22 May 2012

KCOM GROUP PLC (KCOM.L) ANNOUNCES UNAUDITED PRELIMINARY RESULTS TO 31 MARCH 2012

"Delivering another year of progress"

Summary

The Group has delivered another strong set of results, with the business moving ahead on most metrics. The anticipated small decline in revenue reflects growth from the strategic focus of the Group offset by the residual decline in low margin, non-core activities. Performance across each brand is seeing the results of pursuing our growth strategy. The Group's underlying financial strength provides a solid foundation for further progress.

	Unaudited Year ended 31 March 2012 (£ million)	Audited Year ended 31 March 2011 (£ million)	Change over prior year (%)
Results from continuing operations before exceptional items			
Revenue	387.3	395.4	(2.0)
EBITDA	77.9	76.0	2.5
Operating profit	57.8	48.6	18.9
Profit before tax	51.1	41.2	24.0
Adjusted basic earnings per share (pence) (note 4)	7.41	5.62	31.9
Reported results			
Net cash inflow from operations	56.0	68.0	(17.6)
Net debt (note 6)	75.3	82.0	
Profit before tax	51.1	32.9	55.3
Basic earnings per share (pence) (note 4)	7.41	4.44	66.9
Proposed final dividend (pence)	2.67	2.50	6.8
Proposed full year dividend per share (pence)	4.00	3.60	11.1

Bill Halbert, Executive Chairman said "The Group continues to perform well, making good progress against its longer term objectives. We remain focused on executing our growth strategy and we expect the performance of the Group to continue to reflect this during the current financial year. The strength in earnings and associated strong conversion into cash emphasises the quality of the service we provide and forms a stable foundation for increasing shareholder returns and the pursuit of growth.

"Based on another strong set of results, we are pleased to be recommending a final dividend of 2.67p per share, giving a full year dividend of 4.00p per share. We reiterate also our commitment to a minimum 10 per cent dividend growth in the coming year, reflecting the Board's confidence in future financial performance."

Outlook

The KCOM Group continues to deliver growth in profits and generate excellent cash conversion which, together with our strong balance sheet, enables the Group to continue its investment in growth in our chosen markets. The results demonstrate the progress we are making towards our longer term objectives. The Board expects the Group to continue to perform in line with market expectations in the current year.

Our reconfirmed commitment to a minimum 10 per cent dividend growth over the coming year, reflects the Board's confidence in future financial performance.

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Business and operating review

Group overview

Group revenue declined by 2% to £387.3 million (2011: £395.4 million). This is reflective of a 2.7% decline in the Kcom segment and a 1.1% growth in KC.

Group EBITDA before exceptional items increased 2.5% to £77.9 million (2011: £76.0 million) reflecting that growth, a pensions credit and the continued reduction in operating costs across the Group.

Group profit before tax increased by 55.3% to £51.1 million (2011: £32.9 million) driven by the increase in EBITDA together with a reduction in exceptional costs, reduced borrowing costs and lower depreciation and amortisation.

Net debt reduced to £75.3 million (2011: £82.0 million) despite the payment of an accelerated contribution of £10.0 million to the Group’s defined benefit pension schemes shortly before the year end. This reduction in net debt reflects the underlying cash-generative nature of the Group’s operations, coupled with continued strong management of working capital.

KC

The KC segment covers the performance of our KC brand which operates telephony and broadband over our East Yorkshire network and publishing services. These results were historically reported as part of the “KC & Eclipse” segment. Performance of our Eclipse brand is now reported under the Kcom segment and the comparatives for 2011 have been restated to reflect this change on a like for like basis.

Our KC brand has bucked the trend of national incumbent operators, delivering a continued increase in revenue of 1.1% to £103.6 million (2011 restated: £102.5 million), reflecting the increasing demand for higher bandwidth services from business customers and growth from the consumer market as a result of the continued success in the migration to bundled services, and the upgrade to KC Talk packages.

This growth in revenue combined with lower operating costs resulted in EBITDA increasing by 3.1% to £53.2 million (2011 restated: £51.6 million).

Our initial deployment of fibre technology, delivering 100Mbps broadband services across areas of Hull and East Yorkshire, is progressing well with early indications suggesting a higher than expected level of take up. Our initial deployment is scheduled to reach 15,000 homes by December 2012.

By our interim results in November, we expect to be in a position to provide a further update from our experience on the commercial opportunities and associated investment requirements in relation to future fibre deployment.

Kcom

Our Kcom segment covers the performance of our national business communications activities. These activities are delivered to customers through our Kcom, Eclipse and Smart421 brands. These results were previously reported as "Kcom & Smart" and now incorporate the results of the Eclipse brand previously included in the "KC & Eclipse" segment. This reflects the focus of our Eclipse brand towards the business market and the support capability it provides in current Kcom activity. The comparatives for 2011 have been restated to reflect this change on a like for like basis.

We continue to invest successfully in those skills, capabilities, services and systems, to support the exploitation of Kcom's growth opportunities.

The progress made has been recognised through external awards, such as the Cisco Public Sector Partner of the Year and Avaya Partner of the Year, and a developing reputation in the market place evidenced by the growth in order backlog and pipeline of new opportunities.

Revenue within Kcom's strategic focus areas showed some early growth. Overall revenue declined by 2.7% to £289.3 million (2011 restated: £297.2 million) with a reduction in lower margin premium rate services and other non-core activities offsetting that growth. Revenue of £11.7 million (2011: £13.1 million) was associated also with a specific network build contract that will not recur in future years.

The multi-year contracted order backlog has grown by 14% as Kcom continues to focus on longer term recurring revenue. This growth provides improved visibility of performance both in the near and longer term.

EBITDA before exceptional items was £31.0 million (2011 restated: £32.0 million). This represents a consistent margin to sales of 11%. The reduction in amount being attributable to non-recurring items in the previous year's EBITDA reported for the Eclipse brand.

The particular focus of Kcom's pursuit of its growth strategy during the year included:

- Maintaining and developing selected market leadership positions such as the provision of services to Public Sector Network initiatives in Staffordshire, Dorset and East Midlands.
- Investing in the development of a Kcom Workplaces proposition to be launched in the second half of the current year. This will deploy Cisco hosted collaboration services alongside what is already recognised as a leading unified communications service offering.
- Securing new customer relationships with, amongst others, Asda, the Health Lottery, Molson Coors, United Utilities, iPSL and WorldPay whilst renewing or extending our relationships with others including NHS BSA, Dominos, Morrisons, BA and the Gloucestershire and Cheshire Police forces.

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 £6.4 million (2011: £7.7 million) as a result of a credit associated with the Group's defined benefit schemes of £1.6 million (2011: £0.3 million cost). This credit has arisen due to lower interest costs as a result of the reduction in liabilities at 31 March 2011.

Group operating profit

Group operating profit increased to £57.8 million (2011: £40.3 million). The overall improvement in operating profit of £17.5 million is a result of:

- £1.9 million improvement in Group EBITDA before exceptional items;
- £8.3 million reduction in exceptional costs; and
- £7.3 million reduction in depreciation and amortisation, the majority of which reflects the anticipated reduction in amortisation of intangibles relating to acquisitions.

Finance costs

Net finance costs have reduced to £6.6 million (2011: £7.4 million). The reduction mainly relates to the write-off of arrangement fees in the prior year on the previous borrowing facility, following the agreement of a new facility in November 2010.

The Group anticipates a reduction in finance costs in the next financial year due to a change in fixed rate swap arrangements. From January 2012 existing hedging arrangements on £80 million of debt at a weighted average rate of 5.5% expired and were replaced by fixed rate swap arrangements for £60 million of debt at a weighted average rate of 2.7%.

Taxation

The taxation charge of £13.4 million (2011: £10.3 million) reflects the ongoing unwind of the deferred tax asset as the Group moves towards a tax payment position. No corporation tax liability is anticipated in respect of the current year due to the payment of an accelerated contribution of £10 million into the Group's defined benefit scheme shortly before the year end. As well as reflecting the wider financial strength of the Group, making such payments in the financial year allows the Group to benefit from the credit against higher corporation tax rates of 26%, compared to 24% in the next financial year.

The overall effective rate of 26.2% (2011: 31.3%) is broadly in line with the corporation tax rate for the current year of 26%.

Dividend

The Board is proposing a final dividend of 2.67 pence per share (2011: 2.50 pence per share) resulting in a total dividend for the year of 4.0 pence per share (2011: 3.60 pence per share). In addition, the Board reiterates its commitment to delivering a minimum of ten per cent per annum dividend growth over the current financial year, reflecting its confidence in the Group's future cash generation and performance.

Subject to Shareholder approval at the KCOM Group PLC Annual General Meeting on 19 July 2012, the final dividend will be payable on 27 July 2012 to Shareholders registered at the close of business on 29 June 2012.

Pension scheme

Net liabilities associated with the Group's retirement benefit obligations have increased to £13.9 million (2011: £6.9 million). The year on year increase arises as a result of an increase in scheme assets of £16.7 million offset by an increase in retirement benefit liabilities of £23.7 million.

The increase in scheme assets mainly arises due to the accelerated payment of £10.0 million to the Group's defined benefit pension schemes shortly before the year end. This comprised a £6.9 million advance payment of previously committed deficit contributions in respect of the financial year ended 31 March 2013, and an additional one-off contribution of £3.1 million.

The increase in liabilities since the previous year end predominately arises due to a fall in corporate bond yields and the associated discount rate to 4.7% from 5.5%.

The Group has continued to work with the trustees throughout the year to minimise the impact of volatility in the equity market on scheme assets. As a result of this the trustees of the Kingston Communications Pension Scheme, the Group's main defined benefit scheme, have committed to reducing the level of holding of "return-seeking" scheme assets to 40% compared to 60% which had been historically targeted.

Cashflow and net debt

Net debt reduced to £75.3 million (2011: £82.0 million) reflecting the continued cash flow strength of the underlying business and a particularly strong working capital performance in Q4 of the financial year. Net cash inflow from operations reduced to £56.0 million (2011: £68.0 million) principally due to the accelerated payment of £10.0 million into the Group's defined benefit schemes.

Our strong cash generation provides us with capacity to carefully increase the level of investment in support of growth. Cash outflows associated with the purchase of tangible and intangible assets have increased to £22.1 million (2011: £13.9 million), lower than the Group's previous guidance due to timing differences on a number of larger investment programmes.

Reflecting this timing difference, the Group anticipates capital expenditure in the region of £30.0 million in respect of the next financial year.

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

	Note	Unaudited Year ended 31 Mar 2012 £'000	Audited Year ended 31 Mar 2011 £'000
Revenue	1	**387,316**	395,412
Operating expenses		**(329,546)**	(355,118)
Group operating profit		**57,770**	40,294
Analysed as:			
Group EBITDA before exceptional items	1	**77,875**	75,963
Exceptional items	2	**-**	(8,337)
Depreciation of property, plant and equipment		**(17,591)**	(18,464)
Amortisation of intangible assets		**(2,514)**	(8,868)
Finance costs		**(6,633)**	(7,393)
Share of (loss)/ profit of associates		**(15)**	11
Profit before taxation		**51,122**	32,912
Taxation	3	**(13,395)**	(10,291)
Profit for the year attributable to equity holders		**37,727**	22,621
Earnings per share (pence)			
Basic	4	**7.41**	4.44
Diluted	4	**7.13**	4.26

Consolidated Statement of Comprehensive Income

	Unaudited Year ended 31 Mar 2012 £'000	Audited Year ended 31 Mar 2011 £'000
Profit for the year	**37,727**	22,621
Other comprehensive income		
Cash flow hedges fair value movements	**(62)**	3,468
Actuarial (losses) / gains on retirement benefit obligation	**(25,466)**	31,504
Tax on items taken directly to other comprehensive income	**5,616**	(10,269)
Total comprehensive income for the year attributable to equity holders	**17,815**	47,324

Consolidated Balance Sheet

	Note	**Unaudited As at 31 Mar 2012 £'000**	Audited As at 31 Mar 2011 £'000
Non-current assets			
Goodwill		**85,272**	85,272
Other intangible assets		**7,044**	4,659
Property, plant and equipment		**117,901**	115,979
Investments		**1,050**	1,065
Deferred tax assets		**28,372**	35,297
		239,639	242,272
Current assets			
Inventories		**3,663**	2,150
Trade and other receivables		**71,867**	70,793
Cash and cash equivalents	6	**8,333**	6,535
		83,863	79,478
Total assets		**323,502**	321,750
Current liabilities			
Trade and other payables		**(144,134)**	(143,028)
Derivative financial instruments		**(17)**	(3,703)
Provisions for other liabilities and charges		**(2,352)**	(4,815)
Non-current liabilities			
Trade and other payables		**(388)**	(135)
Bank loans	6	**(83,464)**	(88,004)
Retirement benefit obligations		**(13,886)**	(6,927)
Derivative financial instruments		**(3,748)**	-
Provisions for other liabilities and charges		**(2,056)**	(1,944)
Total liabilities		**(250,045)**	(248,556)
Net assets		**73,457**	73,194
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		**(2,945)**	(2,883)
Accumulated losses		**(328,489)**	(328,814)
Total equity		**73,457**	73,194

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 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)
	-	-	-	(9,887)	(9,887)
At 31 March 2011	**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	-	-	-	(19,786)	(19,786)
	-	-	-	(17,552)	(17,552)
At 31 March 2012	**51,660**	**353,231**	**(2,945)**	**(328,489)**	**73,457**

Consolidated Cash Flow Statement

	Unaudited Year ended 31 Mar 2012 £'000	Audited Year ended 31 Mar 2011 £'000
Cash flows from operating activities		
Operating profit	**57,770**	40,294
Adjustments for:		
- depreciation and amortisation	**20,105**	27,332
- (increase)/decrease in working capital	**(629)**	17,035
- restructuring cost and onerous lease payments	**(3,451)**	(7,507)
- pension deficit payments	**(16,888)**	(9,773)
Taxation received	**-**	483
(Profit) / loss on sale of property, plant and equipment	**(913)**	145
Net cash generated from operations	**55,994**	68,009
Cash flows from investing activities		
Purchase of property, plant and equipment	**(17,249)**	(10,920)
Purchase of intangible assets	**(4,899)**	(3,028)
Proceeds from sale of property, plant and equipment	**913**	-
Net cash used in investing activities	**(21,235)**	(13,948)
Cash flows from financing activities		
Dividends paid	**(19,786)**	(12,140)
Interest paid	**(7,363)**	(8,574)
Capital element of finance lease repayments	**(392)**	(702)
Repayment of bank loans	**(5,000)**	(40,000)
Purchase of ordinary shares	**(420)**	-
Net cash used in financing activities	**(32,961)**	(61,416)
Increase / (decrease) in cash and cash equivalents	**1,798**	(7,355)
Cash and cash equivalents at the beginning of the year	**6,535**	13,890
Cash and cash equivalents at the end of the year	**8,333**	6,535

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 whilst the Eclipse, Kcom and Smart421 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 operate 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 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.

For the year ended 31 March 2011, the Group considered the brands KC and Eclipse and the brands Kcom and Smart421 as two reporting segments presented as 'KC & Eclipse' and 'Kcom & Smart421'. In the year ended 31 March 2012, the Eclipse brand has become increasingly focused on the national SME business market and has increased its level of cross-over with the customer bases of the Kcom and Smart421 brands.

Segmental disclosures for 31 March 2011 have been restated to reflect the change in the allocation of the Eclipse brand from the 'KC' segment into the 'Kcom' segment.

	Unaudited Year ended 31 Mar 2012 £'000	Restated Unaudited Year ended 31 Mar 2011 £'000
Revenue		
KC	**103,595**	102,536
Kcom	**289,316**	297,218
PLC[1]	**(5,595)**	(4,342)
Total	**387,316**	395,412
Group EBITDA		
KC	**53,223**	51,593
Kcom	**31,043**	32,020
PLC[1]	**(6,391)**	(7,650)
Total – before exceptional items	**77,875**	75,963
Exceptional items:		
KC	**-**	(149)
Kcom	**1,100**	(10,951)
PLC[1]	**(1,100)**	2,763
Total exceptional items	**-**	(8,337)
EBITDA post exceptional items	**77,875**	67,626

[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)

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

	Unaudited Year ended 31 Mar 2012 £'000	Restated Unaudited Year ended 31 Mar 2011 £'000
EBITDA post exceptional items	**77,875**	67,626
Depreciation	**(17,591)**	(18,464)
Amortisation	**(2,514)**	(8,868)
Finance costs	**(6,633)**	(7,393)
Share of (loss)/profit of associates	**(15)**	11
Profit before tax	**51,122**	32,912

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

	Unaudited Year ended 31 Mar 2012 £'000	Restated Unaudited Year ended 31 Mar 2011 £'000
Revenue from external customers		
KC	**97,562**	97,804
Kcom	**288,916**	296,830
PLC[1]	**838**	778
Total	**387,316**	395,412
Inter-segment revenue		
KC	**6,033**	4,732
Kcom	**400**	388
PLC[1]	**(6,433)**	(5,120)
Total	**-**	-
	387,316	395,412

None of the revenue or operating profit arising outside the United Kingdom is 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 2012 £'000	Audited Year ended 31 Mar 2011 £'000
Exceptional items:		
- Onerous leases	**1,100**	-
- (Credit)/charge on network build loss provision	**(1,100)**	7,088
- Restructuring costs relating to employees	**-**	4,199
- Pension curtailment gain	-	(2,950)
Charged to operating profit	**-**	8,337

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

The loss on Network Build in the year ended 31 March 2011 related 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. The build aspect of the contract was completed during the year ended 31 March 2012 and through improved operational focus, the overall level of loss incurred was reduced.

Restructuring costs arose 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.

3. Taxation

The taxation charge on activities is set out below:

	Unaudited Year ended 31 Mar 2012 £'000	Audited Year ended 31 Mar 2011 £'000
Corporation tax	**-**	484
Deferred tax	**(13,395)**	(10,775)
Total	**(13,395)**	(10,291)

There are deferred tax assets of £1.4 million (2011: £1.3 million) which have not been recognised, as there is insufficient evidence as to the generation of suitable profits against which these assets can be offset.

Notes to the unaudited financial information continued

4. Earnings per share

Weighted average number of shares	**Unaudited Year ended 31 Mar 2012 No.**	Audited Year ended 31 Mar 2011 No.
For basic earnings per share	**509,443,836**	509,452,227
Share options in issue	**19,388,758**	21,238,004
For diluted earnings per share	**528,832,594**	530,690,231
Earnings	**£'000**	£'000
Profit attributable to equity holders of the company	**37,727**	22,621
Adjustments:		
Exceptional items	**-**	8,337
Tax on exceptional items	**-**	(2,334)
Adjusted profit attributable to equity holders of the company	**37,727**	28,624
Earnings per share		
	Pence	Pence
Basic	**7.41**	4.44
Diluted	**7.13**	4.26
Adjusted basic	**7.41**	5.62
Adjusted diluted	**7.13**	5.39

Notes to the unaudited financial information continued

5. Dividends

	Unaudited Year ended 31 Mar 2012 £'000	Audited Year ended 31 Mar 2011 £'000
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
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**	-
Total	**19,786**	12,140

The proposed final dividend for the year ended 31 March 2012 is 2.67 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 2012 £'000	Audited Year ended 31 Mar 2011 £'000
Opening net debt	**81,997**	116,796
Closing net debt	**75,267**	81,997
Reduction in the year	**6,730**	34,799
Reconciliation of movement in the year		
Net cashflow from operations	**55,994**	68,009
Capital expenditure	**(22,148)**	(13,948)
Interest	**(7,363)**	(8,574)
Dividends	**(19,786)**	(12,140)
Other	**33**	1,452
Reduction in the year	**6,730**	34,799

Notes to the unaudited financial information continued

6. Movement in net debt (continued)

Net debt comprises:

	Unaudited Year ended 31 Mar 2012 £'000	Audited Year ended 31 March 2011 £'000
Cash and cash equivalents	**(8,333)**	(6,535)
Borrowings	**83,464**	88,004
Finance leases	**136**	528
Total net debt	**75,267**	81,997

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. 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 2011 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 2012 or 2011. The financial information for the year ended 31 March 2011, with the exception of the comparative segmental information provided in note 1, 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 2012 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 22 May 2012 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 2011, 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 2011, but do not have any impact on the accounting policies of the group.

- 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.
- Amendment to IFRS 1, 'First-time adoption of IFRS – Limited exemption from comparative IFRS7 disclosures for first-time adopters'. The amendment is required to be applied for annual periods beginning on or after 1 July 2010.
- IAS 24 (revised), '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.

Notes to the unaudited financial information continued

8. Accounting policies (continued)

- '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.

The following improvements to standards are applicable for the financial year beginning 1 April 2011, but do not have a significant impact on the group.

- IFRS 1, 'First-time adoption', on accounting policies changes.
- IFRS 7, 'Financial instruments'.
- IAS 1, 'Presentation of financial statements'.
- IAS 27, 'Consolidated and separate financial statements'.
- IAS 34, 'Interim financial reporting'.
- IFRIC 13, 'Customer loyalty programmes'.

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 April 2011 and have not been early adopted:

- IFRS 1 (amendment), 'First-time adoption', on fixed dates and hyperinflation.
- IFRS 7 (amendment), 'Financial instruments: Disclosures' on derecognition
- IFRS 9, 'Financial instruments'.
- IAS 12 (amendment), 'Income taxes' on deferred tax.
- IAS 19 (amendment), 'Employee benefits'.
- IFRS 10, 'Consolidated financial statements'.
- IFRS 11, 'Joint arrangements'.
- IFRS 12, 'Disclosures of interests in other entities'.
- IFRS 13, 'Fair value measurement'.
- IAS 27 (revised), 'Separate financial statements'.
- IAS 28 (revised), 'Associates and joint ventures'.
- IAS 1 (amendment), 'Presentation of financial statements', regarding other comprehensive income.

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 22 May 2012 by: