

**KCOM GROUP PLC (KCOM.L) - PRELIMINARY ANNOUNCEMENT OF UNAUDITED RESULTS FOR YEAR ENDED 31 MARCH 2008**

KCOM Group PLC (KCOM.L) ("KCOM" or the "Group") today announces its unaudited preliminary results for the year ended 31 March 2008.

**Summary**

	<b>Unaudited Year ended 31 March 2008 (£ million)</b>	<b>Audited Year ended 31 March 2007 (£ million)</b>	<b>Change over prior year (%)</b>
<b>Results from continuing operations before exceptional items<sup>1</sup></b>			
Revenue	517.3	483.1	7.1
Operating margin <sup>2</sup>	203.4	180.7	12.6
EBITDA	69.3	71.0	(2.4)
Adjusted Group profit from operations <sup>3</sup>	36.7	39.4	(6.9)
EBITDA less capital expenditure	39.0	37.9	2.9
<b>Reported results<sup>4</sup></b>			
Profit before tax	4.4	10.6	(58.5)
Basic earnings per share (pence)	3.65	4.66	(21.7)
Adjusted basic earnings per share (pence) <sup>5</sup>	4.56	5.52	(17.4)
Dividend per share (pence)	2.82	1.95	44.6

<sup>1</sup> A reconciliation of results before exceptional items to reported results is given in note 1

<sup>2</sup> Operating margin represents gross margin before the deduction of depreciation and amortisation and excludes overheads and general and administration expenses

<sup>3</sup> Adjusted Group profit from operations excludes amortisation of intangible assets arising on acquisitions

<sup>4</sup> A reconciliation of reported to adjusted results is given in note 7

<sup>5</sup> Adjusted basic earnings per share excludes discontinued operations, exceptional items, amortisation of intangible assets relating to acquisitions and taxation

**Highlights**

- Revenue growth of 7.1 per cent reflecting a combination of both organic and acquisition led growth
- As a consequence of reduced profitability within Integration & Managed Services, Group EBITDA before exceptionals declined 2.4 per cent resulting in a 6.9 per cent decline in Adjusted Group Profit from operations from £39.4 million to £36.7 million
- All business segments delivered positive cash contributions at the EBITDA less capital expenditure level, with this Group measure increasing 2.9 per cent to £39.0 million.
- Final proposed dividend of 1.88 pence per share an increase of 44.6 per cent resulting in a full year dividend of 2.82 pence.
- Profit before tax has reduced to £4.4 million (2007: £10.6 million) reflecting, in part, a £7.0 million increase in amortisation of intangible assets arising on acquisition.



### *Integration & Managed Services*

This segment serves the public sector and larger UK-headquartered businesses. Its skills are built around the design, implementation, support and ongoing management of integrated customer solutions. The business is focused on five key areas of the IT and Communications market: the provision of secure IP enabled networks, unified communications, data management, contact centre integration and applications integration.

Investment through acquisition has played a large part in the creation of our business proposition and we are now well positioned to exploit the convergence themes that are emerging across both network and applications environments.

The longer term potential returns of this business will be improved as we move towards a solution-led sales proposition encompassing the full range of services and capabilities that we have assembled.

### **Business and Operating Review**

#### *Overview*

Group revenue has increased 7.1 per cent to £517.3 million. This growth benefits from the full year impact of prior year acquisitions with organic Group revenue growth of 2.1 per cent.

Group EBITDA before exceptional items reduced 2.4 per cent to £69.3 million, the reduction wholly attributable to the reduction within the I&MS segment. The reduction in Group EBITDA has impacted overall profitability such that Adjusted Group profit from operations has reduced 6.9 per cent to £36.7 million from £39.4 million.

The continuing capacity of the Group to generate cash is demonstrated through the 2.9 per cent increase in EBITDA less capital expenditure to £39 million.

Group profit before tax is £4.4 million (2007: £10.6 million) with the reduction reflecting, amongst other factors, an increase of £7.0 million in amortisation charges from intangible assets arising on acquisition.

#### *Telecoms & Internet Services*

<i>Results before exceptional items</i>	2008 (£ million)	2007 (£ million)	Change over prior year (%)
Revenue	244.4	222.7	9.7
Operating margin	143.3	133.1	7.7
EBITDA	62.8	58.4	7.5
EBITDA less capital expenditure	37.9	32.7	15.9
Adjusted profit from operations	41.4	40.2	3.0

The T&IS business continues to perform strongly, benefiting from its high level of recurring revenues. We have fully integrated the Mistral Internet acquisition and have been encouraged by the performance of our expanded hosting proposition following this acquisition. We have seen continued strong performance from broadband and bandwidth services, in both East Yorkshire and across the regions of the UK.

Overall T&IS revenue growth of 9.7 per cent arises from the combination of acquisition-driven growth and organic growth of 1.8 per cent. The organic revenue growth reflects growth in business telecoms of 4.2 per cent, business internet of 19.1 per cent and consumer growth of 5.9 per cent, offset by a decline in partner services revenue. Whilst there has been the expected decline in the volume of voice traffic in both the business and consumer segments, this has been more than compensated for by growth in network access and bandwidth revenue in the business segment and broadband revenues in the consumer segment. At 31 March 2008, our broadband base stood at 203,000 representing year on year growth of 12.0 per cent.

Contract wins secured across the Internet & Telecoms business in the year include North East Lincolnshire Council, Arco, Windsor Telecom and Northern Rail.

Strong consumer revenue growth within East Yorkshire means that there has been a 1.4 per cent increase in revenue generated within the regulated Licensed Area. Penetration of broadband within our Licensed Area stood at approximately 52 per cent as of 31 March 2008. The strength of the East Yorkshire operation underpins the performance of the T&IS segment and we remain confident in its continuing strong performance.

The competitive and regulatory environment within our East Yorkshire business has not changed materially in the last twelve months. We remain vigilant to the possibility of direct competition in East Yorkshire and therefore continue to differentiate our service offerings from those offered in the rest of the UK. Consistent with this approach is the additional investment we are making in the local broadband infrastructure to generate improved broadband speeds for our customers. We continue to provide a quality of service in the local market that compares favourably to that provided by other ISPs across the UK.

Our partner services channel has seen a £2.2 million decline in revenue in the current year as a result of the previously reported ongoing reduction in wholesale dial-up internet volumes and a decline in premium rate call volumes.

A combination of revenue growth, consistent operating margins, tight cost management and the impact of the Mistral acquisition mean that EBITDA grew 7.5 per cent to £62.8 million. There has been a modest EBITDA margin decline from 26.2 per cent to 25.7 per cent as a consequence of a higher proportion of revenues being delivered on networks owned by third parties.

The T&IS segment has continued to deliver strong returns during the financial year with the 15.9 per cent growth in EBITDA less capital expenditure demonstrating the continued ability of this business to deliver positive cash flows.

Based on the strength of these returns and high level of revenue visibility we have committed to further investment in the business in order to improve the breadth of services we can offer on our carrier network, including providing network hosted IP solutions to the business market. Alongside these network investments, we have also invested in further data centre capacity in the Global Switch 2 facility in London, taking our total leased and owned capacity to 14,700 square feet. This is in addition to the existing co-location space within our network exchange premises and supports the continued growth we anticipate in hosted services.

### Integration & Managed Services (I&MS)

Results before exceptional items	2008 (£ million)	2007 (£ million)	Change over prior year (%)
Revenue	278.4	271.0	2.7
Operating margin	54.4	59.9	(9.2)
EBITDA	8.6	19.0	(54.7)
EBITDA less capital expenditure	4.9	14.2	(65.5)
Adjusted Profit from operations	1.4	8.6	(83.7)

The Integration & Managed Services business has had a challenging year. The business entered the 2008 financial year with strong growth expectations based on the opportunities that were visible at that stage.

As the year progressed, it became apparent as a result of changing market conditions, that revenue from our largest industry vertical, financial services, would fall short of our initial expectations. In addition, we experienced a material decline in revenue from a major customer using our applications integration skills. These factors had an impact on the overall revenue and profitability of the I&MS business in the year.

Overall revenue within I&MS has increased by 2.7 per cent to £278.4 million. This growth includes the full year impact of the prior year acquisitions of Smart421 and JAM IP with pro-forma organic growth at 0.3 per cent. It is encouraging to note that our second half year on year organic revenue growth is 3.8 per cent following a decline in the first half of 3.1 per cent year on year.

The mix of I&MS revenue comprises 39.7 per cent from the design, supply of related products and implementation of solutions, 3.2 per cent from consulting services and 57.1 per cent from recurring services.

The overall financial performance for the I&MS segment was impacted significantly by revenue weakness with overall EBITDA before exceptionals of £8.6 million (EBITDA margin: 3.1 per cent) and Adjusted profit from operations of £1.4 million similarly falling short of our initial expectations. The I&MS planned revenue profile was weighted to the second half of the year, particularly within Affiniti, and this served to further highlight the impact of the revenue shortfall as there was insufficient time remaining in the financial year to materially adjust the overall cost base of the business.

The year on year profitability within I&MS has been impacted by the following anticipated factors:

- a £5.0 million year on year reduction in the contribution of one of our public sector long term managed service contracts. The contract has been extended to March 2011. The high level of profitability reported in the previous financial year from this contract was consistent with the end of the final build phase of the contract. The Group had, over the previous six years, designed and progressively built this network. A significant proportion of the contract value was recognised in the previous year in line with our revenue recognition policy. Prior to this, there had been significant levels of capital expenditure associated with the contract although going forward these amounts are negligible.
- the impact of implementing new “in life” support arrangements for customers using Cisco technology led to a £1.9 million increase in operating expenditure. Prior to these arrangements, Cisco spares had been capitalised and depreciated over the life of the contract thereby not impacting EBITDA. Although this adversely affected EBITDA margins, it is anticipated that this will result in a more favourable cash profile over the life of a contract through lower spares stock holding.

As market conditions weakened, the operational gearing of the business, together with our planned weighting to the second half, meant our ability to fully offset the shortfall in sales during the second half was limited. However, we began implementing, during the second half, a series of changes to drive improved performance in the coming year.

These include:

- the restructuring of the management team following the appointment of Paul Renucci to the Board of Directors in November 2007 with responsibility for the Affiniti business.
- the closure of two of our regional offices with a further four scheduled to close over the next nine months.
- completion of a number of systems integrations in the last quarter of the year. This, coupled with other projects around the Group, has removed approximately 20 “duplicate” operating and financial systems in the last 12 months.
- investment in a new professional services management tool designed to drive improved utilisation and management of our pre-sales, consultancy, project management and implementation capability within the Affiniti business. This will improve productivity enabling a marked reduction in the use of third parties to meet peaks and troughs in workflows.
- completion of the restructuring of the public sector sales team within Affiniti at the end of the third quarter of the year.
- the integration of three technical and field engineering resource groups across the Group.

Overall, we will have seen a progressive reduction in the total headcount across Affiniti and our shared engineering resources through a combination of effective and leaner management, redundancy, redeployment and natural attrition.

At the same time as we have implemented these changes, we have continued securing important new customers, as well as extending relationships with existing customers. New customer contracts secured include Innocent Drinks, Threadneedle, Mid Yorkshire NHS Trust, Mercedes UK & UK Companies and a substantial project with Statestreet Bank. Ford, an existing customer, has recently signed a three year extension to their contract covering Europe. We have also recently renewed a three year contract with the East Midlands Broadband Consortium for the provision of broadband services to schools in the East Midlands through the prime contractor Synetrix.

These contracts all underpin the improvement we have seen in the value of our Affiniti contract order book which stood at £186.0 million at 31 March 2008 (2007: £159.6 million). This increase is all within our recurring services income and provides a solid base to the current and subsequent years.

The second half revenue growth reported within I&MS is encouraging and provides us with confidence as to our growth targets. Our ability to exploit the enhanced skills within I&MS across our customer base will help drive growth although the revenue impact of this to date has been modest as a percentage of our overall revenue. This aspect of the development of our business will take some time to come to fruition.

Overall, the improved order book of contracts, together with the skills and capabilities of the businesses and the changes outlined above, provide us with a platform from which to drive I&MS towards our medium term targets and deliver an acceptable level of return on both sales and the capital employed in this segment of the business.

Consistent with the business strategy, the year has illustrated the reduced capital intensity of this segment of our business and it can be seen that, despite the shortfall and year on year reduction in EBITDA, the business reported positive levels of EBITDA less capital expenditure and Adjusted profit from operations.

### Information Services (IS)

<i>Results before exceptional items</i>	2008 (£ million)	2007 (£ million)	Change over prior year (%)
Revenue	14.1	13.6	3.7
Operating margin	7.6	7.3	4.1
EBITDA	4.1	3.7	10.8
Adjusted profit from operations	3.6	3.2	12.5

Our Information Services segment comprises our Publishing Services and Contact Centre operations. Organic revenue growth of 3.7 per cent has been driven through a combination of increased advertising revenues within our directory products and strong activity levels on specific customer contracts within the contact centre operations.

The increase in activity levels has in turn resulted in a £0.4 million improvement in EBITDA and Adjusted profit from operations.

Subsequent to the financial year end, the Group disposed of the 118800 retail Directory Enquiry operations for £1.45 million. The Group has entered into an arrangement to continue to provide wholesale directory enquiry services to the new owners.

### *Other*

The loss reported within the Other segment has reduced to £6.3 million (2007: £10.1 million). This reduction is a combination of a decrease in the net costs relating to the Group long term incentive schemes and a reduction in salary costs.

### **Financial review**

#### *Group operating profit*

Group operating profit for the year is £17.7 million (2007: £23.6 million). The year to year reduction reflects the following:

- a £1.7 million reduction in Group EBITDA before exceptional items.
- a £3.8 million reduction in exceptional costs.
- an £8.2 million increase in the amortisation of intangible assets.

Group EBITDA before exceptional items has decreased by 2.4 per cent to £69.3 million. This reduction reflects a combination of the improvement in EBITDA generated by the T&IS, IS and Other segments net of the reduction reported within the I&MS segment. Taking account of the one-off £1.8m credit in respect of pension scheme legislative changes booked to the income statement in the previous year, the level of Group EBITDA would be flat year over year. Despite the reduction in Group EBITDA, a combination of tight capital expenditure management and an inherent reduction in the capital intensity of the I&MS business has seen the level of EBITDA less capital expenditure increase by 2.9 per cent from £37.9 million to £39.0 million.

The Group has incurred exceptional operating costs of £4.0 million in 2008 (2007: £7.8 million) as a result of restructuring activities that have been undertaken during the course of the year. Of this, £2.5 million has been incurred in respect of the efficiency initiatives underway within the I&MS segment.

As a consequence of this reduction in exceptional items, Group EBITDA has increased to £65.3 million from £63.1 million.

Depreciation and amortisation amounted to £47.6 million (2007: £39.6 million). Of this, an amount of £24.0 million (2007: £24.2 million) has been charged in respect of depreciation and a further £8.6 million (2007: £7.4 million) in respect of amortisation of intangibles assets arising on the capitalisation of software licences. Amortisation of intangible assets arising on acquisition amounts to £15.0 million (2007: £8.0 million). This has increased due to the full year's charge in respect of the amortisation of intangible assets arising in respect of the three acquisitions that were undertaken during the course of the previous financial year. In addition, an amount of £2.7 million has been charged as an accelerated write down in respect of an intangible asset representing one customer relationship from the Smart421 acquisition.

#### *Finance costs*

Net finance costs amount to £13.3 million (2007: £11.0 million). The increase reflects a combination of higher borrowings as a result of the debt-financed acquisitions undertaken last year and the increase in LIBOR during the course of 2008. The Group has entered into fixed rate arrangements to fix the cost of £100 million of its borrowings, thereby partially mitigating the impact of the LIBOR increase.

#### *Profit before tax*

Profit before tax was £4.4 million (2007: £10.6 million), reflecting the lower Group operating profit reported in the year.

#### *Taxation*

The net taxation credit of £14.4 million (2007: £13.3 million) arises primarily as a consequence of the recognition of an additional deferred tax asset during the year and reflects our current view of the anticipated utilisation of unclaimed capital allowances in the Group.

The total deferred tax asset is £39.4 million (2007: 25.4 million). We have now recognised the remaining deferred tax asset in respect of unclaimed capital allowances such that the unprovided deferred tax asset has decreased from approximately £22.1 million at 31 March 2007 to £1.3 million at 31 March 2008.

#### *Earnings per share*

Basic earnings per share amounted to a profit of 3.65 pence (2007: 4.66 pence). Adjusted basic earnings per share amounted to 4.56 pence (2007: 5.52 pence).

Adjusted basic earnings per share	2008 (pence)	2007 (pence)	Change over prior year (%)
H1	2.52	2.76	(8.7)
H2	2.04	2.76	(26.1)
Total	4.56	5.52	(17.4)

The Group Adjusted basic earnings per share includes the financial performance at an Adjusted profit from operations level for all segments of the Group. For the purposes of setting the appropriate distribution level for dividend purposes, the Board excludes the earnings of the I&MS and Other segments from relevant earnings, which for dividend purposes therefore amounted to £31.7 million in 2008.

## **Group Financing and Investment**

Group net debt at 31 March 2008 was £168.9 million (2007: £164.2 million), equating to a net debt to EBITDA ratio just below 2.5 times.

A reduction in net cash inflow from operations to £50.0 million (2007: £59.1 million) arises as a consequence of a £15.3 million increase in working capital which reflects:

- £2.7 million (2007: £4.6 million) of this increase relates to the reversal of the profit and loss account credit arising under IAS19 accounting for pensions.
- the cash impact of exceptional items in the year totalling approximately £7.1 million. Of this, £3.9 million was in respect of a specific onerous lease settlement and £2.1 million in respect of restructuring costs.
- a net increase in receivables and payables of £10.0 million reflecting the volume of trading undertaken in the last month of the financial year within the I&MS business. Subsequent to the year end, a significant part of this working capital position had reversed.

Net cash used in investing activities amounts to £31.9 million compared to a prior year amount of £73.3 million. The 2007 investment levels included £43.1 million in respect of the acquisition of the Mistral, Smart 421 and JAM IP businesses.

The net cash cost of servicing the Group debt in the year was £10.7 million (2007: £11.2 million). The cash cost of the dividend was £11.5 million (2007: £7.4 million), reflecting the year on year increase in the interim dividend paid in the year.

As at 31 March 2008, the Group had a gross liability in respect of its pensions arrangements of £9.1 million (2007: £12.7 million). The impact of lower asset valuation and changes in mortality assumptions has been offset by the impact of an increase in the discount rate applied to liability valuation.

### **Dividend**

At the time of the interim results, the Board established a distribution policy closely aligned to the performance of the T&IS and IS segments, being the more mature parts of the Group. As indicated at that time, the Board expected to pay a final dividend consistent with a one third/two thirds split between the interim and final dividends. Accordingly, the Board is proposing a final dividend of 1.88 pence per share (2007: 1.30 pence per share), resulting in a full year dividend of 2.82 pence per share (2007: 1.95 pence), an increase of 44.6 per cent. Subject to Shareholder approval at the Company's Annual General Meeting on 25 July 2008, the final dividend will be payable on 8 August 2008 to Shareholders registered at the close of business on 27 June 2008.

### **Outlook**

Our T&IS business remains resilient with strong margins and predictable cash flows which, as demonstrated by these results, will continue to support our capacity to return value to shareholders through increased dividends.

In the I&MS business where substantial investment has been made in skills and capabilities over the last three years, we are now making progress towards achieving improved performance in line with our medium term targets.

We remain confident that the Group is well positioned for the future with current trading in line with expectations.

***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.

## Consolidated Income Statement

		Unaudited Year Ended 31 March 2008 £'000	Audited Year Ended 31 March 2007 £'000
	Note		
<b>Continuing operations</b>			
Revenue	1	517,297	483,120
Operating expenses		(499,624)	(459,543)
<b>Group operating profit</b>	1	<b>17,673</b>	23,577
<b>Analysed as:</b>			
Group EBITDA	1	65,312	63,146
Depreciation of property, plant and equipment	1	(24,023)	(24,192)
Amortisation of intangible assets	1	(23,616)	(15,377)
Finance costs		(13,467)	(13,220)
Finance income		200	261
Share of profit of associates		17	12
<b>Profit before taxation</b>		<b>4,423</b>	10,630
Taxation	3	14,353	13,339
<b>Profit for the year from continuing operations</b>		<b>18,776</b>	23,969
<b>Discontinued operations</b>			
Loss for the year from discontinued operations	1	-	(578)
<b>Profit for the year attributable to equity holders of the Company</b>		<b>18,776</b>	23,391
<b>Earnings per share from continuing operations</b>			
Basic	4	3.65p	4.66p
Diluted	4	3.64p	4.66p
<b>Earnings per share from total operations</b>			
Basic	4	3.65p	4.55p
Diluted	4	3.64p	4.55p

## Consolidated Statement of Recognised Income and Expense

	<b>Unaudited Year Ended 31 March 2008 £'000</b>	<b>Audited Year Ended 31 March 2007 £'000</b>
Exchange differences on translation of foreign operations	(2)	12
Cash flow hedges	(2,177)	895
Actuarial gains/(losses) on retirement benefit obligation	524	(3,166)
Tax on items taken directly to equity	550	(1,201)
Net expense recognised directly in equity	(1,105)	(3,460)
Profit for the period	18,776	23,391
<b>Total recognised income and expense for the period</b>	<b>17,671</b>	<b>19,931</b>

## Consolidated Balance Sheet

	Note	Unaudited As at 31 March 2008 £'000	Audited As at 31 March 2007 £'000
<b>Non-current assets</b>			
Goodwill		193,191	192,754
Other intangible assets		31,286	48,511
Property, plant and equipment		131,407	132,385
Investments		860	854
Deferred tax assets		39,384	25,378
		<b>396,128</b>	<b>399,882</b>
<b>Current assets</b>			
Inventories		7,699	9,866
Trade and other receivables		118,006	88,087
Cash and cash equivalents		31,231	30,110
		<b>156,936</b>	<b>128,063</b>
<b>Total assets</b>	1	<b>553,064</b>	<b>527,945</b>
<b>Current liabilities</b>			
Trade and other payables		(156,683)	(138,234)
<b>Non-current liabilities</b>			
Bank loans		(198,969)	(193,383)
Retirement benefit obligations		(9,138)	(12,665)
Long term provisions and other payables		(3,589)	(6,062)
		<b>(368,379)</b>	<b>(350,344)</b>
<b>Total liabilities</b>	1	<b>(368,379)</b>	<b>(350,344)</b>
<b>Net assets</b>		<b>184,685</b>	<b>177,601</b>
<b>Capital and reserves, attributable to equity holders of the Company</b>			
Share capital	8	51,627	51,493
Share premium account	8	353,111	352,450
Hedging and translation reserve	8	(703)	877
Retained earnings	8	(219,350)	(227,219)
<b>Total equity</b>		<b>184,685</b>	<b>177,601</b>

## Consolidated Cash Flow Statement

		Unaudited Year Ended 31 March 2008 £'000	Audited Year Ended 31 March 2007 £'000
<b>Net cash flow from operating activities</b>			
Operating profit	6	17,691	23,564
<b>Adjustments for:</b>			
Depreciation and amortisation		47,639	39,569
Increase in working capital		(15,337)	(4,114)
Employee share schemes		158	393
Gain on sale of property, plant and equipment		(154)	-
Income taxes paid		-	(284)
<b>Net cash inflow from operations</b>		<b>49,997</b>	59,128
<b>Cash flows from investing activities</b>			
Purchase of businesses		(700)	(43,064)
Purchase of property, plant and equipment		(25,029)	(23,721)
Proceeds from sale of property, plant & equipment		250	12
Purchase of intangible assets		(6,381)	(6,495)
Purchase of investments		(12)	(13)
<b>Net cash used in investing activities</b>		<b>(31,872)</b>	(73,281)
<b>Cash flows from financing activities</b>			
Dividends paid		(11,540)	(7,356)
Issue costs of long term loans		(450)	(1,416)
Interest paid		(10,913)	(11,496)
Interest received		199	261
Capital element of finance leases repayments		(583)	(301)
Capital element of new finance leases		783	-
Repayment of bank loans		-	(13)
New loans		5,500	52,500
<b>Net cash (used in)/from financing activities</b>		<b>(17,004)</b>	32,179
<b>Increase in cash and cash equivalents</b>		<b>1,121</b>	18,026
Cash and cash equivalents at the beginning of the period		30,110	12,084
<b>Cash and cash equivalents at the end of the period</b>		<b>31,231</b>	30,110

## 1. Segmental Analysis

With effect from 1 April 2007, the Group has carried out an operational reorganisation of the business, in order to align the reported activities of each business segment with the markets which they serve. As a result, the segmental analysis for the year to 31 March 2007 has been restated to reflect this reorganisation.

	Unaudited Year ended 31 March 2008 £'000	Unaudited Year ended 31 March 2007 As restated £'000
<b>Revenue</b>		
Integration and Managed Services	278,431	270,959
Telecoms and Internet Services	244,356	222,666
Information Services	14,132	13,630
Other <sup>1</sup>	(19,622)	(24,135)
Total – continuing activities	517,297	483,120
Discontinued activities	-	75
	<b>517,297</b>	<b>483,195</b>

### Operating margin

Operating margin represents gross margin before the deduction of depreciation and amortisation and excludes overheads and general and administration expenses of £138.1 million (2007: £117.6 million). This additional information is an operational measure used by the Board in managing the financial performance of the business.

Integration and Managed Services	54,435	59,852
Telecoms and Internet Services	143,324	133,066
Information Services	7,605	7,322
Other <sup>1</sup>	(1,920)	(19,532)
Total – continuing activities	203,444	180,708
Discontinued activities	-	45
	<b>203,444</b>	<b>180,753</b>

### Group EBITDA

Before exceptional items:		
Integration and Managed Services	8,649	19,030
Telecoms and Internet Services	62,849	58,421
Information Services	4,065	3,684
Other <sup>1</sup>	(6,263)	(10,163)
Total – continuing activities before exceptional items	69,300	70,972
Exceptional items:		
Integration and Managed Services	(2,532)	(57)
Telecoms and Internet Services	(549)	(1,781)
Information Services	(201)	(91)
Other <sup>1</sup>	(706)	(5,897)
	<b>(3,988)</b>	<b>(7,826)</b>
Total – continuing activities	65,312	63,146
Discontinued activities	-	(36)
	<b>65,312</b>	<b>63,110</b>

<sup>1</sup> Other includes head office costs, shared services and eliminations.

**1. Segmental Analysis (continued)**

	Unaudited Year ended 31 March 2008 £'000	Unaudited Year ended 31 March 2007 As restated £'000
<b>Depreciation</b>		
Integration and Managed Services	6,715	9,263
Telecoms and Internet Services	15,063	13,735
Information Services	452	502
Other <sup>2</sup>	1,793	692
Total – continuing activities	24,023	24,192
Discontinued activities	-	-
	<b>24,023</b>	<b>24,192</b>
<b>Amortisation</b>		
Integration and Managed Services	11,416	7,734
Telecoms and Internet Services	10,524	5,828
Information Services	84	100
Other <sup>2</sup>	1,592	1,715
Total – continuing activities	23,616	15,377
Discontinued activities	-	-
	<b>23,616</b>	<b>15,377</b>
<b>(Loss)/profit from operations</b>		
Before exceptional items:		
Integration and Managed Services	(9,482)	2,033
Telecoms and Internet Services	37,262	38,858
Information Services	3,529	3,082
Total – continuing activities before exceptional items	31,309	43,973
Exceptional items:		
Integration and Managed Services	(2,532)	(57)
Telecoms and Internet Services	(549)	(1,781)
Information Services	(201)	(91)
Other <sup>2</sup>	(706)	(5,897)
	<b>(3,988)</b>	<b>(7,826)</b>
Total – continuing activities	27,321	36,147
Head office and other unallocated costs	(9,648)	(12,570)
Profit from continuing operations	17,673	23,577
Share of profit of associate	17	12
Profit from continuing operations	17,690	23,589
Segment result – discontinued activities	-	(578)
	<b>17,690</b>	<b>23,011</b>

<sup>2</sup> Other includes head office costs, shared services and eliminations.

**1. Segmental Analysis (continued)**

	<b>Unaudited Year ended 31 March 2008 £'000</b>	Unaudited Year ended 31 March 2007 As restated £'000
<b>Assets</b>		
Integration and Managed Services	<b>261,450</b>	257,433
Telecoms and Internet Services	<b>212,631</b>	207,364
Information Services	<b>5,867</b>	5,643
Other <sup>3</sup>	<b>1,637</b>	346
Unallocated assets	<b>71,479</b>	57,159
<b>Total assets</b>	<b>553,064</b>	527,945
<b>Liabilities</b>		
Integration and Managed Services	<b>65,324</b>	51,229
Telecoms and Internet Services	<b>73,022</b>	74,392
Information Services	<b>3,685</b>	3,949
Other <sup>3</sup>	<b>26,158</b>	25,097
Unallocated liabilities	<b>200,190</b>	195,677
<b>Total liabilities</b>	<b>368,379</b>	350,344
<b>Capital expenditure on property, plant and equipment and intangible assets</b>		
Integration and Managed Services	<b>3,717</b>	4,851
Telecoms and Internet Services	<b>24,936</b>	25,714
Information Services	<b>143</b>	299
Other <sup>3</sup>	<b>1,495</b>	2,198
<b>Total – continuing activities</b>	<b>30,291</b>	33,062
Discontinued operations	-	-
	<b>30,291</b>	33,062

<sup>3</sup> Other includes head office and shared services.

### 1. Segmental Analysis (continued)

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

	<b>Unaudited Year ended</b>	Unaudited Year ended
	<b>31 March 2008</b>	31 March 2007
	<b>£'000</b>	As restated £'000
<b>Revenue from external customers</b>		
Integration and Managed Services	<b>277,611</b>	270,863
Telecoms and Internet Services	<b>226,798</b>	200,737
Information Services	<b>12,220</b>	11,472
Other <sup>3</sup>	<b>668</b>	48
Total – continuing activities	<b>517,297</b>	483,120
Discontinued operations	-	75
Total	<b>517,297</b>	483,195
<b>Inter-segment revenue</b>		
Integration and Managed Services	<b>820</b>	96
Telecoms and Internet Services	<b>16,935</b>	21,929
Information Services	<b>1,913</b>	2,158
Other <sup>3</sup>	<b>(19,668)</b>	(24,183)
Total	-	-
	<b>517,297</b>	483,195

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

	<b>Unaudited Year ended</b>	Audited Year ended
	<b>31 March 2008</b>	31 March 2007
	<b>£'000</b>	£'000
<b>Geographical analysis of revenue</b>		
United Kingdom	<b>512,884</b>	468,288
Continental Europe	<b>3,885</b>	12,946
Other	<b>528</b>	1,961
	<b>517,297</b>	483,195

## 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 the continued rationalisation of the Group's property portfolio. Accelerated loan fee amortisation relates to the write off of loan arrangement fees associated with the refinancing of the Group in February 2007.

	<b>Unaudited Year ended</b>	Audited Year ended
	<b>31 March 2008</b>	31 March 2007
	<b>£'000</b>	£'000
Exceptional items:		
- Restructuring costs	<b>3,970</b>	2,033
- Onerous lease provision	-	5,770
- Amounts written off investments	<b>18</b>	23
Charged to operating profit	<b>3,988</b>	7,826
- Accelerated loan fee amortisation	-	1,918
Charged to profit before taxation	<b>3,988</b>	9,744

## 3. Taxation

The taxation credit on continuing activities is set out below:

	<b>Unaudited Year ended</b>	Audited Year ended
	<b>31 March 2008</b>	31 March 2007
	<b>£'000</b>	£'000
Corporation tax	<b>617</b>	122
Deferred tax	<b>13,736</b>	13,217
Group total	<b>14,353</b>	13,339

The unprovided deferred tax asset in respect of accelerated capital allowances has decreased from £20.3m at 31 March 2007 to £Nil at 31 March 2008.

#### 4. Earnings per share

	Unaudited Year ended 31 March 2008 No.	Audited Year ended 31 March 2007 No.
<b>Weighted average number of shares</b>		
For basic earnings/(loss) per share	514,551,645	513,941,128
Share options	1,026,446	171,636
<b>For diluted earnings/(loss) per share</b>	<b>515,578,091</b>	<b>514,112,764</b>

<b>Earnings</b>	<b>£'000</b>	<b>£'000</b>
<b>Profit for the period attributable to equity holders of the Company</b>	<b>18,776</b>	<b>23,391</b>
Adjustment to exclude loss for the period from discontinued operations	-	578
<b>Profit for the period from continuing operations</b>	<b>18,776</b>	<b>23,969</b>
Adjustments:		
Exceptional items	3,988	9,744
Amortisation of intangible assets arising on acquisitions	15,044	8,015
Taxation	(14,353)	(13,339)
<b>Adjusted profit for the period from continuing operations</b>	<b>23,455</b>	<b>28,389</b>

<b>Earnings/(loss) per share</b>	<b>pence</b>	<b>pence</b>
<b>From continuing operations</b>		
Basic	3.65	4.66
Diluted	3.64	4.66
Adjusted basic	4.56	5.52
Adjusted diluted	4.55	5.52
<b>From discontinued operations</b>		
Basic	-	(0.11)
Diluted	-	(0.11)
<b>From total operations</b>		
Basic	3.65	4.55
Diluted	3.64	4.55

## 5. Dividends

	<b>Unaudited Year ended 31 March 2008 £'000</b>	Audited Year ended 31 March 2007 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 March 2006 of 0.78 pence per share	-	4,012
Interim dividend for the year ended 31 March 2007 of 0.65 pence per share	-	3,344
Final dividend for the year ended 31 March 2007 of 1.30 pence per share	<b>6,691</b>	-
Interim dividend for the year ended 31 March 2008 of 0.94 pence per share	<b>4,849</b>	-
<b>Total</b>	<b>11,540</b>	<b>7,356</b>

The proposed final dividend for the year ended 31 March 2008 is 1.88 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 at 31 March 2008.

## 6. Reconciliation of operating profit

	<b>Unaudited Year ended 31 March 2008 £'000</b>	Audited Year ended 31 March 2007 £'000
Group operating profit from continuing operations	<b>17,673</b>	23,577
Loss from discontinued operations	-	(36)
Write down of fixed asset investments	<b>18</b>	23
<b>Operating profit per cashflow statement</b>	<b>17,691</b>	<b>23,564</b>

## 7. Reconciliation of reported results to adjusted results

	<b>Unaudited Year ended 31 March 2008 £'000</b>	<b>Unaudited Year ended 31 March 2008 £'000</b>	<b>Unaudited Year ended 31 March 2008 £'000</b>
	<b>Group profit from operations</b>	<b>Profit before tax</b>	<b>Basic earnings per share</b>
Income Statement as reported	17,673	4,423	3.65
Exceptional items	3,988	3,988	0.78
Amortisation of intangibles arising on acquisitions	15,044	15,044	2.92
Taxation	-	-	(2.79)
<b>As adjusted</b>	<b>36,705</b>	<b>23,455</b>	<b>4.56</b>

**7. Reconciliation of reported results to adjusted results (continued)**

	Audited Year ended 31 March 2007 £'000	Audited Year ended 31 March 2007 £'000	Audited Year ended 31 March 2007 £'000
	Group profit from operations	Profit before tax	Basic earnings per share
Income Statement as reported	23,577	10,630	4.66
Exceptional items	7,826	9,744	1.90
Amortisation of intangibles arising on acquisitions	8,015	8,015	1.56
Taxation	-	-	(2.60)
<b>As adjusted</b>	<b>39,418</b>	<b>28,389</b>	<b>5.52</b>

	<b>Unaudited Year ended 31 March 2008 £'000</b>	Audited Year ended 31 March 2007 £'000
	<b>Free cash flow</b>	Free cash flow
Increase in cash and cash equivalents as reported	<b>1,121</b>	18,026
Net investment in acquisitions and disposals	<b>700</b>	43,064
Dividends	<b>11,540</b>	7,356
Interest	<b>11,164</b>	12,651
Movement in bank loans	<b>(5,500)</b>	(52,487)
Taxation	-	284
<b>As adjusted</b>	<b>19,025</b>	<b>28,894</b>

Free cash flow is calculated by adjusting net cash flow for acquisitions and disposals of businesses, dividends, interest, bank borrowings, issue costs of long term loans and taxation. This additional information is an operational measure used by the Board in managing the financial performance of the business.

**8. 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 1 April 2006	51,480	352,360	(30)	(239,280)	164,530
Employee share schemes	-	-	-	393	393
Shares issued in the period	13	90	-	-	103
Total income and expense recognised directly in equity	-	-	907	(4,367)	(3,460)
Profit for the period	-	-	-	23,391	23,391
Dividends	-	-	-	(7,356)	(7,356)
At 31 March 2007	51,493	352,450	877	(227,219)	177,601
Employee share schemes	-	-	-	158	158
Shares issued in the period	134	661	-	-	795
Reclassification	-	-	(13)	13	-
Total income and expense recognised directly in equity	-	-	(1,567)	462	(1,105)
Profit for the period	-	-	-	18,776	18,776
Dividends	-	-	-	(11,540)	(11,540)
<b>At 31 March 2008</b>	<b>51,627</b>	<b>353,111</b>	<b>(703)</b>	<b>(219,350)</b>	<b>184,685</b>

## **9. Basis of preparation**

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 1985 applicable to companies reporting under IFRS. The financial information contained within this preliminary announcement 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 1985 and accordingly it does not itself comply with IFRS or the Companies Act 1985.

The unaudited consolidated financial information in this report has been prepared in accordance with the accounting policies disclosed in the Group's 2007 Annual Report and Accounts except for the change described below:

Adoption of IFRS 7 - IFRS 7 'Financial instruments: Disclosures' and the complementary amendment to IAS 1 'Presentation of financial statements - Capital disclosures' have been adopted from 1 April 2007. IFRS 7 and the amendment to IAS 1 have introduced new quantitative and qualitative disclosures relating to financial instruments and they do not have any impact on the classification or valuation of financial instruments.

The financial information set out in this announcement does not constitute the company's statutory accounts within the meaning of Section 240 of the Companies Act 1985 for the years ended 31 March 2008 or 2007. The financial information for the year ended 31 March 2007 is derived from the statutory accounts for that year, which have been delivered to the Registrar of Companies. These comparative figures have been restated where necessary for the operational reorganisation on 1 April 2007. The auditors' report on those accounts was unqualified and did not contain a statement under s237 (2) or (3) of the Companies Act 1985. The statutory accounts for the year ended 31 March 2008 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 16 May 2008 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.