23 November 2010

KCOM GROUP PLC (KCOM.L) ANNOUNCES UNAUDITED INTERIM RESULTS TO 30 SEPTEMBER 2010

KCOM Group PLC (KCOM.L) ("KCOM Group" or the "Group") announces its unaudited interim results for the half year ended 30 September 2010.

"Successful transformation and resultant financial stability enables dividend increase"

Summary

	Unaudited Six months ended 30 Sept 10 (£ million)	Unaudited Six months ended 30 Sept 09 (£ million)	Change over prior period (%)
Results from continuing operations before exceptional items			
Revenue	194.8	210.8	(7.6)
Operating profit	25.2	20.0	26.0
EBITDA	38.9	37.0	5.1
Profit before tax	22.0	16.2	35.8
Reported results			
Net cash inflow from operations	21.2	32.0	(33.8)
Net debt (note 6)	111.8	146.2	
Profit before tax	23.2	13.3	74.4
Basic earnings per share (pence)	3.21	1.89	69.8
Dividend per share (pence)	1.1	0.5	120.0

Highlights

- Increased interim dividend to 1.1 pence (2009: 0.5 pence) with a commitment to grow full year dividend payments by at least 10% per annum, over the next two years, reflecting confidence in continuing earnings and cash generation.
- EBITDA before exceptional items improves to £38.9 million (2009: £37.0 million) reflecting lower operating costs across the Group.
- Profit before tax and exceptional items increases 35.8% to £22.0 million (2009: £16.2 million).
- New £200 million banking facility agreement signed providing financing to July 2015.
- Revenue reduction to £194.8 million (2009: £210.8 million) consistent with our strategy to focus on long term profitable customer relationships whilst exiting low margin commodity based operations and the sale in January 2010 of certain break-fix maintenance contracts to Phoenix IT Group.
- Strong cash generation reduces net debt further to £111.8 million (2009: £146.2 million).

Bill Halbert, Executive Chairman, said "We are pleased to report half year performance in line with expectations. Our strong profit growth in the first half reflects the actions taken over the past eighteen months to simplify and strengthen the Group.

"The signing of our new banking facility to July 2015, coupled with greater visibility of our pension commitments, means that financial stability is assured. This stability and strengthened competitive position gives us the ability and confidence to commit to increased shareholder returns whilst also forming a platform for future organic growth."

Outlook

The Board expects the Group to continue to trade in line with current market expectations, through the second half of this year. Our commitment to medium term dividend progression underlines our confidence in ongoing cash generation and earnings.

Enquiries:

KCOM Group PLC:

Bill Halbert, Executive Chairman Paul Simpson, CFO	Tel: 01924 882801 (PA: Janet Blackburn)
Investor relations Cathy Phillips	Tel: 07778 335735

Brunswick:

Jon Coles/Daniel Thole	Tel: 020 7404 5959

Business and Operating Review

Group overview

During the last half year, we have completed the final phase of transformation activity:

- ***Achieved strong growth in profitability:*** significant growth across all earnings metrics, most notably profit before tax and earnings per share.
- ***Agreed a new banking facility:*** the Group has secured a £200 million revolving credit facility with maturity to July 2015 (see separate announcement).
- ***Delivered medium term certainty around pensions:*** the Group now provides a single, defined contribution scheme to all employees and has agreed new funding arrangements with the trustees of both of the Group's main defined benefit schemes (which are now closed to future accrual).

Consistent with the improving financial performance of the Group following a period of transformation, and reflecting the improved visibility of Group performance going forward, the Board is committed to recommending a total dividend of 3.3 pence in the current year and expects to grow that dividend at a minimum of 10% in each of the two subsequent years.

Group financial overview

The reduction in Group revenue of 7.6% to £194.8 million (2009: £210.8 million) includes the disposal of certain break-fix activities to Phoenix IT Group in January 2010 and reflects the continued impact of the decision to exit low margin services and tightened focus across the Group's activities.

Despite the reduction in revenue, Group EBITDA before exceptional items has increased to £38.9 million (2009: £37.0 million). The increase in EBITDA reflects a reduction in the overhead cost base across the Group and has been achieved despite higher costs in respect of pensions and share schemes of £2.1 million (2009: £1.5 million).

Depreciation and amortisation has reduced by £3.3 million to £13.7 million (2009: £17.0 million) which reflects lower depreciation as a result of the lower level of capital spend against historic levels and reduced amortisation of intangible assets arising on acquisition.

Whilst interest rates have remained broadly flat year on year, the reduction in debt levels has seen the overall borrowing costs reduce to £3.2 million (2009: £3.8 million).

Group profit before taxation and exceptional items has increased by £5.8 million to £22.0 million (2009: £16.2 million) reflecting the improvement in EBITDA and lower depreciation, amortisation and financing costs.

Net debt has reduced to £111.8 million (2009: £146.2 million) and by £5.0 million from the level at 31 March 2010 (£116.8 million). The reduction since the year end arises despite a significant increase in the level of pension scheme deficit contributions.

KC & Eclipse overview

Overall there has been a 3.7% decline in revenue to £62.5 million (2009: £64.9 million), primarily driven by Eclipse and KC's Colour Pages. The decline in Eclipse reflects the churn of lower end consumer contracts reflecting our renewed focus on the SME market. The decline in KC Colour Pages is driven by a reduction in advertising volumes, consistent with market trends across the rest of the UK.

As in previous years, the first half reported results include the recognition of the revenue and profitability associated with the publication of the KC Colour Pages directory for 2010.

Despite the reduction in revenue, EBITDA before exceptional items has remained flat at £30.7 million benefiting from a continued reduction in network delivery costs within Eclipse and an overall reduction in costs.

During the period, the upgrade to our East Yorkshire network IP core has progressed well and is due for completion by the end of the third quarter. Following approval from Ofcom, we have launched recently a range of bundled services for both the business and consumer market and new services due for launch shortly include hosted IPT.

Kcom & Smart421 overview

Reported revenue shows an 8.8% decline to £134.3 million (2009: £147.2 million). This movement reflects the reduction in low margin services as evidenced by the strengthening of gross margins to 30% (2009: 28%). These low margin services include maintenance contracts (including those sold to Phoenix IT Group), a specific wholesale broadband contract and a reduction in volume on a specific Premium Rate Services customer.

EBITDA before exceptional items increased by 17.8% to £12.6 million (2009: £10.7 million). This improvement reflects the full impact of prior year reductions in the cost base.

Last year, we created our new Kcom brand, bringing together the majority of our national business to business activities. During the last quarter, we have streamlined the management structure in this area, giving a tighter focus to our sales and customer experience activity.

Whilst overall revenue has declined over the period, the business has been successful in extending and renewing a number of our major customer contracts including British Airways, whilst securing also additional business from recently signed new customers such as Phones4U. Alongside this, we are seeing progress in areas such as hosting and the public sector.

Smart421, our information and communications technology business specialising in systems integration and managed services of business-critical systems, has delivered a strong half year performance, generating revenue growth of 33.3% to £10.8 million (2009: £8.1 million). Although contribution to Group revenue is relatively small, this growth reflects the developing market opportunity for the provision of related applications integration and consultancy.

PLC and associated costs ("PLC")

This segment includes Public Company, central and share scheme expenses and the costs, excluding current and past service costs, associated with the Group's defined benefit pension schemes. The net pre-exceptional costs incurred in the PLC segment have remained flat at £4.4 million.

Group operating profit

Group operating profit before exceptional items has increased by 26.0% to £25.2 million (2009: £20.0 million).

Group operating profit is £26.4 million (2009: £17.1 million). The overall movement in Group operating profit of £9.3 million reflects the improvement in EBITDA, reduction in exceptional items and lower depreciation and amortisation.

Exceptional items amount to a credit to the Income Statement of £1.2 million (2009: cost £2.9 million) and comprise:

- £1.7 million (2009: £1.2 million) of restructuring costs relating to employees.
- £2.9 million credit (2009: £NIL) from the curtailment gain arising from the closure of the Group's two defined benefits schemes to future accrual and breaking the salary link.

Depreciation and amortisation has reduced by 19.4% to £13.7 million (2009: £17.0 million). Of this, amortisation of intangibles relating to acquisitions has fallen to £2.7 million (2009: £3.9 million) with the majority of the remaining asset at September 2010 of £3.3m anticipated to be written off over the remainder of this financial year. The balance of depreciation and amortisation has reduced by £2.1 million to £11.0 million (2009: £13.1 million) reflecting the lower level of capital spend compared to historic levels.

Finance costs

Net finance costs for the period amounted to £3.2 million (2009: £3.8 million) reflecting the lower level of net bank debt. In order to provide certainty over future costs, the Group had previously entered into fixed rate swap agreements with £80 million of debt at a fixed interest rate until 31 March 2012.

Taxation

The taxation charge of £6.9 million (2009: £3.6 million) reflects the ongoing unwind of the deferred tax asset as the Group moves towards a tax payment position. The high effective rate of 29.7% (2009: 27.2%) reflects in part a write off of the deferred tax asset balance as a result of the reduction in corporation tax rates from 28% to 27%, plus the impact of permanent disallowable expenditure including share scheme costs.

Dividend

The interim dividend is 1.1 pence per share (2009: 0.5 pence). The dividend will be paid on 1 February 2011 to shareholders registered on 17 December 2010.

Consistent with the improving financial performance of the Group following a period of transformation, the Board is now in a position to provide medium term guidance in respect of dividends. The Board is committed to recommending a total dividend of 3.3 pence in the current year and expects to grow that dividend at a minimum of 10% in each of the two subsequent years.

The Board gives an ongoing commitment to reviewing the Group's ability to exceed these minimum levels.

Pension scheme

Net liabilities associated with the Group's retirement benefit obligations have reduced to £45.0 million (2009: £71.9 million), and have also reduced from £50.4 million at 31 March 2010. The year on year reduction arises as a result of an increase in scheme assets of £16.3 million and a reduction in retirement benefit liabilities of £10.6 million.

The reduction in liabilities predominantly relates to benefits paid out to pensioners and a curtailment gain of £2.9 million (2009: £1.4 million). The curtailment gain arises as a result of the closure of both schemes to future accrual and breaking the link to final salary, and has been fully recognised in the Income Statement during the period. Due to its incidence and size, the current period curtailment gain has been treated as an exceptional item.

The increase in scheme assets is a result of the increased level of deficit contributions into the scheme and recovery of asset values (approximately 60% of scheme assets are held in equities). Effective from 1 April 2010, the Group has increased its ongoing deficit contributions into its two defined benefit schemes to £6.8 million per annum (previously £3.5 million per annum). In addition and as previously announced, during the six months to September 2010, the Group made a one-off contribution of £3.3 million into the Kingston Communications Pension Scheme, the Group's main defined benefit scheme.

Cash flow and net debt

Net debt has reduced to £111.8 million (2009: £146.2 million) and has also reduced by £5.0 million from £116.8 million as at 31 March 2010.

Net cash inflow from operating activities has reduced to £21.2 million (2009: £32.0 million). The prior year performance included a substantial one-off working capital improvement as a result of the strategic actions taken by the Group. The working capital performance for the six months to September 2010 reflects payments due under employee bonus schemes and in part the consistent over performance at the prior year end.

Cash outflows associated with the purchase of tangible and intangible assets have reduced to £6.4 million (2009: £10.0 million), reflecting timing differences on capital commitments and associated cash payments.

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 and uncertainties

The risks and uncertainties faced by the Group as disclosed on pages 22 and 23 of the Annual Report and Accounts to 31 March 2010 are still valid.

Consolidated Interim Income Statement

	Note	**Unaudited Six months ended 30-Sep 2010 £'000**	Unaudited Six months ended 30-Sep 2009 £'000	Audited Year ended 31-Mar 2010 £'000
Revenue	1	**194,804**	210,770	412,800
Operating expenses		**(168,371)**	(193,673)	(386,250)
Group operating profit		**26,433**	17,097	26,550
Analysed as:				
Group EBITDA	1	**38,918**	37,016	69,795
Exceptional items	2	**1,250**	(2,900)	(10,205)
Depreciation of property, plant and equipment		**(9,056)**	(10,940)	(20,074)
Amortisation of intangible assets		**(4,679)**	(6,079)	(12,966)
Finance costs		**(3,227)**	(3,835)	(7,368)
Share of profit/(loss) of associates		**6**	5	(12)
Profit before taxation		**23,212**	13,267	19,170
Taxation	3	**(6,883)**	(3,603)	(1,477)
Profit for the period		**16,329**	9,664	17,693
Profit for the period attributable to equity holders of the Company		**16,329**	9,664	17,693
Earnings per share				
Basic	4	**3.21**	1.89	3.47
Diluted	4	**3.08**	1.89	3.38

Consolidated Statement of Comprehensive Income

	Unaudited Six months ended 30-Sep 2010 £'000	Unaudited Six months ended 30-Sep 2009 £'000	Audited Year ended 31-Mar 2010 £'000
Profit for the period	**16,329**	9,664	17,693
Other comprehensive income			
Cash flow hedge fair value movements	**1,535**	431	920
Actuarial (losses)/gains on retirement benefit obligation	**(2,801)**	(16,338)	5,620
Tax on items taken directly to equity	**(161)**	3,065	(1,832)
Total comprehensive income/(loss) for the period attributable to equity holders	**14,902**	(3,178)	22,401

Consolidated Interim Balance Sheet

	Unaudited As at 30-Sep 2010 £'000	Unaudited As at 30-Sep 2009 £'000	Audited As at 31-Mar 2010 £'000
Non-current assets			
Goodwill	**85,272**	86,932	85,272
Intangible assets	**7,680**	16,092	10,547
Property, plant and equipment	**119,212**	128,912	124,057
Investments	**1,059**	1,058	1,054
Deferred tax assets	**48,594**	59,049	56,115
	261,817	292,043	277,045
Current assets			
Inventories	**2,098**	3,199	3,608
Trade and other receivables	**76,677**	73,042	76,927
Cash and cash equivalents	**13,803**	9,863	13,890
	92,578	86,104	94,425
Total assets	**354,395**	378,147	371,470
Current liabilities			
Trade and other payables	**(129,609)**	(125,883)	(144,678)
Non-current liabilities			
Bank loans	**(124,604)**	(154,340)	(129,458)
Retirement benefit obligations	**(45,002)**	(71,939)	(50,373)
Long term provisions and other payables	**(9,901)**	(13,742)	(11,204)
Total liabilities	**(309,116)**	(365,904)	(335,713)
Net assets	**45,279**	12,243	35,757
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	**(4,816)**	(6,840)	(6,351)
Retained earnings	**(354,796)**	(385,808)	(362,783)
Total equity	**45,279**	12,243	35,757

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 2009	51,660	353,231	(7,271)	(377,001)	20,619
Profit for the period	-	-	-	9,664	9,664
Decrease 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 loss for the period ended 30 September 2009	-	-	431	(3,609)	(3,178)
Employee share schemes	-	-	-	410	410
Purchase of ordinary shares	-	-	-	(466)	(466)
Dividends	-	-	-	(5,142)	(5,142)
	-	-	-	(5,198)	(5,198)
At 30 September 2009	**51,660**	**353,231**	**(6,840)**	**(385,808)**	**12,243**
Profit for the period	-	-	-	8,029	8,029
Decrease in fair value of financial derivative instruments	-	-	489	-	489
Actuarial gains on defined benefit pension schemes	-	-	-	21,958	21,958
Tax on actuarial gains on defined Benefit pension schemes	-	-	-	(4,639)	(4,639)
Tax on movement in cashflow hedges	-	-	-	(258)	(258)
Total comprehensive income for the period ended 31 March 2010	-	-	489	25,090	25,579
Employee share schemes	-	-	-	872	872
Purchase of ordinary shares	-	-	-	(354)	(354)
Dividends	-	-	-	(2,583)	(2,583)
	-	-	-	(2,065)	(2,065)
At 31 March 2010	**51,660**	**353,231**	**(6,351)**	**(362,783)**	**35,757**
Profit for the period	-	-	-	16,329	16,329
Decrease in fair value of financial derivative instruments	-	-	1,535	-	1,535
Actuarial losses on defined benefit pension schemes	-	-	-	(2,801)	(2,801)
Tax on actuarial loss on defined benefit pension schemes	-	-	-	253	253
Tax on movement in cashflow hedges	-	-	-	(414)	(414)
Total comprehensive income for the period ended 30 September 2010	-	-	1,535	13,367	14,902
Employee share schemes	-	-	-	1,077	1,077
Dividends	-	-	-	(6,457)	(6,457)
	-	-	-	(5,380)	(5,380)
At 30 September 2010	**51,660**	**353,231**	**(4,816)**	**(354,796)**	**45,279**

Consolidated Interim Cash Flow Statement

	Unaudited Six months Ended 30-Sep 2010 £'000	Unaudited Six months ended 30-Sep 2009 £'000	Audited Year Ended 31-Mar 2010 £'000
Net cash flow from operating activities			
Operating profit	**26,433**	17,097	26,550
Adjustments for:			
Depreciation and amortisation	**13,735**	17,019	33,040
Restructuring costs	**(4,893)**	(9,726)	(14,886)
Pension enhanced transfer value payment	**-**	(4,900)	(4,900)
Pension deficit payments	**(6,260)**	(1,537)	(3,247)
(Decrease)/increase in working capital	**(8,350)**	14,532	36,697
Employee share schemes	**-**	(466)	(820)
Taxation received	**477**	-	-
Loss on sale of property, plant and equipment	**100**	-	42
Loss on sale of business	**-**	-	2,136
Net cash inflow from operations	**21,242**	32,019	74,612
Cash flows from investing activities			
Proceeds from sale of business	**-**	-	1,092
Earn-out payment on acquisition	**-**	(522)	(942)
Purchase of property, plant and equipment	**(4,953)**	(7,966)	(14,567)
Purchase of intangible assets	**(1,479)**	(2,082)	(3,011)
Purchase of investments	**-**	-	(17)
Net cash used in investing activities	**(6,432)**	(10,570)	(17,445)
Cash flows from financing activities			
Dividends paid	**(6,457)**	(5,142)	(7,725)
Interest paid	**(3,170)**	(3,789)	(7,302)
Capital element of finance lease repayments	**(270)**	(163)	(758)
Repayment of bank loans	**(5,000)**	(20,000)	(45,000)
Net cash used in financing activities	**(14,897)**	(29,094)	(60,785)
Decrease in cash and cash equivalents	**(87)**	(7,645)	(3,618)
Cash and cash equivalents at the beginning of the period	**13,890**	17,508	17,508
Cash and cash equivalents at the end of the period	**13,803**	9,863	13,890

Notes to the unaudited interim financial information

1. Segmental Analysis

KCOM Group PLC operates two separate businesses and a PLC function –

The businesses are KC & Eclipse (formerly reported as Kingston Communications) which addresses the needs of our East Yorkshire customers and UK small business market and Kcom & Smart421 (formerly reported as Kcom), our managed communications business (serving enterprise and public sector organisations). These businesses have separate management teams and offer different products and services.

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

	Unaudited Six months ended 30-Sep 2010 £'000	Unaudited Six months ended 30-Sep 2009 £'000	Audited Year ended 31-Mar 2010 £'000
Revenue			
KC & Eclipse	**62,484**	64,941	123,536
Kcom & Smart421	**134,273**	147,223	290,973
PLC[1]	**(1,953)**	(1,394)	(1,709)
Total	**194,804**	210,770	412,800
Group EBITDA			
KC & Eclipse	**30,743**	30,747	57,277
Kcom & Smart421	**12,606**	10,671	22,693
PLC[1]	**(4,431)**	(4,402)	(10,175)
Total – before exceptional items	**38,918**	37,016	69,795
Exceptional items:			
KC & Eclipse	**(235)**	(303)	(1,422)
Kcom & Smart421	**(1,289)**	(1,194)	(5,420)
PLC[1]	**2,774**	(1,403)	(3,363)
Total exceptional items	**1,250**	(2,900)	(10,205)
EBITDA post exceptional items	**40,168**	34,116	59,590

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

EBITDA post exceptional items	**40,168**	34,116	59,590
Depreciation	**(9,056)**	(10,940)	(20,074)
Amortisation	**(4,679)**	(6,079)	(12,966)
Finance costs	**(3,227)**	(3,835)	(7,368)
Share of profit/(loss) of associates	**6**	5	(12)
Profit before tax	**23,212**	13,267	19,170

[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 and the related assets and liabilities.

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 2010 £'000	Unaudited Six months ended 30-Sep 2009 £'000	Audited Year ended 31-Mar 2010 £'000
Revenue from external customers			
KC & Eclipse	**60,323**	64,104	122,070
Kcom & Smart421	**134,079**	146,300	289,858
PLC[1]	**402**	366	872
Total	**194,804**	210,770	412,800
Inter-segment revenue			
KC & Eclipse	**2,161**	837	1,466
Kcom & Smart421	**193**	923	1,115
PLC[1]	**(2,354)**	(1,760)	(2,581)
Total	**-**	-	-
	194,804	210,770	412,800

	Unaudited Six months ended 30-Sep 2010 £'000	Unaudited Six months ended 30-Sep 2009 £'000	Audited Year ended 31-Mar 2010 £'000
Total assets			
KC & Eclipse	**92,879**	77,555	91,675
Kcom & Smart421	**187,447**	229,689	185,276
PLC[1]	**10,612**	1,096	23,459
Total segmental assets	**290,938**	308,340	300,410
Unallocated assets	**63,457**	69,807	71,060
	354,395	378,147	371,470

[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 and the related assets and liabilities.

Notes to the unaudited interim financial information continued

2. Exceptional items

Exceptional items are separately disclosed by virtue of their size or incidence to enable a full understanding of the Group's financial performance. Restructuring costs arise as a result of organisational changes. The pension curtailment gain arose on the closure of the Group's two defined benefit schemes to future accrual.

	Unaudited Six months ended 30-Sep 2010 £'000	Unaudited Six months ended 30-Sep 2009 £'000	Audited Year ended 31-Mar 2010 £'000
Exceptional items:			
- Restructuring costs	**-**	1,665	1,071
- Restructuring costs relating to employees	**1,700**	1,235	4,980
- Loss on sale of business	**-**	-	2,136
- Onerous lease provision	**-**	-	2,018
- Pension curtailment gain	**(2,950)**	-	-
(Credit)/charged to operating profit	**(1,250)**	2,900	10,205

3. Taxation

The taxation charge on activities is set out below:

	Unaudited Six months ended 30-Sep 2010 £'000	Unaudited Six months ended 30-Sep 2009 £'000	Audited Year ended 31-Mar 2010 £'000
Corporation tax	**477**	-	-
Deferred tax	**(7,360)**	(3,603)	(1,477)
Group total	**(6,883)**	(3,603)	(1,477)

There are no unprovided deferred tax assets in respect of accelerated capital allowances at 30 September 2010 or 31 March 2010 (2009: £nil).

Notes to the unaudited interim financial information continued

4. Earnings per share

Weighted average number of shares	**Unaudited Six months ended 30-Sep 2010 No.**	Unaudited Six months ended 30-Sep 2009 No.	Audited Year ended 31-Mar 2010 No.
For basic earnings per share	**508,752,851**	510,993,457	510,389,977
Share options in issue	**22,262,652**	680,042	12,452,341
For diluted earnings per share	**531,015,503**	511,673,499	522,842,318
Earnings	**£'000**	£'000	£'000
Profit attributable to equity holders of the company	**16,329**	9,664	17,693
Earnings per share	**pence**	pence	pence
Basic	**3.21**	1.89	3.47
Diluted	**3.08**	1.89	3.38

5. Dividends

	Unaudited Six months ended 30-Sep 2010 £'000	Unaudited Six months ended 30-Sep 2009 £'000	Audited Year ended 31-Mar 2010 £'000
Final dividend for the year ended 31 March 2009 of 1.0 pence per share	**-**	5,142	5,142
Interim dividend for the year ended 31 March 2010 of 0.5 pence per share	**-**	-	2,583
Final dividend for the year ended 31 March 2010 of 1.25 pence per share	**6,457**	-	-
Total	**6,457**	5,142	7,725

The proposed interim dividend for the six months ended 30 September 2010 is 1.1 pence per share. In accordance with IAS 10, "Events after the balance sheet date", dividends declared after the balance sheet date are not recognised as a liability in this set of interim financial information.

Notes to the unaudited interim financial information continued

6. Movement in net debt

	Unaudited Six months ended	Unaudited Six months ended	Audited Year ended
	30-Sep 2010	30 Sep 2009	31 March 2010
	£'000	£'000	£'000
Opening net debt	**116,796**	157,900	157,900
Closing net debt	**111,791**	146,242	116,796
Reduction in the period	**5,005**	11,658	41,104
Reconciliation of movement in the year			
Net cashflow from operations	**21,242**	32,019	74,612
Capital expenditure	**(6,432)**	(10,048)	(17,595)
Proceeds from sale of business and Earn-out payments	**-**	(522)	150
Interest	**(3,170)**	(3,789)	(7,302)
Dividends	**(6,457)**	(5,142)	(7,725)
Other	**(178)**	(860)	(1,036)
Reduction in the period	**5,005**	11,658	41,104

Notes to the unaudited interim financial information continued

7. Basis of preparation and publication of 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.

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 2010 were approved by the Board of directors on 7 June 2010 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.

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 2010 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 2010, 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 2010, 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, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 April 2010, but are not currently relevant for the group.

- IFRIC 17, 'Distributions of non-cash assets to owners'.
- 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'.
- IFRIC 18, 'Transfers of assets from customers'.
- 'Additional exemptions for first time adopters' (Amendment to IFRS 1).
- Improvements to International Financial Reporting Standards 2010 were issued in April 2009. The effective dates vary standard by standard but most are effective 1 January 2010.

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 2010 and have not been early adopted:

- IFRS 9, 'Financial instruments', issued in December 2009. This addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group has not yet decided when to adopt IFRS 9.

- Revised IAS 24, 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. The revised IAS 24 is required to be applied from 1 January 2011.

- 'Prepayments of a minimum funding requirement' (Amendments to IFRIC 14), issued in November 2009. The amendments correct an unintended consequence of IFRIC 14, 'IAS 19' – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct the problem. The amendments are effective for annual periods beginning 1 January 2011.

- IFRIC 19, 'Extinguishing financial liabilities with equity instruments'. This clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after 1 July 2010.

- Improvements to International Financial Reporting Standards 2010 were issued in May 2010. The effective dates vary standard by standard but most are effective 1 January 2010.

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 4.2.7R and DTR 4.2.8R.

The directors of KCOM Group PLC are listed in the KCOM Group Annual Report for 31 March 2010

Signed by Order of the Board on 23 November 2010 by:

Paul Simpson
Chief Financial Officer

Independent review report to KCOM Group PLC

Introduction
We have been engaged by the company to review the Interim financial information in the half-yearly financial report for the six months ended 30 September 2010 which comprises the Consolidated Interim Income Statement, the Consolidated 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 half-yearly 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 half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly 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 Interim financial information included in this half-yearly 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 Interim financial information in the half-yearly 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 Interim financial information in the half-yearly financial report for the six months ended 30 September 2010 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
23 November 2010
Leeds

Notes:
a) The maintenance and integrity of the Kcom Group PLC website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.