7 June 2013

KCOM GROUP PLC (KCOM.L) ANNOUNCES
UNAUDITED PRELIMINARY RESULTS TO 31 MARCH 2013

"Improving quality and long term sustainability of the business"

Summary

- Group performance in line with expectations
- Strengthening competitive position in target markets
- Strong performance in KC
- Progress in Kcom strategic focus areas
- Implementation of asset backed partnership
- Net debt at 1.1 times EBITDA
- Full year dividend of 4.44p per share, an increase of 11 per cent
- Commitment to grow dividend, at 10 per cent per annum to 2016

	Unaudited Year ended 31 March 2013 (£ million)	Audited Year ended 31 March 2012 (£ million)	Change over prior year (%)
Results from continuing operations before exceptional items			
Revenue	372.9	387.3	(3.7)
EBITDA	76.9	77.9	(1.3)
Operating profit	57.3	57.8	(0.9)
Profit before tax	52.7	51.1	3.1
Adjusted basic earnings per share (pence) (note 4)	7.79	7.41	5.1
Reported results			
Net cash inflow from operations	50.3	56.0	(10.2)
Net debt (note 6)	88.2	75.3	
Profit before tax	50.4	51.1	(1.4)
Basic earnings per share (pence) (note 4)	7.49	7.41	1.08
Proposed final dividend (pence)	2.97	2.67	11.2
Proposed full year dividend per share (pence)	4.44	4.00	11.0

Bill Halbert, Executive Chairman said "The Group has made further progress in improving the quality and long term sustainability of the business. This is evidenced by the continued strong performance in KC and some of the key customer wins during the year, as a result of the strengthening of our competitive position in target markets.

Our disciplined financial management gives the Group a positive outlook. As a result, we are pleased to be able to commit to a ten per cent per annum dividend increase through to 2016, while at the same time investing in support of our longer term goals."

Outlook

We remain focused on executing our strategy for profitable growth across each of our brands, targeting opportunities to provide more value added services to existing customers, alongside winning new contracts across all our target markets. This will be underpinned by continued investment in those areas that support scalable and efficient delivery of services to our customers.

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Business and operating review

Group overview

During the year, the Group has remained focused on improving the quality and sustainability of business across its brands and, as a result, each has demonstrated progress in its key strategic areas.

KC has continued its successful deployment of fibre, achieving take up rates well in excess of our initial expectations. In Kcom, key customer wins, including a managed service contract with National Farmers Union Mutual (signed post year-end), and further success in the Public Services Network market, are improving Kcom's profile, reputation and market share in its target markets.

Smart421's reputation as a leading consultant in the integration of applications in the cloud is evidenced by its strengthening relationship with Amazon Web Services. Our Eclipse brand is building an increasingly strong presence, as a provider of a range of broadband based communications services in the SMB market.

Group revenue was 3.7 per cent lower at £372.9 million (2012: £387.3 million), the bulk of the decline relating to a previously disclosed one-off network build contract in the prior year of £11.7 million. Group EBITDA before exceptional items reduced 1.3 per cent to £76.9 million (2012: £77.9 million) as a result of our continued investment in the business and the slightly lower revenue achievement. Group profit before tax and pre-exceptional items increased 3.1 per cent to £52.7 million (2012: £51.1 million).

Net debt increased across the year to £88.2 million (2012: £75.3 million), mainly as a result of share purchases to satisfy the vesting of certain Group share schemes.

The cash generative capacity of the Group means it is able to continue with a progressive dividend policy and at the same time, meet its funding commitments whilst continuing to invest in those areas that support the Group's ambition to achieve market leadership positions across all four brands.

As part of our longer term development programme, investments during the year include the implementation of a suite of tools to support managed services customers, upgrades to desktop and server infrastructure and IT improvements that will support our plans to implement scalable, efficient back office processes. We have invested also in people, developing further our leadership capability to support and implement our focus on value creation within our strategic focus areas.

In the coming year, the Group will be focused on:

- Delivery of value added services across our brands' target markets, with the aim of generating profitable growth and establishing strong market positions;
- Driving operational effectiveness and scale through enhanced back office systems and processes;
- Investing further in the development of the talent and leadership in the business;and
- Further exploration of our partners.

Strategic IT investment, coupled with some overhang of committed capital expenditure from the prior year, may see capital expenditure slightly above the previous guidance of £30 million. In the longer term, we would anticipate total investment of approximately £25 million per annum.

KC

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

Our KC brand continues to perform very well compared to other incumbent operators, delivering an increase in revenue of 0.9 per cent to £104.6 million (2012: £103.6 million), reflecting the continued demand for bundled services within the consumer market.

Alongside the demand for our consumer services, KC has made progress in the business market over the year. New contracts for business and contact centre services have been secured with organisations including Humberside Fire and Rescue, Network Rail and Victoria Plumb.

The growth in revenue combined with lower operating costs resulted in EBITDA increasing by 2.4 per cent to £54.5 million (2012: £53.2 million).

The uptake of our fibre-based services (“Lightstream”) remains above the levels of our initial expectations, with over 20 per cent of premises passed taking our high-speed services. There are currently 3,600 customers using our Lightstream services. Unlike other fibre offerings, our deployment of Fibre to the Premises technology allows us to deliver guaranteed download speeds, including one at 350Mbps, the UK’s fastest broadband package.

Our next financial year’s fibre deployment is expected to reach a further 15,000 homes and premises. We remain on target to make the service available to a total of 45,000 homes in the region, by March 2015.

The KC brand is focused on increasing revenue through higher broadband penetration and continued take up of bundled services.

Kcom

Our Kcom segment covers the performance of our national business communications activities, delivered to customers through our Kcom, Eclipse and Smart421 brands.

Revenue in the Kcom segment was 5.5 per cent lower at £273.4 million (2012: £289.3 million). The economic conditions continue to slow down the market, but we have seen growth in our managed services revenue, whilst certain voice services have declined reflecting a combination of price and regulatory factors. Also, as previously reported 2012 included a one-off network build contract of £11.7 million (2013: Nil) and that represents the majority of the difference.

As a consequence of those effects and our continued support of growth investment activities, EBITDA reduced 5.2 per cent to £29.4 million (2012: £31.0 million).

The challenging market conditions have resulted in a slowing of customer opportunities and longer buying cycles, particularly in the enterprise market. Despite those challenges, Kcom has secured a number of new customers as well as winning further opportunities within its existing customer relationships, whilst at all times maintaining a strong focus on the type of contracts that are targeted.

Of particular note during the year, we signed contracts to provide value-added services to new and existing customers including Morrisons, to support its entry into the convenience store market through its M-stores brand and Phones4U. Across the public sector, we won a Public Services Network contract to provide services to the Link Consortium and completed the successful implementation of the East Midlands PSN (emPSN).

Having been informed last August of our successful bid, our Kcom brand has recently signed an important five year managed services contract with National Farmers Union Mutual. Contracts of this nature are important in building a strong multiyear backlog of committed revenue and margin.

Smart421 and Eclipse have continued their prior year progress, delivering a growth in order book of 17 and 39 per cent respectively, demonstrating the progress that those brands continue to make in executing their competitive strategies. New customers during the period include Furniture Village, RSPB and two consultancy and integration contracts with the Association of Train Operating Companies (ATOC).

We continue to build relationships with our key partners, with for example, Amazon Web Services being increasingly recognised as a key part of Smart421's go to market strategy.
Over the year, we will remain focused on building order backlog across all brands within the Kcom segment, and to improve the medium term quality of the business. This focus will be supported by the investment we have made in previous years, including our suite of "*Workplaces*" services and the deployment of new tools that support our managed services customers.

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 increased to £7.0 million (2012: £6.3 million) due mainly to a revision in the allocation of certain property costs between the reporting segments.

The overall cost includes a net £1.5 million credit (2012: £1.6 million credit) associated with the financing of the Group's defined benefit pension schemes. With the accounting rule changes to IAS19, taking effect from the financial year ending 31 March 2014, the PLC segment will reflect only the administrative costs of operating the defined benefit scheme. The current year credit of £1.5 million includes such costs of £0.5 million (2012: £0.5 million). As a consequence, the net PLC costs would have been £2.0 million (2012: £2.1 million) under the revised basis. Any financing charge or credit (which will be based on one discount rate) in future years will be reflected in the net interest line of the income statement.

Group operating profit

Group operating profit decreased to £55.0 million (2012: £57.8 million) reflecting a

- £1.0 million decrease in Group EBITDA before exceptional items;
- £2.3 million charge from exceptional items (2012: Nil) reflecting restructuring costs incurred in the period, implementation costs associated with the establishment of the asset backed partnership to support the on-going funding of the Group's defined benefit schemes, less the profit on disposal from a fixed asset investment; and
- a £0.5 million reduction in depreciation and amortisation.

Finance costs

Finance costs for the period have reduced to £4.6 million (2012: £6.6 million) primarily as a result of new interest rate swaps which came into effect from January 2012. In order to provide certainty over future interest costs to the end of the Group's current bank facility in July 2015, the Group has hedged £60.0 million of debt at a weighted average rate of 2.7 per cent. The Group had entered previously into fixed rate swap arrangements for £80.0 million of debt at a weighted average rate of 5.5 per cent.

Taxation

The taxation charge of £12.5 million (2012: £13.4 million) reflects the on-going unwind of the deferred tax asset and corporation tax liability for the year ended 31 March 2013 of £0.7 million (2012: NIL), which will be paid across the first half of the next financial year. This liability would have been higher had it not been for the significant benefits arising from the vesting of share options during the period and the asset backed funding arrangement established with the Pension Schemes.

The effective rate of 24.8 per cent (2012: 26.2 per cent) is higher than the current corporation tax rate of 24 per cent as it reflects the re-measurement of the deferred tax asset balance as a result of the reduction in corporation tax rates from 24 per cent to 23 per cent from the next financial year.

Dividend

The Board is proposing a final dividend of 2.97 pence per share (2012: 2.67 pence per share) resulting in a total dividend for the year of 4.44 pence per share (2012: 4.0 pence per share). This represents an 11 per cent year on year growth in the total dividend, in accordance with the Group's original commitment in 2010.

In addition, today the Board has made a further commitment to a ten per cent per annum dividend growth over the next three financial years, ending 31 March 2016.

Subject to shareholder approval at the KCOM Group PLC Annual General Meeting on the 26 July 2013, the final dividend will be payable on 2 August 2013 to Shareholders registered at the close of business on 28 June 2013.

Pension scheme

Net liabilities associated with the Group's retirement benefit obligations have reduced to £9.8 million (2012: £13.9 million). The decrease arises as a result of a growth in the scheme assets of £8.0 million partially offset by an increase in liabilities of £3.9 million.

Shortly before the end of the last financial year, the Group paid £6.9 million in respect of committed deficit contributions due in respect of the current financial year. Payment in the year of £0.6 million (2012: £16.9 million) reflects committed deficit contributions for the month of March 2012, which was payable in arrears.

During the year, the Group reached an agreement with the Trustees of its Defined Benefit Pension Schemes to create an asset backed partnership. The Group transferred into the partnership its interest in certain freehold properties, entitling the Schemes to an annual distribution of £1.05 million, rising in line with the Consumer Price Index (CPI) over a potential period of 15 years. The total value of this income distribution to the Schemes is £10.0 million which provided an immediate improvement to the funding deficit. In recognition of that value and the security to be provided to the schemes, the Group agreed with the Trustees that no deficit repair contributions will be due in respect of the next financial year. The £10.0 million has also reduced the corporation tax liability for the year ended 31st March 2013 by £2.4 million. The establishment of the asset backed partnership has no accounting impact on the Group's financial statements, with the ongoing distribution being treated as deficit repair payments against the IAS19 deficit.

The triennial Actuarial valuation of the Group's defined benefit schemes' began on 1 April 2013. Existing committed deficit recovery payments due over the financial years ended 31 March 2015 and 31 March 2016 are £8.0m per annum. The Group continues to engage in positive discussions with the Trustees in order that it can provide further funding to the Schemes through additional assets and income streams from the Partnership. Discussions are focused on ensuring that any income stream provides sufficient security to pension scheme members' interests whilst providing an efficient and longer term pension funding approach for the Group.

Cash flow and net debt

Net debt increased across the year to £88.2 million (2012: £75.3 million), representing an EBITDA ratio of 1.1 times (2012: 0.9 times). The majority of this increase reflects the purchase of shares associated with share scheme satisfaction amounting to £10.9 million (2012: £0.4 million). Across the next financial year, a further 2.2 million shares vest under Group share schemes, which the Group anticipates purchasing to satisfy this requirement. Net cash inflow from operations has reduced to £50.3 million (2012: £56.0 million) mainly as a result of the timing of working capital movements offset by lower pension deficit payments. As anticipated, the Group has seen a stronger net cash inflow in the second half of the year.

Strong receivables management remains in evidence with average Days Sales Outstanding at the year end of 30 (2012: 35 days). Much of the movement in working capital during the year reflected a number of unconnected factors, primarily in relation to trade payables.

Cash-outflows associated with the purchase of tangible and intangible assets have increased to £28.0 million (2012: £22.1 million). Overall spend was lower than previous guidance of £30.0 million due to timing of activity around a number of the Group's more significant capital projects.

Capital Investment

The Group now anticipates that capital investment levels will be slightly above £30.0 million per annum over the next two financial years. This reflects existing commitments (such as fibre investment for the KC brand) plus strategic IT investment. Such investment will allow the Group to move towards common systems and processes that efficiently support all our brands existing activities and whose scalability match our growth ambitions.

Consolidated Income Statement

	Note	Unaudited Year Ended 31 Mar 2013 £'000	Audited Year ended 31 Mar 2012 £'000
Revenue	1	**372,869**	387,316
Operating expenses		**(317,914)**	(329,546)
Operating profit		**54,955**	57,770
Analysed as:			
EBITDA before exceptional items	1	**76,877**	77,875
Exceptional items	2	**(2,310)**	-
Depreciation of property, plant and equipment		**(15,890)**	(17,591)
Amortisation of intangible assets		**(3,722)**	(2,514)
Finance costs		**(4,589)**	(6,633)
Share of profit / (loss) of associates		**10**	(15)
Profit before taxation	1	**50,376**	51,122
Taxation	3	**(12,478)**	(13,395)
Profit for the year attributable to owners of the parent		**37,898**	37,727
Earnings per share (pence)			
Basic	4	**7.49**	7.41
Diluted	4	**7.39**	7.13

Consolidated Statement of Comprehensive Income

	Unaudited Year ended 31 Mar 2013 £'000	Audited Year ended 31 Mar 2012 £'000
Profit for the year	**37,898**	37,727
Other comprehensive income		
Cash flow hedges fair value movements	**582**	(62)
Actuarial gains / (losses) on retirement benefit obligation	**2,038**	(25,466)
Tax on actuarial gains / (losses) on defined benefit pension schemes	**(979)**	5,602
Tax on movement in cash flow hedges	**(133)**	14
Total comprehensive income for the year attributable to owners of the parent	**39,406**	17,815

Consolidated Balance Sheet

	Note	**Unaudited As at 31 Mar 2013 £'000**	Audited As at 31 Mar 2012 £'000
Non-current assets			
Goodwill		**85,272**	85,272
Other intangible assets		**14,354**	7,044
Property, plant and equipment		**119,270**	117,901
Investments		**22**	1,050
Deferred tax assets		**16,528**	28,372
		235,446	239,639
Current assets			
Inventories		**2,244**	3,663
Trade and other receivables		**70,214**	71,867
Cash and cash equivalents	6	**15,719**	8,333
Derivative financial instruments		**52**	-
		88,229	83,863
Total assets		**323,675**	323,502
Current liabilities			
Trade and other payables		**(121,671)**	(144,134)
Derivative financial instruments		**-**	(17)
Provisions for liabilities and charges		**(1,921)**	(2,352)
Non-current liabilities			
Trade and other payables		**-**	(388)
Bank loans	6	**(103,937)**	(83,464)
Retirement benefit obligations		**(9,758)**	(13,886)
Derivative financial instruments		**(3,235)**	(3,748)
Provisions for liabilities and charges		**(511)**	(2,056)
Total liabilities		**(241,033)**	(250,045)
Net assets		**82,642**	73,457
Capital and reserves attributable to owners of the parent			
Share capital		**51,660**	51,660
Share premium account		**353,231**	353,231
Hedging and translation reserve		**(2,363)**	(2,945)
Accumulated losses		**(319,886)**	(328,489)
Total equity		**82,642**	73,457

Consolidated Statement of Changes in Shareholders' Equity

	Share capital £'000	Share premium account £'000	Hedging and translation reserve £'000	Accumulated losses £'000	Total £'000
At 31 March 2011 Audited	**51,660**	**353,231**	**(2,883)**	**(328,814)**	**73,194**
Profit for the year	-	-	-	37,727	37,727
(Increase) in fair value of financial derivative instruments	-	-	(62)	-	(62)
Actuarial losses on defined benefit pension schemes	-	-	-	(25,466)	(25,466)
Tax on actuarial losses on defined benefit pension schemes	-	-	-	5,602	5,602
Tax on movement in cash flow hedges	-	-	-	14	14
Total comprehensive income for the year ended 31 March 2012	**-**	**-**	**(62)**	**17,877**	**17,815**
Tax credit relating to share schemes	-	-	-	854	854
Purchase of ordinary shares	-	-	-	(420)	(420)
Employee share schemes	-	-	-	1,800	1,800
Dividends (note 5)	-	-	-	(19,786)	(19,786)
	-	-	-	(17,552)	(17,552)
At 31 March 2012 Audited	**51,660**	**353,231**	**(2,945)**	**(328,489)**	**73,457**
Profit for the year	-	-	-	37,898	37,898
Decrease in fair value of financial derivative instruments	-	-	582	-	582
Actuarial gains on defined benefit pension schemes	-	-	-	2,038	2,038
Tax on actuarial gains on defined benefit pension schemes	-	-	-	(979)	(979)
Tax on movement in cash flow hedges	-	-	-	(133)	(133)
Total comprehensive income for the year ended 31 March 2013	**-**	**-**	**582**	**38,824**	**39,406**
Deferred tax charge relating to share schemes	-	-	-	(996)	(996)
Current tax credit relating to share schemes	-	-	-	2,092	2,092
Purchase of ordinary shares	-	-	-	(10,872)	(10,872)
Employee share schemes	-	-	-	942	942
Dividends (note 5)	-	-	-	(21,387)	(21,387)
	-	-	-	(30,221)	(30,221)
At 31 March 2013 Unaudited	**51,660**	**353,231**	**(2,363)**	**(319,886)**	**82,642**

Consolidated Cash Flow Statement

	Note	**Unaudited Year ended 31 Mar 2013 £'000**	Audited Year ended 31 Mar 2012 £'000
Cash flows from operating activities			
Operating profit		**54,955**	57,770
Adjustments for:			
- depreciation and amortisation		**19,612**	20,105
- increase in working capital		**(18,226)**	(629)
- restructuring cost and onerous lease payments		**(4,462)**	(3,451)
- pension deficit payments		**(575)**	(16,888)
Profit on sale of property, plant and equipment		**(138)**	(913)
Profit on sale of investments		**(857)**	-
Net cash generated from operations	6	**50,309**	55,994
Cash flows from investing activities			
Purchase of property, plant and equipment		**(16,964)**	(17,249)
Purchase of intangible assets		**(11,032)**	(4,899)
Proceeds from sale of property, plant and equipment		**477**	913
Proceeds from sale of investments		**1,895**	-
Net cash used in investing activities		**(25,624)**	(21,235)
Cash flows from financing activities			
Dividends paid	5	**(21,387)**	(19,786)
Dividends equivalent paid to participants of the share schemes	6	**(898)**	-
Interest paid	6	**(4,006)**	(7,363)
Capital element of finance lease repayments		**(136)**	(392)
Drawdown / (repayment) of bank loans		**20,000**	(5,000)
Purchase of ordinary shares	6	**(10,872)**	(420)
Net cash used in financing activities		**(17,299)**	(32,961)
Increase in cash and cash equivalents		**7,386**	1,798
Cash and cash equivalents at the beginning of the year		**8,333**	6,535
Cash and cash equivalents at the end of the year	6	**15,719**	8,333

Notes to the unaudited financial information

1. Segmental analysis

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

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

The Board assessed that the Kcom, Smart421 and Eclipse brands have similar profiles offering similar products and services, similar production and distribution processes and are operating in a consistent regulatory environment. In line with IFRS 8, the Kcom, Smart421 and Eclipse brands are aggregated together and reported as the 'Kcom' segment for the year ended 31 March 2013 and for the year ended 31 March 2012. The remaining brands of KC and the PLC function are reported respectively in the 'KC' segment and 'PLC' segment. This reporting is also consistent with the reporting to the KCOM Group PLC Board.

	Unaudited Year ended 31 Mar 2013 £'000	Audited Year ended 31 Mar 2012 £'000
Revenue		
KC	**104,564**	103,595
Kcom	**273,446**	289,316
PLC[1]	**(5,141)**	(5,595)
Total	**372,869**	387,316
Group EBITDA		
KC	**54,483**	53,223
Kcom	**29,379**	31,043
PLC[1]	**(6,985)**	(6,391)
Total – before exceptional items	**76,877**	77,875
Exceptional items:		
KC	**(788)**	-
Kcom	**(1,001)**	1,100
PLC[1]	**(521)**	(1,100)
Total exceptional items	**(2,310)**	-
EBITDA post exceptional items	**74,567**	77,875

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

	Unaudited Year ended 31-Mar 2013 £'000	Audited Year ended 31-Mar 2012 £'000
EBITDA post exceptional items	**74,567**	77,875
Depreciation	**(15,890)**	(17,591)
Amortisation	**(3,722)**	(2,514)
Finance costs	**(4,589)**	(6,633)
Share of profit/(loss) of associates	**10**	(15)
Profit before tax	**50,376**	51,122

[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 2013 £'000	Audited Year ended 31 Mar 2012 £'000
Revenue from external customers		
KC	**99,139**	97,562
Kcom	**273,034**	288,916
PLC[1]	**696**	838
Total	**372,869**	387,316
Inter-segment revenue		
KC	**5,425**	6,033
Kcom	**412**	400
PLC[1]	**(5,837)**	(6,433)
Total	**-**	-
	372,869	387,316

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

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

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 better understanding of the Group's financial performance.

	Unaudited Year ended 31 Mar 2013 £'000	Audited Year ended 31 Mar 2012 £'000
Exceptional items:		
- Profit on sale of investments	**(857)**	-
- Restructuring costs relating to employees	**2,272**	-
- Asset backed partnership implementation costs	**895**	-
- Onerous leases	**-**	1,100
- (Credit) on Network Build loss provision	**-**	(1,100)
Charged to operating profit	**2,310**	-

Restructuring costs arise as a result of organisational changes.

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

Asset backed partnership implementation costs relate to the costs incurred for the agreement reached with the Trustees of the Group's defined benefit Pension Scheme to provide the Group with an efficient mechanism of funding the Schemes' current deficit position. The level of costs reflects both company and Schemes advisor costs.

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

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

3. Taxation

The taxation charge on activities is set out below:

	Unaudited Year ended 31 Mar 2013 £'000	Audited Year ended 31 Mar 2012 £'000
Corporation tax	**(2,743)**	-
Deferred tax	**(9,735)**	(13,395)
Total	**(12,478)**	(13,395)

Notes to the unaudited financial information continued

4. Earnings per share

Weighted average number of shares	**Unaudited Year ended 31 Mar 2013 No.**	Audited Year ended 31 Mar 2012 No.
For basic earnings per share	**506,268,452**	509,443,836
Share options in issue	**6,273,766**	19,388,758
For diluted earnings per share	**512,542,218**	528,832,594

Earnings	**£'000**	£'000
Profit attributable to equity holders of the company	**37,898**	37,727
Adjustments:		
Exceptional items	**2,310**	-
Tax on exceptional items	**(760)**	-
Adjusted profit attributable to equity holders of the company	**39,448**	37,727

Earnings per share	**Pence**	Pence
Basic	**7.49**	7.41
Diluted	**7.39**	7.13
Adjusted basic	**7.79**	7.41
Adjusted diluted	**7.70**	7.13

Notes to the unaudited financial information continued

5. Dividends

	Unaudited Year ended 31 Mar 2013 £'000	Audited Year ended 31 Mar 2012 £'000
Final dividend for the year ended 31 March 2011 of 2.5 pence per share	**-**	12,915
Interim dividend for the year ended 31 March 2012 of 1.33 pence per share	**-**	6,871
Final dividend for the year ended 31 March 2012 of 2.67 pence per share	**13,793**	-
Interim dividend for the year ended 31 March 2013 of 1.47 pence per share	**7,594**	-
Total	**21,387**	19,786

The proposed final dividend for the year ended 31 March 2013 is 2.97 pence per share, amounting to a total dividend of £15,343,000. 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 2013 £'000	Audited Year ended 31 Mar 2012 £'000
Opening net debt	**75,267**	81,997
Closing net debt	**88,218**	75,267
(Increase) / reduction in the year	**(12,951)**	6,730
Reconciliation of movement in the year		
Net cashflow from operations	**50,309**	55,994
Capital expenditure	**(27,996)**	(22,148)
Interest	**(4,006)**	(7,363)
Dividends	**(21,387)**	(19,786)
Dividends equivalent paid to participants of the share schemes	**(898)**	-
Purchase of ordinary shares	**(10,872)**	(420)
Other	**1,899**	453
(Increase) / reduction in the year	**(12,951)**	6,730

Notes to the unaudited financial information continued

6. Movement in net debt (continued)

Net debt comprises:

	Unaudited Year ended 31 Mar 2013 £'000	Audited Year ended 31 Mar 2012 £'000
Cash and cash equivalents	**(15,719)**	(8,333)
Borrowings	**103,937**	83,464
Finance leases	**-**	136
Total net debt	**88,218**	75,267

Notes to the unaudited financial information continued

7. Basis of preparation and publication of unaudited 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.

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 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 reserves. 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 2012 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 2013 or 2012. The financial information for the year ended 31 March 2012 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 2013 will be finalised on the basis of the financial information presented by the Directors in this unaudited 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 7 June 2013 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.

Going-concern basis
The Group meets its day-to-day working capital requirements through its bank facilities. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities. After making enquires, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

8. Accounting policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 March 2012, as described in those annual financial statements.

There were no new standards, amendments and interpretations that were adopted by the Group and effective for the first time for the financial year beginning 1 April 2012 that were material to the Group.

A number of new standards, amendments and interpretations are effective for annual periods beginning after 1 January 2013 and have not yet been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Group, with the exception of the amendments to IAS 19, Employee Benefits. This standard will replace the interest cost on pension scheme liabilities and expected return on pension scheme assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability/asset. Had this standard been applied in preparing the financial statements for the year ended 31 March 2013, the net impact would have been an additional charge of £2.7m to profit before tax in the income statement.

Notes to the unaudited financial information continued

9. 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.

10. 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.

Signed by Order of the Board on 7 June 2013 by: