



25 November 2008

**KCOM GROUP PLC (KCOM.L) ANNOUNCES
UNAUDITED INTERIM RESULTS TO 30 SEPTEMBER 2008**

KCOM Group PLC (KCOM.L) ("KCOM" or the "Group") today announces its unaudited interim results for the half year ended 30 September 2008.

Summary – continuing operations

	Six months ended 30 Sept 08 (£ million)	Six months ended 30 Sept 07 (£ million)	Change over prior year (%)
Results before exceptional items¹			
Revenue	243.6	261.3	(6.8)
Operating margin ²	100.5	104.5	(3.8)
EBITDA	34.4	35.9	(4.2)
Profit before tax and amortisation ("PBTA") ³	14.0	13.0	7.7
Net cash in flow from operations	20.9	22.1	(5.4)
EBITDA less capital expenditure	20.8	19.3	7.8
Adjusted basic earnings per share (pence) ⁴	2.71	2.52	7.5
Dividend per share (pence)	0.50	0.94	(46.3)
Reported results			
(Loss)/Profit before tax	(103.0)	5.3	
Basic (loss)/earnings per share (pence)	(19.7)	1.4	

¹ A reconciliation of results before exceptional items to reported results is given in note 1.

² Operating margin represents gross margin before the deduction of depreciation and amortisation and excludes gross overheads and general and administration expenses.

³ PBTA represents profit before taxation excluding exceptional items and the amortisation and impairment of intangible assets relating to acquisitions.

⁴ Adjusted basic earnings per share excludes exceptional items, taxation and amortisation and impairment of intangible assets relating to acquisitions.

Group overview

Overall Group performance has been resilient in challenging economic conditions as evidenced by the improvement in PBTA and the stability of cash flow produced. This performance is underpinned by the continuing strong performance of the Telecoms and Internet Services ("T&IS") and Information Services businesses.

Performance of the Integration and Managed Services business ("I&MS") has been adversely impacted by difficult market conditions. Following a strengthening of the senior management team in this business, coupled with a reduced cost base, improved second quarter order intake and the improving quality of the public sector pipeline, we anticipate stronger performance in the second half of the year.

In response to the current market conditions, the Group will remain focused on the reduction to its cost base and the appropriate prioritisation of its ongoing investment opportunities.

The Group remains well financed with a committed non amortising bank facility in place until March 2012. Group net debt of £180.2 million at the period end (2007: £173.2 million) is anticipated to reduce over the second half of the year following the August peak associated with the payment of the prior year final dividend. Opportunities exist to improve the working capital profile within Affiniti.

The Board, supported by advisors JPMorgan Cazenove and Oakley Capital Corporate Finance, is undertaking a strategic review. The review is looking at all aspects of the Group's current operations to determine how best to enhance shareholder value.

Consistent with a focus on reducing Group indebtedness, the Board has reviewed its dividend policy and envisages paying a total full year dividend not less than 1.5 pence per share subject to the outcome of the strategic review. In line with previous practice, this will result in the Board paying an interim dividend of 0.5 pence per share.

Financial highlights

- Revenue declined 6.8 per cent to £243.6 million (2007: £261.3 million) primarily on a lower volume of project sales within I&MS.
- Overall operating margin on revenue has increased to 41.3 per cent (2007: 40.0 per cent) on stronger mix of higher margin business.
- Group EBITDA before exceptional items of £34.4 million (2007: £35.9 million) underpinned by strength of T&IS performance.
- Group EBITDA margin improving to 14.1 per cent (2007: 13.7 per cent).
- Adjusted basic EPS increased 7.5 per cent to 2.71 pence (2007: 2.52 pence) as lower capital expenditure over the last 24 months has reduced depreciation.
- Exceptional impairment of £106.9 million to the carrying value of goodwill relating to I&MS results in reported Group loss before taxation of £103.0 million (2007: profit of £5.3 million) leaving a residual carrying value of goodwill and intangible assets of £72.5 million for I&MS.
- Exceptional loss following the collapse of Lehman Brothers materially reduced to £1.0 million from previously communicated upper limit of £3.0 million.
- Net cash inflow from operations resilient at £20.9 million (2007: £22.1 million).
- Group net debt total at £180.2 million (2007: £173.2 million) includes the £8.6 million cash impact of exceptional items over the last 12 months. The Group had a net debt to EBITDA ratio of 2.65 following payment of the prior year final dividend in August and remains comfortably within the facility limit of 3.0.
- Interim dividend of 0.5 pence per share (2007: 0.94 pence) represents one third of envisaged minimum full year dividend of 1.5 pence per share (2007: 2.82 pence).

Management change

The Group is today announcing changes to its management structure. Over the course of the last five years the Group has made a significant transformation to a business that is increasingly less dependent on capital investment in network infrastructure. We have now established two increasingly autonomous and distinct business units with their own strengthened management teams. Malcolm Fallen, having overseen the transformation as Chief Executive Officer, is now standing down from the Board.

Bill Halbert, currently the Group's Senior Independent Director, becomes Executive Deputy Chairman, taking responsibility for the Group's continuing development and operational performance. The existing management teams will now report to Bill Halbert, who was the founding CEO of BT's IT services subsidiary, Syntegra.

Michael Abrahams, who has served as Chairman since 1999, has indicated that he will retire from the Board at the next Annual General Meeting in July 2009. A search is underway to find a replacement.

Chairman, Michael Abrahams said, "Overall, the Group financial performance has been resilient in challenging market conditions. The Group remains well financed with committed banking facilities in place until March 2012. The Board is determined to make further improvements to all aspects of the Group's performance and is undertaking a strategic review of Group activities with its advisors to that effect.

"It is with regret that we announce that Malcolm Fallen, our Chief Executive is standing down. He has demonstrated great leadership within the business through his ability and energy, and leaves behind him an established, strong team that, under the guidance of Bill Halbert, can continue to take the business forward. We wish him every success in the future."

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Business and Operating Review

Financial Overview

Group revenue decreased in line with our expectations by 6.8 per cent to £243.6 million (2007: £261.3 million). The most significant factor behind this was the reduction in I&MS project and product revenue on account of current market conditions.

Operating margins improved to 41.3 per cent (2007: 40.0 per cent) reflecting a stronger mix of higher margin services. Group EBITDA before exceptional items reduced to £34.4 million (2007: £35.9 million) due to lower revenue.

The Group continues to have a strong focus on managing its overall cost base. Group overhead expense has fallen to £66.1 million in the period (2007: £68.6 million). There are a number of contributing factors to this 3.6 per cent reduction including a 8.3 per cent reduction in the total Group headcount from the end of September 2007 to September 2008 (from 2,729 to 2,519 employees respectively).

Depreciation and amortisation of software licenses decreased following lower capital expenditure in the last 24 months, resulting in Group PBTA before exceptional items increasing 7.7 per cent to £14.0 million (2007: £13.0 million).

The carrying value of goodwill and intangible assets relating to I&MS has been reviewed. Whilst the Board believes that the current financial performance will improve in the future, it has, in accordance with IAS 36 (Impairment of Assets), taken an exceptional impairment charge to the carrying value of the I&MS goodwill of £106.9 million. This impairment reflects the impact that current market conditions have had on the financial performance of I&MS. The residual carrying value of the goodwill and intangible assets in I&MS is £72.5 million. As a consequence of this impairment, the Group reported a loss before tax of £103.0 million (2007: profit of £5.3 million).

The focus on reducing the capital intensity of the business has seen the level of EBITDA less capital expenditure increase 7.8 per cent to £20.8 million (2007: £19.3 million) following a reduction in capital expenditure to £13.6m (2007: £16.7m).

Business review

Telecoms & Internet Services

<i>Results before exceptional items</i>	2008 (£ million)	2007 (£ million)	Change over prior year (%)
Revenue	119.8	122.3	(2.0)
Operating margin	71.7	70.8	1.3
EBITDA	32.8	30.8	6.5

The T&IS business has performed strongly in the period. Despite reporting a 2.0 per cent reduction in revenue year over year, EBITDA grew by 6.5 per cent and operating margins improved 1.3 per cent, reflecting a stronger mix of revenue and the benefit of certain targeted margin enhancing operational actions.

The major year on year movements in revenue and operating margin are driven by:-

- a 3.1 per cent increase in broadband revenue to £26.4 million (2007: £25.6 million) with operating margins improved by reducing end user access costs from our partners, BT and Tiscali.
- a 12.0 per cent growth in high margin bandwidth related revenue to £20.6 million (2007: £18.4 million).
- an overall decline in voice and dial up revenue due to continued substitution of these services.
- revenue within the Licensed Area declined 1.1 per cent to £47.1 million (2007: £47.6 million) reflecting a reduction in voice calls.

The business has continued to benefit from a reduction in overheads to £38.9 million (2007: £40.0 million) despite increased power and pension costs. The reduction reflects further operational synergies delivered from the integration of the various components of the T&IS business.

The overall business focus in T&IS will remain consistent as we develop our portfolio of services to the SME market. We believe there remains a significant opportunity within the UK SME market and have a number of specific short term focus areas for the T&IS business:-

- to build on our proven ability to manage SME and consumer relationships efficiently in terms of the overall customer experience.
- to increase the penetration of hosting and hosted services within our existing customer base.

We remain confident that the strong operational focus of the business, combined with the quality of our existing customer base, provides sufficient opportunity to continue to deliver improved financial returns over the medium term.

Integration & Managed Services

<i>Results before exceptional items</i>	2008 (£ million)	2007 (£ million)	Change over prior year (%)
Revenue	124.1	139.9	(11.3)
Operating margin	24.2	29.3	(17.4)
EBITDA	0.2	4.6	(95.7)

The first half of the year was challenging for I&MS as revenue declined by 11.3 per cent resulting in an overall EBITDA before exceptional items of £0.2 million (2007: £4.6 million).

The phasing of our programmes targeted at reducing the ongoing fixed costs of the business did not yield sufficient benefit to offset the decline in gross contribution in the first six months. The specific movements, year on year reflect:

- a £3.9 million operating margin decrease arising due to reduced project and product based activity within Affiniti and lowering operating margin.
- a £2.0 million reduction in the operating margin generated from the managed services in Affiniti. This includes a £0.5 million reduction on a specific managed service contract which renewed on a multi year basis at the end of March 2008. The balance of the reduction reflects a drop in the value of basic network support services, in part consistent with lower project related activity, partially offset by growth in certain managed services contracts.
- specific cost efficiency initiatives resulting in a £0.7 million reduction in overheads offsetting increased power and pension costs.
- a further £1.1 million reduction in the internal and third party cost of delivering project related services.

As stated in our Interim Management Statement in September, we have implemented a range of initiatives to reduce the cost base of the business which will be key to an improvement in the profitability of I&MS. The impact of these initiatives is already positively impacting the run rate cost base as we exit the half year and should improve overall performance in the second half. They include, amongst other things:-

- a progressive reduction in total headcount within the Affiniti business. As at the end of September 2008, total headcount had decreased 8.3 per cent to 1,024 employees (2007: 1,117 employees). The most significant reductions occurred during the second quarter of the financial year, and therefore will have a positive impact in the second half.
- a consolidation of our network operating centres from three down to two units. This initiative will be completed in the second half of the financial year with anticipated annualised savings of £0.7 million.

Whilst we remain cautious about the prospects of a significant revenue improvement in the short to medium term, we have seen specific areas where recent performance has been encouraging:-

- following the reduction in business with one specific customer, Smart421 has seen a quarter on quarter improvement in revenue over the period.
- the incremental order intake within Affiniti improved significantly in the second quarter of the financial year compared to the first quarter. Second quarter order intake was the highest it has been since the corresponding quarter twelve months ago.
- our outlook for public sector business in the second half of the year remains strong, reflecting the positive impact from the restructuring of the public sector sales team in June 2007. We currently have opportunities where preferred supplier status has been achieved with a first year contract value exceeding £20 million and where contracts are now being negotiated. Recent contract wins in the public sector include Forensic Science Services, Health Informatics Service and Derbyshire Police.

The overall contracted order book as at 30 September 2008 of £185.6 million is consistent with the position as at the end of March 2008.

Looking forward to the second half of the year, we anticipate that the trading environment in the IT services market will remain challenging. Our focus remains on tight management and reduction of the overall cost base and the pursuit of incremental profitable business, whilst reducing operating working capital consistent with lower activity levels. Consequently, our current expectation is that, notwithstanding the current difficult trading environment, the combination of the contracted order book at 30 September, together with the cost reduction initiatives and focus on pursuing incremental profitable business, will deliver an improvement in the second half performance of I&MS.

Information Services

<i>Results before exceptional items</i>	2008 (£ million)	2007 (£ million)	Change over prior year (%)
Revenue	9.4	9.9	(5.1)
Operating margin	5.3	5.9	(10.2)
EBITDA	3.7	4.2	(11.9)

Our Information Services business continues to benefit from strong performance from the Hull Colour Pages online and published directories supported by a base of recurring service contracts from the delivery of outsourced contact centre services.

The reduction in revenue and profitability reflect the termination of one outbound telesales contract coupled with the sale of the retail directory enquiry service 118800 to Connectivity Limited in April 2008.

During the current financial year, the business has successfully retained its largest contact centre contract with Hull City Council, despite strong competition, reflecting the quality of the service offering within the business.

Other

The loss before exceptional items reported within the Other segment has reduced to £2.3 million (2007: £3.7 million). This primarily arises as a consequence of a reduction of £1.5 million in respect of provisions for Group long term incentive plans.

Group Earnings

Group Operating (Loss)/Profit

The Group Operating Loss for the period is £96.5 million (2007: profit of £11.7 million). The year over year reduction reflects:-

- a £1.5 million reduction in Group EBITDA before exceptional items.
- a £106.9 million exceptional cost in respect of the impairment of goodwill.
- a £4.4 million increase in other exceptional costs.
- a £1.4 million reduction in Group depreciation expense.
- a £3.2 million reduction in the amortisation of intangible assets.

The Group exceptional operating costs arise as a consequence of:

- an amount of £106.9m (2007: Nil) in respect of the impairment of the carrying value of I&MS goodwill.
- costs of £2.5 million (2007: £1.2 million) in respect of restructuring activities undertaken in the period. £1.6 million of this amount has been incurred in the I&MS business.
- £1.0 million (2007: £Nil) in respect of a loss incurred in respect of the collapse of Lehman Brothers. This material loss arose through a combination of the loss incurred on specific project work in progress and the write off of outstanding trade receivables.
- an increase in the onerous lease provision of £2.1 million (2007: £Nil). This increase relates to two specific properties. In respect of the largest exposure, the provision reflects our current view of a potential settlement currently under negotiation.

Group depreciation expense amounted to £10.8 million (2007: £12.2 million). The reduction in respect of this expense reflects the reduced capital intensity of the Group's activities over the last 24 months.

Amortisation of intangible assets amounted to £7.6 million (2007: £10.8 million). Of this, £3.1 million (2007: £4.3 million) relates to the amortisation of intangibles arising on the capitalisation of software licences. The remaining £4.5 million (2007: £6.5 million) reflected the amortisation of intangible assets arising on acquisition and has reduced as a number of assets have now been fully written down.

Finance costs

Group financing costs of £6.8 million (2007: £6.5 million) reflect a combination of higher levels of debt year on year, plus the increase in LIBOR.

(Loss)/Profit before tax

The Group has incurred a loss in the period of £103.0 million (2007: profit of £5.3 million) reflecting the impairment of goodwill and higher Other exceptional costs.

Taxation

The taxation credit of £1.2 million (2007: £1.9 million) arises as a consequence of the taxation benefit associated with intangible assets arising on acquisition.

(Loss)/Earnings per share

Basic loss per share amounted to 19.71 pence (2007: profit of 1.41 pence). This loss reflects the impairment of the I&MS goodwill referred to above. Adjusted basic earnings per share amounted to 2.71 pence (2007: 2.52 pence), and has increased as a consequence of the reduction in depreciation expense year over year.

Group Financing and Investment

Group Net Debt

Group net debt at 30 September 2008 was £180.2 million (2007: £173.2 million). This equated to a net debt to EBITDA ratio of 2.65 (2007: 2.37).

Over the course of the last twelve months, the cash impact of Group exceptional costs has totalled some £8.6 million, accounting for the increase in net debt reported.

Net cash inflow from operations in the period has decreased 5.4 per cent to £20.9 million (2007: £22.1 million). This net cash inflow reflects an increase of working capital of £7.7 million over the six month period comprising:-

- £0.9 million in respect of the difference between cash payments and profit and loss account charge for pensions.
- a non-cash credit to the profit and loss account of £1.5 million in respect of surplus LTIP provisions.
- a £4.7 million increase in inventories consistent with an increased backlog in I&MS for projects completed after the period end. This inventory is customer specific and has been shipped subsequent to the period end.

Capital expenditure on tangible and intangible assets amounted to £15.9 million (2007: £19.5 million). This reduction reflects the less capital intensive activities of I&MS where capital expenditure fell to £0.8 million (2007: £2.0 million).

Cash flow in the second half of the year will benefit from the differential between the level of the interim and final dividend. The Group anticipates, consistent with previous years, that both the absolute debt level and the key net debt to EBITDA ratio are expected to improve at the end of the financial year.

Dividends

The cash cost of dividends in the period was £9.7 million (2007: £6.7 million) reflecting the increased final dividend declared with the 2008 results.

Financing

The cash cost of financing Group debt amounted to £7.9 million (2007: £4.7 million).

Pensions

As at 30 September 2008, the Group had a liability in respect of its pension scheme obligations of £12.9 million (2007: £2.7 million). This reflects assets of £156.0 million and a liability of £168.9 million.

The triennial valuation of the Kingston Communications Pension Scheme, as at 1 April 2007 was completed in June 2008. The funding deficit arising at the date of the valuation amounted to £20.6 million (previous triennial valuation as at 1 April 2004: £17.7 million). Following this valuation, the Group agreed a deficit recovery plan with the Trustees of the scheme that entails the Group paying annual cash contributions in respect of the deficit of £2.9 million over 10 years. The length of this recovery period is reflective of the quality of the Group's financial covenant.

The triennial valuation of the Group's second defined benefit scheme, the Kingston Communications (Data) Pension Scheme, as at 1 April 2008, is currently being performed. The IAS 19 deficit in respect of this scheme was £4.5 million as at 30 September 2008.

During the period to 30 September, the Group has paid cash contributions totalling £2.9 million (2007: £1.4 million) in respect of its defined benefit obligations.

The amount represents:-

- £0.8 million in respect of future service accrual
- £1.4 million in respect of deficit recovery and
- £0.7 million in respect of past service.

Dividend

Consistent with a focus on reducing Group indebtedness, the Board has reviewed its dividend policy. The Board envisages paying a full year dividend not less than 1.5 pence per share subject to the outcome of this strategic review. In line with previous practice, this will result in the Board paying an interim dividend of 0.5 pence per share, payable on 2 February 2009 to shareholders registered at the close of business on 19 December 2008.

Management change

The Group is today announcing changes to its management structure. Over the course of the last five years the Group has made a significant transformation to a business that is increasingly less dependent on capital investment in network infrastructure. We have now established two increasingly autonomous and distinct business units with their own strengthened management teams. Malcolm Fallen, having overseen the transformation as Chief Executive Officer, is now standing down from the Board.

Bill Halbert, currently the Group's Senior Independent Director, becomes Executive Deputy Chairman, taking responsibility for the Group's continuing development and operational performance. The existing management teams will now report to Bill Halbert, who was the founding CEO of BT's IT services subsidiary, Syntegra.

Michael Abrahams, who has served as Chairman since 1999, has indicated that he will retire from the Board at the next Annual General Meeting in July 2009. A search is underway to find a replacement.

Outlook

The Group anticipates that the trading environment will continue to remain challenging. The Board has already undertaken a number of steps to reduce the Group cost base and the second half performance will benefit from these actions. Meanwhile, we are undertaking with our advisors a strategic review of the Group and the Board is determined to take the actions required to enhance shareholder value.

Forward-looking statements

Certain statements in this interim report 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 have been 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 result of new information, future events or otherwise.

Principal Risks and Uncertainties

The risks and uncertainties faced by the Group as disclosed on pages 7 and 8 of the Annual Report and Accounts to 31 March 2008 are still valid.

In addition to these risks and uncertainties, the Group's current trading prospects, particularly in the I&MS business, are strongly correlated to the outlook for the UK economy. In the current environment, the challenge for the Group is to ensure that its enterprise customers are willing to continue to invest in the services that the Group can provide. Whilst this creates a challenging trading environment, the Group continues to take appropriate action to mitigate the risks and uncertainties where possible.

ENDS

Consolidated Interim Income Statement

	Note	Unaudited Six months ended 30-Sep 2008 £'000	Unaudited Six months ended 30-Sep 2007 £'000	Audited Year ended 31-Mar 2008 £'000
Revenue	1	243,571	261,346	517,297
Operating expenses		(340,026)	(249,601)	(499,624)
Group operating (loss)/profit	1	(96,455)	11,745	17,673
Analysed as:				
Group EBITDA	1	34,421	35,915	69,300
Exceptional items - impairment of goodwill	2	(106,890)	-	-
Exceptional items - other	2	(5,595)	(1,169)	(3,988)
Depreciation of property, plant and equipment	1	(10,773)	(12,227)	(24,023)
Amortisation of intangible assets	1	(7,618)	(10,774)	(23,616)
Finance costs		(6,751)	(6,499)	(13,467)
Finance income		156	35	200
Share of profit of associates		6	5	17
(Loss)/profit before taxation		(103,044)	5,286	4,423
Taxation	3	1,216	1,941	14,353
(Loss)/profit for the period		(101,828)	7,227	18,776
(Loss)/profit for the period attributable to equity holders of the Company		(101,828)	7,227	18,776
(Loss)/earnings per share				
Basic	4	(19.71p)	1.41p	3.65p
Diluted	4	(19.71p)	1.41p	3.64p

Consolidated Interim Statement of Recognised Income and Expense

	Unaudited Six months ended 30-Sep 2008 £'000	Unaudited Six months ended 30-Sep 2007 £'000	Audited Year Ended 31-Mar 2008 £'000
Exchange differences on translation of foreign operations	-	-	(2)
Cash flow hedges	836	(53)	(2,177)
Actuarial (losses)/gains on retirement benefit obligation	(4,542)	8,720	524
Tax on items taken directly to equity	153	(2,988)	550
Net (expense)/income recognised directly in equity	(3,553)	5,679	(1,105)
(Loss)/profit for the period	(101,828)	7,227	18,776
Total recognised (expense) and income for the period	(105,381)	12,906	17,671

Consolidated Interim Balance Sheet

	Unaudited	Unaudited	Audited
	As at	As at	As at
	30-Sep	30-Sep	31-Mar
	2008	2007	2008
	£'000	£'000	£'000
Non-current assets			
Goodwill	85,520	193,245	193,191
Other intangible assets	25,802	40,793	31,286
Property, plant and equipment	131,833	133,625	131,407
Investments	846	860	860
Deferred tax assets	40,960	24,331	39,384
	284,961	392,854	396,128
Current assets			
Inventories	12,460	15,621	7,699
Trade and other receivables	108,533	98,447	118,006
Cash and cash equivalents	20,391	26,298	31,231
	141,384	140,366	156,936
Total assets	426,345	533,220	553,064
Current liabilities			
Trade and other payables	(140,240)	(141,885)	(156,683)
Non-current liabilities			
Bank loans	(199,063)	(198,800)	(198,969)
Retirement benefit obligations	(12,858)	(2,709)	(9,138)
Long term provisions and other payables	(4,205)	(5,670)	(3,589)
Total liabilities	(356,366)	(349,064)	(368,379)
Net assets	69,979	184,156	184,685
Capital and reserves, attributable to equity holders of the Company			
Share capital	51,660	51,526	51,627
Share premium account	353,232	352,657	353,111
Hedging and translation reserve	133	811	(703)
Retained earnings	(335,046)	(220,838)	(219,350)
Total equity	69,979	184,156	184,685

Consolidated Interim Cash Flow Statement

	Unaudited Six months Ended 30-Sep 2008 £'000	Unaudited Six months ended 30-Sep 2007 £'000	Audited Year Ended 31-Mar 2008 £'000
Net cash flow from operating activities			
Operating (loss)/profit	(96,455)	11,745	17,691
Adjustments for:			
Depreciation and amortisation	18,391	23,001	47,639
Impairment of goodwill	106,890	-	-
Increase in working capital	(7,716)	(12,641)	(15,337)
Employee share schemes	233	100	158
Loss on sale of property, plant and equipment	(437)	(125)	(154)
Income taxes paid	(53)	-	-
Net cash inflow from operations	20,853	22,080	49,997
Cash flows from investing activities			
Proceeds from sale of businesses	1,450	-	-
Purchase of businesses	-	(319)	(700)
Purchase of property, plant and equipment	(12,944)	(16,424)	(25,029)
Proceeds from sale of property, plant & equipment	-	250	250
Purchase of intangible assets	(3,040)	(3,046)	(6,381)
Purchase of investments	-	-	(12)
Net cash used in investing activities	(14,534)	(19,539)	(31,872)
Cash flows from financing activities			
Dividends paid	(9,712)	(6,691)	(11,540)
Issue costs of long term loans	(153)	(230)	(450)
Interest paid	(7,857)	(4,687)	(10,913)
Interest received	156	35	199
Capital element of finance lease repayments	(649)	(280)	(583)
Capital element of new finance leases	1,056	-	783
New loans	-	5,500	5,500
Net cash used in financing activities	(17,159)	(6,353)	(17,004)
(Decrease)/increase in cash and cash equivalents	(10,840)	(3,812)	1,121
Cash and cash equivalents at the beginning of the period	31,231	30,110	30,110
Cash and cash equivalents at the end of the period	20,391	26,298	31,231

Notes to the unaudited interim financial information

1. Segmental Analysis

	Unaudited Six months ended 30-Sep 2008 £'000	Unaudited Six months ended 30-Sep 2007 £'000	Audited Year ended 31-Mar 2008 £'000
Revenue			
Telecoms and internet services	119,757	122,258	244,356
Integration and managed services	124,114	139,889	278,431
Information Services	9,383	9,881	14,132
Other ¹	(9,683)	(10,682)	(19,622)
Total	243,571	261,346	517,297

Operating margin

Operating margin represents gross margin before the deduction of depreciation and amortisation and excludes overheads and general and administration expenses. This additional information is an operational measure used by the Board in managing the financial performance of the business.

Telecoms and internet services	71,672	70,803	143,324
Integration and managed services	24,230	29,335	54,435
Information Services	5,272	5,906	7,605
Other ¹	(707)	(1,522)	(1,920)
Total	100,467	* 104,522	203,444

Group EBITDA

Telecoms and internet services	32,840	30,804	62,849
Integration and managed services	151	4,611	8,649
Information Services	3,734	4,190	4,065
Other ¹	(2,304)	(3,690)	(6,263)
Total – before exceptional items	34,421	35,915	69,300
Exceptional items:			
Telecoms and internet services	(241)	(187)	(549)
Integration and managed services	(109,487)	(520)	(2,532)
Information Services	(171)	(30)	(201)
Other ¹	(2,586)	(432)	(706)
Total exceptional items	(112,485)	(1,169)	(3,988)
EBITDA post exceptional items	(78,064)	34,746	65,312

¹ Other includes head office costs, shared services and eliminations.

* Operating margin restated for consistent treatment of direct costs, administration and general overhead costs with current period and year end 31 March 2008.

Notes to the unaudited interim financial information continued

1. Segmental Analysis (continued)

	Unaudited Six months ended 30-Sep 2008 £'000	Unaudited Six months ended 30-Sep 2007 £'000	Audited Year ended 31-Mar 2008 £'000
Depreciation			
Telecoms and internet services	7,258	6,836	15,063
Integration and managed services	2,531	4,383	6,715
Information Services	200	236	452
Other ²	784	772	1,793
	10,773	12,227	24,023
Amortisation			
Telecoms and internet services	3,507	5,680	10,524
Integration and managed services	3,845	4,603	11,416
Information Services	4	65	84
Other ²	262	426	1,592
	7,618	10,774	23,616
(Loss)/profit from operations			
Telecoms and internet services	22,075	18,288	37,262
Integration and managed services	(6,225)	(4,375)	(9,482)
Information Services	3,530	3,889	3,529
Segment result – before exceptional items	19,380	17,802	31,309
Exceptional items:			
Telecoms and internet services	(241)	(187)	(549)
Integration and managed services	(109,487)	(520)	(2,532)
Information Services	(171)	(30)	(201)
Other ²	(2,586)	(432)	(706)
	(112,485)	(1,169)	(3,988)
Segment result	(93,105)	16,633	27,321
Head office and other unallocated costs	(3,350)	(4,888)	(9,648)
Group operating (loss)/profit	(96,455)	11,745	17,673
Share of profit of associate	6	5	17
(Loss)/profit from operations	(96,449)	11,750	17,690
Capital expenditure on property, plant and equipment and intangible assets			
Telecoms and internet services	12,615	12,901	24,936
Integration and managed services	787	2,013	3,717
Information Services	45	71	143
Other ²	146	1,671	1,495
Total	13,593	16,656	30,291

² Other includes head office costs, shared services and eliminations.

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:

	Unaudited	Unaudited	Audited
	Six months ended	Six months ended	Year ended
	30-Sep	30-Sep	31-Mar
	2008	2007	2008
	£'000	£'000	£'000
Revenue from external customers			
Telecoms and internet services	111,700	113,059	227,421
Integration and managed services	123,283	139,158	277,610
Information Services	8,564	8,778	12,220
Other ³	24	351	46
Total	243,571	261,346	517,297
Inter-segment revenue			
Telecoms and internet services	8,057	9,199	16,935
Integration and managed services	831	731	820
Information Services	819	1,103	1,913
Other ³	(9,707)	(11,033)	(19,668)
Total	-	-	-
	243,571	261,346	517,297

None of the revenue, operating profit or net operating assets arising outside the United Kingdom are material to the Group. The geographical analysis of revenue by destination is given below:

	Unaudited	Unaudited	Audited
	Six months ended	Six months ended	Year ended
	30-Sep	30-Sep	31-Mar
	2008	2007	2008
	£'000	£'000	£'000
Geographical analysis of revenue			
United Kingdom	239,888	259,088	512,884
Continental Europe	2,321	2,151	3,885
Other	1,362	107	528
	243,571	261,346	517,297

³ Other includes head office costs, shared services and eliminations

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. Restructuring costs arise as a result of organisational changes following the integration of acquisitions. Onerous lease provisions arise as a result of continued rationalisation of the Group's property portfolio.

	Unaudited	Unaudited	Audited
	Six months ended	Six months ended	Year ended
	30-Sep	30-Sep	31-Mar
	2008	2007	2008
	£'000	£'000	£'000
Exceptional items:			
- Restructuring costs	2,507	1,169	3,970
- Loss on Lehman Brothers	1,000	-	-
- Onerous lease provision	2,088	-	-
- Write down of unlisted fixed asset investment	-	-	18
Exceptional items – other	5,595	1,169	3,988
Exceptional items – impairment of goodwill	106,890	-	-
Charged to operating (loss)/profit	112,485	1,169	3,988
Charged to (loss)/profit before taxation	112,485	1,169	3,988

The loss of £1.0m on Lehman Brothers arose through a combination of the loss incurred on specific project work in progress and the write off of outstanding trade receivables following their bankruptcy in the period.

The goodwill impairment is an impairment of the carrying value of the I&MS division.

3. Taxation

The taxation credit on activities is set out below:

	Unaudited	Unaudited	Audited
	Six months ended	Six months ended	Year ended
	30-Sep	30-Sep	31-Mar
	2008	2007	2008
	£'000	£'000	£'000
Corporation tax	(53)	-	617
Deferred tax	1,269	1,941	13,736
Group total	1,216	1,941	14,353

There are no unprovided deferred tax assets in respect of accelerated capital allowances at 30 September 2008 or 31 March 2008. At 30 September 2007 there was an unprovided deferred tax asset of £13m (calculated at 28%).

Notes to the unaudited interim financial information continued

4. (Loss)/earnings per share

	Unaudited Six months ended 30-Sep 2008 No.	Unaudited Six months ended 30-Sep 2007 No.	Audited Year ended 31-Mar 2008 No.
Weighted average number of shares			
For basic (loss)/earnings per share	516,569,976	514,135,201	514,551,645
Share options in issue	2,990,773	78,159	1,026,446
For diluted (loss)/earnings per share	519,560,749	514,213,360	515,578,091
(Loss)/earnings	£'000	£'000	£'000
(Loss)/profit for the period attributable to equity holders of the Company	(101,828)	7,227	18,776
Adjustments:			
Exceptional items	112,485	1,169	3,988
Amortisation of intangible assets arising on acquisitions	4,534	6,503	15,044
Taxation	(1,216)	(1,941)	(14,353)
Adjusted profit for the period	13,975	12,958	23,455
(Loss)/earnings per share	pence	pence	pence
Basic	(19.71)	1.41	3.65
Diluted	(19.71)	1.41	3.64
Adjusted basic	2.71	2.52	4.56
Adjusted diluted	2.69	2.52	4.55

Notes to the unaudited interim financial information continued

5. Dividends

	Unaudited Six months ended 30-Sep 2008 £'000	Unaudited Six months ended 30-Sep 2007 £'000	Audited Year ended 31-Mar 2008 £'000
Amounts recognised as distributions to equity holders in the period:			
Final dividend for the year ended 31 March 2007 of 1.30 pence per share	-	6,691	6,691
Interim dividend for the year ended 31 March 2008 of 0.94 pence per share	-	-	4,849
Final dividend for the year ended 31 March 2008 of 1.88 pence per share	9,712	-	-
Total	9,712	6,691	11,540

The proposed interim dividend for the six months ended 30 September 2008 is 0.5 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. 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
At 1 April 2007	51,493	352,450	877	(227,219)	177,601
Employee share schemes	-	-	-	100	100
Shares issued in the period	33	207	-	-	240
Reclassification	-	-	(13)	13	-
Actuarial gains on defined benefit pension schemes	-	-	-	8,720	8,720
Tax on items taken directly to equity	-	-	-	(2,988)	(2,988)
Increase in fair value of financial derivative instruments	-	-	(53)	-	(53)
Profit for the period	-	-	-	7,227	7,227
Dividends	-	-	-	(6,691)	(6,691)
At 30 September 2007	51,526	352,657	811	(220,838)	184,156
Employee share schemes	-	-	-	58	58
Shares issued in the period	101	454	-	-	555
Actuarial losses on defined benefit pension schemes	-	-	-	(8,196)	(8,196)
Increase in fair value of financial derivative instruments	-	-	(2,126)	-	(2,126)
Tax on items taken directly to equity	-	-	612	2,926	3,538
Profit for the period	-	-	-	11,549	11,549
Dividends	-	-	-	(4,849)	(4,849)
At 31 March 2008	51,627	353,111	(703)	(219,350)	184,685
Employee share schemes	-	-	-	233	233
Shares issued in the period	33	121	-	-	154
Actuarial losses on defined benefit pension schemes	-	-	-	(4,542)	(4,542)
Tax on items taken directly to equity	-	-	-	153	153
Increase in fair value of financial derivative instruments	-	-	836	-	836
Loss for the period	-	-	-	(101,828)	(101,828)
Dividends	-	-	-	(9,712)	(9,712)
At 30 September 2008	51,660	353,232	133	(335,046)	69,979

Notes to the unaudited interim financial information continued

7. Basis of preparation and publication of interim results

This interim financial information comprises the consolidated balance sheets at 30 September 2008, 30 September 2007 and 31 March 2008 and the consolidated statements of income, recognised income and expense and cash flows for the periods then ended and related notes of KCOM Group PLC, (hereinafter referred to as “the financial information”).

This interim financial information 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. In preparing this information management have used the accounting policies set out in the Group's 2008 financial statements on pages 29 to 32.

Of the new standards, amendments and interpretations that are in issue and mandatory for the financial year to 31 March 2009, only IFRIC 14 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements' is relevant to the Group. The adoption of this interpretation has had no financial impact on this consolidated interim financial report.

This interim financial information does not constitute a set of statutory accounts under s.240 of the UK Companies Act 1985 and is unaudited. The comparative figures for the financial year ended 31 March 2008 are an extract from the Group's 2008 financial statements, which have been reported on by the company's auditors and delivered to the Registrar of Companies. These comparative figures have been restated where necessary for the operational reorganisation. The report of the auditors was unqualified and did not contain statements under section 237(2) or (3) of the UK Companies Act 1985.

This interim results announcement will be published on the company's website. All shareholders will receive a notification of its availability, by post or to their nominated email address, during December. This notice will include details of where the announcement can be viewed on the website. The maintenance and integrity of the KCOM Group PLC website is the responsibility of the directors and the work carried out by the auditors does not involve consideration of these matters. Legislation in the UK governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions

8. Statement of directors' responsibilities

The directors confirm that this condensed set of interim financial statements 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 4.2.7 and DTR 4.2.8.

The directors of KCOM Group PLC are listed in the KCOM Group Annual Report for 31 March 2008, with the exception of John Carrington who retired from the Board on 25 July 2008 and those management changes announced today.

Signed by Order of the Board on 25 November 2008 by:

A handwritten signature in black ink, appearing to read 'P. Simpson', written in a cursive style.

Paul Simpson
Chief Financial Officer.

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 2008, which comprises the income statement, balance sheet, statement of recognised income and expense, 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 2008 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
25 November 2008