

**KCOM GROUP PLC (KCOM.L) ANNOUNCES
UNAUDITED PRELIMINARY RESULTS TO 31 MARCH 2011**

“Board recommends accelerated dividend progression”

Summary

	Unaudited Year ended 31 March 2011 (£ million)	Audited Year ended 31 March 2010 (£ million)	Change over prior year (%)
Results from continuing operations before exceptional items			
Revenue	395.4	412.8	(4.2)
EBITDA	76.0	69.8	8.8
Operating profit	48.6	36.7	32.4
Profit before tax	41.2	29.4	40.1
Adjusted basic earnings per share (pence)	5.62	5.22	7.7
Reported results			
Net cash inflow from operations	68.0	74.6	(8.8)
Net debt (note 6)	82.0	116.8	
Profit before tax	32.9	19.2	71.3
Basic earnings per share (pence)	4.44	3.47	28.0
Proposed final dividend (pence)	2.50	1.25	100.0
Proposed full year dividend per share (pence)	3.60	1.75	105.7

Financial highlights:

- Revenue reduction to £395.4 million (2010: £412.8 million) reflects effect of strategy to exit low margin commodity based operations.
- Revenue in the second half of the year of £200.6 million (H1: £194.8 million) demonstrates growth in a number of our key target markets.
- EBITDA before exceptional items improves to £76.0 million (2010: £69.8 million) following further reductions in operating costs.
- Profit before tax increases 71.3 per cent to £32.9 million (2010: £19.2 million).
- Balance sheet strengthened further, with strong cash generation reducing net debt by £34.8 million in the year to £82.0 million (31 March 2010: £116.8 million) and pension deficit reduction to £6.9 million (31 March 2010 £50.4 million).
- Increase in proposed full year dividend to 3.6p (2010: 1.75p) above previously announced minimum commitment, reflects strong cash performance and confidence in on-going earnings and cash generation. Previous commitment on dividend growth remains.

Bill Halbert, Executive Chairman said “Our results are ahead of expectations, with strong cash generation and a further strengthening of the balance sheet.

“Recent contract wins show the Group beginning to deliver on its return to growth strategy. They underline our growing reputation and recognition in our chosen markets and we are excited about the Group’s future opportunities.

“We are pleased, based on those results, to be recommending an increased final dividend of 2.5p, making the full year dividend 3.6p, more than double that of the previous year and to reiterate our earlier commitment to 10 per cent dividend growth over the next two years, reflecting the Board’s confidence in future performance”.

Delivering growth strategy:

- **Key contract wins** - All four brands performed well in their chosen markets. Kcom in particular demonstrated its growing reputation and capability by winning business with leading organisations including Eversheds, Domino's, Morrisons and the NHS Business Services Authority.
- **Building a presence in Public Sector Networks (PSNs)** - Kcom won the Staffordshire PSN contract and has been selected as preferred bidder for the Dorset PSN, positioning Kcom as a market leader in this area.
- **Positioning the business to deliver** - KCOM Group's financial stability, through significantly reduced debt, access to funding and certainty on pension liabilities, allows it both to invest in supporting growth across the Group and to maintain its existing dividend commitment.

Outlook

The Board expects the KCOM Group to continue trading in line with expectations in the financial year ahead.

Following the successful restructuring over the last two years, the Group will enhance further the capabilities and capacity to support growth and build on the strengths, technologies and relationships already in place.

Key growth drivers for Kcom, and the Group, include further PSN contracts and opportunities to manage critical communications services for leading private companies that require a trusted partner.

The accelerated dividend progression announced today is supported by the Group's over-performance on earnings, net debt and pension liabilities. The Board remains committed to a minimum 10 per cent growth per annum in the dividend for the next two years.

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Business and operating review

Group overview

During the year, we completed the final stages of our transformation programme. We took action to reduce risk and increase certainty in respect of our pension schemes' position. The Group has achieved also a financing arrangement to July 2015 that reflects the financial strength of the business.

Group financial overview

Overall Group revenue has reduced 4.2 per cent to £395.4 million (2010: £412.8 million). In the second half of the year, we have seen revenue growth in our core markets, compared to first half of the year. This has been offset by the continued effect of the disposal of certain break fix activities to Phoenix IT Group in January 2010 and of reduced volume on low margin activities.

Group EBITDA before exceptional items has increased to £76.0 million (2010: £69.8 million) benefitting from a reduction in operating costs across the Group and our continued focus on higher margin activities.

Depreciation and amortisation has reduced by £5.7 million to £27.3 million (2010: £33.0 million) which reflects mainly the reduced amortisation of intangible assets arising on acquisition.

Finance costs have remained flat at £7.4 million reflecting a reduction in the quantum of debt offset by the write off of prepaid loan arrangement fees associated with the Group's previous bank facility which was refinanced in November 2010.

The combination of the improvement in EBITDA before exceptional items, lower depreciation and amortisation and lower exceptional costs has resulted in Group profit before tax increasing by 71.3 per cent to £32.9 million (2010: £19.2 million).

Net debt has reduced to £82.0 million (2010: £116.8 million) as a result of strong performance throughout the year, and out-performance in the final quarter of the year, on the management of receivables and working capital. The year-end debt position has benefited also from a lower level of capital spend than anticipated of £13.9 million (2010: £17.6 million) due to the timing of a number of capital projects.

KC & Eclipse

Overall revenue has declined by 0.5 per cent to £122.9 million (2010: £123.5 million), with growth in KC offset by revenue reduction in Eclipse and KC Colour Pages.

EBITDA before exceptional items has increased by 1.0 per cent to £57.9 million (2010: £57.3 million) benefitting from an overall reduction in operating costs.

Growth within KC reflects increasing demand for higher bandwidth from business customers. In consumer services, the upsell to higher value KC packages has resulted in increasing average revenues per customer.

We have been pleased with the level of demand for bundled packages, which were launched in November. Progress has been made also on our expansion into selected neighbouring towns and villages, with new customers being connected to a KC service since the launch date of April 2011.

This offsets a reduction in customer numbers and the continuing decline of traditional call revenues, consistent with the rest of the UK consumer market.

The decline in Eclipse reflects the anticipated churn of lower end consumer contracts. The proportion of revenue from business customers has increased as a result of its focus on the SME market. This has been achieved through a mix of new customers taking broadband connectivity and by broadening the portfolio of services we provide to existing customers. Recent developments include expansion of our high speed broadband connectivity and DSL services portfolio.

The decline in KC Colour Pages is driven by a reduction in advertising volumes, consistent with general market trends.

Kcom & Smart421

Reported revenue has declined 4.8 per cent to £276.9 million (2010: £291.0 million). This movement reflects the exit from low margin services, specifically maintenance contracts (including those sold to Phoenix IT Group) and product resale.

EBITDA before exceptional items increased by 13.6 per cent to £25.8 million (2010: £22.7 million) reflecting a reduction in operating costs. Whilst overall revenues have reduced year on year, the focus on growth and delivery against this is visible in a number of areas.

- Within Kcom, revenue from our key target markets of managed and connect services grew in the second half of the financial year compared to the first half. Kcom continues to secure new and renewed contracts across both enterprise and the public sector. Within the enterprise area, new contracts have been signed with Domino's and Eversheds. Renewals and extensions to contracts include Phones4U, Admiral Group and Morrisons.
- Within the public sector, Kcom has seen further success, as preferred bidder for a second PSN contract in Dorset, already having won the Staffordshire contract and delivered a self-service contact centre solution for NHS Business Services Authority.
- Smart421, our information and communications technology business specialising in systems integration and managed services of business critical systems, has delivered strong revenue growth of 42.0 per cent to £23.0 million (2010: £16.2 million). This has been achieved by working with a range of companies including Telefónica O₂ UK Ltd, Virgin Atlantic Airways, Aviva UK, ConstructionSkills, Citigroup and Drax Group.

The Group has committed an investment of £2.5 million to enhance its Network Operation Centre tools, which support our existing customers and the growth experienced in distributed, corporate and public sector networks.

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 reduced to £7.7 million (2010: £10.2 million), as a result of lower costs associated with the Group's defined benefit schemes of £0.3 million (2010: £2.9 million). Such pension costs have reduced due to a recovery in asset values and a reduction in liabilities of the scheme over the last two financial years.

Group operating profit

Group operating profit is £40.3 million (2010: £26.5 million). The overall improvement in operating profit of £13.8 million is a result of:

- £6.2 million improvement in Group EBITDA before exceptional items
- £1.9 million reduction in exceptional costs
- £5.7 million reduction in depreciation and amortisation

Exceptional costs amount to £8.3 million (2010: £10.2 million) and comprise

- £4.2 million (2010: £5.0 million) of restructuring costs relating to employees
- £3.0 million credit (2010: £NIL) from the curtailment gain arising from the closure of the Group's two defined benefit schemes to future accrual and breaking the salary link
- £7.1 million (2010: £NIL) relating to the forecast loss arising on the build stage of a contract to build and manage a broadband network on behalf of a third party provider. This contract has now been revised, in terms of reducing the scope of, and changes to, its network design and reflecting also certain operational challenges on the build element. The remaining build phase of this contract is envisaged to be completed by the end of this financial year after which Kcom will have a profitable ten year managed service contract. As part of the agreement to re-scope

the network, we have been able to reduce materially the level of work in progress on this contract.

Depreciation and amortisation has reduced by 17.3 per cent to £27.3 million (2010: £33.0 million). Of this, amortisation of intangible assets arising on acquisitions has fallen to £5.5 million (2010: £7.5 million). At the year end, the net book value of intangible assets arising on acquisitions amounts to £0.5m (2010: £6.0 million), which will be fully charged to the Income Statement over the next two financial years to 31 March 2013. The balance of depreciation and amortisation has reduced by £3.7 million to £21.8 million (2010: £25.5 million) reflecting the reduction in capital spend over the last two financial years compared to historical levels.

Finance costs

Net finance costs have remained flat at £7.4 million despite the reduction in debt. This is mainly due to the write off of arrangement fees in respect of the previous banking facility which was refinanced in November 2010, along with increased borrowing costs associated with the new facility.

The Group has entered previously into fixed rate swap arrangements for £80 million of debt at a weighted average rate of 5.5 per cent. In order to provide certainty over future interest costs, the Group has entered into new forward start fixed rate swap arrangements for £60 million of debt which commence on maturity of the existing swaps in January 2012. The new hedges have a weighted average rate of 2.7 per cent and mature in July 2015.

Taxation

The taxation charge of £10.3 million (2010: £1.5 million) reflects the ongoing unwind of the deferred tax asset as the Group moves towards a tax payment position. The high effective rate of 31.2 per cent (2010: 7.7 per cent) reflects mainly the write off of a proportion of the deferred tax balance as a result of the reduction in corporation tax rates from 28 per cent to 26 per cent.

Dividend

The Board is proposing an increased final dividend of 2.5 pence per share (2010: 1.25 pence per share) resulting in a total dividend for the year of 3.6 pence per share (2010: 1.75 pence per share). The Board maintains its commitment to a minimum 10 per cent growth in dividend over the subsequent two years.

Subject to Shareholder approval at the KCOM Group PLC Annual General Meeting on 22 July 2011, the final dividend will be payable on 29 July 2011 to Shareholders registered at the close of business on 17 June 2011.

Pension scheme

Net liabilities associated with the Group's retirement benefit obligations have reduced to £6.9 million (2010: £50.4 million). The year on year reduction arises as a result of an increase in scheme assets of £11.9 million and a reduction in retirement benefit liabilities of £31.6 million.

The reduction in liabilities predominantly relates to the Kingston Communications Pension Scheme and reflects the Government's decision to link future inflationary increase for both deferred members and pensions in payment from the Retail Price Index to the Consumer Price Index. This has been recognised in the Statement of Comprehensive Income as part of the actuarial gain of £31.5 million (2010: £5.6 million).

In addition, the decision to close both schemes to future accrual and break the salary link has also reduced liabilities resulting in a curtailment gain of £3.0 million (2010: £1.7 million). The curtailment gain has been fully recognised in the Income Statement, and due to its incidence and size, the current period 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 per cent of scheme assets are held in return

seeking asset classes). Effective from 1 April 2010, the Group increased its ongoing deficit contributions into the schemes for the next three years to £6.9 million per annum (previously £3.5 million per annum). The Group made also a one-off contribution of £3.3 million in the first half of the current financial year, into the Kingston Communications Pension Scheme, the Group's main defined benefit scheme.

The Group is committed to continue to mitigate long term risk associated with the defined benefit schemes. As part of this the Group is working alongside the Trustees to review the current investment strategy to reduce risk and volatility. This is likely to result in a lower proportion of return seeking asset classes than currently held.

Cashflow and net debt

Net debt has reduced to £82.0 million (2010: £116.8 million) reflecting the continued strength of the business and the over-performance in the final quarter of the year in the management of receivables and working capital and the conversion of earnings into cash. Net cash inflow from operations reduced to £68.0 million (2010: £74.6 million), prior year performance having benefited from a substantial one-off working capital improvement as a result of the strategic actions taken by the Group.

Cash outflows associated with the purchase of tangible and intangible assets have reduced to £13.9 million (2010: £17.6 million). This reduction reflects the ongoing evaluation during the year of appropriate investment opportunities in support of growth with a resultant timing difference on capital spend into the next financial year with the Group anticipating expenditure on capital investment to be in the region of £25 million.

Forward-looking statements

Certain statements in this preliminary report are forward-looking. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

We undertake no obligation to update any forward-looking statements whether as result of new information, future events or otherwise.

ENDS

Consolidated Income Statement

		Unaudited Year ended 31 Mar 2011 £'000	Audited Year ended 31 Mar 2010 £'000
	Note		
Revenue	1	395,412	412,800
Operating expenses		(355,118)	(386,250)
Operating profit		40,294	26,550
Analysed as:			
EBITDA	1	75,963	69,795
Exceptional items	2	(8,337)	(10,205)
Depreciation of property, plant and equipment		(18,464)	(20,074)
Amortisation of intangible assets		(8,868)	(12,966)
Finance costs		(7,393)	(7,368)
Share of profit/(loss) of associates		11	(12)
Profit before taxation		32,912	19,170
Taxation	3	(10,291)	(1,477)
Profit for the year attributable to equity holders of the Company		22,621	17,693
Earnings per share (pence)			
Basic	4	4.44	3.47
Diluted	4	4.26	3.38
Adjusted basic	4	5.62	5.22
Adjusted diluted	4	5.39	5.09

Consolidated Statement of Comprehensive Income

	Unaudited Year ended 31 Mar 2011 £'000	Audited Year ended 31 Mar 2010 £'000
Profit for the year	22,621	17,693
Other comprehensive income		
Cash flow hedges	3,468	920
Actuarial gains on retirement benefit obligation	31,504	5,620
Tax on items taken directly to equity	(10,269)	(1,832)
Total comprehensive income for the year attributable to equity holders	47,324	22,401

Consolidated Balance Sheet

	Unaudited As at 31 Mar 2011 £'000	Audited As at 31 Mar 2010 £'000
Non-current assets		
Goodwill	85,272	85,272
Other intangible assets	4,659	10,547
Property, plant and equipment	115,979	124,057
Investments	1,064	1,054
Deferred tax assets	35,297	56,115
	<u>242,271</u>	<u>277,045</u>
Current assets		
Inventories	2,151	3,608
Trade and other receivables	70,793	76,927
Cash and cash equivalents	6,535	13,890
	<u>79,479</u>	<u>94,425</u>
Total assets	<u>321,750</u>	<u>371,470</u>
Current liabilities		
Trade and other payables	(147,843)	(144,657)
Derivative financial instruments	(3,703)	(21)
Non-current liabilities		
Bank loans	(88,004)	(129,458)
Retirement benefit obligations	(6,927)	(50,373)
Derivative financial instruments	-	(7,150)
Long-term provisions and other payables	(2,079)	(4,054)
	<u>(248,556)</u>	<u>(335,713)</u>
Net assets	<u>73,194</u>	<u>35,757</u>
Capital and reserves, attributable to equity holders of the Company		
Share capital	51,660	51,660
Share premium account	353,231	353,231
Hedging and translation reserve	(2,883)	(6,351)
Retained earnings	(328,814)	(362,783)
	<u>73,194</u>	<u>35,757</u>
Total equity	<u>73,194</u>	<u>35,757</u>

Consolidated 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 year	-	-	-	17,693	17,693
Decrease in fair value of financial derivative instruments	-	-	920	-	920
Actuarial gains on defined benefit pension schemes	-	-	-	5,620	5,620
Tax on actuarial gains on defined benefit pension schemes	-	-	-	(1,574)	(1,574)
Tax on movement in cash flow hedges	-	-	-	(258)	(258)
Total comprehensive income for the year ended 31 March 2010	-	-	920	21,481	22,401
Purchase of ordinary shares	-	-	-	(820)	(820)
Employee share schemes	-	-	-	1,282	1,282
Dividends	-	-	-	(7,725)	(7,725)
Transactions with owners	-	-	-	(7,263)	(7,263)
At 31 March 2010	51,660	353,231	(6,351)	(362,783)	35,757
Profit for the year	-	-	-	22,621	22,621
Decrease in fair value of financial derivative instruments	-	-	3,468	-	3,468
Actuarial gains on defined benefit pension schemes	-	-	-	31,504	31,504
Tax on actuarial gains on defined benefit pension schemes	-	-	-	(9,333)	(9,333)
Tax on movement in cash flow hedges	-	-	-	(936)	(936)
Total comprehensive income for the year ended 31 March 2011	-	-	3,468	43,856	47,324
Tax credit relating to share schemes	-	-	-	226	226
Employee share schemes	-	-	-	2,027	2,027
Dividends	-	-	-	(12,140)	(12,140)
Transactions with owners	-	-	-	(9,887)	(9,887)
At 31 March 2011	51,660	353,231	(2,883)	(328,814)	73,194

Consolidated Cash Flow Statement

	Unaudited Year ended 31 Mar 2011 £'000	Audited Year ended 31 Mar 2010 £'000
Net cash flow from operating activities		
Operating profit	40,294	26,550
Adjustments for:		
Depreciation and amortisation	27,332	33,040
Decrease in working capital	17,035	35,877
Restructuring cost and onerous lease payments	(7,507)	(14,886)
Pension enhanced transfer value payment	-	(4,900)
Pension deficit payments	(9,773)	(3,247)
Taxation received	483	-
Loss on sale of property, plant and equipment	145	42
Loss on sale of businesses	-	2,136
Net cash inflow from operations	68,009	74,612
Cash flows from investing activities		
Proceeds from sale of businesses	-	1,092
Earn-out payment on acquisition	-	(942)
Purchase of property, plant and equipment	(10,920)	(14,567)
Purchase of intangible assets	(3,028)	(3,011)
Purchase of investments	-	(17)
Net cash used in investing activities	(13,948)	(17,445)
Cash flows from financing activities		
Dividends paid	(12,140)	(7,725)
Interest paid	(8,574)	(7,302)
Capital element of finance lease repayments	(702)	(758)
Repayment of bank loans	(40,000)	(45,000)
Net cash used in financing activities	(61,416)	(60,785)
Decrease in cash and cash equivalents	(7,355)	(3,618)
Cash and cash equivalents at the beginning of the year	13,890	17,508
Cash and cash equivalents at the end of the year	6,535	13,890

Notes to the unaudited financial information

1. Segmental analysis

KCOM Group PLC operates four brands and a PLC function –

The brands are reported as KC & Eclipse, which address the needs of our East Yorkshire customers and UK small business market respectively, and Kcom & Smart421 which serve enterprise and public sector organisations across the UK. These brands have separate management teams and each offers tailored propositions to their target market, based on the Group's range of 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 Year ended 31 Mar 2011 £'000	Audited Year ended 31 Mar 2010 £'000
Revenue		
KC & Eclipse	122,893	123,536
Kcom & Smart 421	276,861	290,973
PLC ¹	(4,342)	(1,709)
Total	395,412	412,800
Group EBITDA		
KC & Eclipse	57,862	57,277
Kcom & Smart 421	25,751	22,693
PLC ¹	(7,650)	(10,175)
Total – before exceptional items	75,963	69,795
Exceptional items:		
KC & Eclipse	(149)	(1,422)
Kcom & Smart 421	(10,951)	(5,420)
PLC ¹	2,763	(3,363)
Total exceptional items	(8,337)	(10,205)
EBITDA post exceptional items	67,626	59,590

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

EBITDA post exceptional items	67,626	59,590
Depreciation	(18,464)	(20,074)
Amortisation	(8,868)	(12,966)
Finance costs	(7,393)	(7,368)
Share of profit/(loss) of associates	11	(12)
Profit before tax	32,912	19,170

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 financial information continued

1. Segmental analysis (continued)

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

	Unaudited Year ended 31 Mar 2011 £'000	Audited Year ended 31 Mar 2010 £'000
Revenue from external customers		
KC & Eclipse	118,162	122,070
Kcom & Smart 421	276,472	289,858
PLC ¹	778	872
Total	395,412	412,800
Inter-segment revenue		
KC & Eclipse	4,731	1,466
Kcom & Smart 421	389	1,115
PLC ¹	(5,120)	(2,581)
Total	-	-
	395,412	412,800

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

Notes to the unaudited 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

	Unaudited Year ended 31 Mar 2011 £'000	Audited Year ended 31 Mar 2010 £'000
Exceptional items:		
- Loss on Network Build	7,088	-
- Restructuring costs relating to employees	4,199	4,980
- Pension curtailment gain	(2,950)	-
- Loss on sale of business	-	2,136
- Onerous lease provision	-	2,018
- Restructuring costs	-	1,071
Charged to operating profit	8,337	10,205

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.

The loss on Network Build relates to the forecast loss arising on the build stage of a contract to build and manage a broadband network on behalf of a third party provider. This contract has now been revised, in terms of reducing scope of, and changes to, its network design and reflecting also certain operational challenges on the build element. The remaining build phase of this contract is envisaged to be completed by the end of this financial year after which we will have a profitable ten year managed service contract. As part of the agreement to re-scope the network, we have been able to materially reduce the level of work in progress on this contract.

3. Taxation

The taxation charge on activities is set out below:

	Unaudited Year ended 31 Mar 2011 £'000	Audited Year ended 31 Mar 2010 £'000
Corporation tax	484	-
Deferred tax	(10,775)	(1,477)
Total	(10,291)	(1,477)

There are no unprovided deferred tax assets in respect of accelerated capital allowances at 31 March 2011 (2010: £nil).

Notes to the unaudited financial information continued

4. Earnings per share

	Unaudited Year ended 31 Mar 2011 No.	Audited Year ended 31 Mar 2010 No.
Weighted average number of shares		
For basic earnings per share	509,452,227	510,389,977
Share options in issue	22,000,000	12,452,341
For diluted earnings per share	531,452,227	522,842,318

Earnings	£'000	£'000
Profit attributable to equity holders of the company	22,621	17,693
Adjustments:		
Exceptional items	8,337	10,205
Tax on exceptional items	(2,334)	(1,274)
Adjusted profit attributable to equity holders of the company	28,624	26,624

Earnings per share	Pence	Pence
Basic	4.44	3.47
Diluted	4.26	3.38
Adjusted basic	5.62	5.22
Adjusted diluted	5.39	5.09

Notes to the unaudited financial information continued

5. Dividends

	Unaudited Year ended 31 Mar 2011 £'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
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	-
Interim dividend for the year ended 31 March 2011 of 1.1 pence per share	5,683	-
Total	12,140	7,725

The proposed final dividend for the year ended 31 March 2011 is 2.5 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 financial information.

6. Movement in net debt

	Unaudited Year ended 31 Mar 2011 £'000	Audited Year ended 31 Mar 2010 £'000
Opening net debt	116,796	157,900
Closing net debt	81,997	116,796
Reduction in the year	34,799	41,104

Reconciliation of movement in the year

Net cashflow from operations	68,009	74,612
Capital expenditure	(13,948)	(17,595)
M&A investments	-	150
Interest	(8,574)	(7,302)
Dividends	(12,140)	(7,725)
Other	1,452	(1,036)
Reduction in the year	34,799	41,104

Notes to the unaudited financial information continued

7. Basis of preparation and publication of unaudited results

The Group prepares its annual consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations endorsed by the European Union (EU) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial information contained within this preliminary announcement is unaudited and has been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value through profit and loss. The financial information included in this preliminary announcement does not include all the disclosures required by IFRS or the Companies Act 2006 and accordingly it does not itself comply with IFRS or the Companies Act 2006.

The unaudited consolidated financial information in this report has been prepared in accordance with the accounting policies disclosed in the Group's 2010 Annual Report and Accounts.

The financial information set out in this announcement does not constitute the company's statutory accounts within the meaning of Section 434 of the Companies Act 2006 for the years ended 31 March 2011 or 2010. The financial information for the year ended 31 March 2010 is derived from the statutory accounts for that year, which have been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain a statement under s498 of the Companies Act 2006. The statutory accounts for the year ended 31 March 2011 will be finalised on the basis of the financial information presented by the Directors in this preliminary announcement and will be delivered to the Registrar of Companies following the Annual General Meeting.

The financial information contained within this preliminary announcement was approved by the Board on 26 May 2011 and has been agreed with the Company's auditors for release.

This preliminary announcement 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.

General information

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

The Group has its primary listing on the London Stock Exchange.

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.

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.

- 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'.
- IAS 1 (amendment), 'Presentation of financial statements'.
- IAS 36 (amendment), 'Impairment of assets'.
- IFRS 2 (amendments), 'Group cash settled share based payments transactions. The amendments incorporate IFRIC 18, 'Scope of IFRS2' and IFRIC 11, 'IFRS 2 – Group and treasury share transactions'.
- IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'.
- IFRIC 9 (amendment), 'Reassessment of embedded derivatives and IAS 39 'Financial Instruments: Recognition and Measurement'.
- IFRIC 16, 'Hedges of a net investment in a foreign operation'.
- IFRIC 17, 'Distributions of non-cash assets to owners'.
- IFRIC 18, 'Transfers of assets from customers'.

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.

Notes to the unaudited financial information continued

- 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 for annual periods beginning on or after 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 agrees 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.

8. Principal risks and uncertainties

As with all businesses, we are affected by a number of risks and uncertainties, some of which are beyond our control. The key risks that we have identified will be disclosed within the annual report.

9. Related party transactions

The remuneration of the Directors who are key management personnel of KCOM Group PLC will be disclosed in the audited part of the Directors' remuneration report in the Annual report.

There are no other material related party transactions.