

Remuneration report

This report is presented in the following sections:

- * letter from the Chairman of the Remuneration Committee;
- * the role of the Remuneration Committee;
- * executive remuneration at a glance:
 - high-level information accompanied by a synopsis of key information;
- * remuneration explained:
 - our approach to remuneration, key building blocks, current year performance and expected future changes; and
- * audited information.



by Graham Holden
Chairman, Remuneration Committee

Letter from the Chairman of the Remuneration Committee

Dear shareholder

The Committee has reviewed the performance of the Executive Directors against 2010/11 targets and objectives. The Committee has reviewed also the market positioning, appropriateness and effectiveness of the Executive reward arrangements, in order to determine whether or not changes are needed for the following year. Accordingly the Committee has set similarly appropriate measures and reward structures for 2011/12. The outcomes from this review are summarised in this report.

Last year we noted that 2009/10 was the first full year of an agreed two year restructuring and transformation plan and in that year, the Company had performed strongly against its financial and operational targets and objectives, at the same time as completing a number of significant transformational milestones. Having completed the second year of the plan successfully and achieved the objective of creating a strong, resilient base from which to grow, the focus of the Group over the next five years is on delivering profitable growth and increased shareholder returns. Nevertheless, for 2010/11, though performance was ahead of market expectations in many respects, the Group's internal targets for bonus purposes were set at very challenging levels and were not achieved, so no bonus accrued for the Executive Directors.

As agreed last year:

- * we are maintaining our constraint on Executive Directors' base pay and the emphasis on variable performance related pay;
- * having introduced the Executive Incentive Plan (EIP) in 2009, which is a three year plan, there is no intention to make any further awards under any other long-term incentive to any EIP participant within three years of the EIP Award; and
- * likewise, having reduced the amount of on-target bonus and increased the stretch element of the bonus package on 1 April 2009 in light of the introduction of the EIP, we do not intend to make any changes to those arrangements in 2011/12.

Following our review and given that we had frozen base pay levels for two years since 2008/09; we have decided to approve a 3% inflation-linked increase to the base pay of the Executive Directors based on benchmarking data that demonstrated an average award of 3.1% for Executive Directors in 2010/11 and a forecast range of 2%–4% for the forthcoming year.

In undertaking our review we considered the general reward arrangements for the Company as a whole against those of our competitors and other relevant market comparators. We considered then our requirements to retain and motivate talented employees before making any decision. We believe that both Executives and other employees must be aligned with and motivated by the Company's success so that they continue to work together as a productive team.

As part of an effectiveness review for the entire Board, an evaluation of the Remuneration Committee was also undertaken. We are pleased to report this review concluded that the Committee has operated effectively.

This forthcoming year we are planning also to undertake a full review of remuneration in general.

Graham Holden
Chairman, Remuneration Committee
8 June 2011

Remuneration report continued

The role of the Remuneration Committee

The membership and attendance at Committee meetings is shown on page 32. The Committee is responsible for:

- ✳ determining and agreeing the remuneration policy for the Executive Chairman, the Executive Directors and senior executives across the Group, taking into account relevant legal and regulatory requirements, the provisions and recommendations of the UK Corporate Governance Code and associated guidance and the need to reward individuals fairly and responsibly for their individual contributions to the success of the Company;
- ✳ 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 Company 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 executive; and
- ✳ ensuring that contractual terms on termination, and any payments made, are fair to the individual and the Company, 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 ICSA 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 Committee regularly consults with the Executive Chairman and the Group HR Director, although neither are present when their own reward is under discussion. The Committee received advice over the year on all aspects of remuneration including both specific and general market trends and data from independent remuneration consultants Kepler Associates, who were appointed in February 2008 and provide no other services to the Company.

Executive remuneration at a glance

The KCOM Group reward package has a number of elements. Base salaries and benefits for all employees are determined with reference to the Company's reward principles and through benchmarking against relevant comparators. In order to align an individual's reward to the long-term success of the Company's performance, other components – annual bonuses and long-term incentives – are linked to the Company's strategy and determined by the levels of performance achieved against key targets.

The Committee reviews the remuneration structure annually to ensure that it remains aligned with business needs and is appropriately positioned relative to the market, to ensure that it retains and motivates talented employees. We use target performance to estimate the total potential reward and benchmark our reward package against those of KCOM Group's competitors. The Committee also reviews pay and employment conditions across the Group when determining Executive Directors' and senior executives' remuneration each year.

What are the principles of our remuneration policy?

Our remuneration policy aims to be:

- ✳ **competitively geared:** median salaries plus median bonuses and above median long-term incentives provide an opportunity for highly geared and competitive total reward for superior performance.
- ✳ **performance linked:** a significant part of Executive Directors' reward is determined by the Company's success. Failure to achieve threshold levels of performance results in no payout under short or long-term incentives.
- ✳ **shareholder aligned:** a considerable part of the reward is related to the measurement of a shareholder return measure.
- ✳ **simple and transparent:** all aspects of the remuneration structure are clear to employees and openly communicated. This supports our aim of engendering fairness and teamwork across the organisation.
- ✳ **aligned to the business:** the Committee designs the remuneration policy to ensure that it does not encourage unnecessary risk taking or irresponsible behaviour, but is aligned to the strategic objectives of the business, including maintaining an appropriate risk profile for the Company and ensuring the long-term success of the Company.

Annual bonus scheme

The majority of employees have the opportunity to earn an annual cash bonus. With effect from 1 April 2009 the award of the bonus was dependent upon achievement of Group financial performance targets with the level of benefit calculated at the end of the period. All employees are now bonused on the same Group targets apart from those employed by Smart421. The Executive Chairman, with input from the Chief Financial Officer, recommends the percentage earned by senior executives against their financial targets. These recommendations are considered by the Remuneration Committee. The targets are also monitored at various intervals during the performance period and the final calculation is thoroughly checked by both the Remuneration and Audit Committees. With effect from 1 April 2011 bonuses are payable annually, following publication of the Company's full year results. We believe the timing of payments emphasises the link between the Company's results and an individual's reward.

It is the Company's policy that bonuses and other incentives are not pensionable. At the start of 2010, we commenced a Group-wide consultation which proposed to close all current Group pension schemes to future accrual and to introduce a Group-wide Stakeholder Plan with harmonised terms. Following the completion of the consultation exercise all employees who wished to be in a pension scheme became members of the Group-wide Stakeholder Plan with effect from 1 October 2010 and all employees across the Group are now pensioned on basic salary.

Executive remuneration at a glance continued**What are the components of reward?**

Fixed	Base salary	Available to all KCOM Group employees
	Benefits including pensions	
Variable	Annual bonus	Available to all KCOM Group employees apart from those eligible for commission
	Equity-based long-term incentives	Available to senior executives and Executive Directors only

How has the Executive Director reward structure changed year on year?

Components	2009/10 reward	2010/11 reward	2011/12 reward
Base salary	Held at 2008/09 levels	Held at 2008/09 levels	3% Inflation linked award
Annual bonus	Maximum potential on-target performance earns 50% of salary	Maximum potential on-target performance earns 50% of salary	Maximum potential on-target performance earns 50% of salary
	Performance criteria based upon Group targets	Performance criteria based upon Group targets	Performance criteria based upon Group targets
	Above target "stretch" opportunity of 50% of salary	Above target "stretch" opportunity of 50% of salary	Above target "stretch" opportunity of 50% of salary
	Performance criteria based upon Group targets	Performance criteria based upon Group targets	Performance criteria based upon Group targets
Long-term incentive	Continued participation in the EIP	Continued participation in the EIP	Continued participation in the EIP

How do the elements of variable reward align with KCOM Group's strategy?

Variable component	Key elements of strategy	Measured by	Performance target	Percentage of maximum achieved
Bonus	Sustainability of performance	Reduction in Group debt	1.5x EBITDA	Nil
	Operational excellence	Growth in Group EBITDA	Significant and stretching improvement year on year	
Long-term incentive	Shareholder value	Growth in share price + dividend	£1.00	40% of total reward

What past awards have vested in 2010/2011?

One long-term incentive award scheme expired in June 2011: the Long-Term Performance Plan (LTPP) 2008. No Executive Director was a member of this scheme. Please see page 44 for further details of the schemes.

Remuneration explained**How are the rewards structured?****Assessing what is "competitive"**

The peer group companies are noted on page 40; this is the main group against which we monitor whether our rewards for Executive Directors and senior executives are competitive relative to our performance and it includes those that we use for monitoring the Company's business performance. We also look at reward arrangements in other types of telecoms and technology-based companies, as these are potential competitors for talent. For completeness, we also examine market reward data for UK industrial companies of a similar market capitalisation to the Group to help ensure we do not inadvertently lose talent by falling behind the broader marketplace.

The total number of companies in the peer group including the KCOM Group is 21. For more information, see page 40.

Balancing short and long-term remuneration

Based on our view of current market practice, and the principles of our remuneration policy, we have established the remuneration structure set out in the table on the next page. Fixed annual elements (including salary, pension and benefits) are to recognise the status of our Executive Directors and senior executives and to enable them to undertake current and future lifestyle planning. The short and long-term incentives are to motivate and reward Executive Directors and senior executives for delivering strong and sustainable performance to the Group's shareholders. The long-term incentive arrangement with its Total Shareholder Return linkage ensures that there is good alignment between shareholders, Executive Directors and senior executives.

In previous years the Executive Directors participated in and contributed to the Long-Term Co-Investment Plan (LTCIP). Contributions to this scheme ceased in 2009/10 following several of the Company's largest shareholders expressing a preference for a scheme which would reinforce the delivery of stretching Total Shareholder Return targets.

Remuneration report continued

Remuneration explained continued

Key elements of Executive Director short and long-term remuneration

Element	Objective	Market positioning	How much?	Conditions
Base salary	To recognise status and responsibility	Median	Historically increased only with increased responsibility	None
Benefits	To provide lifestyle benefits that are market competitive	Median	Cost of life assurance, income protection, car or cash allowance, fully expensed fuel card, medical insurance and medical screening	None
Annual bonus	To reinforce the achievement of stretching Company objectives	Market median for delivering objectives	Target 50% of salary maximum 100%	Achievement of Group EBITDA targets and Group revenue targets
Pension	To provide funding for retirement	Median	Cost of employer pension contribution at 20%	None
Long-term incentive – EIP	To augment shareholder alignment, ensure direct link between reward and superior shareholder returns	Above median	2009 grant of 22 million shares split: one-third Executive Chairman one-third Executive Directors one-third senior executives	Vesting of 10% at a TSR of 45p with straight-line proportionate vesting to a maximum of £1

Linking reward to Company performance

The Company's remuneration strategy is to align rewards closely with sustainable shareholder value creation. This is achieved by incentivising and motivating the delivery against targets, designed to create financial stability, resilience and growth in specific shareholder return measures. Having created strong financial underpinning through 2009/10, the emphasis on growth measures will increase, as part of the mix, but always with core fundamentals as the priority.

All Executive Directors' bonus payments are linked to performance against financial targets and the delivery of future growth. With effect from 1 April 2011 the financial targets were changed and whilst we continue to use growth in Group EBITDA as a measure of sustainable operational excellence we replaced our net debt to EBITDA target with growth in Group revenue.

How did our performance drive Executive Director reward in 2010/11?

2010/11 saw continued challenges in the market. Despite those sustained pressures, the business saw improvements in operating margins, profitability and cash generation with a substantial reduction in overall indebtedness. The EIP will deliver value for improvement in shareholder value.

Performance highlight

KCOM Group	Substantial net debt and pension liability reduction Significant improvement in Group profitability measure Investment to drive improved profitability Increase in dividend with medium-term growth commitment
KC and Eclipse	Continued and substantial business profitability performance and growth
Kcom and Smart421	Contract wins alongside growth in profitability

What did Executive Directors receive in 2010/11?

	Base salary £'000	Benefits excluding pensions £'000	Pension £'000	Compensation for loss of office £'000	Annual bonus		Actual £'000	Total £'000
					Maximum potential on target £'000	Above target "stretch" maximum £'000		
Current Directors								
Bill Halbert	375	16	85 ¹	—	188	375	—	476
Paul Simpson	252 ²	16	56	—	124	248	—	324
Kevin Walsh	235	23	53	—	118	235	—	311
Previous Director								
Paul Renucci	188	16	42	330 ³	59	188	—	576

1. Elected not to be a member of the Company pension scheme. Instead receives cash.

2. Base salary includes allowance for dual responsibilities.

3. Contractual entitlement paid for the notice period and "Good Leaver" status granted.

Remuneration explained continued

Long-term incentives in which the Executive Directors participate

The Executive Directors participate in two share schemes: the EIP and the LTCIP. The EIP was introduced in 2009 and replaced the LTCIP as the Company's main long-term incentive following extensive consultation with shareholders. The Company also operates other share schemes which are available either to all employees or to specific groups of employees (including the Executive Directors) at the discretion of the Committee. Any share schemes with no Executive Director participation are covered in more detail on page 44.

Executive Incentive Plan

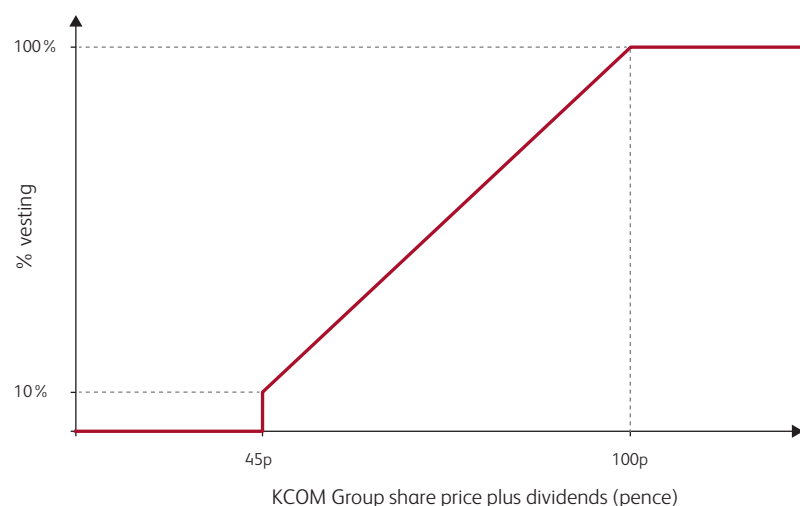
The EIP was introduced in 2009 following an extensive consultation with shareholders who expressed a preference for a scheme which would reinforce the delivery of stretching Total Shareholder Return (TSR) targets. A participant is granted a conditional right to a number of ordinary shares in the Company which vest after three years to the extent that the associated performance condition is met.

EIP awards vest according to a performance condition based on the Company's TSR (i.e. share price plus dividends paid (TSR)) measured over any three months during the three year performance period, as follows:

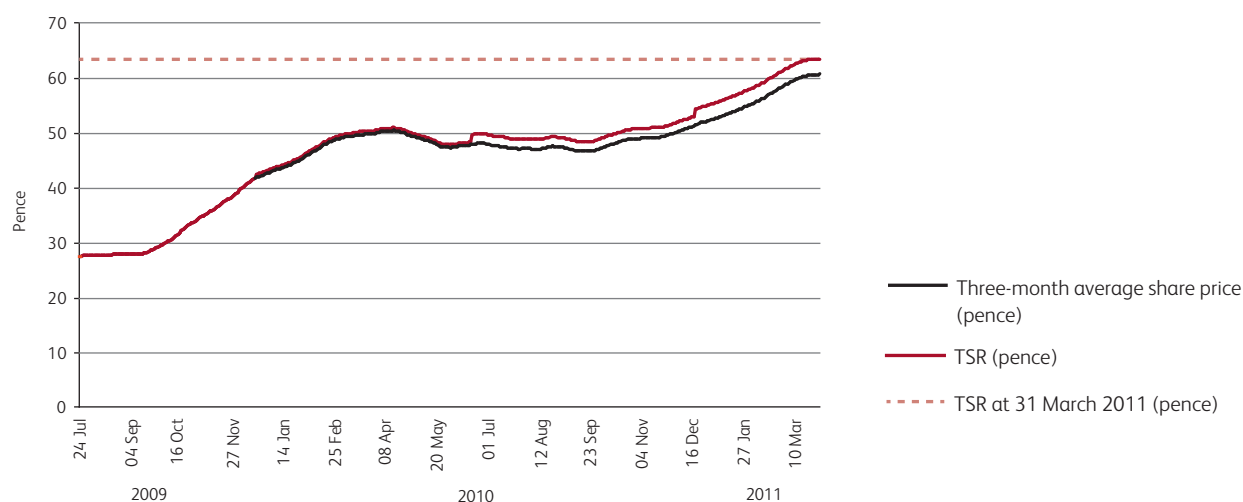
EIP awards vest at 10% of the maximum award for a TSR of 45 pence and vests in full for a TSR of 100 pence, with straight-line vesting between 45 pence and 100 pence. The total maximum number of shares under the EIP which will vest on the achievement of a TSR of 100 pence is limited to 19.4 million shares as at 31 March 2011 (2010: 22 million shares). For the majority of participants, vested shares are released 50% after three years and 25% equally after four and five years; vested shares held by the Executive Chairman are released in full after three years to ensure better alignment with his expected tenure in this role. Dividends are accrued on vested shares.

Vesting is also subject to the Committee being satisfied that there has been a demonstrable and sustainable improvement in the Company's financial and non-financial performance over the performance period.

EIP vesting schedule



EIP three-month average share price and TSR to 31 March 2011



Remuneration report continued

Remuneration explained continued

Long-term incentives in which the Executive Directors participate continued

During the year ended 31 March 2011, a TSR of 63.45 pence was achieved. This current performance would, subject to the Committee's final discretion, result in a total 7.8 million shares vesting (40% of the maximum number of shares), as detailed in the table below, the balance being shared by the remaining senior executive participants.

	EIP grant holding		Potential vesting as at 31 March 2011
	Date of grant	Award	
Current Directors			
Bill Halbert	24 July 2009	7,480,000	2,992,000
Paul Simpson	24 July 2009	2,420,000	968,000
Kevin Walsh	24 July 2009	2,420,000	968,000
Previous Director			
Paul Renucci	24 July 2009	1,028,289	411,316

Long-Term Co-Investment Plan (LTCIP)

The LTCIP was established in 2007 and was replaced by the EIP as the Company's main long-term incentive scheme in 2009. Participation in the LTCIP was restricted to the Executive Directors and required an Executive Director to purchase and hold KCOM Group shares for up to five years (either by transferring existing shares or through new share purchases). Purchased shares ("investment shares") must be held in the plan for a minimum of three years, and dependent upon meeting the performance criteria, up to 6.66 matching shares are awarded for each investment share. Transferred-in shares ("investment shares") must be held in the plan for a minimum of three years, and dependent upon meeting the performance criteria, up to four matching shares are awarded for each investment share. The value of investment shares is limited to 150% of maximum bonus entitlement per year (scaled back in years four and five to 100% and 75% respectively). The plan is subject to the usual ABI dilution limits, as well as a limit of the value of awards at 2.5% of the market value of the Company. Following the introduction of the EIP, no further investment into the LTCIP was allowed from 1 September 2009, thus concluding the LTCIP investment opportunity three years earlier than had been planned at its introduction.

The LTCIP performance condition has three elements:

1. Earnings per share (EPS) underpin

EPS growth (as defined in the scheme rules) must equal or exceed the growth in RPI over the relevant performance period.

2. TSR

Upon achievement of the EPS underpin matching shares ("co-investment shares") may vest depending upon the comparative TSR performance of the Company against its comparator group. TSR is calculated by comparing the average share price over the three-month period prior to the start of the scheme (1 September 2007) with the final average share price over the three-month period prior to the end of the relevant performance period and adding back dividends.

Vesting is calculated as follows:

KCOM Group TSR rank	Number of matching shares that vest per transferred-in share	Number of matching shares that vest per share purchased
Below median	Nil	Nil
At median	1	1.6666
Between median and upper quartile	Between 1 and 3 on a straight-line basis	Between 1.6666 and 5 on a straight-line basis
Upper quartile and above	3	5

The Remuneration Committee agreed on 26 March 2010 to adopt a revised comparator group of companies due to prior consolidation in the market and the likelihood of further consolidation. JP Morgan Cazenove's report demonstrated that the participants in the LTCIP would be neither advantaged or disadvantaged by the amendments. The revised comparator group is as follows:

Anite Group	Dimension Data	Timeweave	XChanging
Pace	Spirent Communications	Cable and Wireless Worldwide	Micro Focus
Cable and Wireless Communications	Logica	BT Group	Phoenix IT
Colt Telecom	Morse	Telecom Plus	RM
Computacenter	Telecity Group	Qinetiq Group	Tribal Group

3. Actual growth in share price

If the Company achieves share price growth of 25% compound per annum over the relevant performance period then a further matching share may vest for each investment share in the following ratio.

Additional matching share awarded per share transferred-in	Additional matching share per share purchased
1	1.6666

Remuneration explained continued**Long-term incentives in which the Executive Directors participate** continued**First performance measurement period**

There are three performance periods for TSR and absolute share price growth, all starting from the adoption date of the plan, 1 September 2007, and ending consecutively on 31 August 2010, 2011 and 2012.

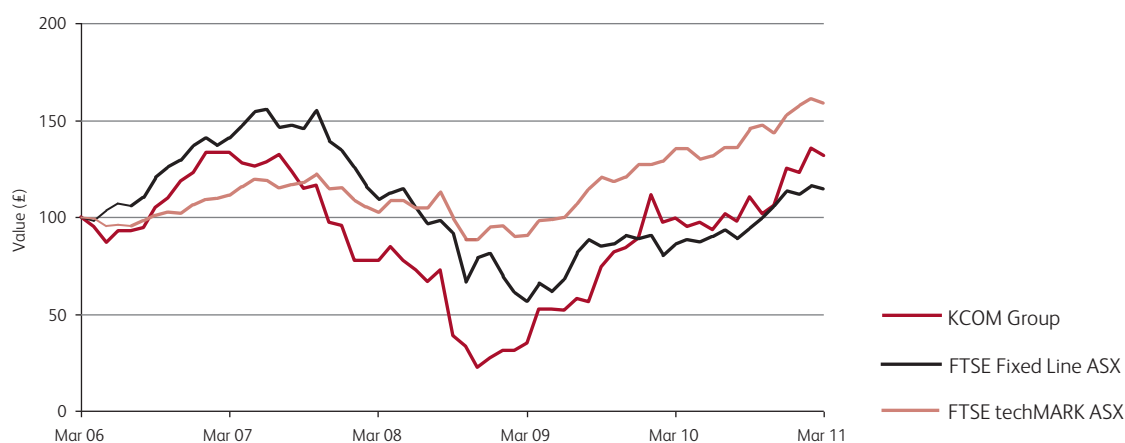
At the end of the first performance, whilst TSR performance was at the median, the Remuneration Committee determined that the EPS underpin had not been met and therefore no matching shares vested.

Performance graph

The following graph shows, for the financial year ended 31 March 2011 and for each of the previous four financial years, the TSR on a holding of the Company's ordinary shares compared with a hypothetical holding of shares in the FTSE Fixed Line Telecommunications Services Sector Index and the FTSE techMARK Sector Index. 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.

TSR performance since 1 April 2005 – KCOM Group vs. FTSE Fixed Line Telecommunications Services Index and FTSE techMARK

Value of £100 invested on 1 April 2005

**General**

- ✱ Unvested EIP awards, LTCIP awards and share option awards are forfeited if an Executive Director or senior executive resigns from employment or is terminated for cause. Awards continue on a pro-rata basis (though still subject to the performance condition) if an Executive Director or senior executive leaves for reasons of retirement, ill health or "Good Leaver" status is granted at the Remuneration Committee's absolute discretion.
- ✱ If control of the Company changes, EIP shares will vest pro-rata based on the proportion of the vesting period elapsed to the change of control, and be also subject to the Group's TSR performance achieved up to the time of the event.

Keeping Directors' and shareholders' interests aligned**Minimum shareholding**

The interests of the Executive Directors are closely aligned with those of shareholders through linking the vesting of EIP shares to TSR. Furthermore, the LTCIP encouraged Executive Directors to purchase and hold KCOM Group shares as a prerequisite for the potential to earn a matching award, which in addition is itself contingent predominately on the Company's relative TSR.

Share dilution and headroom

We adhere to both the latest ABI guidelines and our own share scheme rules in limiting the level of share dilution. The issue of shares to satisfy discretionary share schemes will not exceed 5% of the Company's issued ordinary share capital in any rolling ten year period. Additionally, the issue of shares to satisfy all the Company's employee share schemes will not exceed 10% of the Company's issued ordinary share capital in any rolling ten year period.

The Committee regularly reviews the current dilution level, available headroom and general trends.

Non-executive Directors

Non-executive Directors do not participate in any of the Company's incentive or benefit plans. Their fees are reviewed every year against those for companies of similar scale and complexity to the KCOM Group and their fees are set by the Board as a whole.

Fees were reviewed at the end of the 2010/11 financial year and an increase of £2,000 was agreed in order to bring the fees in line with the market median.

Outside appointments

We believe that where Board members hold directorships in other companies the Company can benefit from their experience. As a result, and subject to the Board's prior approval, Executive Directors may take on more than one external non-executive directorship and retain the fees earned. In 2010/11, Bill Halbert received no direct remuneration for his external non-executive positions.

Remuneration report continued

Remuneration explained continued

Other senior executives

In addition to the contribution made by the Executive Directors, the Committee recognises that other senior executives also have a direct and significant influence on the ability of the Company to achieve its goals. Consequently, in addition to setting the reward packages for Directors, the Committee also reviews the packages for those senior employees to:

- ✳ ensure that market-competitive reward packages are being made; and
- ✳ review the relativity of reward packages to both the Board and the rest of the employees.

The Committee is satisfied that an appropriate reward structure exists below Board level to motivate and retain our top talent.

Directors' Service Agreements

Service Agreements for Executive Directors have a maximum notice period of twelve months apart from the Executive Chairman, whose notice period is six months. The notice period for Non-executive Directors is six months. All Non-executive Directors are appointed for an initial period of three years. They are subject to re-appointment every three years and annually after nine years.

The Executive Directors' Service Agreements allow for payment in lieu of notice (twelve months) in the event of loss of office. During 2010/11 a review was undertaken of the Executive Directors' Service Agreements and the payment in lieu of notice clause was amended in line with recommended good practice to specifically give the Company the express ability to pay in lieu of notice or to pay in instalments. No payment in lieu of notice is payable by the Company if an Executive Director is dismissed for serious breach of contract, serious misconduct or for serious underperformance or acts that bring the Executive Director or Company into serious disrepute.

The Non-executive Directors' Contract for services does not include any compensation for loss of office.

The Executive Directors' Service Agreements were amended during 2010/11 to include the provision that permits the Company to reclaim variable components in the exceptional circumstance of misstatement.

	Date of Board appointment	Notice period (months)	Years since re-election
Executive Directors			
Paul Simpson	24/05/2004	12	1
Kevin Walsh	24/05/2004	12	2
Bill Halbert	01/09/2006	6	2 ¹
Non-executive Directors			
Graham Holden	27/11/2007	6	3 ¹
Tony Illsey	02/06/2009	6	2
Martin Towers	02/06/2009	6	2

1. Bill Halbert and Graham Holden are standing for re-election at the AGM on 22 July 2011.

Audited information

In this section we have included the information that is required by statute or recommended by best practice guidelines and not disclosed elsewhere in the Remuneration report. The information that is required to be audited is specifically labelled as audited information. We consider that we have complied with the disclosure recommendations.

Directors' emoluments

	Salaries/fees £'000	Taxable benefits £'000	Bonuses £'000	Compensation for loss of office £'000	Total 2010/11 £'000	Total 2009/10 £'000
Current Directors						
Bill Halbert	375	16	—	—	391	523
Paul Simpson	252	16	—	—	268	367
Kevin Walsh	235	23	—	—	258	347
Graham Holden	45	—	—	—	45	45
Tony Illsley	50	—	—	—	50	41
Martin Towers	45	—	—	—	45	37
Total	1,002	55	—	—	1,057	1,360
Previous Directors						
Paul Renucci	188	16	—	330	534	335
Michael Abrahams	—	—	—	—	—	44
Neil Gower	—	—	—	—	—	438
Total	1,190	71	—	330	1,591	2,177

Audited information continued

Pensions

	2010/2011 Company contributions £'000	2009/2010 Company contributions £'000
Directors' pensions		
Executive Directors		
Bill Halbert	85 ¹	82 ¹
Paul Simpson	56	46
Kevin Walsh	53	44
Previous Director		
Paul Renucci	42	42

1. Bill Halbert has elected not to be a member of any of the Company pension schemes and, accordingly, the Company made no contributions on his behalf. Instead, he received cash payments totalling £84,600 (2010: £81,780). This was in addition to the salaries and fees included in the table on page 38.

Directors' interests

The table below sets out the interests of Directors (as listed on pages 28 and 29) and their families in the Company's shares at 31 March 2011, other than with respect to options to acquire ordinary shares which are detailed separately. All of the interests held by Directors and their families are beneficial.

	At March 2011 ordinary shares	At March 2010 ordinary shares
Executive Directors		
Bill Halbert	Nil	Nil
Kevin Walsh	712,827 ¹	677,697 ¹
Paul Simpson	470,650 ¹	445,402 ¹
Non-executive Directors		
Graham Holden	50,000	50,000
Tony Illsley	Nil	Nil
Martin Towers	50,000 ²	50,000 ²

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

2. Purchased via a self invested pension plan.

The only change that has taken place since the end of the year is where the Executive Directors participate in the Share Incentive Plan (SIP), for which we make monthly announcements as required under Section 5.6.1 of the Disclosure and Transparency Rules. This has resulted in the following additional shares being held:

	SIP holdings
Executive Directors	
Paul Simpson	724
Kevin Walsh	724

Executive Directors' interest in share options

Details of Executive Directors' share options as at 31 March 2011 are summarised below.

Paul Simpson: Approved Scheme

Held at 1 April 2010	Exercised in period	Granted in period	Lapsed in period	Held at 31 March 2011	Option price
15,000	—	—	—	15,000	82.5p
Market price at date grant	Date of grant	Vesting date	Lapse date	Quantity unexpired	Performance conditions
82.5p	20/08/2001	20/08/2004	19/08/2011	15,000	100 Tech

None of the other Executive Directors, including Paul Renucci, held share options at the beginning of the year and have not been granted further options during the year.

Remuneration report continued

Audited information continued

Share awards under long-term incentive plans held at 31 March 2011

Scheme and Directors	Total number of shares held at 1 April 2010	Lapsed in year	Total number of shares held at 1 April 2011	Normal vesting dates	Share price on grant
Bill Halbert					
EIP	7,480,000	—	7,480,000	24/07/2011 – 24/07/2012	28.25p
Paul Simpson					
EIP ¹	2,420,000	—	2,420,000	24/07/2012 – 24/07/2014	28.25p
LTCIP – TSR ²	1,619,303	—	1,619,303	01/09/2010 – 01/09/2012	40.86p
LTCIP – growth in share price ²	539,768	—	539,768	01/09/2010 – 01/09/2012	40.86p
Kevin Walsh					
EIP ¹	2,420,000	—	2,420,000	24/07/2012 – 24/07/2014	28.25p
LTCIP – TSR ²	2,460,519	—	2,460,519	01/09/2010 – 01/09/2012	40.86p
LTCIP – growth in share price ²	820,173	—	820,173	01/09/2010 – 01/09/2012	40.86p
Paul Renucci³					
EIP ¹	2,420,000	(1,391,711)	1,028,289	24/07/2012 – 24/07/2014	28.25p
LTCIP – TSR ²	1,510,407	—	1,510,407	01/09/2010 – 01/09/2012	40.86p
LTCIP – growth in share price ²	503,469	—	503,469	01/09/2010 – 01/09/2012	40.86p

1. Vested shares are released in three tranches: 50% after three years, and 25% equally after four and five years.

2. LTCIP price on grant is an average price based on the share price at the date when investment shares are entered into the plan and potential share awards are granted.

3. Allowed to remain in the scheme under the "Good Leaver" terms subject to the underlying performance conditions of the scheme rules.

MyShare – Share Incentive Plan (SIP)

The SIP was introduced in 2003 and was fundamentally redesigned in 2007 in an effort to embed a culture of share ownership throughout the Company. We offered 200 free shares to each eligible employee during 2007. The scheme is open to all employees and offers free, dividend, partnership and matching shares. Matching shares are offered on a sliding scale of between 2:1 for contributions of £20 per month and to 1:3 for contributions of over £51 per month.

Currently 1,157 employees (including two Directors and six Persons Discharging Managerial Responsibilities (PDMRs) participate in this scheme with an average allocation of 75 matching shares per employee per month.

Historic long-term incentive schemes with no Executive Director participation

LTTP 2008

Long-Term Performance Plan (LTTP)

This scheme was introduced in 2008. The intention was that this scheme would replace the LTIP and LTRS and was aimed at the two tiers of management directly below the Board. The scheme allowed participants to receive a number of KCOM Group shares at £Nil cost, providing the performance conditions were achieved over the relevant three year period. The move to a share-based scheme was to improve alignment with both shareholders and our management team.

26 participants were included in the 2008 award, with 5,614,156 £Nil cost share options being granted. The plan's performance target measures Group EBITA (earnings before amortisation of intangible assets on acquisition) and the shares were due to vest on an incremental basis of between 25% and 100% depending on the level of EBITA achieved. The plan did not meet the performance conditions and therefore no awards have vested.

General information

The closing mid-market price of KCOM Group PLC shares on 31 March 2011 was 61.5 pence. The high and low closing mid-market share prices during the year were 65.5 pence and 41.0 pence respectively.

Kathy Smith
Company Secretary
8 June 2011