



22 November 2011

**KCOM GROUP PLC (KCOM.L) ANNOUNCES  
UNAUDITED INTERIM RESULTS TO 30 SEPTEMBER 2011**

KCOM Group PLC (KCOM.L) ("KCOM Group" or the "Group") announces its unaudited interim results for the half year ended 30 September 2011.

***"Building a platform for sustainable growth"***

**Summary**

	<b>Unaudited Six months ended 30 Sept 11 (£ million)</b>	<b>Unaudited Six months ended 30 Sept 10 (£ million)</b>	<b>Increase over prior period (%)</b>
<b>Results from continuing operations before exceptional items</b>			
Revenue	198.0	194.8	1.6
Operating profit	30.8	25.2	22.2
EBITDA	40.7	38.9	4.6
Profit before tax	27.0	22.0	22.7
Adjusted basic earnings per share (pence)	3.86	3.03	27.4
<b>Reported results</b>			
Net cash inflow from operations	35.3	21.2	66.5
Net debt	75.1	111.8	
Profit before tax	27.0	23.2	16.4
Basic earnings per share (pence)	3.86	3.21	20.2
Dividend per share (pence)	1.33	1.10	20.9

**Financial highlights**

- Revenue at £198.0 million (2010: £194.8 million) reflects good performance across the Group.
- EBITDA before exceptional items improves to £40.7 million (2010: £38.9 million) continuing recent trends.
- Profit before tax and exceptional items increases 22.7% to £27.0 million (2010: £22.0 million).
- Strong cash generation reduces net debt further to £75.1 million (2010: £111.8 million), a reduction of £6.9 million from £82.0 million at 31 March 2011.
- Increased interim dividend in line with previously stated commitment.

**Operational highlights**

- Further contract wins across both public and private sector including WorldPay and appointment as preferred bidder for both Calderdale Council and emPSN.
- Next generation fibre deployment continues successfully across Hull & East Yorkshire network.

Bill Halbert, Executive Chairman, said "We are pleased to report half year results showing continued progress across the Group. Strong growth in earnings and resultant conversion into cash emphasises the robust foundation on which the Group is building its growth strategy.

"Additional multi-year contract wins, including being the preferred bidder on a further PSN contract, have strengthened further the contract backlog for future years, underpinning our ability to achieve our objective of sustainable growth."

"As previously stated, we are committed to delivering a minimum ten per cent per annum dividend growth in this and the subsequent financial year, reflecting our confidence in maintaining current performance. Accordingly, we have increased the interim dividend per share to 1.33 pence (2010: 1.10 pence)"

## Outlook

The Group continues to deliver growth in profits and excellent cash conversion, strengthening its balance sheet whilst investing in growth.

Our focus for the Kcom brand continues to be on securing recurring revenue and driving long term sustainable growth. The contracts won in the period will strengthen further the contracted order backlog within Kcom and underpin multi-year revenue.

The Board remains committed to a minimum 10 per cent growth per annum in the dividend for this, and the next financial year.

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## Business and Operating Review

### *Group overview*

Overall Group revenue has grown by 1.6% to £198.0 million (2010: £194.8 million). This reflects a positive contribution from all our brands.

Group EBITDA before exceptional items has increased 4.6% to £40.7 million (2010: £38.9 million) benefitting from our continued focus on higher margin activities and reduced operating costs.

Group profit before tax has increased by 16.4% to £27.0 million (2010: £23.2 million), with the increase in EBITDA and reduced depreciation and amortisation offsetting higher borrowing costs.

Net debt has continued to reduce, reaching £75.1 million at the half year (2010: £111.8 million). It has also fallen by £6.9 million since 31 March 2011, reflecting the cash generative nature of the business. This reduction has been achieved alongside increased levels of capital investment, pension scheme payments and dividends paid.

### *KC & Eclipse overview*

KC, which provides consumer and business services in East Yorkshire, and Eclipse, which delivers internet based services to businesses nationally, have shown a 1.0% growth in revenue to £63.1 million (2010: £62.5 million). This has been achieved despite the anticipated decline in KC Colour Pages, our directory publication in East Yorkshire.

Consistent with previous years, the first half reported results include the recognition of revenue and profitability associated with the publication of the KC Colour Pages directory for 2011. Revenue for the directory has fallen by £0.6 million to £4.1 million (2010: £4.7 million) due to a reduction in advertising spend, consistent with market trends across the UK.

The reduction in KC Colour Pages revenue resulted in EBITDA falling by 1.3% to £30.3 million (2010: £30.7 million). Growth in EBITDA in both KC and Eclipse is anticipated to offset this during the second half of the year, with overall full year EBITDA in KC & Eclipse for 2012 anticipated to be broadly in line with the 2011 result.

Growth within KC reflects increasing demand for higher bandwidth services from business customers, offsetting continued decline in legacy voice services in this customer segment. Consumer revenue has continued to grow due to further success in the migration to bundled services, which launched a year ago, alongside upgrades to KC Talk packages.

During the first half we announced our initial deployment of fibre technology delivering up to 100Mbps broadband services, which is anticipated to pass 15,000 homes across Hull and East Yorkshire over the next two financial years. We have recently announced the next phase of this initial deployment in the centre of Hull.

Growth within Eclipse reflects the continued success of the focus on the SME market, which has offset the expected churn of lower end consumer contracts. The first half of the year has seen a consistent trend of monthly growth in the number of broadband connections in the SME market.

#### *Kcom & Smart421 overview*

Kcom, our communication services brand for multi-site enterprise and public sector organisations across the UK and Smart421, our applications integration specialists, reported revenue growth of 2.5% to £137.7 million (2010: £134.3 million). EBITDA before exceptional items increased also by 6.3% to £13.4 million (2010: £12.6 million), reflecting further improvements in profit margin.

Smart421 has continued to achieve strong growth, with an 26% increase in revenue to £13.6 million (2010: £10.8 million). Smart421's strong performance reflects their ability to provide large corporate customers with specialist consultancy services focused on cloud technologies and the integration of complex business processes. Half year growth has been driven by successfully delivering against a sustained demand from existing customers and from new contract wins, including Haven Power, BT and Broadgate Estates.

Kcom has seen further success in growing its multi-year contract backlog, focusing on the provision of connect and managed services to multi-site national organisations. By their nature, these contracts have a longer book to bill cycle, therefore increasing the time before they start contributing to revenue.

In the public sector, Kcom has established a market leading position in the provision of Public Service Networks, having recently been appointed as preferred bidder for the East Midlands PSN contract, adding to the previous wins with Staffordshire and Dorset PSNs. These are long term contracts and enable Kcom to offer additional services to a range of public sector bodies.

Kcom has been notified also that it is the preferred bidder status for a contract with Calderdale Metropolitan Council for the provision of telecommunications services including voice, data and mobile telephony.

Within the corporate market, Kcom has won a number of new and extended contracts including WorldPay, Dominos, Morrisons and BA. These reflect our focus on developing long term customer relationships.

First half revenue includes build elements of a one-off contract relating to the build and management of a broadband network on behalf of a third party provider, amounting to £7.2 million (2010: £0.7 million). Build activity will cease in the second half of the current financial year, with a continuation of the current managed service.

The growth in revenue has been achieved despite an accelerated decline in Premium Rate Services (PRS) traffic of £2.6 million year on year to £6.8 million (2010: £9.4 million). This trend is expected to continue during the remainder of this and the subsequent financial year.

### *PLC and associated costs ("PLC")*

This segment includes Public Company, central and share scheme expenses and the costs, excluding current and past service costs, associated with the Group's defined benefit pension schemes. The net pre-exceptional costs incurred in the PLC segment have reduced to £3.1 million (2010: £4.4 million) as a result of a credit associated with the Group's defined benefit schemes of £0.8 million (2010: £0.8 million cost). This credit has arisen due to a recovery in assets values of the scheme at 31 March 2011. Volatility in both equity and bond markets is likely to impact on costs within PLC in future financial years.

### *Group Operating Profit*

Group operating profit increased to £30.8 million (2010: £26.4 million). The overall improvement in operating profit of £4.4 million is a result of:

- £1.8 million improvement in Group EBITDA before exceptional items
- £1.2 million increase in costs due to prior year credit for exceptional items and
- £3.8 million reduction in depreciation and amortisation, the majority of which reflects the anticipated reduction in amortisation of intangibles relating to acquisitions.

### *Finance costs*

Finance costs for the period have increased to £3.7 million (2010: £3.2 million) with increased borrowing costs associated with the new finance facility established in November 2010, offsetting reduced costs associated with lower debt levels.

The Group anticipates a reduction in interest costs in the second half of the current financial year due to a change in fixed rate swap arrangements and lower debt.

In order to provide certainty over future interest costs, the Group has entered into new forward start fixed rate arrangements for £60.0 million of debt which commence on maturity of the existing swaps in January 2012. The new swaps have a weighted average rate of 2.7% and mature in July 2015. The Group had entered previously into fixed rate swap arrangements for £80.0 million of debt at a weighted average rate of 5.5%. Therefore the second half of the current financial year will reflect this movement.

### *Taxation*

The taxation charge of £7.4 million (2010: £6.9 million) reflects the ongoing unwind of the deferred tax asset as the Group moves towards a tax payment position. The effective rate of 27.3% (2010: 29.7%) reflects in part a re-measurement of the deferred tax asset balance as a result of the reduction in corporation tax rates from 26% to 25%.

### *Dividend*

The interim dividend is 1.33 pence per share (2010: 1.10 pence). The dividend will be paid on 1 February 2012 to shareholders registered on 16 December 2011.

The level of interim dividend is consistent with the Board's previously stated commitment to dividend growth of a minimum of 10% per annum for this and the subsequent financial year.

### *Pension scheme*

Net liabilities associated with the Group's retirement benefit obligations have reduced to £20.9 million (2010: £45.0 million), but have increased by £14.0 million from £6.9 million at 31 March 2011. The increase from the year end arises as a result of a reduction in the valuation of scheme assets of £8.8 million and an increase in retirement benefit liabilities of £5.2 million.

The increase in liabilities since the year end predominately arises due to a fall in corporate bond yields and the associated discount rate to 5.1% from 5.5% at March 2011.

The reduction in scheme assets since the year end is a result of a general decline in equity market values (approximately 60% of scheme assets are invested in “return-seeking” assets). The Group will continue to explore opportunities with the Trustees of both defined benefit schemes to minimise the impact of volatility in the equity market on scheme assets.

Effective from 1 April 2010, the Group increased its ongoing deficit contributions into both schemes to the next three years to £6.9 million per annum (previously £3.5 million per annum). The Group made also a one-off contribution of £3.3m in the six months to September 2010 into the Kingston Communications Pension Scheme, the Group’s main defined benefit scheme.

#### *Cash flow and net debt*

Net debt has reduced by £6.9 million to £75.1 million from £82.0 million as at 31 March 2011 (2010: £111.8 million).

Net cash inflow from operating activities has increased to £35.3 million (2010: £21.2 million) reflecting the continued strength of the business in the management of receivables and working capital and conversion of earnings into cash. Reduced pension deficit payments of £3.4 million (2010: £6.3 million) mainly reflect the impact of the one-off payment of £3.3 million in the prior period.

Cash outflows associated with the purchase of tangible and intangible assets have increased to £10.9 million (2010: £6.4 million) in line with previous expectations, with the Group continuing to anticipate full year capital investment in the region of £25.0 million.

#### **Forward-looking statements**

Certain statements in this interim statement are forward-looking. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will prove to be correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

We undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

#### **Principal risk & uncertainties**

The list below sets out the principal risks and uncertainties which could have a material adverse effect on the Group and have been identified through the management risk framework:

- Security and resilience of IT, networks and data – we continue to operate networks across the UK and host data for many customers alongside billings platforms and other IT systems internally. This means that we are dependent on the secure operation and resilience of our information systems, networks and data.
- Reliance on key third-party suppliers – our strategic agreements with BT and Phoenix means we are dependent on the performance of these third parties.
- Business continuity – business continuity in the event of a crisis or disaster is a risk we continue to monitor and mitigate against. It is essential to many of our customers that we can continue to provide services even when a significant incident occurs.

The risks outlined above are disclosed in more detail on page 20 of the Annual Report and Accounts to 31 March 2011 and it is the view of the director’s that these risks and uncertainties are valid for this interim statement.

## Consolidated Interim Income Statement

	Note	Unaudited Six months ended 30-Sep 2011 £'000	Unaudited Six months ended 30-Sep 2010 £'000	Audited Year ended 31-Mar 2011 £'000
Revenue	1	197,952	194,804	395,412
Operating expenses		(167,184)	(168,371)	(355,118)
<b>Group operating profit</b>		<b>30,768</b>	26,433	40,294
<b>Analysed as:</b>				
Group EBITDA	1	40,679	38,918	75,963
Exceptional items	2	-	1,250	(8,337)
Depreciation of property, plant and equipment		(8,574)	(9,056)	(18,464)
Amortisation of intangible assets		(1,337)	(4,679)	(8,868)
Finance costs		(3,746)	(3,227)	(7,393)
Share of profit of associates		4	6	11
Profit before taxation	1	27,026	23,212	32,912
Taxation	3	(7,372)	(6,883)	(10,291)
<b>Profit for the period attributable to equity holders</b>		<b>19,654</b>	16,329	22,621
<b>Earnings per share</b>				
Basic	4	3.86	3.21	4.44
Diluted	4	3.72	3.08	4.26

## Consolidated Interim Statement of Comprehensive Income

	Unaudited Six months ended 30-Sep 2011 £'000	Unaudited Six months ended 30-Sep 2010 £'000	Audited Year ended 31 Mar 2011 £'000
<b>Profit for the period</b>	<b>19,654</b>	16,329	22,621
<b>Other comprehensive income</b>			
Cash flow hedge fair value movements	(1,801)	1,535	3,468
Actuarial (losses)/gains on retirement benefit obligation	(18,148)	(2,801)	31,504
Tax on items taken directly to other comprehensive income	4,734	(161)	(10,269)
<b>Total comprehensive income for the period attributable to equity holders</b>	<b>4,439</b>	14,902	47,324

## Consolidated Interim Balance Sheet

		Unaudited As at 30-Sep 2011 £'000	Unaudited As at 30-Sep 2010 £'000	Audited As at 31-Mar 2011 £'000
	Note			
<b>Non-current assets</b>				
Goodwill		85,272	85,272	85,272
Other intangible assets		6,461	7,680	4,659
Property, plant and equipment		114,660	119,212	115,979
Investments		1,058	1,059	1,065
Deferred tax assets		33,974	48,594	35,297
		<b>241,425</b>	<b>261,817</b>	<b>242,272</b>
<b>Current assets</b>				
Inventories		2,736	2,098	2,150
Trade and other receivables		65,226	76,677	70,793
Cash and cash equivalents	6	13,667	13,803	6,535
		<b>81,629</b>	<b>92,578</b>	<b>79,478</b>
<b>Total assets</b>		<b>323,054</b>	<b>354,395</b>	<b>321,750</b>
<b>Current liabilities</b>				
Trade and other payables		(139,868)	(129,609)	(147,843)
Derivative financial instruments		(1,899)	-	(3,703)
<b>Non-current liabilities</b>				
Bank loans	6	(88,239)	(124,604)	(88,004)
Retirement benefit obligations		(20,900)	(45,002)	(6,927)
Derivative financial instruments		(3,606)	(5,636)	-
Long term provisions and other payables		(2,664)	(4,265)	(2,079)
<b>Total liabilities</b>		<b>(257,176)</b>	<b>(309,116)</b>	<b>(248,556)</b>
<b>Net assets</b>		<b>65,878</b>	<b>45,279</b>	<b>73,194</b>
<b>Capital and reserves, attributable to equity holders</b>				
Share capital		51,660	51,660	51,660
Share premium account		353,231	353,231	353,231
Hedging and translation reserve		(4,684)	(4,816)	(2,883)
Retained earnings		(334,329)	(354,796)	(328,814)
<b>Total equity</b>		<b>65,878</b>	<b>45,279</b>	<b>73,194</b>

## Consolidated Interim Statement of Changes in Shareholders' Equity

	Share Capital £'000	Share Premium Account £'000	Hedging and Translation Reserve £'000	Retained Earnings £'000	Total £'000
<b>At 31 March 2010</b>	<b>51,660</b>	<b>353,231</b>	<b>(6,351)</b>	<b>(362,783)</b>	<b>35,757</b>
Profit for the period	-	-	-	16,329	16,329
Decrease in fair value of financial derivative instruments	-	-	1,535	-	1,535
Actuarial losses on defined benefit pension schemes	-	-	-	(2,801)	(2,801)
Tax on actuarial loss on defined benefit pension schemes	-	-	-	253	253
Tax on movement in cashflow hedges	-	-	-	(414)	(414)
<b>Total comprehensive income for the period ended 30 September 2010 (unaudited)</b>	-	-	1,535	13,367	14,902
Employee share schemes	-	-	-	1,077	1,077
Dividends	-	-	-	(6,457)	(6,457)
	-	-	-	(5,380)	(5,380)
<b>At 30 September 2010 (unaudited)</b>	<b>51,660</b>	<b>353,231</b>	<b>(4,816)</b>	<b>(354,796)</b>	<b>45,279</b>
Profit for the period	-	-	-	6,292	6,292
Decrease in fair value of financial derivative instruments	-	-	1,933	-	1,933
Actuarial gains on defined benefit pension schemes	-	-	-	34,305	34,305
Tax on actuarial gains on defined Benefit pension schemes	-	-	-	(9,586)	(9,586)
Tax on movement in cashflow hedges	-	-	-	(522)	(522)
<b>Total comprehensive income for the period ended 31 March 2011</b>	-	-	1,933	30,489	32,422
Tax credit relating to share schemes	-	-	-	226	226
Employee share schemes	-	-	-	950	950
Dividends	-	-	-	(5,683)	(5,683)
	-	-	-	(4,507)	(4,507)
<b>At 31 March 2011</b>	<b>51,660</b>	<b>353,231</b>	<b>(2,883)</b>	<b>(328,814)</b>	<b>73,194</b>
Profit for the period	-	-	-	19,654	19,654
Increase in fair value of financial derivative instruments	-	-	(1,801)	-	(1,801)
Actuarial losses on defined benefit pension schemes	-	-	-	(18,148)	(18,148)
Tax on actuarial loss on defined benefit pension schemes	-	-	-	4,284	4,284
Tax on movement in cashflow hedges	-	-	-	450	450
<b>Total comprehensive income for the period ended 30 September 2011 (unaudited)</b>	-	-	(1,801)	6,240	4,439
Tax credit relating to share schemes	-	-	-	333	333
Purchase of ordinary shares	-	-	-	(151)	(151)
Employee share schemes	-	-	-	978	978
Dividends	-	-	-	(12,915)	(12,915)
	-	-	-	(11,755)	(11,755)
<b>At 30 September 2011 (unaudited)</b>	<b>51,660</b>	<b>353,231</b>	<b>(4,684)</b>	<b>(334,329)</b>	<b>65,878</b>

## Consolidated Interim Cash Flow Statement

	<b>Unaudited Six months Ended 30-Sep 2011 £'000</b>	Unaudited Six months Ended 30-Sep 2010 £'000	Audited Year Ended 31-Mar 2011 £'000
<b>Cash flows from operating activities</b>			
Operating profit	<b>30,768</b>	26,433	40,294
<b>Adjustments for:</b>			
- depreciation and amortisation	<b>9,911</b>	13,735	27,332
- restructuring costs and onerous lease payments	<b>(2,189)</b>	(4,893)	(7,507)
- pension deficit payments	<b>(3,375)</b>	(6,260)	(9,773)
- decrease / (increase) in working capital	<b>196</b>	(8,350)	17,035
Taxation received	<b>-</b>	477	483
Loss on sale of property, plant and equipment	<b>20</b>	100	145
Net cash generated from operations	<b>35,331</b>	21,242	68,009
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	<b>(7,420)</b>	(4,953)	(10,920)
Purchase of intangible assets	<b>(3,472)</b>	(1,479)	(3,028)
Net cash used in investing activities	<b>(10,892)</b>	(6,432)	(13,948)
<b>Cash flows from financing activities</b>			
Dividends paid	<b>(12,915)</b>	(6,457)	(12,140)
Interest paid	<b>(3,764)</b>	(3,170)	(8,574)
Capital element of finance lease repayments	<b>(477)</b>	(270)	(702)
Repayment of bank loans	<b>-</b>	(5,000)	(40,000)
Purchase of ordinary shares	<b>(151)</b>	-	-
Net cash used in financing activities	<b>(17,307)</b>	(14,897)	(61,416)
Increase / (decrease) in cash and cash equivalents	<b>7,132</b>	(87)	(7,355)
Cash and cash equivalents at the beginning of the period	<b>6,535</b>	13,890	13,890
Cash and cash equivalents at the end of the period	<b>13,667</b>	13,803	6,535

## Notes to the unaudited interim financial information

### 1. Segmental Analysis

KCOM Group PLC operates four brands and a PLC function –

The brands are reported as KC & Eclipse, which address the needs of our East Yorkshire customers and UK small business market respectively, and Kcom & Smart421 which serve enterprise and public sector organisations across the UK. These brands have separate management teams and each offers tailored propositions to their target market, based on the Group's range of products and services.

The chief operating decision-maker of the Group is the KCOM Group PLC Board. The Board considers the performance of KC & Eclipse and Kcom & Smart421 in assessing the performance of the Group and making decisions about the allocation of resources. Segment disclosures have been presented on this basis.

	<b>Unaudited</b>	Unaudited	Audited
	<b>Six months ended</b>	Six months ended	Year ended
	<b>30-Sep</b>	30-Sep	31-Mar
	<b>2011</b>	2010	2011
	<b>£'000</b>	£'000	£'000
<b>Revenue</b>			
KC & Eclipse	<b>63,107</b>	62,484	122,893
Kcom & Smart 421	<b>137,720</b>	134,273	276,861
PLC <sup>1</sup>	<b>(2,875)</b>	(1,953)	(4,342)
<b>Total</b>	<b>197,952</b>	194,804	395,412
<b>Group EBITDA</b>			
KC & Eclipse	<b>30,301</b>	30,743	57,862
Kcom & Smart 421	<b>13,431</b>	12,606	25,751
PLC <sup>1</sup>	<b>(3,053)</b>	(4,431)	(7,650)
<b>Total – before exceptional items</b>	<b>40,679</b>	38,918	75,963
Exceptional items:			
KC & Eclipse	-	(235)	(149)
Kcom & Smart 421	-	(1,289)	(10,951)
PLC <sup>1</sup>	-	2,774	2,763
<b>Total exceptional items</b>	<b>-</b>	1,250	(8,337)
<b>EBITDA post exceptional items</b>	<b>40,679</b>	40,168	67,626

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

EBITDA post exceptional items	<b>40,679</b>	40,168	67,626
Depreciation	<b>(8,574)</b>	(9,056)	(18,464)
Amortisation	<b>(1,337)</b>	(4,679)	(8,868)
Finance costs	<b>(3,746)</b>	(3,227)	(7,393)
Share of profit of associates	<b>4</b>	6	11
<b>Profit before tax</b>	<b>27,026</b>	23,212	32,912

<sup>1</sup> 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 unaudited interim financial information continued

1. Segmental Analysis (continued)

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

	<b>Unaudited Six months ended 30-Sep 2011 £'000</b>	Unaudited Six months ended 30-Sep 2010 £'000	Audited Year ended 31-Mar 2011 £'000
<b>Revenue from external customers</b>			
KC & Eclipse	<b>60,031</b>	60,323	118,162
Kcom & Smart 421	<b>137,522</b>	134,079	276,472
PLC <sup>1</sup>	<b>399</b>	402	778
Total	<b>197,952</b>	194,804	395,412
<b>Inter-segment revenue</b>			
KC & Eclipse	<b>3,076</b>	2,161	4,731
Kcom & Smart 421	<b>198</b>	193	389
PLC <sup>1</sup>	<b>(3,274)</b>	(2,354)	(5,120)
Total	<b>-</b>	-	-
	<b>197,952</b>	194,804	395,412

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

<sup>1</sup> 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 unaudited interim financial information continued

### 2. Exceptional items

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

	<b>Unaudited</b>	Unaudited	Audited
	<b>Six months ended</b>	Six months ended	Year ended
	<b>30-Sep</b>	30-Sep	31-Mar
	<b>2011</b>	2010	2011
	<b>£'000</b>	£'000	£'000
Exceptional items:			
- Loss on Network Build	-	-	7,088
- Restructuring costs relating to employees	-	1,700	4,199
- Pension curtailment gain	-	(2,950)	(2,950)
(Credited)/Charged to operating profit	-	(1,250)	8,337

Restructuring costs arose in the year ended 31 March 2011 as a result of organisational changes.

The pension curtailment gain arose in the year ended 31 March 2011 on the closure of the Group's two defined benefit schemes to future accrual.

The loss on Network Build in the year ended 31 March 2011 related to the forecast loss arising on the build stage of a contract to build and manage a broadband network on behalf of a third party provider. The remaining build phase of this contract is envisaged to be completed in the second half of the year after which we will have a profitable ten year managed service contract. The forecast loss on the build phase remains consistent with the estimate made at 31 March 2011.

### 3. Taxation

The taxation charge on activities is set out below:

	<b>Unaudited</b>	Unaudited	Audited
	<b>Six months ended</b>	Six months ended	Year ended
	<b>30-Sep</b>	30-Sep	31-Mar
	<b>2011</b>	2010	2011
	<b>£'000</b>	£'000	£'000
Corporation tax	<b>(983)</b>	477	484
Deferred tax	<b>(6,389)</b>	(7,360)	(10,775)
Group total	<b>(7,372)</b>	(6,883)	(10,291)

There are deferred tax assets of £1.3 million (2010: £1.3 million) which have not been recognised, as there is insufficient evidence as to the generation of suitable profits against which these assets can be offset.

Notes to the unaudited interim financial information continued

4. Earnings per share

	Unaudited Six months ended 30-Sep 2011 No.	Unaudited Six months ended 30-Sep 2010 No.	Audited Year ended 31-Mar 2011 No.
<b>Weighted average number of shares</b>			
For basic earnings per share	509,574,390	508,752,851	509,452,227
Share options in issue	19,388,758	22,262,652	21,238,004
For diluted earnings per share	528,963,148	531,015,503	530,690,231
<b>Earnings</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Profit attributable to equity holders of the company	19,654	16,329	22,621
<b>Adjustments:</b>			
Exceptional items	-	(1,250)	8,337
Tax on exceptional items	-	350	(2,334)
<b>Adjusted profit attributable to equity holders of the company</b>	<b>19,654</b>	<b>15,429</b>	<b>28,624</b>

Earnings per share

	pence	pence	pence
Basic	3.86	3.21	4.44
Diluted	3.72	3.08	4.26
Adjusted basic	3.86	3.03	5.62
Adjusted diluted	3.72	2.91	5.39

5. Dividends

	Unaudited Six months ended 30-Sep 2011 £'000	Unaudited Six months ended 30-Sep 2010 £'000	Audited Year ended 31-Mar 2011 £'000
Final dividend for the year ended 31 March 2010 of 1.25 pence per share	-	6,457	6,457
Interim dividend for the year ended 31 March 2011 of 1.1 pence per share	-	-	5,683
Final dividend for the year ended 31 March 2011 of 2.5 pence per share	12,915	-	-
<b>Total</b>	<b>12,915</b>	<b>6,457</b>	<b>12,140</b>

The proposed interim dividend for the six months ended 30 September 2011 is 1.33 pence per share. In accordance with IAS 10, "Events after the balance sheet date", dividends declared after the balance sheet date are not recognised as a liability in this set of interim financial information.

Notes to the unaudited interim financial information continued

6. Movement in net debt

	Unaudited Six months ended	Unaudited Six months ended	Audited Year ended
	30-Sep 2011	30-Sep 2010	31 March 2011
	£'000	£'000	£'000
Opening net debt	81,997	116,796	116,796
Closing net debt	75,067	111,791	81,997
Reduction in the period	6,930	5,005	34,799

Reconciliation of movement in the year

Net cashflow from operations	35,331	21,242	68,009
Capital expenditure	(10,892)	(6,432)	(13,948)
Interest	(3,764)	(3,170)	(8,574)
Dividends	(12,915)	(6,457)	(12,140)
Other	(830)	(178)	1,452
Reduction in the period	6,930	5,005	34,799

Net debt comprises:

	Unaudited Six months ended	Unaudited Six months ended	Audited Year ended
	30-Sep 2011	30-Sep 2010	31 March 2011
	£'000	£'000	£'000
Cash and cash equivalents	(13,667)	(13,803)	(6,535)
Borrowings	88,239	124,604	88,004
Finance leases	495	990	528
Total net debt	75,067	111,791	81,997

**Notes to the unaudited interim financial information** continued

## **7. Basis of preparation and publication of unaudited interim results**

### **General information**

KCOM Group PLC is a company domiciled in the United Kingdom.

The Group has its primary listing on the London Stock Exchange. Details of the principal activities of the Group are disclosed on pages 2 to 5 and in the Business review in the Group's 2011 Annual Report and Accounts.

This condensed consolidated interim financial information was approved for issue on 22 November 2011.

This condensed consolidated interim financial information does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2011 were approved by the Board of directors on 8 June 2011 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

The condensed consolidated interim financial information has been reviewed, not audited. The review opinion is disclosed on page 17.

This condensed consolidated interim financial information will be published on the Company's website. The maintenance and integrity of the website is the responsibility of the directors. The work carried out by the auditors does not involve consideration of these matters. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### **Basis of preparation**

This condensed consolidated interim financial information for the six months ended 30 September 2011 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34, 'Interim financial reporting' as adopted by the European Union. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 March 2011, which have been prepared in accordance with IFRSs as adopted by the European Union.

### **Going-concern basis**

The Group meets its day-to-day working capital requirements through its bank facilities. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities. After making enquires, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated interim financial statements.

## **8. Accounting policies**

The accounting policies adopted are consistent with those published in the Group's 2011 Annual Report and Accounts, except as described below.

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

## **9. Estimates**

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group's 2011 Annual Report and Accounts, with the exception of changes in estimates that are required in determining the provision for income taxes (see Note 8).

## **10. Related party transactions**

There are no material related party transactions.

**Notes to the unaudited interim financial information** continued

**11. Statement of directors' responsibilities**

The directors confirm that this consolidated interim financial information has been prepared in accordance with IAS 34 as adopted by the European Union, and that the interim management report herein includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months and any material changes in the related-party transactions described in the Group's 2011 Annual Report and Accounts.

The directors of KCOM Group PLC are listed in the KCOM Group Annual Report for 31 March 2011

Signed by Order of the Board on 22 November 2011 by:

## **Independent review report to KCOM Group plc**

### **Introduction**

We have been engaged by the company to review the condensed set of financial statements in the interim financial report for the six months ended 30 September 2011, which comprises the consolidated interim income statement, the consolidated interim statement of comprehensive income, the consolidated interim balance sheet, the consolidated interim statement of changes in shareholders' equity, the consolidated interim cash flow statement and related notes. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

### **Directors' responsibilities**

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

As disclosed in note 7, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this interim financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

### **Our responsibility**

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the interim financial report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, 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.

### **Scope of review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the six months ended 30 September 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

PricewaterhouseCoopers LLP  
Chartered Accountants  
Leeds  
22 November 2011