director of Quindell Plc, Camelot Global Services Limited and Camelot UK Lotteries Limited.

Other Directors

Kevin Walsh was an Executive Director of the Board from May 2004 until his retirement from the Board on 29 July 2014. Kevin did not sit on any Board Committees whilst with the Group. Kevin ceased to be an employee of the Group on 31 October 2014.

Paul Simpson (46)
Chief Financial Officer

Peter Smith (57)
Non-Executive Director

Martin Towers (62)
Non-Executive Director

Kathy Smith (41)
Company Secretary

Term of office

Paul joined the Board in May 2004 when he was appointed Chief Financial Officer, having joined the business in September 2000.

Peter joined the Board in January 2015.

Martin joined the Board in June 2009. He has indicated his intention to retire from the Board at the AGM on 31 July 2015.

Kathy took on the role of Company Secretary in July 2010.

Previous experience

Paul is a Fellow of the Institute of Chartered Accountants in England and Wales, qualifying with Price Waterhouse. Prior to joining the Group, Paul worked in transaction services at Ernst & Young, which included working on the flotation of KCOM Group.

Peter has worked for LEK Consulting LLP for 27 years. Prior to joining LEK, Peter worked for Schlumberger Wireline in the Middle East for seven years, as a field engineer and line manager in the oil industry.

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.

Kathy is a Fellow of the Institute of Chartered Accountants in England and Wales, qualifying with Deloitte. She joined KCOM Group in September 2005 as Head of Internal Audit and is now Director of Risk alongside her Company Secretary role. She is a Graduate member of the Chartered Institute of Secretaries and Administrators.

Board Committees

Paul is not a member of any of the Board Committees.

Peter became a member of the Audit, Nomination and Remuneration Committees on appointment.

Martin is the Chairman of the Audit Committee, but will step down from this role at the AGM on 31 July 2015. He is also a member of the Nomination and Remuneration Committees and will remain so until his retirement from the Board in July.

Kathy is the secretary for all of the Board Committees.

External appointments

None.

Peter works full-time for LEK Consulting LLP as a member of the Global Leadership Team.

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

Corporate governance

Board length of service

Director	Appointment	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Graham Holden	27 November 2007				■	■	■	■	■	■	■	■	■
Liz Barber	7 April 2015												■
Bill Halbert	1 September 2006			■	■	■	■	■	■	■	■	■	■
Tony Illsley	2 June 2009						■	■	■	■	■	■	■
Paul Simpson	24 May 2004	■	■	■	■	■	■	■	■	■	■	■	■
Peter Smith	5 January 2015												■
Martin Towers	2 June 2009						■	■	■	■	■	■	■

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.

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, have reviewed the performance and contribution of Graham Holden, Bill Halbert, Tony Illsley and Paul Simpson and has no hesitation in proposing the re-appointment of each of these Board members. We believe we have a diverse and balanced Board which meets the current needs of the business and therefore all of these Directors are recommended for re-election on the basis of their contribution to this. Martin Towers has indicated his intention to retire from the Board at the AGM and therefore will not stand for re-election.

In addition, the Nomination Committee is pleased to recommend both Peter Smith and Liz Barber for appointment to the Board. Peter joined the Board on 5 January 2015 and brings with him a vast amount of experience across a number of industries where he has helped many businesses from a strategic perspective. The Nomination Committee believes that Peter will be able to use his experience to make a significant contribution to the Group, particularly as it goes through a period of strategic change. Liz Barber joined the Group on 7 April 2015 and brings with her significant financial expertise, as a previous audit partner for Ernst & Young and as the current Group Director of Finance for Kelda Group. Further biographical details for each of the Directors can be found on pages 28 and 29.

All Board members contribute to all aspects below. Here are their key areas of expertise:	Graham Holden	Liz Barber	Bill Halbert	Tony Illsley	Paul Simpson	Peter Smith	Martin Towers
Financial	✓	✓			✓		✓
Sector			✓	✓	✓		
Regional	✓	✓			✓		✓
Regulated environment		✓	✓		✓		✓
Strategic	✓		✓			✓	
PLC Board	✓		✓	✓	✓		✓

The Articles of Association also state 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 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 at the time of this report and the Non-Executive Chairman were independent upon appointment and the Board believes that all five remain wholly independent in relation to the criteria set out in Provision B.1.1 of the UK Corporate Governance Code.

Commitments of the Non-Executive Chairman

Our Non-Executive Chairman, Graham Holden, does not currently have any other significant commitments.

UK Corporate Governance Code

From 1 April 2014 to 29 July 2014 the Board was non-compliant with provision B.1.2 of the UK Corporate Governance Code, which requires at least half of the Board excluding the Chairman to be independent Non-Executive Directors. During this period there were two Non-Executive Directors and three Executive Directors. The risk created by this imbalance was mitigated by the Chairman consciously ensuring that the views of the Non-Executive Directors were given appropriate prominence in the Board meetings. The retirement of Kevin Walsh as Executive Director on 29 July 2014 rectified this non-compliance and the Board has been compliant with this provision ever since, with three independent Non-Executive Directors and just two Executive Directors as at 31 March 2015.

In addition, the Board was non-compliant with provision C.3.1 of the Code from 1 April 2014 to 5 January 2015, which requires the Audit Committee membership to be made up of at least three independent Non-Executive Directors. This was rectified on 5 January 2015 when Peter Smith was appointed to the Board and became a member of the Audit Committee. The risk created by this non-compliance was mitigated through the Committee members spending additional time meeting with members of the business and the external auditors to ensure matters for discussion were fully explored and all potential viewpoints taken into consideration. At the end of the year there were three independent Non-Executive Directors on the Audit Committee.

Other than the exceptions noted above, the Board considers that it has complied with all the detailed provisions of the September 2012 UK Corporate Governance Code throughout the year ended 31 March 2015.

UK Corporate Governance Code continued

The UK Corporate Governance Code was updated in September 2014 and the revised version applies to financial years beginning on or after 1 October 2014. We will therefore report against the revised Code in our reporting for the year ending 31 March 2016.

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.

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.

Each Committee has its own report which sets out the membership and attendance at the Committee meetings during the year, as well as further information on the role of Committee. The Audit Committee report can be found on page 36, the Nomination Committee report on page 34 and the Remuneration Committee report on page 42.

How the Board operates

The Board has eight scheduled meetings a year, with other ad hoc meetings held as needed. During the year, the Board met 10 times. The two additional meetings were specifically held to consider the appointment of a new Non-Executive Director and to receive an update on an internal project. Attendance at the meetings during the year is shown in the table on the right. Six of the meetings were preceded the evening before by an informal meeting, allowing more time to debate issues in depth.

The Board agenda is set for each meeting 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. At each meeting the Board considers business performance, including reviewing past performance and considering the future long-term success of the Group. There is a standing agenda item in relation to strategy and this forms the basis for discussion and debate around all aspects of strategy, along with updates on progress in relation to the strategic aims of the business.

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 cyber risk, health and safety and corporate responsibility.

Board meetings are held at various KCOM Group sites throughout the year and the Board seeks to regularly meet both formally and informally with senior management from the four brands and the supporting Group functions 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 also reviews 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 key in ensuring that the Group and the Board have the right governance in place and that Board processes follow best practice. 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 (Chairman)	10	10
Bill Halbert	10	10
Tony Illsley	10	10
Paul Simpson	10	10
Peter Smith	3	3
Martin Towers	10	10
Kevin Walsh	3	3

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.

New Directors joining the Group are given a broad and comprehensive induction to the business, consisting of site visits, meetings with key personnel and detailed information relating to each brand and the Group as a whole, as well as training specifically in relation to the duties of Directors and their role on the Board.

Relations with shareholders

It is essential that we communicate effectively with our shareholders and understand 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 30 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 Chairman and Non-Executive Directors 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 detailed in our CR section on page 26. We believe that being a part of the community enables us to learn more about our local shareholders and the issues that matter to them.

Corporate governance continued

Performance evaluation

Area identified	What have we done?
More debate and discussion around future strategy and the review of past decisions.	There is now a standing agenda item at each Board meeting on strategy which has led to detailed and robust debates throughout the year. A formal process has also now been put in place to review past decisions and present the outcomes back to the Board, which was previously covered informally.
More frequent discussion specifically in relation to risk.	Specific discussions around risks and the risk appetite of the Group have been held during the year, both as part of the Board meetings and in separate meetings where deemed useful.
A clear definition of roles for the Chairman and Chief Executive.	Clearly defined role profiles are now in place for the Chairman and Chief Executive, as well as for the Senior Independent Director.
More formal individual performance reviews.	Regular formal performance reviews have now been put in place for each of the Directors with the Non-Executive Chairman, and for the Non-Executive Chairman with the Senior Independent Director.

Relations with shareholders continued

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.

Performance evaluation

In the summer of 2014 an externally facilitated Board evaluation was performed by Independent Board Review, a division of Independent Audit Limited, which does not provide any other services to the Group. The review covered the Board and its Committees and the results of the review were very positive, with no areas of major concern.

There were a few areas noted for possible improvement, which are noted in the table above.

In 2015 the intention is to return to using an internal evaluation process, facilitated by the Company Secretary. This has proved extremely useful in the past and has therefore been scheduled for the first quarter of the financial year.

As noted in the table above, the Non-Executive Chairman meets with each Board member individually at least on an annual basis to discuss their own performance and to identify any areas for development or potential training needs. In addition, the Non-Executive Directors meet separately to discuss the performance of the Non-Executive Chairman. The feedback from this meeting is then passed on to the Non-Executive Chairman by the Senior Independent Director.

The Non-Executive Directors have regular dialogue with each other concerning Board matters and the Non-Executive Chairman met with the Non-Executive Directors, without the other Directors present, at regular intervals during the year.

Business model and key performance indicators

Details of our business model can be found on pages 10 and 11 and our key performance indicators are on pages 18 and 19.

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 38, 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 58 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.

Substantial shareholdings

As at 31 March 2015, 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 17 June 2015, there had been no additional disclosures received.

	Number of shares with voting rights	% of total voting rights
Invesco Asset Management	71,999,671	13.94
Aberforth Partners LLP	25,113,106	4.86
Fidelity Worldwide Investment	22,503,530	4.36
Hargreave Hale	20,512,246	3.97
Aviva Investors	20,095,616	3.89
M&G Investments	18,808,266	3.64
Norges Bank Investment Management	15,494,141	3.00

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 as at 31 March 2015 whose names and functions are listed on pages 28 and 29 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 they face.

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. Further information on the reports submitted to the Audit Committee can be found in the Audit Committee report on pages 36 to 38.

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.

Corporate governance continued

Nomination Committee report

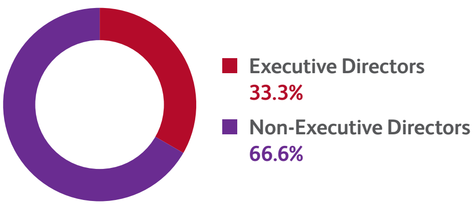
Graham Holden
Chairman

Director	Number of meetings	Out of possible
Graham Holden (Chairman)	3	3
Tony Illsley	3	3
Peter Smith	1	1
Martin Towers	3	3

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

The Nomination Committee is a sub-committee of the Board and meets as often as required. It 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 for 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.

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



Board of Directors
page 28

Board Appointments policy

We have a Board Appointments policy, which sets out the procedure that will be followed in the event of a Board vacancy being identified, along with our approach to diversity on the Board.

The key principle set out in the policy is that the Board will always seek to appoint on merit. The Board recognises the benefits of diversity of all types, including gender, professional and ethnic diversity, and will always aim to develop the diversity of the Board in order to promote a diversity of perspective in the boardroom, while remaining true to the key principle of appointing on merit.

The Board Appointments policy also states that the Nomination Committee will only use firms that have signed up to the Executive Search Firms 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;
- review 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
- always ensure 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.

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.

Appointments during the year

Since the last annual report, two new Non-Executive Directors have joined the Board; Peter Smith on 5 January 2015 and Liz Barber on 7 April 2015. For each appointment the Nomination Committee set out the qualities that the Board required and an external executive search firm was appointed to lead the search. The firm chosen was Hanson Green, which provides no other services to the Group.

The Nomination Committee believes that both Peter and Liz were the outstanding candidates for the roles that were described by the Committee. Peter brings extensive experience of working with a wide range of businesses on their strategies and joins the Board at a time when there is significant work ongoing in relation to the strategic direction of the Group. When Martin Towers indicated his intention to retire from the business at the AGM in July 2015, the Nomination Committee sought a new Non-Executive Director with significant financial expertise. Liz brings this to the Group as well as experience of working in a large business with similar characteristics to KCOM Group.

Other Committee responsibilities

The Committee is also responsible for considering succession planning for the Directors and for key senior management across the Group, although this is a matter also considered by the full Board. This includes identifying future talent within the business and providing experience and training as appropriate to enable individuals to be ready to step up to the next level.

The Nomination Committee reviews annually the time required from each of the Directors to perform their roles effectively. Following this review, 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. Information on the recommendations for re-election this year can be found on page 30.

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.

Risk management and internal controls

Risk management is key to all that we do as a business, both in managing and mitigating risks where appropriate and also in ensuring we take risks where necessary and do so with a clear understanding of the risk that we are taking. We believe that knowingly taking some level of risk is necessary to enable the business to remain competitive and to maximise benefits to our shareholders, while ensuring we do not take risks that adversely impact our other stakeholders.

Risk management is built into all of our processes. We also have a risk team, which has specific responsibility for health, safety, environmental and legal risks, 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 identify, assess, measure, manage and monitor our key risks in a consistent way. We define key risks to be anything that may prevent us from meeting our objectives. The framework is regulary reviewed by the Board and has been developed in accordance with guidance from the Financial Reporting Council to provide 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. The framework has been in place throughout the year under review and up to the date of approval of this annual report.

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 and has held specific discussions around this during the year, to ensure that the level of risk being taken across the Group is appropriate. It is also responsible 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 auditors 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.

Senior management

All of our key risks are now recorded and regularly updated on an online portal and senior managers are responsible for reviewing the portal to ensure that all relevant risks are recorded and that the risks are being appropriately mitigated within reasonable timescales. There are also a number of forums for senior management, such as a Security Forum, where senior managers get together on a regular basis to discuss specific risks and trends and to review the work being done across the Group to mitigate any issues.

Audit Committee

The responsibilities of the Audit Committee in relation to risk management are set out in the Audit Committee report on pages 36 to 38.

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 five 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; performance against budget and quarterly forecast is monitored at monthly senior management meetings 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 27 to the financial statements.

Controls around consolidation

The basis of consolidation for the financial statements is detailed in Note 2 to the financial statements. 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 business are set out on pages 20 and 21 of the Strategic report.

Corporate governance continued

Audit Committee report

Martin Towers
Chairman

Director	Number of meetings	Out of possible
Martin Towers (Chairman)	3	3
Tony Illsley	3	3
Peter Smith	1	1

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

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 two Non-Executive Directors up to 5 January 2015, at which point Peter Smith joined the Committee as a Non-Executive Director. From 7 April 2015, Liz Barber also joined the Committee upon her appointment as Non-Executive Director.

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.

Martin has indicated that it is his intention to retire from the Board at the AGM in July and at that point Liz Barber will become the Chairman of the Committee. Liz currently works as the Group Director of Finance, Regulation and Markets at Kelda Group PLC and was previously the Head of Audit for the North of England at Ernst & Young. She therefore brings a wealth of recent financial experience to the role.

Committee meetings are also attended by the Executive Directors, the Director of Group Finance Services, the Company Secretary and representatives from the internal and external auditors. The external auditors meet also with individual members of the Audit Committee during the year, without the other attendees present. The internal auditors also meet separately with the Chairman of the Audit Committee without the other attendees present.

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	Description
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 Director of Group Finance Services 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 8.
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 business; and
- overseeing the relationship with the external auditors.

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.

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 consistent 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 had been no requirements for change identified.	The assumptions were debated by the Committee. No changes were made as the Committee concluded that it agreed 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 noted that the expected benefits of the project were still in line with the original business case, with the benefits to date exceeding those included in the business case. In addition, management remained committed to the delivery of the remainder of the project. There was therefore no trigger to indicate a potential impairment of the asset carrying value.	The Committee discussed at length 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 and sensitivities to be applied, 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 an impairment of £33.9 million should be recognised in relation to the Kcom Cash Generating Unit. Further information on this can be found in Note 14 to the financial statements.	The Committee challenged the assumptions and sensitivities and concluded that no changes were required.
Exceptional costs		
Management judgement around when costs should be treated as exceptional is always an area for review.	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, and also considers the re-appointment of the auditors each year.

PricewaterhouseCoopers LLP were appointed as auditors in 2006 following a comprehensive tender process. The current audit partner, Ian Morrison, was appointed to the audit in 2011 following a partner rotation. 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 meetings, reviewing the reports from the external audit team 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 £387,000 (2014: £245,000). In addition to this, the external auditors provided services to the value of £90,000 (2014: £111,000) relating to tax advisory services and Group structuring advice 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 been improved during the year through the implementation of an SAP system resulting in an increase in the amount of automation in place across our Finance systems. 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
In November 2014, we took the decision to outsource our internal audit work and, following a selection process, Deloitte were appointed as our internal auditors. The decision to outsource was taken to enable the internal audit work performed to cover a broader scope and to give us access to subject matter experts, which we did not have with an in-house team. Up to November 2014, our internal audit team consisted of two qualified accountants, both with a 'Big Four' background. The team performed financial, operational and compliance audits and assessed each potential audit area according to the risk associated with it and the level of assurance already in place. This then enabled audits to be appropriately prioritised and built into the audit plan as necessary.

Going forward a similar approach is being adopted by Deloitte, of prioritising audits in relation to the risk associated with the audit area, as well as by looking specifically for 'what must go right' rather than simply the risk of something going wrong. The audit plan is brought to each Audit Committee meeting, where it is discussed 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 work 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 internal auditors 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 auditors.

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.

Other disclosures

General information
General information is provided in 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 of the Directors who served during the year are on pages 28 and 29 along with the biographical details of the Directors serving at the date of signing of this report. Further information regarding the Directors who served during the year can be found on pages 42 to 57 in the Remuneration report.

Political donations
No political donations were made by the Group during the year (2014: £Nil).

Employees
Our people are a key asset and enable us to differentiate ourselves from our competitors. We therefore take great care to have employment strategies in place to help our people develop to their full potential whilst also driving our business performance. 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 business 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 email is sent to keep everyone informed of activities and developments across the business. There is also a monthly briefing document for managers to share with their teams.

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 56.

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 31 July 2015 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 as amended by the Uncertificated Securities (Amendment) Regulations 2013 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

Acquisition of own shares

At the AGM in 2014, 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 4,170,000 (2014: 2,043,000) shares on the London Stock Exchange at a cost of £4,058,000 (2014: £1,778,000) with a nominal value of £417,000 (2014: £204,300). These shares represent 0.6 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 2014	205
As at 31 March 2015	165

Further details around the purchase of shares in the year are set out in Note 26 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 KCOM Group PLC Employee Benefit Trust, that are currently dormant and hold no shares.

Requirements of Listing Rule 9.8.4R

For financial years ending after 31 August 2014 the Listing Rules require certain specific disclosures to be provided in a single identifiable section unless the annual report includes a cross reference table indicating where that information is set out.

Section of LR 9.8.4R	Topic	Where it is included
1	Interest capitalised.	Not applicable.
2	Publication of unaudited financial information.	Not applicable.
4	Details of long-term incentive schemes with Directors or future Directors as sole participants.	Not applicable.
5 and 6	Waiver of emoluments or future emoluments by a Director.	Not applicable.
7 and 8	Non pre-emptive issues of equity for cash by the Group or major subsidiary undertakings.	Not applicable.
9	Parent participation in a placing by a listed subsidiary.	Not applicable.
10	Contracts of significance in which a Director has a material interest or between the Group, or a subsidiary, and a controlling shareholder.	Not applicable.
11	Provision of services by a controlling shareholder.	Not applicable.
12 and 13	Shareholder waiver of dividends or future dividends.	Not applicable.
14	Agreements with controlling shareholders.	Not applicable.

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 42 to 57, 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 27 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 (AGM)

Our AGM will be held at the KC Stadium, Hull, on Friday 31 July 2015 at 11.00am. The Notice of Meeting accompanies this annual report and is also available on our Group website at www.kcomplc.com. Five 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.

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

Signed on behalf of the Board

Kathy Smith
Company Secretary
17 June 2015

Remuneration report

Statement from the Chairman of the Remuneration Committee

Tony Illsley
Chairman

Dear shareholder

On behalf of the Board, I am pleased to introduce the Directors' Remuneration report for the year ended 31 March 2015, which sets out details of the Remuneration policy, describes how the policy is implemented and discloses amounts paid for the year under review.

This report includes an Annual report on remuneration which describes how the policy was implemented for the year ended 31 March 2015 and how we intend to implement the policy in 2015/16. The Annual report on remuneration together with this annual statement will be put to an advisory shareholder vote at the AGM on 31 July 2015. In addition, to aid clarity, we have included an abridged version of our policy which received binding shareholder approval at the 2014 AGM.

The Committee has continued to review the Remuneration policy in place to ensure that this incentivises the right behaviour and objectives in the Directors, aligns with the expectations of our shareholders and promotes the long-term success of the Company, and remains satisfied that it continues to be fit for purpose.

Structure of pay

It is the Committee's aim to reward fairly for good performance, with the opportunity for greater rewards for extraordinary performance, whilst ensuring that we do not provide additional reward for performance that is below expectations.

The remuneration of the Executive Directors is made up of base salary, a benefits package and pension provision plus, subject to performance conditions allied to the business strategy, the opportunity to receive cash payments under an annual bonus plan and shares under a Long-Term Incentive Plan (LTIP).

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 operation of the annual bonus linked to the profit performance of the Group in the year and the LTIP that rewards Total Shareholder Return (TSR) performance relative to a comparator group over a three year period. We ensure that the Remuneration Committee has final discretion over the vesting of LTIP awards so that even when vesting would be triggered by the TSR performance measure, the Committee must decide whether the three year performance is indicative of the likely continued success of the business into the future.

Incentive pay is subject to clawback provisions and share ownership guidelines apply to ensure that there is further alignment of interests between Executive Directors and shareholders.

Decisions made

As detailed in the Remuneration report last year, the Executive Directors received a pay increase of 2.75 per cent from 1 July 2014. This decision was reached after looking at the performance of the Group and the Directors individually, as well as the pay conditions and awards made across the Group. This year the Remuneration Committee has again reviewed the pay conditions across the Group, the overall performance of the Group and the benchmark information for similar roles in similar sized companies. Taking all of this into consideration it has been decided that there will be no pay rise awarded to the Executive Directors at this time. This is consistent with the rest of the Group where pay awards are only being made for employees in exceptional cases.

The annual bonus scheme for the forthcoming year has been reviewed by the Committee and it has been agreed to retain the metrics operated for the 2014/15 year, which are set out in more detail on page 49. During the year the Group did not achieve EBITDA above the target level required to trigger a bonus payment and therefore there are no bonus payments proposed for the Executive Directors. Further information on this can be found on page 50.

No LTIP awards were due to vest based on performance ending in 2014/15. 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 provide a longer-term incentive to the Executive Directors as these awards will not vest until 2017 and are dependent on relative TSR measured over a three year performance period from the date of grant.

The Committee plans to make further awards to the Executive Directors under the LTIP scheme in July 2015 and plans to increase the level of reward made for 2015/16 to 150 per cent of base salary; this is within the existing policy and is to reflect the fact that the Group is embarking on a period of significant strategic change and the Committee believes that the level of reward should reflect the additional challenge that lies ahead and that successful delivery of the planned transformation will reposition the business and enable the Company to deliver increased returns to shareholders. The Committee has taken into consideration the total remuneration package of the Executive Directors in its decision-making process and such an increase in the LTIP award does not increase total remuneration above the market rate for similar roles at similar-sized companies.

The Committee is happy that relative TSR remains appropriate as the performance measure for the LTIP scheme. The business changes are being implemented to improve total shareholder returns and hence the use of relative TSR provides strong alignment with this objective. There is also an underpin in place, such that the Committee must be satisfied that the financial and non financial performance of the Company warrants the level of vesting.

The combination of relative TSR plus the underpin will ensure that the delivery of returns takes into account the market context as well as ensuring consistency between the relative TSR and the absolute measures of the health of the Group.

Views of the shareholders

The views of our shareholders in relation to remuneration are of great importance to us and we believe that they can add real value to the process of policy formulation. Any feedback would therefore be welcomed and may be directed to me or to our Company Secretary, Kathy Smith.

I hope that we can rely on your support for the resolution relating to remuneration at the 2015 AGM.

Tony Illsley
Chairman, Remuneration Committee
17 June 2015

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 2015. 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

The Directors' Remuneration policy of the Group was put to a binding shareholder vote at the AGM on 29 July 2014, in accordance with Section 439A of the Companies Act 2006, and was approved. It therefore became effective from that date. The current intention is to operate the policy, as approved, for the full three years to the 2017 AGM and we therefore do not propose to resubmit it to shareholders for approval at the AGM in July 2015. This part of the Directors' Remuneration report sets out an abridged version of the approved policy. A full version of the Remuneration policy can be found on pages 46 to 51 of the Annual report and accounts 2013/14 which can be found on our website at www.kcomplc.com.

Remuneration report continued

Policy report continued

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 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 49 and 50.
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 both 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 the Chief Financial Officer; - 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 via a deduction in salary 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.	Both Executive Directors are entitled to receive an employer pension contribution of up to 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). Actual award levels are disclosed each year in the Annual report on remuneration.

Discretion retained in operating incentive plans

The Committee will operate the Group's annual bonus plan and LTIP according to the rules of each respective plan and consistent with normal market practice and the Listing Rules, including flexibility in a number of regards.

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. The measures in place for 2014/15 are set out in more detail on page 50.	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.

Remuneration report continued

Policy report continued

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.

Recruitment policy

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

Executive Directors

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.

Remuneration report continued

Policy report continued

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.

Letters 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.

Executive Directors

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.
Long-term incentives	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.

Annual report on remuneration

This part of the Directors' Remuneration report sets out the amounts paid to Directors for the year ended 31 March 2015 and describes how policy will be implemented in 2015/16. The Annual report on remuneration, along with the statement from the Chairman of the Remuneration Committee, will be put to an advisory shareholder vote at the AGM on 31 July 2015.

Implementation of policy for 2015/16

The table below sets out how the Remuneration policy will be implemented for the 2015/16 financial year:

Executive Directors

	Bill Halbert	Paul Simpson
Base salary	Bill Halbert's base salary for the year will remain at £396,872.	Paul Simpson's base salary for the year will remain at £262,126.
Benefits	The benefits to be provided remain unchanged from 2014/15. 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 Halbert and £14,000 per annum for Paul Simpson, 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.	
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 2015/16 financial year. Both Bill Halbert and Paul Simpson have a maximum annual bonus entitlement of 100 per cent of base salary. Up to 10 per cent of the maximum entitlement 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 10 per cent payment then further bonus payments begin to accrue; however, payment of any bonus beyond the 10 per cent is dependent on an underpin of revenue growth in the year. The exact targets set are commercially sensitive and therefore cannot be disclosed here, but will be disclosed in the Annual report on remuneration next year.	
Long-term incentives	It is proposed to grant LTIP awards to Bill Halbert and Paul Simpson in July 2015 under the current scheme, which will be equivalent to 150 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 2018 subject to the achievement of relative total shareholder return performance conditions. The rationale for this level of award is described further on page 43. The performance conditions attached to the LTIP awards are described on page 51.	

Non-Executive Directors

The fees of the Non-Executive Directors were reviewed in June 2015 and have not been increased for 2015/16 from levels set in July 2014.

	£'000
Chairman fee	125
Base fee	43
Senior Independent Director fee	11
Audit Committee Chairman fee	6
Remuneration Committee Chairman fee	6[1]

1. Tony Illsley does not receive a fee for his role as Chairman of the Remuneration Committee as his fee for the role of Senior Independent Director is deemed to be inclusive of any Committee Chairman fees.

Remuneration report continued

Annual report on remuneration continued

Single total figure table (audited)

Executive Directors

	Bill Halbert		Paul Simpson		Kevin Walsh		Total	
	FY2015 £'000	FY2014 £'000	FY2015 £'000	FY2014 £'000	FY2015 £'000	FY2014 £'000	FY2015 £'000	FY2014 £'000
Fixed pay								
Base salary	394	386	260	255	81	241	735	882
Taxable benefits	16	16	23	24	6	17	45	57
Retirement benefits	66	66	50	49	14	47	130	162
Sub-total	**476**	**468**	**333**	**328**	**101**	**305**	**910**	**1,101**
Performance-related pay								
Annual bonus	—	27	—	18	—	17	—	62
Long-term incentives	—	—	477	413	477	413	954	826
Sub-total	**—**	**27**	**477**	**431**	**477**	**430**	**954**	**888**
Total	**476**	**495**	**810**	**759**	**578**	**735**	**1,864**	**1,989**

Non-Executive Directors

	Graham Holden		Tony Illsley		Peter Smith		Martin Towers		Total	
	FY2015 £'000	FY2014 £'000	FY2015 £'000	FY2014 £'000	FY2015 £'000	FY2014 £'000	FY2015 £'000	FY2014 £'000	FY2015 £'000	FY2014 £'000
Fees	125	47	54	52	10	—	49	47	238	146
Total	**125**	**47**	**54**	**52**	**10**	**—**	**49**	**47**	**238**	**146**

Explanatory notes

Base salary
The salary for Kevin Walsh was paid up to the date of his retirement from the Board on 29 July 2014.

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. The benefits included above for Kevin Walsh ceased on the date of his retirement from the Board on 29 July 2014.

Retirement 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 (2014: £65,905) which are disclosed above within retirement 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 £17,000 (2014: £15,000) and £14,000 (2014: £12,000) respectively and are included in the table above within retirement benefits. The retirement benefits payable to Kevin Walsh included above ceased on the date of his retirement from the Board on 29 July 2014.

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 pre exceptional Group EBITDA and Group revenue. Up to 10 per cent of the maximum bonus entitlement, of 100 per cent of salary, was dependent on exceeding pre exceptional Group EBITDA of £76.5 million in the year. Over-performance against this target would have created a bonus pot with a proportion of profits above this level being shared amongst all employees in the scheme, as well as the Executive Directors, up to the maximum level of bonus for all participants. Any additional bonus above the 10 per cent would also be dependent on an underpin of year on year Group revenue growth.

The level of pre exceptional Group EBITDA achieved in the year was £74.3 million, which was not enough to trigger a bonus and therefore no bonus is payable.

Kevin Walsh did not participate in the annual bonus plan for 2014/15.

Long-term incentives
In the current and prior year, shares were released from the Executive Incentive Plan to Paul Simpson and Kevin Walsh, the amounts of which have been included in the table above. Further details on this scheme are included on page 51.

Included within the EIP vesting figures were dividends of £78,000 (2014: £58,000) for Paul Simpson and £78,000 (2014: £58,000) for Kevin Walsh.

The first awards under the LTIP were made in July 2012 and the performance period for these awards ends on 19 July 2015. Based on performance up to April 2015 it did not appear that any vesting of awards would be triggered, but the actual figures, once confirmed, will be included in the single total figure table for 2015/16.

Explanatory notes continued

Payments for loss of office

No payments for loss of office have been made.

In November 2013 Kevin indicated that it was his intention to retire from the Group in the summer of 2014. He stepped down from the Board at the AGM on 29 July 2014 and signed a new service contract reducing his notice period to just three months, therefore ensuring that the notice period for which he was paid did not extend beyond 12 months from the date of his initial indication.

Kevin therefore retired as an employee on 31 October 2014 and his fixed pay ceased on that date. Kevin received awards under the LTIP scheme in July 2012 and July 2013. The performance period for these schemes ends in July 2015 and July 2016 respectively and, as a good leaver, Kevin will be entitled to receive any shares that vest under the scheme, pro-rated to the date of his retirement to the extent determined by the Remuneration Committee.

Non-Executive Directors

The fees for the Non-Executive Directors were increased from £42,000 per annum to £43,000 per annum with effect from 1 July 2014, with an additional £6,000 per annum from 1 July 2014, previously £5,000 per annum, for the responsibility of chairing the Audit Committee and an additional £11,000 from 1 July 2014, previously £10,000, for the role of Senior Independent Director.

Share awards outstanding at the year end

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 2014 000's of options	Nil cost option awarded in the year 000's of options	Nil cost options lapsed due to retirement 000's of options	Nil cost options outstanding on 31 March 2015 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
	17 July 2014	95.00p	—	418	—	418	397	105	17 July 2017
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
	17 July 2014	95.00p	—	276	—	276	262	69	17 July 2017
Kevin Walsh	19 July 2012	76.35p	325	—	(78)	247[3]	189	62	19 July 2015
	17 July 2013	82.50p	293	—	(167)	126[3]	104	32	17 July 2016

1. Face value has been calculated using the share price at the date of grant.
2. 25 per cent of the award vests at threshold performance.
3. Kevin Walsh has been deemed by the Committee to be a good leaver and therefore remains entitled to receive these shares, which have been pro-rated to the date of his retirement, subject to vesting conditions being met.

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.

On the exercise of an award participants receive an amount in cash or extra shares equal to the dividends that were declared during the period from grant to exercise, but only in respect of the shares that vest.

The first awards under the scheme were made on 19 July 2012 with further awards made in each of the subsequent two years. The maximum award allowed under the Remuneration policy is 150 per cent of base salary at the time of the award. For each of the three grants to date the award granted to each Director has been equivalent to 100 per cent of base salary at the time of the award.

Remuneration report continued

Annual report on remuneration continued

Shares awards released during the year

Executive Incentive Plan (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. The scheme has now closed and there are no further shares to vest or be released.

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	Released on 24 July 2014 000's of shares	Value of shares released on 24 July 2014 £'000
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	399
Kevin Walsh	24 July 2009	28.25p	2,420	1,678	74.0p	839	621	420	355	420	399
Previous Director											
Paul Renucci	24 July 2009	28.25p	1,028	713	74.0p	357	264	178	151	178	167

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.

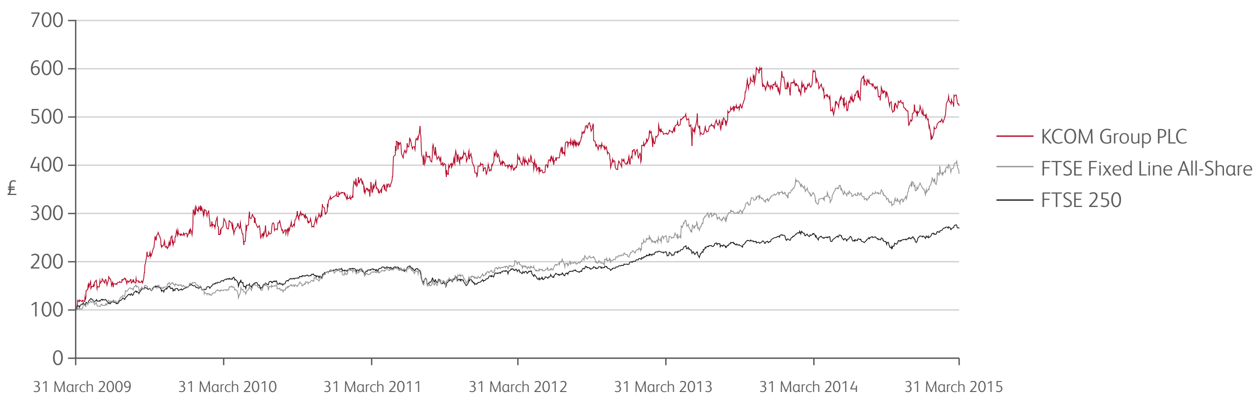
The vested shares were released in full to Bill Halbert at the end of the performance period as, at the time the scheme was introduced, this timescale was better aligned to his expected tenure in his role.

Relative Group performance

The graph below shows, for the financial year ended 31 March 2015 and for each of the previous six 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



Remuneration of the Chief Executive

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 either Executive Chairman or Chief Executive in each of the last six years:

	FY2015 £'000	FY2014 £'000	FY2013 £'000	FY2012 £'000	FY2011 £'000	FY2010 £'000
Total remuneration	476	495	4,791	522	476	523
Annual bonus paid against maximum opportunity	0%	7%	0%	10%	0%	40%
Long-term incentive vesting against maximum opportunity[1]	N/A	N/A	69.34%	N/A	N/A	N/A

1. There was no long-term incentive scheme scheduled to vest based on performance ending in any of the financial years other than the year ended 31 March 2013.

The table below sets out the increase in the remuneration of the Chief Executive 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[1]
Percentage change in the year to 31 March 2015		
Base salary	Increase of 2.1%	Increase of 2.2%
Benefits	Increase of 1.7%	Increase of 3.2%
Annual bonus	Reduction of 100%	Increase of 7.1%

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 Chief Executive.

Remuneration report continued

Annual report on remuneration continued

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 2015 £'000	Year ended 31 March 2014 £'000	Percentage change
Total remuneration cost for all employees[1]	68,360	85,953	(20.5%)
Dividend payments to shareholders	26,057	23,764	9.6%

1. The total remuneration cost for all employees is taken from Note 8 to the financial statements 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
Non-Executive Directors			
Graham Holden	27 November 2007[2]	13 May 2014	6
Liz Barber	7 April 2015	30 March 2015	6
Tony Illsley	2 June 2009	29 May 2009	6
Peter Smith	5 January 2015	26 December 2014	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. 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.

Remuneration Committee

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

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

The Remuneration Committee is a sub-committee of the Board and 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.

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, which was 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 £41,537 (2014: £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 way in which New Bridge Street operates and its relationship with the Group and remains satisfied that the advice it receives is independent and objective. Aon Hewitt also provides actuarial and investment consultancy advice to the Trustees of the Group's two defined benefit pension schemes, which the Committee considers does not result in a conflict of interest.

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

- determining and agreeing the Remuneration policy for the 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, as well as considering the performance of the Group and of the individuals.
Reviewing the proposed annual bonus scheme for the 2014/15 financial year and performance against the scheme for 2013/14	The proposed scheme for 2014/15 was reviewed by the Committee with particular emphasis on the need to ensure that the bonus scheme incentivised those with the greatest ability to have a direct impact on the performance of the Group. The Committee reviewed the financial performance of the Group that had triggered a bonus payment of 14 per cent of the maximum for 2013/14 and agreed that it was appropriate that this should be paid.
Reviewing progress on the LTIP scheme and determining the awards for 2014	The awards made in July 2014 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.
Reviewing the Directors' Remuneration report in the annual report and accounts	The Directors' Remuneration report in the 2014 annual report and accounts was reviewed by the Committee during the year. Following the year end the Committee reviewed and approved the current Remuneration report.
Reviewing remuneration trends and up-to-date guidance from governance institutions	The Committee spent time considering trends in relation to remuneration and considered matters such as introducing deferral to the bonus scheme and LTIP scheme. It was agreed that this would be considered going forward as new schemes were introduced.

Remuneration report continued

Directors' interests in shares (audited)

	As at 31 March 2015				
	Shares owned outright	Nil-cost share options subject to performance conditions[1]	Actual share ownership as a percentage of salary on 31 March 2015[2]	Required share ownership as a percentage of salary	Requirement met?
Executive Directors					
Bill Halbert	2,482,371	1,404,397	570.8%	100%	Yes
Paul Simpson	525,895[3]	927,576	183.1%	100%	Yes
Non-Executive Directors					
Graham Holden	50,000	—	—	—	—
Tony Illsley	—	—	—	—	—
Peter Smith	—	—	—	—	—
Martin Towers	237,990	—	—	—	—

1. These are awards made under the LTIP scheme, further details of which can be found on page 51.

2. Calculated using the closing mid-market price of KCOM Group PLC shares on 31 March 2015 and only those shares owned outright by the Executive Directors and their connected persons.

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

The table above sets out the interests of all the Directors as at 31 March 2015 (as listed on pages 28 and 29) and their connected persons in the Group's shares.

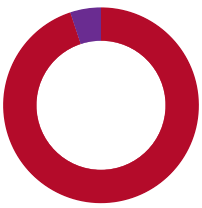
The Group Share Incentive Plan (SIP) is open to all employees and offers free matching shares on a sliding scale from 2:1 for monthly contributions of £20 to 1:3 for monthly contributions over £51. Currently 980 employees participate in the scheme, including one of the Executive Directors.

Since the end of the year shares in the SIP have continued to be awarded each month, for which we make monthly announcements as required under Section 5.6.1 of the Disclosure and Transparency Rules. This has resulted in Paul Simpson holding 705 additional shares, which includes matching shares awarded under the SIP which may be subject to forfeiture in certain circumstances.

Shareholder views

At the 2014 AGM there were shareholder votes taken on both the Remuneration policy and the remainder of the Remuneration report. The outcomes of the votes are shown in the charts below:

Remuneration policy

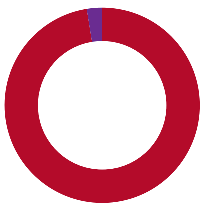


Votes for
329,872,924 (94.89%)

Votes against
17,770,426 (5.11%)

Votes withheld[1]
160,438

Directors' Remuneration report (excluding the Remuneration policy)



Votes for
334,635,449 (97.44%)

Votes against
8,798,672 (2.56%)

Votes withheld[1]
4,374,119

1. 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 2014/15 Bill Halbert received no direct remuneration for his external non-executive positions. Kevin Walsh acted as Chairman of Manx Telecom Plc whilst also working as Executive Director at KCOM Group. His remuneration for the period from 1 April 2014 up to his retirement on 31 October 2014 was £46,667, which the Board agreed he should retain.

General information (audited)

The closing mid-market price of KCOM Group PLC shares on 31 March 2015 was 91.25 pence. The high and low closing mid-market share prices during the year were 104.10 pence and 79.0 pence respectively.

Signed on behalf of the Board

Kathy Smith
Company Secretary
17 June 2015

Independent auditors' report

to the members of KCOM Group PLC

Report on the financial statements

Our opinion

In our opinion:

- KCOM Group PLC's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2015 and of the group's profit and the group's and the 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.

What we have audited

KCOM Group PLC's financial statements comprise:

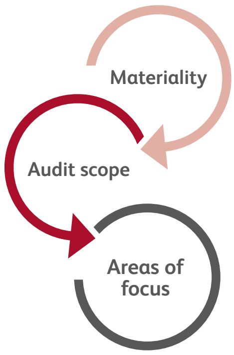
- the consolidated and parent company balance sheets as at 31 March 2015;
- the consolidated income statement and consolidated statement of comprehensive income for the year then ended;
- the consolidated and parent company cash flow statements for the year then ended;
- the consolidated and parent company statement of changes in shareholders' equity 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 the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, 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.

Our audit approach

Overview



Materiality

- Overall group materiality: £2.5 million which represents 5% of profit before tax and the impairment of goodwill.

Audit Scope

- The group engagement team performed audits of the complete financial information of all trading entities.

Areas of focus

- Valuation of goodwill.
- Valuation of defined benefit pension scheme liabilities.
- Capitalisation of internal project costs.
- Classification of costs as exceptional.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Valuation of goodwill We focused on this area because the determination of whether or not goodwill is impaired involves complex and subjective judgements by management about the future results of the relevant parts of the business. On an annual basis, management calculate the amount of headroom between the value in use of the group's Cash Generating Units ('CGUs') and their carrying value to determine whether there is a potential impairment of the goodwill relating to those CGUs. The determination of the amount of headroom is dependent on the value in use of the CGU, which in turn, is dependent on estimates of short-term and long-term profit growth from operational improvements. Opening goodwill of £85.3m was split between 3 CGUs, Eclipse (£7.9m), Kcom (£72.3m) and Smart421 (£5.1m). We focused our audit efforts initially equally across the three CGUs before directing our attention to the Kcom CGU where management's assessment of value in use indicated an impairment of £33.9m to the £72.3m of goodwill. As a result of the impairment, headroom is reduced to zero. Any further changes in assumption may give rise to a potential further impairment. In testing management's assessment of the value in use in each of the CGUs we focused on the following key assumptions: - Budgeted cash flows for the next 5 years - The long term (terminal) growth rate applied beyond the end of the 5 year budget period - The discount rate applied to the model We also focused our audit attention on the sensitivity analysis and alternative scenarios prepared by management and assessed the likelihood of these scenarios occurring. See the accounting policies section within the financial statements for disclosure of the related accounting policies, judgements and estimates and Note 14 for detailed goodwill disclosures.	We evaluated the appropriateness of the key assumptions including discount rates and long-term growth rates and performed a range of sensitivity analyses across all CGUs. In particular: - We evaluated the reasonableness of management's forecasts by challenging assumed revenue growth strategies and planned operational improvements attributable to the ongoing transformation of the group based on growth and savings achieved in prior years; - We compared the terminal growth rates in the forecasts to third party economic and industry forecasts noting that those used by the Directors were within an acceptable range; - We assessed the discount rate (weighted average cost of capital ("WACC")) for the company against comparable organisations noting that the balances used across the group by the Directors were within a reasonable range; and - We evaluated management's sensitivity analysis and performed additional sensitivity analysis to ascertain the extent of change in those assumptions that either individually or collectively would be required for the goodwill to be impaired noting that in both Eclipse and Smart421 it would require a significantly adverse change to occur, and set of circumstances that we consider remote, before the balances would be impaired. In the Kcom CGU the 5 year forecasts are based on the 2016 budget prepared by Kcom and approved by the Board of KCOM Group PLC. We challenged management's budgeted growth rates over the 5 year period, evaluating the accuracy of management's forecasting process by comparing previous budgets to actual results, and assessing the current budget in light of our knowledge and understanding of current business plans and the economic climate. The long-term growth rate is based on a country specific terminal growth rate. We assessed this long term growth rate by reference to growth rates produced by third parties and determined that the planned level of profit growth both in the short and long term is achievable based on the previous performance of the business. Based on the evidence obtained we determined that the impairment booked in the Kcom CGU and the assessment that no impairment is required in either the Smart421 or Eclipse CGU were reasonable.

Independent auditors' report continued

to the members of KCOM Group PLC

Report on the financial statements continued

Our audit approach continued

The scope of our audit and our areas of focus continued

Area of focus	How our audit addressed the area of focus
Valuation of defined benefit pension scheme liabilities We focused on this area as the pension scheme valuation is highly sensitive to changes in the assumptions used within the model which calculates the valuation and the subsequent charge or credit to the consolidated statement of comprehensive income ("OCI"). At 31 March 2015 the net pension deficit amounted to £31.4m. The key assumptions to which the liability is most sensitive, and which we therefore paid particular attention to in evaluating the valuation of the net deficit, were: - Discount rate: Under International Accounting Standard ("IAS") 19 – Employee Benefits, the discount rate is set with reference to the yield on high quality corporate bonds of term appropriate to the duration of the liabilities; - Inflation rate: the level of future pension payments is linked to price inflation indices. Various investment market statistics are used to form a view on the long term average rates of retail price and consumer price inflation; and - Mortality: Scheme specific base tables should be used with an allowance for future improvements in life expectancy based on recent projections. These projections will depend on future expectations of improvements in life expectancy and are therefore uncertain. See the accounting policies section within the financial statements for disclosure of the related accounting policies, judgements and estimates and Note 29 for detailed pension disclosures.	We tested the actuarial valuations used by management in the preparation of the financial statements, as follows. We tested the completeness and accuracy of the pension scheme membership data provided to management's actuary on which the pension liability is calculated by reconciling movements in membership data to supporting documentation. We noted no material exceptions from our testing. We assessed the appropriateness and consistency of the methodology used by management including the key assumptions used to value the pension liabilities: - Discount rate: We considered the appropriateness of the 3.25% discount rate assumption used by reference to the yields available on AA corporate bond indices and the duration of the Scheme's liabilities. - Inflation rate: We considered the appropriateness of both the CPI and RPI rates used by reference to the Bank of England implied inflation spot curve and the duration of the Scheme's liabilities. - Mortality: We considered the appropriateness of the base tables selected for use by management by reference to those provisionally adopted for the most recent actuarial valuation of the Scheme and also market practice. Based on the evidence obtained from our testing of the assumptions outlined above, we considered the assumptions used to be in line with recognised market practices.
Capitalisation of internal project costs We focused on this area because the group has been investing significantly in its back office systems and core IT applications. In the year this has resulted in the capitalisation of £2.3 million of internal salary costs in relation to this project. There is a degree of judgement involved in determining the element of internal salaries that may be considered to be directly attributable to this project and as such should be capitalised in line with the provisions of IAS 38 (Intangible Assets). There is also judgement involved in assessing the recoverability of the carrying value of the asset created from the project given the difficulty in forecasting and measuring the financial benefits of the project over its forecast life. See the accounting policies section within the financial statements for disclosure of the related accounting policies, judgements and estimates.	We tested capitalised salary costs to supporting payroll records to agree the existence of individuals and hours charged, and evaluated the nature of the costs to determine whether these costs were appropriately capitalised. In evaluating the recoverability of the carrying value of the capitalised asset, the Directors prepared a model to evaluate the forecast benefit of the asset over its 10 year life. We evaluated the Directors' model by testing costs capitalised to date - agreeing these to our work performed on capitalised internal salary costs and to third party advisor costs and by testing the benefits received to date to reductions in staff and IT costs. We challenged the forward looking spend and benefit assumptions in the model by examining the original business case, challenging the Directors on their commitment to the project and on how benefits would be derived in future years based upon the current business model. We also challenged the discount rate applied and the life of the project to check these were appropriate. We did not identify any indication of incorrectly capitalised internal costs or indicators of impairment of the carrying value of the asset.

The scope of our audit and our areas of focus continued

Area of focus	How our audit addressed the area of focus
Classification of costs as exceptional Exceptional items consist of a number of one off costs relating to the impairment of goodwill (£33.9m), restructuring and redundancy costs (£7.5m) as well as one off credits relating to claims (£5.3m) and other items (£1.4m). Given the magnitude of these items we focused additional audit effort in this area to determine whether these items were appropriately classified as exceptional, and did not in fact relate to the underlying trade of the business, and that exceptional costs and credits were treated consistently with prior periods. See the accounting policies section within the financial statements for disclosure of the related accounting policies, judgements and estimates and Note 7 for detailed exceptional costs disclosures.	We tested exceptional costs across all trading entities by evaluating their treatment for compliance with the group accounting policy, noting that the policy had been applied consistently for all items across the group. We tested the underlying transactions by agreeing redundancy costs to payments made and tested outstanding redundancy costs to payroll records and notification to the employees; by agreeing third party costs to third party invoices and by testing outstanding third party provisions to commitments and post year end payments. We tested exceptional credits to the corresponding cash receipts. Through these procedures we checked that these items had been recognised within the correct period. Our work in relation to the goodwill impairment is described in the area of focus above.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the group, the accounting processes and controls, and the industry in which the group operates.

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.

We performed an audit of the complete financial information of each of the trading entities, together with the group's centralised PLC function, including the consolidation. All work was performed by the group engagement team. This work, including the consolidation, gave us the evidence we needed for our opinion on the group financial statements as a whole.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and 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 financial statements as a whole as follows:

Overall group materiality	£2.5 million (2014: £2.5 million).
How we determined it	5% of profit before tax and the impairment of goodwill.
Rationale for benchmark applied	We believed that profit before tax, adjusted for the goodwill impairment charge provided us with an appropriate basis for determining materiality by eliminating the non-recurring disproportionate impact of this item. This is a change from the benchmark used in 2014, where profit before tax was considered the most appropriate benchmark only by virtue of the fact that no impairment charge was recorded in 2014. We also believed that this measure reflects the fact that shareholders measure the performance of the group on a pre-exceptional basis.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.1 million (2014: £0.1 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 33, 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 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 parent company's ability to continue as a going concern.

Independent auditors' report continued

to the members of KCOM Group PLC

Other required reporting

Consistency of other information

Companies Act 2006 opinion

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.

ISAs (UK & Ireland) reporting

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 • otherwise misleading.	We have no exceptions to report arising from this responsibility.
the statement given by the Directors on page 33, in accordance with provision C.1.1 of the UK Corporate Governance Code ("the Code"), 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 and parent company's performance, business model and strategy is materially inconsistent with our knowledge of the group and parent company acquired in the course of performing our audit.	We have no exceptions to report arising from this responsibility.
the section of the Annual Report on page 36, as required by provision C.3.8 of the Code, 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.

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

Directors' remuneration report – Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

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

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 ten provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

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 33, the Directors are responsible for the preparation of the 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 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.

What an audit of financial statements involves

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 the 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.

We primarily focus 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.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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.

Ian Morrison (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
17 June 2015

Consolidated income statement

for the year ended 31 March 2015

	Notes	2015 £'000	2014 £'000
Revenue	4	**347,984**	370,697
Operating expenses	5	**(325,579)**	(315,090)
Operating profit		**22,405**	55,607
Analysed as:			
EBITDA before exceptional items	4	**74,304**	75,291
Exceptional credits	7	**6,658**	2,587
Exceptional charges	7	**(41,446)**	(1,999)
Depreciation of property, plant and equipment	4	**(12,033)**	(16,882)
Amortisation of intangible assets	4	**(5,078)**	(3,390)
Finance costs	9	**(5,725)**	(5,075)
Share of profit/(loss) of associates	4	**13**	(2)
Profit before taxation	4	**16,693**	50,530
Taxation	10	**(4,149)**	(11,760)
Profit for the year attributable to owners of the parent		**12,544**	38,770
Earnings per share			
Basic	12	**2.47p**	7.64p
Diluted	12	**2.44p**	7.55p

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 £26,057,000 (2014: £23,764,000).

Consolidated statement of comprehensive income

for the year ended 31 March 2015

	Notes	2015 £'000	2014 £'000
Profit for the year		**12,544**	38,770
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurements of retirement benefit obligations	29	**(7,263)**	(16,630)
Tax on items that will not be reclassified		**1,528**	2,997
Total items that will not be reclassified to profit or loss		**(5,735)**	(13,633)
Items that may be reclassified subsequently to profit or loss			
Cash flow hedge fair value movements	27	**1,428**	1,377
Tax on items that may be reclassified		**(285)**	(275)
Total items that may be reclassified subsequently to profit or loss		**1,143**	1,102
Total comprehensive income for the year attributable to owners of the parent		**7,952**	26,239

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

Balance sheets

as at 31 March 2015

	Notes	Consolidated 2015 £'000	Consolidated 2014 £'000	Parent company 2015 £'000	Parent company 2014 £'000
Assets					
Non-current assets					
Goodwill	14	**51,372**	85,272	**—**	—
Other intangible assets	15	**41,903**	22,669	**—**	—
Property, plant and equipment	16	**127,078**	123,839	**—**	—
Investments	17	**33**	20	**494,461**	494,461
Deferred tax assets	25	**16,292**	15,408	**—**	—
		236,678	247,208	**494,461**	494,461
Current assets					
Inventories	18	**2,235**	2,647	**—**	—
Trade and other receivables	19	**78,790**	74,135	**5**	5
Cash and cash equivalents	22	**11,701**	9,441	**—**	—
Derivative financial instruments	27	**328**	—	**—**	—
		93,054	86,223	**5**	5
Total assets		**329,732**	333,431	**494,466**	494,466
Liabilities					
Current liabilities					
Trade and other payables	20	**(112,969)**	(128,317)	**—**	—
Current tax liabilities		**(2,500)**	(1,391)	**—**	—
Bank overdrafts	22	**(691)**	—	**—**	—
Derivative financial instruments	27	**(706)**	(137)	**—**	—
Finance leases	23	**(1,743)**	—	**—**	—
Provisions for other liabilities and charges	24	**(2,579)**	(365)	**—**	—
Non-current liabilities					
Trade and other payables	20	**—**	—	**(7,484)**	(2,865)
Bank loans	21	**(103,460)**	(84,417)	**—**	—
Retirement benefit obligation	29	**(31,435)**	(26,500)	**—**	—
Deferred tax liabilities	25	**(4,589)**	(5,057)	**—**	—
Derivative financial instruments	27	**—**	(1,669)	**—**	—
Finance leases	23	**(5,155)**	—	**—**	—
Provisions for other liabilities and charges	24	**(26)**	(425)	**—**	—
Total liabilities		**(265,853)**	(248,278)	**(7,484)**	(2,865)
Net assets		**63,879**	85,153	**486,982**	491,601
Equity					
Capital and reserves attributable to owners of the parent					
Share capital	26	**51,660**	51,660	**51,660**	51,660
Share premium account		**353,231**	353,231	**353,231**	353,231
Hedging and translation reserve	27	**442**	(986)	**—**	—
(Accumulated losses)/retained earnings		**(341,454)**	(318,752)	**82,091**	86,710
Total equity		**63,879**	85,153	**486,982**	491,601

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 17 June 2015.

They were signed on its behalf by:

Bill Halbert
Chief Executive
17 June 2015

Paul Simpson
Chief Financial Officer

KCOM Group PLC
Registered number: 2150618

Consolidated statement of changes in shareholders' equity

for the year ended 31 March 2015

	Notes	Share capital £'000	Share premium account £'000	Hedging and translation reserve £'000	Accumulated losses £'000	Total £'000
At 1 April 2013		51,660	353,231	(2,363)	(319,886)	82,642
Profit for the year		—	—	—	38,770	38,770
Other comprehensive income/(expense)		—	—	1,377	(13,908)	(12,531)
Total comprehensive income for the year ended 31 March 2014		—	—	1,377	24,862	26,239
Deferred tax charge relating to share schemes		—	—	—	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
Profit for the year		—	—	—	12,544	12,544
Other comprehensive income/(expense)		—	—	1,428	(6,020)	(4,592)
Total comprehensive income for the year ended 31 March 2015		**—**	**—**	**1,428**	**6,524**	**7,952**
Deferred tax charge relating to share schemes		—	—	—	(270)	(270)
Current tax credit relating to share schemes		—	—	—	184	184
Purchase of ordinary shares		—	—	—	(4,058)	(4,058)
Employee share schemes		—	—	—	975	975
Dividends	11	—	—	—	(26,057)	(26,057)
Transactions with owners		—	—	—	(29,226)	(29,226)
At 31 March 2015		**51,660**	**353,231**	**442**	**(341,454)**	**63,879**

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

Parent company statement of changes in shareholders' equity
for the year ended 31 March 2015

	Notes	Share capital £'000	Share premium account £'000	Retained earnings £'000	Total £'000
At 1 April 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
Profit for the year		—	—	26,057	26,057
Total comprehensive income for the year ended 31 March 2015		**—**	**—**	**26,057**	**26,057**
Purchase of ordinary shares		—	—	(4,058)	(4,058)
Employee share schemes		—	—	(561)	(561)
Dividends	11	—	—	(26,057)	(26,057)
Transactions with owners		—	—	(30,676)	(30,676)
At 31 March 2015		**51,660**	**353,231**	**82,091**	**486,982**

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 2015

	Notes	Consolidated 2015 £'000	Consolidated 2014 £'000	Parent company 2015 £'000	Parent company 2014 £'000
Cash flows from operating activities					
Operating profit		**22,405**	55,607	**—**	—
Adjustments for:					
– depreciation and amortisation		**17,111**	20,272	**—**	—
– impairment of goodwill		**33,900**	—	**—**	—
– (increase)/decrease in working capital		**(14,686)**	1,537	**4,619**	2,065
– restructuring cost and onerous lease payments		**(62)**	(3,375)	**—**	—
– pension deficit payment		**(4,270)**	(788)	**—**	—
Tax paid		**(3,424)**	(1,531)	**—**	—
Loss/(profit) on sale of property, plant and equipment		**429**	(456)	**—**	—
Profit on sale of investments		**(624)**	—	**—**	—
Net cash generated from operations		**50,779**	71,266	**4,619**	2,065
Cash flows from investing activities					
Purchase of property, plant and equipment		**(17,356)**	(16,207)	**—**	—
Purchase/generation of intangible assets		**(14,666)**	(11,705)	**—**	—
Proceeds from sale of property, plant and equipment		**—**	633	**—**	—
Proceeds from sale of investments		**429**	—	**—**	—
Dividends received		**—**	—	**26,057**	23,764
Net cash (used in)/generated from investing activities		**(31,593)**	(27,279)	**26,057**	23,764
Cash flows from financing activities					
Dividends paid	11	**(26,057)**	(23,764)	**(26,057)**	(23,764)
Dividend equivalent paid to participants of share schemes		**(561)**	(301)	**(561)**	(301)
Interest paid		**(5,574)**	(4,436)	**—**	—
Capital element of finance lease repayments		**(1,367)**	—	**—**	—
Repayment of bank loans	21	**(45,000)**	(85,000)	**—**	—
Drawdown of bank loans	21	**65,000**	65,000	**—**	—
Purchase of ordinary shares	26	**(4,058)**	(1,764)	**(4,058)**	(1,764)
Net cash used in financing activities		**(17,617)**	(50,265)	**(30,676)**	(25,829)
Increase/(decrease) in cash and cash equivalents		**1,569**	(6,278)	**—**	—
Cash and cash equivalents at the beginning of the year		**9,441**	15,719	**—**	—
Cash and cash equivalents at the end of the year	22	**11,010**	9,441	**—**	—

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

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 2 to 27.

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.

A number of new standards, amendments and interpretations are effective for annual periods beginning after 1 April 2015 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 are considering the impact of other standards and interpretations such as IFRS 15 and are assessing whether these will 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 is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. 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 2015. 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 2015. 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 the Kcom, Smart421 and Eclipse brands are aggregated together and reported as the 'Kcom' segment. The remaining brands of KC and the PLC function are reported respectively in the 'KC' segment and the 'PLC' segment.

Notes to the financial statements continued

for the year ended 31 March 2015

02 Accounting policies continued

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.

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 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.

02 Accounting policies continued

Intangible assets continued

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.

Software 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 opposite is met. These intangible assets are amortised on a straight-line basis over their useful lives.

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

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 10 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.

Exchange equipment includes assets and equipment which relate to the network. External plant relates to assets which connect the network to our customers.

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.

Notes to the financial statements continued

for the year ended 31 March 2015

02 Accounting policies continued

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.

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 current tax and deferred tax expense.

The current tax is 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 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.

02 Accounting policies continued

Financial instruments and hedge accounting continued

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.

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 are 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. Remeasurements 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 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.

Notes to the financial statements continued

for the year ended 31 March 2015

02 Accounting policies continued

Employee share schemes and share-based payments continued

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.

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. For further disclosure, see Note 14.

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 29.

Capitalisation of internal costs

The Group capitalises internal costs (which relates principally to IT salary costs on significant projects) from the development of intangible assets if, and only if, it can demonstrate all of the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

The Directors are required to make judgements regarding whether an intangible asset has met all of the criteria above and are required to ensure the correct treatment has been applied in accordance with IAS 38 'Intangible Assets'. For further disclosure, see Note 15.

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.

04 Segmental analysis continued

The Board assessed that the Eclipse, Kcom and Smart421 brands have similar profiles, offering similar products and services, and 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 2015. The remaining brands of KC and the PLC function are reported respectively in the 'KC' segment and the '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 2015 and for the year ended 31 March 2014, is as follows:

		Revenue		EBITDA	
	Notes	**2015 £'000**	2014 £'000	**2015 £'000**	2014 £'000
Before exceptional items					
KC		**104,751**	105,021	**56,368**	56,155
Kcom		**248,593**	270,891	**25,687**	28,714
PLC[1]		**(5,360)**	(5,215)	**(7,751)**	(9,578)
Activities before exceptional items		**347,984**	370,697	**74,304**	75,291
Exceptional items					
KC		**—**	—	**5,027**	(499)
Kcom		**—**	—	**(37,435)**	1,864
PLC[1]		**—**	—	**(2,380)**	(777)
Total	7	**—**	—	**(34,788)**	588
Total		**347,984**	370,697	**39,516**	75,879

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

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

	Notes	**2015 £'000**	2014 £'000
EBITDA post-exceptional items		**39,516**	75,879
Depreciation	16	**(12,033)**	(16,882)
Amortisation	15	**(5,078)**	(3,390)
Finance costs	9	**(5,725)**	(5,075)
Share of profit/(loss) of associate	17	**13**	(2)
Profit before tax		**16,693**	50,530

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:

	2015 £'000	2014 £'000
Revenue from external customers		
KC	**99,597**	99,573
Kcom	**248,033**	270,470
PLC[1]	**354**	654
Total	**347,984**	370,697
Inter-segment revenue		
KC	**5,154**	5,448
Kcom	**560**	421
PLC[1]	**(5,714)**	(5,869)
Total	**—**	—
Group total	**347,984**	370,697

1. 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.

Notes to the financial statements continued

for the year ended 31 March 2015

04 Segmental analysis continued

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:

	2015 £'000	2014 £'000
Sale of goods	**7,018**	11,606
Provision of services	**340,966**	359,091
Group total	**347,984**	370,697

05 Operating expenses

Consolidated	Notes	2015 £'000	2014 £'000
Staff costs		**68,360**	85,953
Restructuring costs relating to employees	7	**7,546**	1,121
Total staff costs	8	**75,906**	87,074
Own work capitalised	8	**(8,347)**	(5,906)
Other external charges[1]		**208,996**	209,937
Non-employee related pension charges	29	**500**	500
Operating lease rentals		**3,265**	5,022
Auditors' remuneration	6	**477**	356
Depreciation of property, plant and equipment	16	**12,033**	16,882
Amortisation of intangible assets	15	**5,078**	3,390
Loss/(profit) on disposal of property, plant and equipment		**429**	(456)
Impairment of goodwill	7	**33,900**	—
Network rates rebate	7	**(5,278)**	—
Recovery of previously provided debt	7	**(756)**	—
Profit on sale of investments	7	**(624)**	—
Credit on termination of contracts	7	**—**	(2,587)
Strategic pensions advice costs	7	**—**	700
Onerous lease costs	7	**—**	178
Total		**325,579**	315,090

1. 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 29.

06 Auditors' remuneration

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

Consolidated	2015 £'000	2014 £'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	**267**	163
– audit-related assurance services	**58**	20
– tax advisory services	**15**	35
– other non-audit services	**75**	76
Total	**477**	356

07 Exceptional items

Consolidated	Notes	2015 £'000	2014 £'000
Network rates rebate		**(5,278)**	—
Recovery of previously provided debt		**(756)**	—
Profit on sale of investments		**(624)**	—
Credit on termination of contracts		**—**	(2,587)
Credited to income statement		**(6,658)**	(2,587)
Impairment of goodwill	14	**33,900**	—
Restructuring costs		**7,546**	1,121
Strategic pensions advice costs		**—**	700
Onerous lease costs		**—**	178
Charged to income statement		**41,446**	1,999
Net charge/(credit) to income statement		**34,788**	(588)

Network rates rebate relates to a settlement agreed during the year.

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

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

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

In accordance with accounting standards, the Group's goodwill balance is tested annually for impairment. As part of this review the goodwill in the Group's Kcom brand was deemed to be impaired and as such a charge of £33.9 million has been recognised in the consolidated income statement. This is a non-cash item and is treated as exceptional in line with our accounting policy.

As set out in our accounting policy, restructuring costs are shown as exceptional items. During the year the Group incurred £4.4 million in relation to the Kcom brand in the first half of the year, £1.7 million relating to strategic IT investment and £1.4 million supporting the Group's move towards a single operating model.

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

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

The combined tax effect of these items is a credit of £318,000 (2014: charge of £135,000) in respect of current tax and a credit of £2,921,000 (2014: £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	
	2015	2014
KC	**499**	650
Kcom	**847**	984
PLC	**430**	273
Total	**1,776**	1,907

The costs incurred in respect of these employees were:

	Notes	2015 £'000	2014 £'000
Wages and salaries		**54,882**	71,746
Social security costs		**7,765**	8,357
Other pension costs	29	**3,867**	3,931
Share scheme costs	13	**1,846**	1,919
Restructuring costs relating to employees	7	**7,546**	1,121
Total		**75,906**	87,074
Less own work capitalised	15,16	**(8,347)**	(5,906)
Charged to the income statement		**67,559**	81,168

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08 Employees and remuneration continued

All of the Group's employees are employed by the Company with the exception of 336 (2014: 371) 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 50 to 57 within the Remuneration report and form part of these financial statements.

09 Finance costs

Consolidated	Notes	2015 £'000	2014 £'000
Bank loans, overdrafts and other loans		**4,234**	4,195
Retirement benefit obligations	29	**1,067**	400
Finance lease and hire purchase contracts		**120**	—
		5,421	4,595
Amortisation of loan arrangement fees		**304**	480
Total		**5,725**	5,075

10 Taxation

Analysis of tax charge in the year

The charge based on the profit for the year comprises:

Consolidated	Notes	2015 £'000	2014 £'000
UK corporation tax:			
– current tax on profits for the year		**4,938**	3,223
– adjustment in respect of prior years		**(409)**	(651)
Total current tax		**4,529**	2,572
UK deferred tax:			
Origination and reversal of timing differences in respect of:			
– profit for the year		**4,154**	8,527
– change in rate		**56**	912
– adjustment in respect of prior years		**(497)**	(193)
– charge in respect of retirement benefit obligation		**87**	(58)
– recognition of previously unrecognised deferred tax asset		**(4,180)**	—
Total deferred tax	25	**(380)**	9,188
Total taxation charge for the year		**4,149**	11,760

Factors affecting tax charge for the year

Consolidated	2015 £'000	2014 £'000
Profit before taxation	**16,693**	50,530
Profit before taxation at the standard rate of corporation tax in the UK of 21% (2014: 23%)	**3,505**	11,622
Effects of:		
– income not subject to tax	**(131)**	—
– expenses not deductible for tax purposes	**5,805**	69
– recognition of previously unrecognised deferred tax asset	**(4,180)**	—
– adjustments relating to prior year tax	**(906)**	(843)
– change in rate reflected in the deferred tax asset	**56**	912
Total taxation charge for the year	**4,149**	11,760

The current tax charge of £4,529,000 (2014: £2,572,000) includes a charge relating to the vesting of the share schemes of £184,000 (2014: £301,000) which is a reclassification from the reserves on the unwind of the deferred tax asset. The recognition of a previously unrecognised deferred tax asset relates to greater certainty as to the availability of future taxable profits.

Factors affecting the current and future tax charges

The UK main corporation tax rate became 20% on 1 April 2015 and as such the relevant deferred tax balances have been measured at this rate.

11 Dividends

	2015 £'000	2014 £'000
Amounts recognised as distributions to equity holders in the period:		
– 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
– final dividend for the year ended 31 March 2014 of 3.25 pence per share	**16,810**	—
– interim dividend for the year ended 31 March 2015 of 1.79 pence per share	**9,247**	—
Total	**26,057**	23,764

The proposed final dividend for the year ended 31 March 2015 is 3.58 pence per share, amounting to a total dividend of £18,494,000. 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	2015 Number	2014 Number
Weighted average number of shares		
For basic earnings per share	**508,619,479**	507,645,664
Share options in issue	**5,169,178**	5,704,438
For diluted earnings per share	**513,788,657**	513,350,102

	Notes	2015 £'000	2014 £'000
Earnings			
Profit attributable to owners of the parent		**12,544**	38,770
Adjustments			
Exceptional items		**34,788**	(588)
Tax on exceptional items		**(2,921)**	135
Exceptional tax credit	10	**(4,180)**	—
Adjusted profit attributable to owners of the parent		**40,231**	38,317

Consolidated	2015 Pence	2014 Pence
Earnings per share		
Basic	**2.47**	7.64
Diluted	**2.44**	7.55
Adjusted basic	**7.91**	7.55
Adjusted diluted	**7.83**	7.46

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 (2014: five) in existence during the year ended 31 March 2015. The Group recognised a total charge of £1,846,000 (2014: £1,919,000) in the year relating to equity-settled share-based payment transactions.

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

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13 Share-based payments continued

The share options, including LTIS, outstanding at 31 March 2015 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 2015. The options become exercisable between three and 10 years from grant date, provided that the employee remains in employment. Out of the 42,819 outstanding options (2014: 42,189), all were exercisable at 31 March 2015.

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

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 2014/15, 1,452,145 (2014: 1,399,194) matching shares were granted during the year.

	Number	Weighted average exercise price (pence)
Outstanding at the beginning of the year	8,269,254	Nil
Granted during the year	1,452,145	Nil
Lapsed during the year	(2,615,169)	Nil
Outstanding at the end of the year	**7,106,230**	**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 plan's performance target measures annual and cumulative profit before tax of Smart421 Limited for the 2012, 2013 and 2014 financial years. On 4 June 2014, the Remuneration Committee agreed that all non-market performance measures had been achieved and all awards would vest in full.

	Number	Weighted average exercise price (pence)
Outstanding at the beginning of year	1,500,000	Nil
Vested during the year	(1,494,890)	Nil
Lapsed during the year	(5,110)	Nil
Outstanding at the end of the year	**—**	**Nil**

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 52.

Award date	Vesting release date	Number	Number at date of grant	Outstanding at the beginning of the year	Vested and released	Outstanding at the end of the year	Fair value (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	—	—	—	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	—	—	—	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	—	—	—	31
25/02/2010	25/02/2015	17	295,818	168,478	(168,478)	—	30
Total			**22,000,000**	**2,092,648**	**(2,092,648)**	—	

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

13 Share-based payments continued

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 51.

	Number	Weighted average exercise price (pence)
Outstanding at the beginning of the year	3,982,093	Nil
Granted during the year	1,669,640	Nil
Lapsed during the year	(512,206)	Nil
Outstanding at the end of the year	**5,139,527**	**Nil**

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 (%)	—

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14 Goodwill

Consolidated	Total £'000
Cost	
At 31 March 2014 and 2015	**85,272**
Amounts written off	
At 31 March 2014	—
Impairment	33,900
At 31 March 2015	**33,900**
Net book value	
At 31 March 2015	**51,372**
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 discount rate and growth rate (in perpetuity) used for value in use calculations are as follows:

	2015	2014
Discount rate (pre-tax) % – Group	**8.2**	10.5
Discount rate (pre-tax) % – Eclipse, Kcom and Smart421 CGUs	**9.0**	11.1
Growth rate (in perpetuity) % – Group	**2.0**	2.0

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.

At 31 March 2015, before the Group's impairment tests, goodwill of £72,324,000 (2014: £72,324,000) was allocated to the Kcom CGU. The Kcom CGU (which represents principally the Group's Kcom brand) has been affected by the decline of certain traditional legacy activities. The estimates used within our value in use calculation take into account that historical experience and the Board's estimate of future events.

The results of our impairment test indicated that an impairment of £33,900,000 (2014: £Nil) was required. The assumptions within the value in use calculation which had the most significant impact related to movements in cash flows, pre-tax discount rate and perpetuity growth rate. The impairment loss arises within the Kcom segment and has been treated as an exceptional item.

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14 Goodwill continued

As a result of this impairment charge, the level of headroom is now £Nil and the following changes would therefore impact the remaining carrying value of the Kcom CGU goodwill:

Sensitivity	£'000
0.1% decrease in growth rate (in perpetuity)	(1,471)
0.1% increase in the discount rate (pre-tax)	(1,449)
£1m decrease in net cash flows (in perpetuity)	(10,885)

For the Eclipse and Smart421 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.

Following the Group's impairment charge, the carrying amount of goodwill of £51,372,000 (2014: £85,272,000) is allocated across multiple CGUs as follows:

CGUs	2015 £'000	2014 £'000
Eclipse	**7,862**	7,862
Kcom	**38,424**	72,324
Smart421	**5,086**	5,086
At 31 March 2015	**51,372**	85,272

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 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
Additions		498	14,292	—	—	14,790
Own work capitalised	8	3,128	3,850	—	—	6,978
Disposals		—	(7,666)	—	—	(7,666)
Transfers		260	2,289	—	—	2,549
At 31 March 2015		**10,654**	**50,454**	**49,257**	**6,294**	**116,659**
Accumulated amortisation						
At 1 April 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
Charge for the year		2,515	2,563	—	—	5,078
Disposals		—	(7,666)	—	—	(7,666)
Transfers		377	(372)	—	—	5
At 31 March 2015		**7,277**	**11,928**	**49,257**	**6,294**	**74,756**
Carrying amount						
At 31 March 2015		**3,377**	**38,526**	**—**	**—**	**41,903**
At 31 March 2014		2,383	20,286	—	—	22,669
At 1 April 2013		1,154	13,200	—	—	14,354

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

Software costs include assets under development, the most significant of which related to the Group's investment in a new IT system. As at 31 March 2014 the cost of this project was £14.1 million and additions in the year totalled £11.0 million. The project was completed during the year and the asset is now being amortised.

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 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
Additions		—	4,343	5,565	6,968	16,876
Own work capitalised	8	—	936	433	—	1,369
Disposals		(163)	(622)	(147)	(5,654)	(6,586)
Transfers		(108)	(6,468)	6,959	(2,932)	(2,549)
At 31 March 2015		**14,623**	**205,117**	**171,428**	**41,842**	**433,010**
Accumulated depreciation						
At 1 April 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
Charge for the year		359	3,375	3,069	5,230	12,033
Disposals		(162)	(567)	(43)	(5,385)	(6,157)
Transfers		(109)	(6,888)	6,350	642	(5)
At 31 March 2015		**10,254**	**153,139**	**115,718**	**26,821**	**305,932**
Net book value						
At 31 March 2015		**4,369**	**51,978**	**55,710**	**15,021**	**127,078**
At 31 March 2014		4,728	49,709	52,276	17,126	123,839
At 1 April 2013		5,175	47,765	54,761	11,569	119,270

In line with its accounting policy and in light of market activity relating to network assets, the Group has assessed the appropriateness of the residual value of its network assets (held above within external plant). This has resulted in higher residual values and a £4.9 million reduction in the depreciation charge for these assets in the year.

Asset classes have been reviewed as part of the implementation of a new accounting system, resulting in transfers between categories.

17 Investments

Consolidated	Shares in associates £'000
Cost	
At 1 April 2013	22
Share of net loss for the year	(2)
At 31 March 2014	20
Share of net profit for the year	13
At 31 March 2015	**33**
Amounts written off	
At 31 March 2014 and 31 March 2015	—
Net book value	
At 31 March 2015	**33**
At 31 March 2014	20

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17 Investments continued

Parent company	Shares in subsidiary undertakings £'000
Cost	
At 31 March 2014 and 2015	**494,511**
Amounts written off	
At 31 March 2014 and 2015	**50**
Net book value	
At 31 March 2014 and 2015	**494,461**

Subsidiary undertakings (as at 31 March 2015)

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	2015 £'000	2014 £'000
Raw materials and consumables	**2,235**	2,269
Equipment for resale	**—**	378
Total	**2,235**	2,647

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

19 Trade and other receivables

	Consolidated		Parent company	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Trade receivables (net)	**46,082**	36,266	**—**	—
Other receivables	**1,382**	820	**—**	—
Prepayments	**17,570**	19,400	**5**	5
Accrued income	**13,756**	17,649	**—**	—
Total	**78,790**	74,135	**5**	5

All of the Group's receivables are due within one year in both 2015 and 2014. An allowance has been made for estimated irrecoverable amounts from the sale of goods and services of £1,426,000 (2014: £1,489,000). The Directors consider that the carrying amount of trade and other receivables approximate to their fair value.

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

	2015 £'000
At 1 April 2014	**(1,489)**
Written off in the year	**1,198**
Amounts provided for in the year	**(1,135)**
At 31 March 2015	**(1,426)**

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

19 Trade and other receivables continued

Note 27 provides further disclosures regarding the credit risk of the Group's trade receivables.

As of 31 March 2015, trade receivables of £11,928,000 (2014: £5,817,000) were impaired. The amount of the provision was £1,426,000 as of 31 March 2015 (2014: £1,489,000). 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. There is no concern over the debt not yet due.

The ageing of these receivables is as follows:

	2015 £'000	2014 £'000
0–3 months	**10,222**	421
3–6 months	**1,706**	3,689
6 months +	—	1,707
	11,928	5,817

As of 31 March 2015, trade receivables of £6,371,000 (2014: £8,994,000) 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:

	2015 £'000	2014 £'000
0–3 months	**2,719**	4,720
3–6 months	**3,652**	3,756
6 months +	—	518
	6,371	8,994

20 Trade and other payables

	Consolidated		Parent company	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Current				
Trade payables	**34,292**	40,257	—	—
Other taxes and social security costs	**6,137**	5,178	—	—
Other payables	**7,443**	3,461	—	—
Accruals	**36,651**	53,467	—	—
Deferred income	**28,446**	25,954	—	—
Total	**112,969**	128,317	—	—
Non-current				
Amounts due to subsidiary undertakings	—	—	**7,484**	2,865
Total	**112,969**	128,317	**7,484**	2,865

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 after more than one year, except for amounts due to dormant entities where nil interest is charged.

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21 Bank loans

	Consolidated 2015 £'000	2014 £'000
Bank borrowings		
Amount falling due:		
– between two and five years	**105,000**	85,000
	105,000	85,000
Loan issue costs	**(1,540)**	(583)
	103,460	84,417

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 June 2019 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 27 for further detail.

The fair value of bank borrowings is £91.6 million (2014: £80.7 million). The fair value of cash flows has been estimated using a rate based on the weighted average borrowing rate of 3.2% (2014: 3.9%).

22 Net debt

	Notes	Consolidated 2015 £'000	2014 £'000
Cash		**11,701**	9,441
Bank overdrafts		**(691)**	—
Cash and cash equivalents (including bank overdrafts)		**11,010**	9,441
Borrowings	21	**(103,460)**	(84,417)
Finance leases	23	**(6,898)**	—
Total net debt		**(99,348)**	(74,976)

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 Obligations under finance leases and hire purchase contracts

	Consolidated 2015 £'000	2014 £'000
Finance lease liabilities:		
minimum lease payments		
– within 12 months	**1,743**	—
– in 1 to 5 years	**5,506**	—
	7,249	
Future finance charges	**(351)**	—
Present value of finance lease liabilities	**6,898**	—
The present value of finance lease liabilities is as follows:		
– within 12 months	**1,743**	—
– in 1 to 5 years	**5,155**	—
Total	**6,898**	—

24 Provisions for other liabilities and charges

	Onerous leases £'000	Restructuring £'000	Total £'000
At 1 April 2014	548	242	790
Established in the year	—	7,547	7,547
Utilised in the year	(139)	(5,593)	(5,732)
At 31 March 2015	**409**	**2,196**	**2,605**
Total provisions for other liabilities and charges 2015			
Included in current liabilities	409	2,170	2,579
Included in non-current liabilities	—	26	26
At 31 March 2015	**409**	**2,196**	**2,605**
Total provisions for other 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

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.

25 Deferred taxation assets and liabilities

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

	Assets		Liabilities		Net	
Consolidated	**2015 £'000**	2014 £'000	**2015 £'000**	2014 £'000	**2015 £'000**	2014 £'000
Property, plant and equipment	**4,175**	7,978	**—**	—	**4,175**	7,978
Other timing differences	**1,064**	2,130	**—**	—	**1,064**	2,130
Retirement benefit obligation	**6,287**	5,300	**—**	—	**6,287**	5,300
Intangible assets on acquisition	**4,766**	—	**—**	(14)	**4,766**	(14)
Asset-backed partnership	**—**	—	**(4,589)**	(5,043)	**(4,589)**	(5,043)
	16,292	15,408	**(4,589)**	(5,057)	**11,703**	10,351

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 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
(Charged)/credited to the income statement	10	(3,803)	(510)	(87)	4,780	—	380
(Charged)/credited directly to equity and other comprehensive income		—	(556)	1,074	—	454	972
At 31 March 2015		**4,175**	**1,064**	**6,287**	**4,766**	**(4,589)**	**11,703**

There are £Nil deferred tax assets in the Parent company (2014: £Nil).

The analysis of deferred tax assets is as follows:

	2015 £'000	2014 £'000
Deferred tax assets to be recovered after more than 12 months	**10,185**	9,806
Deferred tax assets to be recovered within 12 months	**6,107**	5,602
	16,292	15,408

Notes to the financial statements continued

for the year ended 31 March 2015

25 Deferred taxation assets and liabilities continued

The analysis of deferred tax liabilities is as follows:

	2015 £'000	2014 £'000
Deferred tax liabilities to be recovered after more than 12 months	**(4,169)**	(4,603)
Deferred tax liabilities to be recovered within 12 months	**(420)**	(454)
	(4,589)	(5,057)

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

	Not recognised	
	2015 £'000	2014 £'000
Losses	**1,126**	1,126
Intangible assets arising on acquisition	**—**	4,180

Deferred tax assets relating to property, plant and equipment and short-term timing differences of £9.2 million (2014: £8.3 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 (2014: £5.3 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% (2014: 20%).

26 Called-up share capital

	2015 £'000	2014 £'000
Allotted, called up and fully paid		
516,603,910 (2014: 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 (2014: Nil); however, the Company funds Employee Share Trusts to meet its obligations under the Company's share schemes. During the year the Trusts purchased 4,170,000 (2014: 2,043,000) of the Company's ordinary shares through purchases on the London Stock Exchange for a total cash consideration of £4,058,000 (2014: £1,778,000) 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 £4,058,000 (2014: £1,764,000) has been deducted from retained earnings.

As of 31 March 2015, the total number of ordinary shares held by the Trusts to meet obligations under the Company's share schemes was 165,000 (2014: 205,000).

27 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 £75.0 million at the beginning of the financial year has increased during the year to net debt of £99.3 million. The Group generated positive cash flow after investing activities of £19.2 million for the year (2014: £44.0 million).

The table on page 89 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.

27 Financial instruments and risk management continued

Liquidity risk continued

	Less than one year £'000	One to three years £'000	Over three years £'000
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	—
At 31 March 2015			
Borrowings	1,734	3,465	107,146
Trade and other payables	106,832	—	—
Cash flow hedges	706	—	—
Finance leases	1,743	5,155	—
Total	**111,015**	**8,620**	**107,146**

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

	2015		2014	
	Assets £'000	**Liabilities £'000**	Assets £'000	Liabilities £'000
Interest rate swaps – cash flow hedges	**—**	**706**	—	1,806
Forward foreign exchange contracts – cash flow hedges	**328**	**—**	—	—
Total	**328**	**706**	—	1,806
Less non-current portion:				
Interest rate swaps – cash flow hedges	**—**	**—**	—	1,669
Forward foreign exchange contracts – cash flow hedges	**—**	**—**	—	—
	—	**—**	—	1,669
Current portion	**328**	**706**	—	137

Interest rate risks

Sterling interest rate swaps were held during the year that fixed approximately 65% (2014: 80%) of the year end net debt excluding finance leases. The weighted average fixed interest rate payable (including margin) was 3.6% (2014: 3.90%). The weighted average rate of current interest rate swaps in place at the year end was 2.71% (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 0.33 years (2014: 1.3 years). Interest rate exposures will continue to be hedged in accordance with the Treasury policy.

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

	2015 £'000	2014 £'000
Reduction/(increase) in profit before tax	**327**	(150)

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 also has 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.

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.

Notes to the financial statements continued

for the year ended 31 March 2015

27 Financial instruments and risk management continued

Credit risk continued

The Group has no significant concentration of credit risk, with exposure spread over a large number of customers. For an analysis of the quality of the ageing of the Group's trade receivables, see Note 19 for further disclosures.

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.

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

Financial assets

The Group had net financial assets of £11.0 million at the year end (2014: £9.4 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 2015 and 31 March 2014 was:

	2015 £'000	2014 £'000
Currency		
Sterling	**12,052**	7,955
US Dollar	**(1,572)**	909
Euro	**530**	577
Total	**11,010**	9,441

Foreign currency cash balances are held on a short-term basis to fund cash flow requirements in these currencies. All trade receivable balances are held in sterling and bear no interest. There is no currency risk associated with these balances.

At the year end £1.3 million (2014: £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 2015 and 31 March 2014 was:

	2015			2014		
	Floating £'000	Fixed £'000	Total £'000	Floating £'000	Fixed £'000	Total £'000
Sterling	**43,460**	**60,000**	**103,460**	24,417	60,000	84,417

Undrawn committed borrowing facilities at the year end were £95.0 million (2014: £115.0 million).

Interest on amounts drawn under the committed borrowing facility is based on the relevant LIBOR plus margin. All trade payable balances are held in sterling and bear no interest. There is no currency risk associated with these balances.

Fair values of financial assets and financial liabilities

The mark-to-market value of the interest rate swaps and forward contracts at 31 March 2015 was an asset of £0.4 million (2014: liability of £1.0 million). 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 in the table below:

	£'000
Hedging reserve	
31 March 2014	(986)
Movement in the year	1,428
31 March 2015	**442**

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 maintain an optimal capital structure to reduce the cost of capital.

27 Financial instruments and risk management continued

Capital risk management continued

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.

	2015 £'000	2014 £'000
Net debt	**99,348**	74,976
Total equity	**68,879**	85,153
Total capital	**168,227**	160,129

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 to 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.

28 Financial commitments

Authorised future capital expenditure and financial investment amounted to:

	Consolidated	
	2015 £'000	2014 £'000
Property, plant and equipment	**750**	6,354
Intangible assets	**696**	2,575
Total	**1,446**	8,929

The Group as lessee

The future aggregate minimum lease rental commitments under non-cancellable operating leases were as follows:

	Consolidated	
	2015 £'000	2014 £'000
Leasehold buildings:		
– within 12 months	**3,363**	3,871
– in 1 to 5 years	**9,094**	9,600
– after 5 years	**6,412**	7,217
Total	**18,869**	20,688
Plant and equipment:		
– within 12 months	**1,183**	899
– in 1 to 5 years	**487**	1,618
Total	**1,670**	2,517

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.

29 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 (2014: £3.9 million).

Defined benefit schemes

The principal defined benefit scheme at 31 March 2015 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.

Notes to the financial statements continued

for the year ended 31 March 2015

29 Retirement benefit obligation – consolidated continued

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 2015 (2014: £Nil).

Most recent valuations

The most recent formal valuation for the Kingston Communications Pension Scheme was at 31 March 2014. 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 2014. 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

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 KC network asset. The security does not offer the Trustees any 'normal' rights of enforcement over the assets. Instead it provides first priority payment of any value that would be realised from the KC network on an insolvency event.

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.

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 is reflected as pension contributions in these Group accounts on a cash basis.

Employer contributions for the year ended 31 March 2015

The disclosures in the table below are for the two schemes combined.

Contributions into the two defined benefit schemes during the year were as follows:

	2015 £'000	2014 £'000
Deficit payments	**4,270**	788

Existing committed deficit recovery payments due over the financial year ending 31 March 2016 are £2.0 million.

Main financial assumptions

	2015 per annum %	2014 per annum %
RPI inflation	**2.95**	3.40
CPI inflation	**1.95**	2.40
Rate of increase to pensions in payment	**2.00**	2.40
Discount rate for scheme liabilities	**3.25**	4.30

Our central approach is to base the discount rate on the AA yield curve published by Merrill Lynch, over an 18-year duration for the schemes.

The mortality assumptions are based on standard mortality tables, which allow for future improvements in life expectancy. The effects of these tables are that:

- a future pensioner aged 65 at retirement will live on average to age 89.4 (2014: 89.0) if they are male and on average to age 91.8 (2014: 91.2) if they are female; and
- a current pensioner aged 65 will live on average to age 87.7 (2014: 87.1) if they are male and on average to age 89.9 (2014: 89.1) if they are female.

The defined benefit obligation reflects the assumption that 20% (2014: 20%) of deferred members will transfer out of the scheme over its life. Where such transfers take place, the value of such transfers is assumed to be 0% (2014: 0%) above the current IAS 19 value for individual members.

29 Retirement benefit obligation – consolidated continued

Main financial assumptions continued

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%	7.3%	(7.0%)
Discount rate for scheme liabilities	0.1%	(14.3%)	14.6%
Mortality	1 year	19.7%	(20.0%)

The sensitivity analysis in the table above 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.

Fair value of assets

	Value at 2015 £'000	Value at 2014 £'000
Equities	**37,701**	34,300
Hedge funds	**51,480**	45,000
Index linked gilts	**59,465**	26,200
Corporate bonds	**34,550**	41,300
Other	**25,586**	44,300
Total fair value of assets	**208,782**	191,100

History of asset values, defined benefit obligation, deficit in scheme and experience gains and losses

	2015 £'000	2014 £'000	Restated[1] 2013 £'000	2012 £'000	2011 £'000
At 31 March					
Present value of defined benefit obligation	**(240,217)**	(217,600)	(203,300)	(199,377)	(175,716)
Fair value of plan assets	**208,782**	191,100	193,542	185,491	168,789
Deficit	**(31,435)**	(26,500)	(9,758)	(13,886)	(6,927)
Experience gains/(losses) on plan assets	**14,407**	(3,130)	7,715	(2,860)	(507)
Experience (losses)/gains on plan liabilities	**(21,670)**	(13,500)	(3,010)	(22,606)	32,011

1. The comparative results have been restated for changes in IAS 19 (Employee benefits).

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

	2015 £'000	2014 £'000
Fair value of assets	**208,782**	191,100
Present value of funded defined benefit obligations	**(240,217)**	(217,600)
Liability recognised on the balance sheet	**(31,435)**	(26,500)
Analysis of income and expenditure charge:		
– administration expenses	**500**	500
– finance costs	**1,067**	400
Charge recognised in the income statement	**1,567**	900

Notes to the financial statements continued
for the year ended 31 March 2015

29 Retirement benefit obligation – consolidated continued
Fair value of assets continued
Reconciliation of funded status to balance sheet continued

	2015 £'000	2014 £'000
Changes to the present value of the defined benefit obligation during the year		
Opening defined benefit obligation	**217,600**	203,300
Finance costs	**9,182**	9,100
Remeasurements arising from changes in financial assumptions	**22,170**	12,400
Remeasurements arising from changes in demographic assumptions	**(500)**	1,100
Net benefits paid out	**(8,235)**	(8,300)
Closing defined benefit obligation	**240,217**	217,600

	2015 £'000	2014 £'000
Changes to the fair value of scheme assets		
Opening fair value of assets	**191,100**	193,542
Finance income	**8,115**	8,700
Administration expenses	**(500)**	(500)
Asset-backed partnership expenses	**(375)**	—
Remeasurements	**14,407**	(3,130)
Contributions by the employer	**2,270**	788
Deficit repair payments	**2,000**	—
Net benefits paid out	**(8,235)**	(8,300)
Closing fair value of assets	**208,782**	191,100

30 Other commitments and contingent liabilities
Contingent liabilities existed at 31 March 2015 and at 31 March 2014 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.

31 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 42 to 57 and forms part of these financial statements.

Intra-Group transactions
Amounts payable by the Company to subsidiaries totalled £7.5 million (2014: £2.9 million) as at 31 March 2015.

Five year summary of consolidated figures
as at 31 March 2015

	2015 £'000	2014 £'000	2013 £'000	2012 £'000	2011 £'000
Income statement (total operations)					
Revenue	**347,984**	370,697	372,869	387,316	395,412
EBITDA before exceptional items	**74,304**	75,291	74,862	77,875	75,963
Group operating profit before exceptional items	**57,193**	55,019	55,250	57,770	48,631
Profit after taxation before exceptional items[1]	**44,093**	38,317	37,395	37,727	28,624
Profit after taxation (reported)	**12,544**	38,770	35,845	37,727	22,621
Balance sheet					
Non-current assets	**236,678**	247,208	235,446	239,639	242,272
Current assets (excluding cash)	**81,353**	76,782	72,510	75,530	72,943
Current liabilities (excluding finance leases and overdrafts)	**(118,754)**	(130,210)	(123,592)	(146,367)	(151,154)
Net debt (including finance leases)	**(99,348)**	(74,976)	(88,218)	(75,267)	(81,996)
Provisions and other non-current liabilities (excluding finance leases)	**(36,050)**	(33,651)	(13,504)	(20,078)	(8,871)
Total equity	**63,879**	85,153	82,642	73,457	73,194
Movement in debt					
Net cash flow from:					
– operating activities	**50,779**	71,266	50,309	55,994	68,009
– capital expenditure	**(32,022)**	(27,912)	(27,996)	(22,148)	(13,948)
– interest	**(5,574)**	(4,436)	(4,006)	(7,363)	(8,574)
– equity dividends paid	**(26,057)**	(23,764)	(21,387)	(19,786)	(12,140)
– other	**(11,498)**	(1,912)	(9,871)	33	1,452
(Increase)/decrease in net debt	**(24,372)**	13,242	(12,951)	6,730	34,799
Ratios and other key information					
Average number of employees	**1,776**	1,907	1,886	1,792	1,801
EBITDA before exceptional items to revenue (%)	**21.4**	20.3	20.0	20.1	19.2
Group operating profit before exceptional items to revenue (%)	**16.4**	14.8	14.8	14.9	12.3
Basic earnings per share (pence)	**2.47**	7.64	7.08	7.41	4.44
Dividend per share relating to the financial year (pence)	**5.37**	4.88	4.44	4.00	3.60

1. Including the tax impact of exceptional items.

Shareholder information

Analysis of ordinary shareholders

(at 31 March 2015 by category)

	Number of holders	Number of shares	% of capital
Private shareholders	53,263	50,919,389	9.86
Insurance company	0	0	0.00
Investment trust	5	108,001	0.02
Pension fund	0	0	0.00
Nominee companies	1,117	381,650,379	73.88
Limited company	71	787,131	0.15
Bank and bank nominees	15	82,763,826	16.02
Other institutions	14	375,184	0.07
Total	**54,485**	**516,603,910**	**100.00**

Financial calendar

Annual General Meeting	31 July 2015
Half year results announcement (provisional)	25 November 2015
Final results announcement (provisional)	10 June 2016

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

Registered office
KCOM Group PLC
37 Carr Lane
Hull HU1 3RE

Registered in England and Wales

Company number
2150618

Investor relations
KCOM Group PLC
37 Carr Lane
Hull HU1 3RE

Email: investor.relations@kcom.com
Tel: 01482 602711
Website: www.kcomplc.com

Corporate responsibility
KCOM Group PLC
37 Carr Lane
Hull HU1 3RE

Advisors

Independent auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Benson House
33 Wellington Street
Leeds LS1 4JP

Registrar
Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Email: shareholderenquiries@capita.co.uk
Tel: 0871 664 0300 (calls cost 10 pence per minute plus network extras; lines are open 9.00am – 5.30pm Monday – Friday)
Website: www.capitaassetservices.com

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www.kcomplc.com

KCOM Group PLC Annual report and accounts 2014/15