27 November 2012

KCOM GROUP PLC (KCOM.L) ANNOUNCES UNAUDITED INTERIM RESULTS TO 30 SEPTEMBER 2012

KCOM Group PLC (KCOM.L) ("KCOM Group" or the "Group") announces its unaudited interim results for the half year ended 30 September 2012.

"Building a platform for sustainable growth"

Summary

	Unaudited Six months ended 30 Sept 12 (£ million)	Unaudited Six months ended 30 Sept 11 (£ million)	Increase over prior period (%)
Results from continuing operations before exceptional items			
Revenue	188.7	198.0	(4.7)
Operating profit	29.8	30.8	(3.2)
EBITDA	39.1	40.7	(3.9)
Profit before tax	27.5	27.0	1.9
Adjusted basic earnings per share (pence)	4.07	3.86	5.4
Reported results			
Net cash inflow from operations	19.0	35.3	(46.2)
Net debt	94.3	75.1	25.6
Profit before tax	27.6	27.0	2.2
Basic earnings per share (pence)	4.08	3.86	5.7
Dividend per share (pence)	1.47	1.33	10.5

Highlights

- Revenue and EBITDA in line with our expectations, representing a solid performance in challenging conditions
- Profit before tax of £27.6 million, up 2.2%
- Net debt increased to £94.3 million, comfortably below 1.5x EBITDA
- Successful completion of the initial deployment of super-fast fibre based broadband, passing 15,000 homes and businesses in Hull & East Yorkshire
- Continuation of roll-out of fibre broadband to a further 30,000 customers by 2015 announced today
- Growth in multi-year order backlog
- Increase in interim dividend of 10%, to 1.47p

Bill Halbert, Executive Chairman, said "I am pleased to announce further progress towards our longer term goals and another solid set of results, with profitable contributions from all our operating brands. In KC, we continue to see strong demand for our bundled services. Our initial deployment of super-fast fibre based broadband services has been completed very successfully, and the encouraging results have led us to announce today that we will treble the number of homes we reach with our next phase of fibre deployment. In Kcom, we have achieved growth in our multi-year order backlog even though businesses continue to be cautious, slowing the speed and reducing the level of investments being made. Despite the economic headwinds, there are opportunities for us to provide more services to our existing customers, as well as winning new contracts in both the enterprise and public sector. As a result of this performance, and our confidence in future prospects, we have increased our dividend by ten per cent."

Outlook

While we expect the macro-economic uncertainty to continue to slow decisions on new investments across our markets, we remain very confident about the Group's prospects, its underlying strength and continuing cash generative capacity.

We anticipate that KC will continue to outperform its peer group and remain confident that Kcom will continue to gain market share despite the difficult trading environment.

The Board remains committed to a minimum 10 per cent growth in the dividend for this financial year. Accordingly we have announced an increase in the interim dividend per share to 1.47p (2011: 1.33p) and will, at the full year results, be providing guidance on our future dividend policy.

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Business and Operating Review

Group overview

The decline in Group revenue to £188.7 million (2011: £198.0 million) reflects the anticipated reduction in certain areas of the Kcom business.

The overall reduction in revenue year over year has partially contributed to a modest decline in Group EBITDA before exceptional items to £39.1 million (2011: £40.7 million).

A reduction in interest costs, reflecting revised hedging that became effective in January 2012, coupled with lower depreciation has compensated for the decline in EBITDA and produced a 2.2% increase in Group profit before tax to £27.6 million (2011: £27.0 million).

Following seven consecutive six month periods of net debt reduction, the Group has reported an increase in net debt to £94.3 million, from £75.3 million at 31 March 2012. That movement reflects a combination of factors including a working capital outflow associated with a number of unconnected one-off factors, the planned increase in capital expenditure to £14.3 million (2011: £10.9 million) and the decision to purchase £10.0 million worth of KCOM Group shares in satisfaction of the Group's share scheme obligations.

It is anticipated that the Group will report a stronger net cash inflow from operations in the second half of the current financial year than the £19.0 million generated in the first half of the year. We anticipate this will contribute to a modest reduction in the net debt from the £94.3 million reported at the current period end. The resulting increase in net debt at 31 March 2013 compared to the corresponding amount at 31 March 2012 will arise principally then as a result of the share scheme purchases.

Management Update

Paul Simpson has put in place a strengthened management team and clear strategy to deliver sustainable growth within Kcom and will now concentrate on his role as Group CFO. To build upon the foundations that Paul has put in place, Stephen Long will join as managing director of Kcom in January, to execute our plan for growth. Stephen joins the Group from Fujitsu where he had responsibility for its UK Private Sector division.

KC

The KC segment covers the performance of our KC brand which operates telephony and broadband over our East Yorkshire network and provides publishing services.

There has been a 1.0% growth in revenue to £53.6 million (2011: £53.0 million) reflecting a good performance from both consumer and business customers. This revenue performance has contributed to an increase in EBITDA to £27.8 million (2011: £27.6 million).

Whilst there has been an anticipated reduction in revenue associated with the production of the Hull Colour Pages directory (£3.0 million from £3.3 million in 2011), KC revenue has benefitted from strong business demand for connectivity services coupled with continuing take-up of its bundled consumer offerings. The combination of those factors has enabled KC to continue to outperform its peer group in this regard and to offset the impact of call volume decline.

In October, KC completed its initial deployment of super-fast fibre technology successfully, passing over 15,000 homes and businesses across Hull and East Yorkshire. That deployment tested both the technical and commercial aspects of KC's fibre proposition and by using a predominantly Fibre to the Premise approach, is capable of delivering speeds of 350mbps. So far, the initial phase has attracted 3,200 fibre customers, well above the initial target and expectations with approximately 7% of those customers being new to KC broadband. Following the technical and commercial success of that initial phase, our next phase of the deployment of fibre will pass a further 30,000 homes and businesses by March 2015. As a consequence, overall capital expenditure for FY14 and FY15 will be consistent with current year guidance of £30 million.

To complement the fibre offering, KC has launched a trial KC TV service, using the YouView platform.

Kcom

Our Kcom segment covers the performance of our national business communications activities.

Kcom has reported a revenue decline of 6.9% to £137.5 million (2011: £147.8 million) with a corresponding EBITDA before exceptional items decrease to £14.5 million (2011: £16.1 million).

That revenue decline has been driven by a number of specific areas previously identified within Kcom, in particular a £7.7 million year over year reduction in the revenue associated with a specific one-off network build contract. Revenue from Kcom strategic focus areas of £122.1 million (2011: £121.7 million) represents further evidence of revenue stabilisation in difficult market conditions.

Whilst the current economic uncertainty is having an impact on the speed and level of investment decisions being taken, particularly in the enterprise market, we remain focused on pursuing only those opportunities that offer long term recurring revenue, at acceptable margins. That focus is beginning to yield positive results in the local authority, multi-site enterprise and small business markets, with further growth in the year over year order backlog. There have been a number of new customer contracts, renewals and extensions in the half year including Rail Settlement Plan (a division of the Association of Train Operating Companies), Asda, Manchester Airport and WorldPay.

In the public sector, Kcom has recently completed the successful migration of over 1000 schools on to the new East Midlands Public Services Network (emPSN). It is Kcom's largest and most complex

PSN roll-out to be completed to date and follows the successful launch of the Dorset PSN, which took place in July.

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 are broadly consistent with the prior year at £3.2 million (2011: £3.0 million).

That cost includes a net £0.8 million credit (2011: £0.8 million credit) associated with the financing of the Group's defined benefit pension schemes. With the accounting rule changes that will take effect in the next financial year, a credit will only occur when the scheme is in surplus. Any charge or credit will, from the 2014 financial year onwards, be reflected in the net interest line of the income statement.

Group operating profit

Group operating profit decreased to £29.9 million (2011: £30.8 million) reflecting a

- £1.6 million decrease in Group EBITDA before exceptional items
- £0.1 million credit from exceptional items (2011: NIL) reflecting the net result of a profit on disposal from a fixed asset investment and restructuring costs incurred during the period
- £0.6 million reduction in depreciation and amortisation

Finance costs

Finance costs for the period have reduced to £2.3 million (2011: £3.7 million) primarily as a result of new interest rate swaps which came into effect from January 2012. In order to provide certainty over future interest costs to the end of the Group's current bank facility in July 2015, the Group has hedged £60.0 million of debt at a weighted average rate of 2.7%. The Group had entered previously into fixed rate swap arrangements for £80.0 million of debt at a weighted average rate of 5.5%.

Taxation

The taxation charge of £7.0 million (2011: £7.4 million) reflects the ongoing unwind of the deferred tax asset as the Group moves towards a tax payment position. The effective rate of 25.2% (2011: 27.3%) is higher than the current corporation tax rate of 24% as it reflects the re-measurement of the deferred tax asset balance as a result of the reduction in corporation tax rates from 24% to 23% from next financial year.

Dividend

The interim dividend is 1.47 pence per share (2011: 1.33 pence). The dividend will be paid on 1 February 2013 to shareholders registered on 4 January 2013.

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 financial year and we will, at the full year results, be providing guidance on our future dividend policy.

Pension scheme

Net liabilities associated with the Group's retirement benefit obligations have reduced to £15.0 million (2011: £20.9 million) but have increased by £1.1 million from £13.9 million at 31 March 2012. The increase since the financial year end arises due to a reduction in the scheme assets of £1.8 million offset by a reduction in liabilities of £0.7 million.

Shortly before the end of the last financial year, the Group paid £6.9 million in respect of committed deficit contributions due in respect of the current financial year. Payment in the year of

£0.6 million (2011: £3.4 million) reflects committed deficit contributions for the month of March 2012, which was payable in arrears.

The next Actuarial valuation of the Group's defined benefit schemes' is due on 1 April 2013. The Group has commenced discussions with the Trustees of both schemes regarding approach to both the valuation and recovery plan.

Cash flow and net debt

The Group continues to generate strong cash flow although it has had a higher level of outgoings in the current period than in previous periods. Those outflows resulted in net debt increasing to £94.3 million (2011: £75.1 million). That net debt level remains comfortably below 1.5x EBITDA.

Two significant outflows in the period have been in respect of a movement in working capital and the purchase of shares associated with share scheme satisfaction amounts to £10.0 million (2011: £0.2 million). The working capital movement reflects a number of unconnected one-off factors and follows a period of exceptionally strong working capital management in the past three to four years. Our strong trade receivables management remains in evidence with average Days Sales Outstanding at the period end of 33 days (2011: 35 days).

As anticipated, cash-outflows associated with the purchase of tangible and intangible assets have increased to £14.3 million (2011: £10.9 million). This follows a number of periods of relatively low capital expenditure and, in line with previous guidance, the Group expects capital expenditure to be in the region of £30.0 million in this financial year.

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 billing 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.
- Customer service and delivery - one of the ways in which we seek to differentiate ourselves from our competitors is in the service and delivery that we provide to our customers. Failing to deliver a service that differentiates us would clearly result in us failing to meet one of our key business objectives.
- Recruitment and retention of the right people - people are our greatest asset and ensuring that we recruit and retain the right calibre of people with the right skill-set is key to the success of our business.

The risks outlined above are disclosed in more detail on pages 22 and 23 of the Annual Report and Accounts to 31 March 2012 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 2012 £'000**	Unaudited Six months ended 30-Sep 2011 £'000	Audited Year ended 31-Mar 2012 £'000
Revenue	1	**188,717**	197,952	387,316
Operating expenses		**(158,852)**	(167,184)	(329,546)
Operating profit		**29,865**	30,768	57,770
Analysed as:				
EBITDA before exceptional items	1	**39,110**	40,679	77,875
Exceptional items	2	**95**	-	-
Depreciation of property, plant and equipment		**(7,723)**	(8,574)	(17,591)
Amortisation of intangible assets		**(1,617)**	(1,337)	(2,514)
Finance costs		**(2,272)**	(3,746)	(6,663)
Share of profit / (loss) of associates		**4**	4	(15)
Profit before taxation	1	**27,597**	27,026	51,122
Taxation	3	**(6,954)**	(7,372)	(13,295)
Profit for the period attributable to equity holders		**20,643**	19,654	37,727
Earnings per share (pence)				
Basic	4	**4.08**	3.86	7.41
Diluted	4	**4.00**	3.72	7.13

Consolidated Interim Statement of Comprehensive Income

	Unaudited Six months ended 30-Sep 2012 £'000	Unaudited Six months ended 30-Sep 2011 £'000	Audited Year ended 31 Mar 2012 £'000
Profit for the period	**20,643**	19,654	37,727
Other comprehensive income			
Cash flow hedge fair value movements	**66**	(1,801)	(62)
Actuarial (losses) on retirement benefit obligation	**(2,489)**	(18,148)	(25,466)
Tax on items taken directly to other comprehensive income	**47**	4,734	5,616
Total comprehensive income for the period attributable to equity holders	**18,267**	4,439	17,815

Consolidated Interim Balance Sheet

	Note	**Unaudited As at 30-Sep 2012 £'000**	Unaudited As at 30-Sep 2011 £'000	Audited As at 31-Mar 2012 £'000
Non-current assets				
Goodwill		**85,272**	85,272	85,272
Other intangible assets		**12,321**	6,461	7,044
Property, plant and equipment		**120,237**	114,660	117,901
Investments		**16**	1,058	1,050
Deferred tax assets		**22,072**	33,974	28,372
		239,918	241,425	239,639
Current assets				
Inventories		**2,685**	2,736	3,663
Trade and other receivables		**75,149**	65,226	71,867
Cash and cash equivalents	6	**4,705**	13,667	8,333
Derivative financial instruments		**13**	-	-
		82,552	81,629	83,863
Total assets		**322,470**	323,054	323,502
Current liabilities				
Trade and other payables		**(133,247)**	(137,818)	(144,134)
Derivative financial instruments		**-**	(1,899)	(17)
Provisions for other liabilities and charges		**(1,053)**	(2,051)	(2,352)
Non-current liabilities				
Trade and other payables		**(303)**	(44)	(388)
Bank loans	6	**(98,708)**	(88,239)	(83,464)
Retirement benefit obligations		**(15,000)**	(20,900)	(13,886)
Derivative financial instruments		**(3,712)**	(3,606)	(3,748)
Provisions for other liabilities and charges		**(1,687)**	(2,619)	(2,056)
Total liabilities		**(253,710)**	(257,176)	(250,045)
Net assets		**68,760**	65,878	73,457
Capital and reserves, attributable to equity holders				
Share capital		**51,660**	51,660	51,660
Share premium account		**353,231**	353,231	353,231
Hedging and translation reserve		**(2,879)**	(4,684)	(2,945)
Accumulated losses		**(333,252)**	(334,329)	(328,489)
Total equity		**68,760**	65,878	73,457

Consolidated Interim Statement of Changes in Shareholders' Equity

	Share Capital £'000	Share Premium Account £'000	Hedging and Translation Reserve £'000	Accumulated Losses £'000	Total £'000
At 31 March 2011	**51,660**	**353,231**	**(2,883)**	**(328,814)**	**73,194**
Profit for the period	-	-	-	19,654	19,654
Change 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
Total comprehensive income for the period ended 30 September 2011 (unaudited)	-	-	(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)
At 30 September 2011 (unaudited)	**51,660**	**353,231**	**(4,684)**	**(334,329)**	**65,878**
Profit for the period	-	-	-	18,073	18,073
Change in fair value of financial derivative instruments	-	-	1,739	-	1,739
Actuarial losses on defined benefit pension schemes	-	-	-	(7,318)	(7,318)
Tax on actuarial gains on defined Benefit pension schemes	-	-	-	1,318	1,318
Tax on movement in cashflow hedges	-	-	-	(436)	(436)
Total comprehensive income for the period ended 31 March 2012	-	-	1,739	11,637	13,736
Tax credit relating to share schemes	-	-	-	521	521
Purchase of ordinary shares	-	-	-	(269)	(269)
Employee share schemes	-	-	-	822	822
Dividends	-	-	-	(6,871)	(6,871)
	-	-	-	(5,797)	(5,797)
At 31 March 2012	**51,660**	**353,231**	**(2,945)**	**(328,489)**	**73,457**
Profit for the period	-	-	-	20,643	20,643
Change in fair value of financial derivative instruments	-	-	66	-	66
Actuarial losses on defined benefit pension schemes	-	-	-	(2,489)	(2,489)
Tax on actuarial loss on defined benefit pension schemes	-	-	-	62	62
Tax on movement in cashflow hedges	-	-	-	(15)	(15)
Total comprehensive income for the period ended 30 September 2012 (unaudited)	-	-	66	18,201	18,267
Tax credit relating to share schemes	-	-	-	608	608
Purchase of ordinary shares	-	-	-	(10,038)	(10,038)
Employee share schemes	-	-	-	259	259
Dividends	-	-	-	(13,793)	(13,793)
	-	-	-	(22,964)	(22,964)
At 30 September 2012 (unaudited)	**51,660**	**353,231**	**(2,879)**	**(333,252)**	**68,760**

Consolidated Interim Cash Flow Statement

	Note	**Unaudited Six months Ended 30-Sep 2012 £'000**	Unaudited Six months Ended 30-Sep 2011 £'000	Audited Year Ended 31-Mar 2012 £'000
Cash flows from operating activities				
Operating profit		**29,865**	30,768	57,770
Adjustments for:				
- depreciation and amortisation		**9,340**	9,911	20,105
- (increase) / decrease in working capital		**(16,249)**	196	(629)
- restructuring costs and onerous lease payments		**(2,429)**	(2,189)	(3,451)
- pension deficit contributions		**(575)**	(3,375)	(16,888)
(Profit) / loss on sale of property, plant and equipment		**(138)**	20	(913)
(Profit) on sale of investments		**(857)**	-	-
Net cash generated from operations	6	**18,957**	35,331	55,994
Cash flows from investing activities				
Purchase of property, plant and equipment		**(7,362)**	(7,420)	(17,249)
Purchase of intangible assets		**(6,894)**	(3,472)	(4,899)
Proceeds on disposal of property, plant and equipment		**465**	-	913
Proceeds on disposal of investments		**1,894**	-	-
Net cash used in investing activities		**(11,897)**	(10,892)	(21,235)
Cash flows from financing activities				
Dividends paid	6	**(13,793)**	(12,915)	(19,786)
Interest paid		**(2,023)**	(3,764)	(7,363)
Capital element of finance lease repayments		**166**	(477)	(392)
Increase / (repayment) of bank loans		**15,000**	-	(5,000)
Purchase of ordinary shares		**(10,038)**	(151)	(420)
Net cash used in financing activities		**(10,688)**	(17,307)	(32,961)
(Decrease) / increase in cash and cash equivalents		**(3,628)**	7,132	1,798
Cash and cash equivalents at the beginning of the period		**8,333**	6,535	6,535
Cash and cash equivalents at the end of the period		**4,705**	13,667	8,333

Notes to the unaudited interim financial information

1. Segmental Analysis

The chief operating decision-maker of the Group is the KCOM Group PLC Board. The Board considers the performance of the four brands and the PLC function in assessing the performance of the Group and making decisions about the allocation of resources. These are the Group's operating segments.

The KC brand addresses the needs of our East Yorkshire customers and the Eclipse, Kcom and Smart421 brands serve enterprise, public sector organisations and small business markets across the UK.

The Board assessed that the Kcom, Smart421 and Eclipse brands have similar profiles offering similar products and services, similar production and distribution processes and operating in a consistent regulatory environment. In line with IFRS 8, the Kcom, Smart421 and Eclipse brands are aggregated together and reported as the 'Kcom' segment for the year ended 31 March 2012. This reporting is also consistent with the reporting to the KCOM Group PLC Board. The remaining brands of KC and the PLC function are reported respectively in the 'KC' segment and 'PLC' segment.

For the six months ended 30 September 2011, the Group considered the brands KC and Eclipse and the brands Kcom and Smart421 as two reporting segments presented as 'KC & Eclipse' and 'Kcom & Smart421'.

Consistent with the presentation in the year ended 31 March 2012, segmental disclosures have been restated and presented on the current basis to show the movement of the Eclipse brand from the 'KC' segment into the 'Kcom' segment.

	Unaudited Six months ended 30-Sep 2012 £'000	Restated Unaudited Six months ended 30-Sep 2011 £'000	Audited Year ended 31-Mar 2012 £'000
Revenue			
KC	**53,629**	53,029	103,595
Kcom	**137,509**	147,798	289,316
PLC[1]	**(2,421)**	(2,875)	(5,595)
Total	**188,717**	197,952	387,316
Group EBITDA			
KC	**27,754**	27,583	53,223
Kcom	**14,540**	16,149	31,043
PLC[1]	**(3,184)**	(3,053)	(6,391)
Total – before exceptional items	**39,110**	40,679	77,875
Exceptional items:			
KC	**(346)**	-	-
Kcom	**(378)**	-	1,100
PLC[1]	**819**	-	(1,100)
Total exceptional items	**95**	-	-
EBITDA post exceptional items	**39,205**	40,679	77,875

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

Notes to the unaudited interim financial information continued

1. Segmental Analysis (continued)

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

	Unaudited Six months ended 30-Sep 2012 £'000	Unaudited Six months ended 30-Sep 2011 £'000	Audited Year ended 31-Mar 2012 £'000
EBITDA post exceptional items	**39,205**	40,679	77,875
Depreciation	**(7,723)**	(8,574)	(17,591)
Amortisation	**(1,617)**	(1,337)	(2,514)
Finance costs	**(2,272)**	(3,746)	(6,633)
Share of profit / (loss) of associates	**4**	4	(15)
Profit before tax	**27,597**	27,026	51,122

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

	Unaudited Six months ended 30-Sep 2012 £'000	Restated Unaudited Six months ended 30-Sep 2011 £'000	Audited Year ended 31-Mar 2012 £'000
Revenue from external customers			
KC	**51,050**	49,954	97,562
Kcom	**137,304**	147,599	288,916
PLC[1]	**363**	399	838
Total	**188,717**	197,952	387,316
Inter-segment revenue			
KC	**2,579**	3,075	6,033
Kcom	**205**	199	400
PLC[1]	**(2,784)**	(3,274)	(6,433)
Total	**-**	-	-
	188,717	197,952	387,316

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

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

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.

	Unaudited Six months ended 30-Sep 2012 £'000	Unaudited Six months ended 30-Sep 2011 £'000	Audited Year ended 31-Mar 2012 £'000
Exceptional items:			
- Profit on sale of investment	**(857)**	-	-
- Restructuring costs relating to employees	**762**	-	-
- Onerous leases	**-**	-	1,100
- Profit on Network Build	**-**	-	(1,100)
(Credited) to operating profit	**(95)**	-	-

Restructuring costs arise as a result of organisational changes.

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

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

The profit on the Network Build aspect of the contract through improved operational focus represents the reversal of a provision recorded in 2011 for losses.

3. Taxation

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to the expected total annual earnings. The effective rate of 25.2% (2011: 27.3%) is higher than the current corporation tax rate of 24% as it reflects the re-measurement of the deferred tax asset balance as a result of the reduction in corporation tax rates from 24% to 23% from next financial year.

Notes to the unaudited interim financial information continued

4. Earnings per share

Weighted average number of shares	**Unaudited Six months ended 30-Sep 2012 No.**	Unaudited Six months ended 30-Sep 2011 No.	Audited Year ended 31-Mar 2012 No.
For basic earnings per share	**505,675,503**	509,574,390	509,443,836
Share options in issue	**10,783,721**	19,388,758	19,388,758
For diluted earnings per share	**516,459,224**	528,963,148	528,832,594
Earnings	**£'000**	£'000	£'000
Profit attributable to equity holders of the company	**20,643**	19,654	37,727
Adjustments:			
Exceptional items	**(95)**	-	-
Tax on exceptional items	**25**	-	-
Adjusted profit attributable to equity holders of the company	**20,573**	19,654	37,727

Earnings per share	**Pence**	Pence	Pence
Basic	**4.08**	3.86	7.41
Diluted	**4.00**	3.72	7.13
Adjusted basic	**4.07**	3.86	7.41
Adjusted diluted	**3.98**	3.72	7.13

5. Dividends

	Unaudited Six months ended 30-Sep 2012 £'000	Unaudited Six months ended 30-Sep 2011 £'000	Audited Year ended 31-Mar 2012 £'000
Final dividend for the year ended 31 March 2011 of 2.5 pence per share	-	12,915	12,915
Interim dividend for the year ended 31 March 2012 of 1.33 pence per share	**-**	-	6,871
Final dividend for the year ended 31 March 2012 of 2.67 pence per share	**13,793**	-	-
Total	**13,793**	12,915	19,786

The proposed interim dividend for the six months ended 30 September 2012 is 1.47 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 30-Sep 2012 £'000	Unaudited Six months ended 30-Sep 2011 £'000	Audited Year ended 31 Mar 2012 £'000
Opening net debt	**75,267**	81,997	81,997
Closing net debt	**94,306**	75,067	75,267
(Increase) / reduction in the period	**(19,039)**	6,930	6,730
Reconciliation of movement in the period			
Net cashflow from operations	**18,957**	35,331	55,994
Capital expenditure	**(14,256)**	(10,892)	(22,148)
Interest	**(2,023)**	(3,764)	(7,363)
Dividends	**(13,793)**	(12,915)	(19,786)
Purchase of ordinary shares	**(10,038)**	(151)	(420)
Other	**2,114**	(679)	453
(Increase) / reduction in the period	**(19,039)**	6,930	6,730

Net debt comprises:

	Unaudited Six months ended 30-Sep 2012 £'000	Unaudited Six months ended 30-Sep 2011 £'000	Audited Year ended 31 Mar 2012 £'000
Cash and cash equivalents	**(4,705)**	(13,667)	(8,333)
Borrowings	**98,708**	88,239	83,464
Finance leases	**303**	495	136
Total net debt	**94,306**	75,067	75,267

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 4 to 6 and in the Business review in the Group's 2012 Annual Report and Accounts.

This condensed consolidated interim financial information was approved for issue on 27 November 2012.

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 2012 were approved by the Board of directors on 31 May 2012 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 2012 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 2012, 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 2012 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 2012 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 2012 Annual Report and Accounts.

The directors of KCOM Group PLC are listed in the KCOM Group Annual Report for 31 March 2012

Signed by Order of the Board on 27 November 2012 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 2012, 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 2012 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
27 November 2012