24 November 2009

KCOM GROUP PLC (KCOM.L) ANNOUNCES
UNAUDITED INTERIM RESULTS TO 30 SEPTEMBER 2009

KCOM Group PLC (KCOM.L) ("KCOM Group" or the "Group") today announces its unaudited interim results for the half year ended 30 September 2009.

Highlights

- Net cash inflow from operations improved by £11.1m to £32.0m (2008: £20.9m).
- The continued strong cash performance has seen net debt reduce by a further £11.7 million in the period since 31 March 2009, to £146.2 million (2008: £180.2 million) and by £34.0 million in the last 12 months.
- Revenue reduction to £210.8 million (2008: £243.6 million) consistent with decision to focus on long term profitable customer relationships whilst exiting low margin commodity based operations.
- EBITDA before exceptional items improved to £37.0 million (2008: £34.4 million) reflecting lower operating costs across the Group.
- Profit before tax and exceptional items increases 71.2 per cent to £16.2 million (2008: £9.4 million).
- Maintained interim dividend of 0.5 pence (2008: 0.5 pence).

Summary

	Unaudited Six months ended 30 Sept 09 (£ million)	**Unaudited Six months ended 30 Sept 08 (£ million)**	**Change over prior period (%)**
Results from continuing operations before exceptional items (note 1)			
Revenue	210.8	243.6	(13.5)
Operating profit	20.0	16.0	25.0
EBITDA	37.0	34.4	7.5
Profit before tax	16.2	9.4	72.3
Reported results			
Net cash inflow from operations	32.0	20.9	53.1
Net debt (note 6)	146.2	180.2	(18.9)
Profit/(loss) before tax	13.3	(103.0)	
Basic earnings/(loss) per share (pence)	1.89	(19.71)	
Dividend per share (pence)	0.5	0.5	

Bill Halbert, Executive Chairman, said "These encouraging results demonstrate the real progress that the Group has made as a result of implementing a series of strategic and operational changes. The actions taken have resulted in a simplified business and a stronger competitive and financial position. Whilst continuing to concentrate our efforts on improving the overall financial strength of the Group, we will increasingly seek to maximise the growth opportunities that are now available to us."

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Business and Operating Review

Group overview

Group revenue reduction of 13.5 per cent to £210.8 million (2008: £243.6 million) is in line with our expectations. There has been a favourable movement in the business mix of revenue, such that approximately 90 per cent of the current year revenue is recurring (i.e. contracted or run rate) in nature compared to a total of 81 per cent for the same period in 2008.

Despite the reduction in revenue, Group EBITDA before exceptional items has increased to £37.0 million (2008: £34.4 million). This improvement reflects a reduction in Group overhead expenses consistent with the actions the Board has undertaken to reduce both the absolute amount of overhead and the complexity of the Group.

Continued strong working capital management coupled with lower overall borrowing costs has seen net financing costs reduce by £2.8 million to £3.8 million (2008: £6.6 million).

The combination of these factors has resulted in a Group profit before taxation and exceptional items of £16.2 million compared to £9.4 million in the previous period.

Kingston Communications overview

The Kingston Communications ("KC") reporting segment includes the financial results of the Hull and East Yorkshire Licensed Area activities, the Eclipse Internet business ("Eclipse") and the Information Services business. The KC results have been historically reported under the Telecoms and Internet and Information Services segments.

Overall the KC businesses have reported a 4.4 per cent decline in revenue to £64.9 million (2008 restated: £67.9 million). That decline primarily reflects continued fixed line call volume reduction within Hull and East Yorkshire and churn within the Eclipse Internet customer base. A core objective for this newly focused business is to reverse those trends.

Despite this, EBITDA before exceptional items increased to £30.7 million (2008 restated: £29.9 million) benefiting from improved network delivery costs within Eclipse and a reduction in SG&A.

As in previous years, the first half reported results include the recognition of the revenue and profitability associated with the publication of the Hull Colour Pages directory for 2009.

At the end of September, the Group committed to spend £2.75 million as part of its ongoing investment in the Hull and East Yorkshire network. This will upgrade the IP core network infrastructure thereby improving network performance and providing a more effective platform for the launch of new products and next generation services.

Kcom overview

The Kcom reporting segment comprises the financial results of the newly created Kcom managed communications services business ("Kcom"), including the Smart 421 business ("Smart"). These results were previously reported as Integration & Managed Services, with the mid-market enterprise activities previously included in the Telecoms and Internet Services segment.

The strategy for Kcom is to focus on higher value added services and, as a result, we have exited certain low margin revenue streams. Reported revenue consequently shows a 16.7 per cent decline to £147.2 million (2008 restated: £176.7 million). During the course of the period, we have won a range of new contracts with, amongst others, the South West Grid for Learning (through Research Machines), Gloucestershire Constabulary, Specsavers, Toyota, Hermes (formerly Parcelnet) and Abellio (formerly Travel London). Our revised strategy with the enhanced capability, following the arrangement with BT, is already creating new opportunities that were previously unavailable to us.

EBITDA before exceptional items increased to £10.7 million (2008 restated: £7.2 million). This EBITDA improvement reflects the significant steps taken to reduce operating costs, such as the 150 employee headcount reduction undertaken in January 2009 and the development of the strategic relationship with BT.

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 costs from the PLC segment amounted to £4.4 million (2008 restated: £2.6 million). The increase is due to a charge of £2.3 million (2008: £0.7 million) that represents the net cost of the interest charge on plan liabilities and the expected return on scheme assets.

Group Operating Profit

Group operating profit is £17.1 million (2008: loss of £96.5 million) reflecting the improvement in EBITDA, reduced depreciation and amortisation and the significant reduction in the quantum of exceptional items reported (£2.9 million in the current year compared to £112.5 million in the previous year). Group operating profit before exceptional items increased 25 per cent to £20.0 million (2008: £16.0 million).

Depreciation and amortisation has reduced by 7.6 per cent to £17.0 million (2008: £18.4 million). With depreciation consistent with the prior year at £10.9 million (2008: £10.8 million), the reduction arises as a result of a decrease in amortisation of intangible assets and, specifically, reduced amortisation of intangible assets relating to acquisitions of £3.9 million (2008: £4.5 million).

The exceptional items incurred during the year reflect redundancy costs of £1.3 million (2008: £2.5 million) with the balance of £1.6 million relating to one-off expenses associated with activities undertaken to transform the Group.

Finance costs

Net finance costs in the period amounted to £3.8 million (2008: £6.6 million) reflecting both the lower level of net bank debt and lower effective borrowing costs.

Taxation

The taxation charge of £3.6 million (2008: £1.2 million credit to the Income Statement), reflects the partial unwind of the Group's deferred taxation asset and represents a 27.1 per cent effective tax rate on a profit before taxation of £13.3 million (2008: a loss of £103.0 million).

Dividend

The interim dividend is 0.5 pence per share (2008: 0.5 pence). The dividend will be paid on 1 February 2010 to shareholders registered on 18 December 2009.

Pension scheme

Liabilities associated with the Group's retirement benefit obligations have increased to £71.9 million (2008: £12.9 million). This increase arises as a consequence of a £11.6 million fall in the value of investment assets held by the two schemes and an increase of £47.4 million in the value of retirement benefit liabilities. The increase in the valuation of scheme liabilities is a result of the reduction in the

AA corporate bond yield to 5.4 per cent (2008: 7.3 per cent). Whilst there has been a decline in the valuation of scheme assets since the prior period, the assets have increased in value by £9.5 million since 31 March 2009.

Balance sheet

The reduction in total consolidated equity to £12.2 million (2008: £70.0 million) primarily reflects the £59.0 million increase in liabilities associated with the Group pension schemes.

Cash flow and net debt

Net debt has reduced to £146.2 million (2008: £180.2 million) as a result of a strong net cash inflow from operations of £32.0 million (2008: £20.9 million). Net debt has also reduced by £11.7 million from £157.9 million as at 31 March 2009.

Cash out flows associated with the purchase of tangible and intangible assets have reduced to £10.0 million (2008: £14.9 million) reflecting in part the benefits of lower capital intensity following development of the BT relationship.

The net debt reduction has been achieved despite payments of £8.6 million in respect of exceptional restructuring expenses and £4.9 million in respect of a pensions enhanced transfer value exercise. The majority of these cashflow payments were recognised in the Income Statement for the year ended 31st March 2009. Underlying net cash flow performance is therefore particularly strong reflecting the reduction in working capital employed in the business and in particular to the reduction in the resale of third party networking infrastructure within the Kcom business.

Outlook

The Board remains confident that the actions it has undertaken over the last twelve months will see a continued improvement in the overall quality of the Group's activities. We anticipate exiting the year with an improved overall financial position and with an increasing ability to exploit the growth opportunities that are now available to us.

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 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 a result of new information, future events or otherwise.

Principal Risk & Uncertainties

The risks and uncertainties faced by the Group as disclosed on pages 12 and 13 of the Annual Report and Accounts to 31 March 2009 are still valid.

ENDS

Consolidated Interim Income Statement

	Note	**Unaudited Six months ended 30-Sep 2009 £'000**	Unaudited Six months ended 30-Sep 2008 £'000	Audited Year ended 31-Mar 2009 £'000
Revenue	1	**210,770**	243,571	472,439
Operating expenses		**(193,673)**	(340,026)	(571,688)
Group operating profit/(loss)		**17,097**	(96,455)	(99,249)
Analysed as:				
Group EBITDA	1	**37,016**	34,421	65,141
Exceptional items - impairment of goodwill	2	**-**	(106,890)	(106,890)
Exceptional items - other	2	**(2,900)**	(5,595)	(22,380)
Depreciation of property, plant and equipment		**(10,940)**	(10,773)	(20,331)
Amortisation of intangible assets		**(6,079)**	(7,618)	(14,789)
Finance costs		**(3,865)**	(6,751)	(12,304)
Finance income		**30**	156	197
Share of profit of associates		**5**	6	11
Profit/(loss) before taxation		**13,267**	(103,044)	(111,345)
Taxation	3	**(3,603)**	1,216	4,863
Profit/(loss) for the period		**9,664**	(101,828)	(106,482)
Profit/(loss) for the period attributable to equity holders of the Company		**9,664**	(101,828)	(106,482)
Earnings/(loss) per share				
Basic	4	**1.89**	(19.71)	(20.70)
Diluted	4	**1.89**	(19.71)	(20.70)

Statement of Comprehensive Income

	Unaudited Six months ended 30-Sep 2009 £'000	Unaudited Six months ended 30-Sep 2008 £'000	Audited Year Ended 31-Mar 2009 £'000
Profit/(loss) for the period	**9,664**	(101,828)	(106,482)
Other comprehensive income			
Cash flow hedges	**431**	836	(6,568)
Actuarial losses on retirement benefit obligation	**(16,338)**	(4,542)	(53,550)
Tax on items taken directly to equity	**3,065**	153	14,957
Other comprehensive loss for period	**(3,178)**	(105,381)	(151,643)
Total comprehensive loss for the period attributable to equity holders	**(3,178)**	(105,381)	(151,643)

Consolidated Interim Balance Sheet

	Unaudited	Unaudited	Audited
	As at	As at	As at
	30-Sep	30-Sep	31-Mar
	2009	2008	2009
	£'000	£'000	£'000
Non-current assets			
Goodwill	**86,932**	85,520	86,410
Other intangible assets	**16,092**	25,802	20,502
Property, plant and equipment	**128,912**	131,833	131,009
Investments	**1,058**	846	1,049
Deferred tax assets	**59,049**	40,960	59,424
	292,043	284,961	298,394
Current assets			
Inventories	**3,199**	12,460	4,117
Trade and other receivables	**73,042**	108,533	86,469
Cash and cash equivalents	**9,863**	20,390	17,508
	86,104	141,383	108,094
Total assets	**378,147**	426,344	406,488
Current liabilities			
Trade and other payables	**(125,883)**	(140,240)	(136,944)
Non-current liabilities			
Bank loans	**(154,340)**	(199,063)	(174,195)
Retirement benefit obligations	**(71,939)**	(12,858)	(60,993)
Long term provisions and other payables	**(13,742)**	(4,205)	(13,737)
Total liabilities	**(365,904)**	(356,366)	(385,869)
Net assets	**12,243**	69,978	20,619
Capital and reserves, attributable to equity holders of the Company			
Share capital	**51,660**	51,660	51,660
Share premium account	**353,231**	353,231	353,231
Hedging and translation reserve	**(6,840)**	133	(7,271)
Retained earnings	**(385,808)**	(335,046)	(377,001)
Total equity	**12,243**	69,978	20,619

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 31 March 2008	51,627	353,111	(703)	(219,350)	184,685
Loss for the period	-	-	-	(101,828)	(101,828)
Increase in fair value of financial derivative instruments	-	-	836	-	836
Actuarial losses on defined benefit pension schemes	-	-	-	(4,542)	(4,542)
Tax on items taken directly to equity	-	-	-	153	153
Total comprehensive income for the period ended 30 September 2008	-	-	836	(106,217)	(105,381)
Shares issued in the period	33	120	-	-	153
Employee share schemes	-	-	-	233	233
Dividends	-	-	-	(9,712)	(9,712)
	33	120	-	(9,479)	(9,326)
At 30 September 2008	**51,660**	**353,231**	**133**	**(335,046)**	**69,978**
Loss for the period	-	-	-	(4,654)	(4,654)
Decrease in fair value of financial derivative instruments	-	-	(7,404)	-	(7,404)
Actuarial losses on defined benefit pension schemes	-	-	-	(49,008)	(49,008)
Tax on items taken directly to equity	-	-	-	14,804	14,804
Total comprehensive income for the period ended 31 March 2009	-	-	(7,404)	(38,858)	(46,262)
Employee share schemes	-	-	-	281	281
Purchase of ordinary shares	-	-	-	(795)	(795)
Dividends	-	-	-	(2,583)	(2,583)
	-	-	-	(3,097)	(3,097)
At 31 March 2009	**51,660**	**353,231**	**(7,271)**	**(377,001)**	**20,619**
Profit for the period	-	-	-	9,664	9,664
Increase in fair value of financial derivative instruments	-	-	431	-	431
Actuarial losses on defined benefit pension schemes	-	-	-	(16,338)	(16,338)
Tax on actuarial loss on defined benefit pension schemes	-	-	-	3,065	3,065
Total comprehensive income for the period ended 30 September 2009	-	-	431	(3,609)	(3,178)
Employee share schemes	-	-	-	434	434
Purchase of ordinary shares	-	-	-	(466)	(466)
Dividends	-	-	-	(5,166)	(5,166)
	-	-	-	(5,198)	(5,198)
At 30 September 2009	**51,660**	**353,231**	**(6,840)**	**(385,808)**	**12,243**

Consolidated Interim Cash Flow Statement

	Unaudited Six months Ended 30-Sep 2009 £'000	Unaudited Six months ended 30-Sep 2008 £'000	Audited Year Ended 31-Mar 2009 £'000
Net cash flow from operating activities			
Operating profit/(loss)	**17,097**	(96,455)	(99,249)
Adjustments for:			
Depreciation and amortisation	**17,019**	18,391	35,120
Impairment of goodwill	**-**	106,890	106,890
Restructuring costs	**(8,556)**	(2,941)	(7,691)
Pension enhanced transfer value payment	**(4,900)**	-	-
Decrease/(increase) in working capital	**10,784**	(4,775)	26,478
Employee share schemes	**575**	233	712
Loss on sale of property, plant and equipment	**-**	(437)	-
Income taxes paid	**-**	(53)	-
Net cash inflow from operations	**32,019**	20,853	62,260
Cash flows from investing activities			
Proceeds from sale of businesses	**-**	1,450	1,450
Earn-out payment on acquisition	**(522)**	-	(891)
Purchase of property, plant and equipment	**(7,966)**	(11,888)	(20,060)
Proceeds from sale of property, plant & equipment	**-**	-	25
Purchase of intangible assets	**(2,082)**	(3,040)	(4,747)
Purchase of investments	**-**	-	(176)
Net cash used in investing activities	**(10,570)**	(13,478)	(24,399)
Cash flows from financing activities			
Dividends paid	**(5,166)**	(9,712)	(12,295)
Issue costs of long term loans	**(458)**	(153)	(318)
Interest paid	**(3,361)**	(7,857)	(13,352)
Interest received	**30**	156	196
Capital element of finance lease repayments	**(139)**	(650)	(815)
Repayment of bank loans	**(20,000)**	-	(25,000)
Net cash used in financing activities	**(29,094)**	(18,216)	(51,584)
Decrease in cash and cash equivalents	**(7,645)**	(10,841)	(13,723)
Cash and cash equivalents at the beginning of the period	**17,508**	31,231	31,231
Cash and cash equivalents at the end of the period	**9,863**	20,390	17,508

Notes to the unaudited interim financial information

1. Segmental Analysis

KCOM Group PLC operates two separate businesses – Kingston Communications and Kcom. These businesses have separate management teams and offer different products and services. PLC includes Public Company central and share scheme expenses, eliminations and the costs, excluding current and past service costs, associated with the Group's defined benefit pension schemes.
The chief operating decision-maker of the Group is the KCOM Group PLC Board. The Board considers the performance of Kingston Communications and Kcom in assessing the performance of the Group and making decisions about the allocation of resources. Segment disclosures have been presented on this basis.

	Unaudited Six months ended 30-Sep 2009 £'000	Restated Unaudited Six months ended 30-Sep 2008 £'000	Restated Audited Year ended 31-Mar 2009 £'000
Revenue			
Kingston Communications	**64,941**	67,941	127,969
Kcom	**147,223**	176,744	345,568
PLC[1]	**(1,394)**	(1,114)	(1,098)
Total	**210,770**	243,571	472,439
Group EBITDA			
Kingston Communications	**30,747**	29,856	57,892
Kcom	**10,671**	7,214	14,203
PLC[1]	**(4,402)**	(2,649)	(6,954)
Total – before exceptional items	**37,016**	34,421	65,141
Exceptional items:			
Kingston Communications	**(303)**	(159)	(2,728)
Kcom	**(1,194)**	(109,737)	(118,374)
PLC[1]	**(1,403)**	(2,589)	(8,168)
Total exceptional items	**(2,900)**	(112,485)	(129,270)
EBITDA post exceptional items	**34,116**	(78,064)	(64,129)

A reconciliation of total EBITDA to total profit/(loss) before income tax is provided as follows:

EBITDA post exceptional items	**34,116**	(78,064)	(64,129)
Depreciation	**(10,940)**	(10,773)	(20,331)
Amortisation	**(6,079)**	(7,618)	(14,789)
Finance costs	**(3,865)**	(6,751)	(12,304)
Finance income	**30**	156	197
Share of profit of associates	**5**	6	11
Profit/(loss) before tax	**13,267**	(103,044)	(111,345)

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

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 Six months ended 30-Sep 2009 £'000	Restated Unaudited Six months ended 30-Sep 2008 £'000	Restated Audited Year ended 31-Mar 2009 £'000
Revenue from external customers			
Kingston Communications	**64,104**	68,055	129,864
Kcom	**146,300**	175,089	341,696
PLC[1]	**366**	427	879
Total	**210,770**	243,571	472,439
Inter-segment revenue			
Kingston Communications	**837**	871	1,549
Kcom	**923**	8,707	13,704
PLC[1]	**(1,760)**	(9,578)	(15,253)
Total	**-**	-	-
	210,770	243,571	472,439

	Unaudited Six months ended 30-Sep 2009 £'000	Restated Unaudited Six months ended 30-Sep 2008 £'000	Restated Audited Year ended 31-Mar 2009 £'000
Total assets			
Kingston Communications	**115,216**	113,524	87,511
Kcom	**265,715**	303,004	278,907
PLC	**(2,784)**	9,816	40,070
	378,147	426,344	406,488

[1] PLC includes head office costs, shared services, eliminations, share scheme expenses and the costs, excluding current and past service costs, associated with the Group's defined benefit pension schemes.

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 Six months ended 30-Sep 2009 £'000	Unaudited Six months ended 30-Sep 2008 £'000	Audited Year ended 31-Mar 2009 £'000
Exceptional items:			
- Restructuring costs	**2,900**	2,507	14,597
- Loss on Lehman Brothers	**-**	1,000	1,000
- Onerous lease provision	**-**	2,088	6,977
- Reversal of impairment of unlisted fixed asset investment	**-**	-	(194)
Exceptional items – other	**2,900**	5,595	22,380
Exceptional items – impairment of goodwill	**-**	106,890	106,890
Charged to operating profit/(loss)	**2,900**	112,485	129,270
Charged to profit/(loss) before taxation	**2,900**	112,485	129,270

The loss of £1.0m on Lehman Brothers in the prior period 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 in the prior period is an impairment of the carrying value of the Kcom division.

3. Taxation

The taxation (charge)/credit on activities is set out below:

	Unaudited Six months ended 30-Sep 2009 £'000	Unaudited Six months ended 30-Sep 2008 £'000	Audited Year ended 31-Mar 2009 £'000
Corporation tax	**-**	(53)	(53)
Deferred tax	**(3,603)**	1,269	4,916
Group total	**(3,603)**	1,216	4,863

There are no unprovided deferred tax assets in respect of accelerated capital allowances at 30 September 2009 or 31 March 2009 (2008: £nil).

Notes to the unaudited interim financial information continued

4. Earnings per share

Weighted average number of shares	**Unaudited Six months ended 30-Sep 2009 No.**	Unaudited Six months ended 30-Sep 2008 No.	Audited Year ended 31-Mar 2009 No.
For basic earnings/(loss) per share	**510,993,457**	516,569,976	514,388,032
Share options in issue	**680,042**	2,990,773	1,962,524
For diluted earnings/(loss) per share	**511,673,499**	519,560,749	516,350,555

Earnings/(loss) per share	**pence**	pence	pence
Basic	**1.89**	(19.71)	(20.70)
Diluted	**1.89**	(19.71)	(20.70)

5. Dividends

	Unaudited Six months ended 30-Sep 2009 £'000	Unaudited Six months ended 30-Sep 2008 £'000	Audited Year ended 31-Mar 2009 £'000
Final dividend for the year ended 31 March 2008 of 1.88 pence per share	**-**	9,712	9,712
Interim dividend for the year ended 31 March 2009 of 0.5 pence per share	**-**	-	2,583
Final dividend for the year ended 31 March 2009 of 1.0 pence per share	**5,166**	-	-
Total	**5,166**	9,712	12,295

The proposed interim dividend for the six months ended 30 September 2009 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. Movement in net debt

	Unaudited Six months ended 30-Sep 2009 £'000	Unaudited Six months ended 30 Sep 2008 £'000	Audited Year ended 31 March 2009 £'000
Opening net debt	**157,900**	168,905	168,905
Closing net debt	**146,242**	180,246	157,900
Reduction/(increase) in the year	**11,658**	(11,341)	11,005
Reconciliation of movement in the year			
Net cashflow from operations	**32,019**	20,853	62,260
Capital expenditure	**(10,048)**	(14,928)	(24,958)
M&A investments	**(522)**	1,450	559
Interest	**(3,789)**	(7,907)	(13,474)
Dividends	**(5,166)**	(9,712)	(12,295)
Other	**(836)**	(1,097)	(1,087)
Reduction/(increase) in the year	**11,658**	(11,341)	11,005

7. Basis of preparation and publication of interim results

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

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 2009 were approved by the Board of directors on 9 June 2009 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 237 of the Companies Act 1985.

This condensed consolidated interim financial information has been reviewed, not audited.

Basis of preparation
This condensed consolidated interim financial information for the six months ended 30 September 2009 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 2009, which have been prepared in accordance with IFRSs as adopted by the European Union.

Accounting policies
Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 March 2009, as described in those annual financial statements.

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

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 April 2009.

- IAS 1 (revised), 'Presentation of financial statements'. The most significant change within IAS1 (revised) is the requirement to produce a statement of comprehensive income setting out all items of income and expense relating to non-owner changes in equity. There is a choice between presenting comprehensive income in one statement or in two statements comprising an income statement and a separate statement of comprehensive income. The Group has elected to present comprehensive income in two statements. In addition, IAS 1 (revised) requires the statement of changes in shareholders' equity to be presented as a primary statement. The other revisions to IAS 1 have not had a significant impact on the presentation of the Group's financial information. The interim financial statements have been prepared under the revised disclosure requirements.

- IFRS 8, 'Operating segments'. IFRS 8 replaces IAS 14, 'Segment reporting', and requires the disclosure of segment information on the same basis as the management information provided to the chief operating decision maker.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Board of directors.

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 April 2009, but are not currently relevant for the group.
- IFRIC 13, 'Customer loyalty programmes'.
- IFRIC 15, 'Agreements for the construction of real estate'.
- IFRIC 16, 'Hedges of a net investment in a foreign operation'.

Notes to the unaudited interim financial information continued

7. Basis of preparation and publication of interim results (continued)

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 April 2009 and have not been early adopted:

- IFRS 3 (revised), ‘Business combinations’ and consequential amendments to IAS 27, ‘Consolidated and separate financial statements’, IAS 28, ‘Investments in associates’ and IAS 31, ‘Interests in joint ventures’, effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The Group will apply IFRS 3 (revised) to all business combinations from 1 April 2010.

- IFRIC 17, ‘Distributions of non-cash assets to owners’, effective for annual periods beginning on or after 1 July 2009. This is not currently applicable to the group, as it has not made any non-cash distributions.

- IFRIC 18, ‘Transfers of assets from customers’, effective for transfers of assets received on or after 1 July 2009.

The impact of adopting other standards, both mandatory and those not yet effective, is not considered material to the group’s results.

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 2009

Signed by Order of the Board on 24 November 2009 by: