25 May 2010

KCOM GROUP PLC (KCOM.L) ANNOUNCES
UNAUDITED PRELIMINARY RESULTS TO 31 MARCH 2010

KCOM Group PLC (KCOM.L) ("KCOM" or the "Group") today announces its unaudited preliminary results for the year ended 31 March 2010.

"A year of successful business transformation and improved financial performance."

Summary

	Unaudited Year ended 31 March 2010 (£ million)	Audited Year ended 31 March 2009 (£ million)	Change over prior year (%)
Results from continuing operations before exceptional items (note 1)			
Revenue	412.8	472.4	(12.6)
Operating profit	36.7	30.0	22.3
EBITDA	69.8	65.1	7.2
Profit before tax	29.4	17.9	64.2
Reported results			
Net cash inflow from operations	74.6	62.3	19.7
Net debt (note 6)	116.8	157.9	
Profit/(Loss) before tax	19.2	(111.3)	
Basic earnings/(loss) per share (pence)	3.47	(20.70)	
Full year dividend per share (pence)	1.75	1.50	16.7

Delivery against transformation objectives:

- Focus on long term profitable customer relationships and planned exit of low margin commodity based operations reduces revenue to £412.8 million (2009: £472.4 million)
- EBITDA before exceptional items improves to £69.8 million (2009: £65.1 million) reflecting lower operating costs across the Group despite increased pension costs.
- Profit before tax and exceptional items increases 64.2 per cent to £29.4 million (2009: £17.9 million)
- Continued strong cash generation reduces bank borrowings by £41.1 million in the twelve month period to £116.8 million (31 March 2009: £157.9 million)
- Increase in proposed final dividend to 1.25 pence (2009: 1.00 pence) reflecting improvement in earnings and strengthened financial position.

Bill Halbert, Executive Chairman said "KCOM Group has made excellent progress since our November 2008 strategic review in improving the quality of our business activities and the underlying financial strength of the Group. Today we are announcing a strong set of results, showing marked increases in profitability and cash generation and a substantial reduction in our overall debt. This has been achieved through a number of successful financial measures, our increased focus on profitable customer relationships and actions to exit low margin commoditised revenue streams. We have restructured and refocused our various activities and underpinned them with market leading partnerships.

"In the second year of the Group's transformation, we are well placed now to begin to grow both our Kingston Communications and Kcom businesses. We will achieve this by leveraging our core strengths and capability which are supported by our new strategic partnerships."

Outlook

While the focus for the past financial year was to improve the overall quality of our activities and to strengthen our financial position, it is now time for us to shift our emphasis, during the coming year.

Our aims for this coming year are to return to growth and to provide medium term certainty around our pension funding position.

At the same time however, we will continue to improve the overall financial position of the Group through an appropriate combination of measures, including debt and working capital management and expenditure control.

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Group overview

KCOM Group has achieved a number of significant milestones over the last financial year, all driven by the outcome of the strategic review. The emphasis has been to strengthen and underpin business fundamentals, to continue the improvement in the quality of the Group's activities and to position the Group for profitable growth.

This is in support of our overriding objective of increasing shareholder value. During the financial year, we have delivered:

- **Clear Group business model –** we have created two clearly focused business units; Kingston Communications which includes the KC and Eclipse Internet brands (addressing the needs of our East Yorkshire customers and UK small business market) and Kcom, our managed communications business (serving enterprise and public sector organisations).

- **An extension in both the reach and range of our communications services –** our agreements with BT Wholesale and Phoenix IT Group give us access to extensive national network coverage and market leading products and field support services.

- **A significant reduction in the ongoing capital investment and fixed cost requirements of the business –** we no longer have a requirement to make large, ongoing investments in our national network infrastructure. This provides us with the opportunity and flexibility to invest in developing further our core strengths.

- **Tightened focus –** we have re-positioned the Kcom business, moving it away from lower margin products and services. We now focus on those activities that our customers value most and where we have market leading expertise. These include hosted & managed services and applications & contact centre integration.

The tri-annual valuation of the Kingston Communications Pension Scheme commenced on 1st April 2010. Meanwhile, we are in active and constructive dialogue with the Trustees to agree an appropriate funding plan which addresses the need to reduce the current deficit. We have reached an in principle agreement, subject to the final outcome of the actuarial valuation, that the Group will make total deficit repair payments to this Scheme of £21 million over the three years to March 2013 (current deficit funding is £2.9m per annum). In parallel, we are in consultation on proposals to close the Group's two defined benefit pension schemes to future accrual whilst breaking the link to final salary alongside other changes to our pension arrangements.

Business and Operating Review

Group financial overview

Group revenue has reduced by 12.6% to £412.8 million (2009: £472.4 million), reflecting the decision to exit low margin services and focus on services that deliver higher margin recurring revenue.

Despite the planned reduction in revenue, Group EBITDA before exceptional items has increased to £69.8 million (2009: £65.1 million). Included within EBITDA is £4.6m (2009: £0.4m) of costs in respect of pensions (IAS19) and share schemes. Excluding these, EBITDA has increased to £74.4 million (2009: £65.5 million).

The increase in EBITDA reflects the higher profitability of retained customer relationships, in addition to a reduction in the cost base across the Group. The simplified operating model that has been established as a result of actions taken by the Board ensures revenue growth can be achieved with much smaller increases in cost.

Continued strong working capital management coupled with lower overall borrowing costs has seen net financing costs reduce by £4.7 million to £7.4 million (2009: £12.1 million).

Group profit before taxation and exceptional items has increased £11.5 million to £29.4 million (2009: £17.9 million) reflecting the improvement in EBITDA and lower financing costs.

Net debt has reduced to £116.8m (2009: £157.9 million) reflecting a combination of the reduction in product only sales (and associated working capital unwind), improved supplier terms, strong receivables management and the underlying cash generative nature of the Group's activities. The Group has consistently over performed during the year in the management of receivables and working capital.

Kingston Communications ("Kingston")

The Kingston reporting segment includes the financial results of the Hull and East Yorkshire Licensed Area activities, the Eclipse Internet business ("Eclipse") and the Information Services business. The Kingston results have been historically reported under the Telecoms and Internet and Information Services segments.

Kingston Communications is today starting the launch of its new brand identity, adopting the name KC for its East Yorkshire activities. This reflects the renewed focus and opportunities for growth available to the business.

Overall the Kingston businesses have reported a 3.5% decline in revenue to £123.5 million (2009 restated: £128.0 million). This reduction is primarily driven by Eclipse and Information Services. In the Hull and East Yorkshire market, decline in fixed line call volumes consistent with trends across the entire UK market have been offset by gains in revenue from broadband and data services.

EBITDA before exceptional items has reduced by 1% to £57.3 million (2009 restated: £57.9 million). This is as a result of a £0.5m reduction from the contribution of the Information Services business following a reduction in outsourced Directory Enquiry volumes and the renewal of a specific contact centre contract.

For KC, there are three areas of focus, designed to achieve growth for the business:

- **Development and deployment of new services -** The focus and investment within our East Yorkshire network has been concerned with delivering a platform for future product and service enhancements. As announced at the interim results, we have started to implement a £2.8 million IP Core upgrade programme, designed to improve network performance and facilitate new services. Examples of new services include a wider range of Karoo broadband packages to address the differing requirements of customers and KC Cloud, a range of services for businesses which deliver Microsoft applications via a broadband connection.

- **Expansion of geographic reach** - There is a clear opportunity for our KC business to grow through expansion into targeted nearby geographic locations either through network investment or via our partnership with BT.

- **Bundling of consumer and business services -** We are in active consultation with Ofcom regarding our request to offer bundled internet and telephony services to customers in East Yorkshire. Subject to their agreement, our aim is to start offering these services in the autumn.

Kcom

The Kcom reporting segment comprises the financial results of the newly created Kcom managed communications services business ("Kcom"), including the Smart 421 business ("Smart"). These results were previously reported as Integration & Managed Services, with the mid-market enterprise activities previously included in the Telecoms and Internet Services segment.

As expected following the decision to cease product only sales, reported revenues show a 15.8% decline to £291.0 million (2009 restated: £345.6 million). This reduction relates to the planned exit of product and associated field engineering services.

EBITDA before exceptional items increased to £22.7 million (2009 restated: £14.2 million). This EBITDA improvement reflects the significant steps taken to reduce the cost base, including the 150 employee headcount reduction undertaken in January 2009 and the development of the strategic relationship with BT.

Kcom has been at the centre of the transformation activities identified during the strategic review and now has a clear focus in the following areas:

- **Key customer segments –** Kcom is able to offer a range of managed communication services to its target markets, namely mid-market and enterprise scale customers in the public and private sectors. These are typically multi-site UK organisations. We have been particularly successful within the retail, automotive, police and local government segments.

- **Development of tailored propositions** – by leveraging our relationship with BT Wholesale (BTW) and combining it with Kcom's extensive service capabilities we are able to provide complete communication services ranging from managed connectivity to collaborative solutions in areas such as customer interaction, social media and cloud services.

- **Customer Experience –** Kcom differentiates itself by being innovative and responsive with its customers and is committed to providing them with the best service experience available in the industry.

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 costs from the PLC segment amounted to £10.2 million (2009 restated: £7.0 million). The increase is due to a pension charge of £4.6 million (2009: £1.2 million) which represents the net cost of the interest charge on plan liabilities and the expected return on scheme assets, driven mainly by the fall in value of assets within the scheme at March 2009 and a lower assumption on the expected return on assets.

PLC also includes a credit from a pension curtailment gain of £1.7 million (2009: £Nil) which has arisen due to the TUPE transfer of employees to BT and Phoenix during the year. This credit is broadly equivalent to a £1.5 million credit that arose in the prior year due to a release of provisions held in respect of Group long term incentive plans.

Group Operating Profit

Group operating profit before exceptional items has increased 22.3% to £36.7 million (2009: £30 million).

Group operating profit is £26.5 million (2009: loss of £99.2 million). The overall movement in Group operating profit of £125.7 million is a result of:

- £4.6 million improvement in Group EBITDA before exceptional items
- £106.9 million exceptional cost incurred in 2009 in respect of the impairment of goodwill
- £12.1 million reduction in other exceptional costs
- £2.1 million reduction in depreciation and amortisation

The £106.9 million impairment arose at September 2008. The Board has undertaken a review of the residual carrying value of goodwill at the year end and as a result of the actions taken over the last eighteen months, has concluded that no further impairment is required.

Other exceptional costs amount to £10.2 million (2009: £22.4 million) and comprise:

- £5.0 million (2009: £12.6 million) of restructuring costs relating to employees.
- £2.1 million (2009: £Nil) loss arising on the disposal of Aghoco 1000 Ltd to Phoenix IT Group. The subsidiary contained certain customer contracts and working capital associated with field engineering services.
- £1.1 million (2009: £1.8 million) of other restructuring costs relating to one-off expenses associated with activities to transform the Group, including costs associated with establishing the strategic relationship with BT and re-branding.
- £2.0 million (2009: £7.0 million) in respect of provisions for onerous leases.

As part of the transformation activities, the Group has continued to review the number of properties required for operational purposes, with £1.5 million of the charge reflecting the decision to exit further leasehold properties during the year. In addition the Group has managed to sub-let or surrender a number of previously vacant properties which has lead to an additional charge of £0.5 million against assumptions previously made, but in all cases leads to an overall reduction in the cash liabilities of the Group.

Depreciation and amortisation has reduced by 6.0% to £33.0 million (2009: £35.1 million), with depreciation broadly consistent at £20.1 million (2009: £20.3 million). Amortisation of intangible assets has fallen to £12.9 million (2009: £14.8 million), of which amortisation of intangibles relating to acquisitions has fallen to £7.5 million (2009: £8.4 million). At the year end, the net book value of intangibles arising on acquisition amounts to £6.0 million (2009: £13.5 million). These will be fully charged to the Income Statement by 31 March 2014. The balance of amortisation of intangibles relates to software and development costs. This has reduced to £5.4 million (2009: £6.4 million), reflecting the reduction in capital spend over historic levels.

Finance costs

Net finance costs for the year amounted to £7.4 million (2009: £12.1 million) reflecting both the lower level of net bank debt and lower borrowing costs. In order to provide certainty over future costs, the Group had previously entered into fixed rate swap agreements with £80 million of debt at a fixed interest rate until 31 March 2012.

Taxation

The taxation charge of £1.5 million (2009: £4.9 million credit to the Income Statement) reflects the ongoing unwind of the deferred taxation asset as the Group moves towards a tax payment position.

Dividend

The Board is proposing a final dividend of 1.25 pence per share (2009: 1.0 pence per share) resulting in a total dividend for the year of 1.75 pence per share (2009: 1.5 pence per share).

Subject to Shareholder approval at the KCOM Group PLC Annual General Meeting on 16 July 2010, the final dividend will be payable on 30 July to Shareholders registered at the close of business on 18 June 2010.

Pension Scheme

Net liabilities associated with the Group's retirement benefit obligations have reduced to £50.4 million (2009: £61.0 million). This reduction arises as a result of an increase in scheme assets of £21.9 million offset by an increase in retirement benefit liabilities of £11.3 million.

The increase in the valuation of scheme liabilities is a result of the reduction in discount rate to 5.6% (2009: 6.5%) due to falling yields on AA corporate bonds.

Both the movement in assets and liabilities are net of the impact of the enhanced transfer value exercise, which resulted in a one-off contribution into the Kingston Communications Pension Scheme of £4.9 million.

As a result of the TUPE transfer of staff to BT and Phoenix, a curtailment gain of £1.7 million (2009: NIL) has arisen. This has been fully recognised in the Income Statement during the year.

Balance Sheet

The increase in total consolidated equity to £35.8 million (2009: £20.6 million) primarily results from the profit after tax for the year and the reduction in net liabilities associated with the Group's pension schemes.

Cash flow and net debt

Net debt has reduced to £116.8 million (2009: £157.9 million) due to strong net cash inflow from operations of £74.6 million (2009: £62.3 million). This improvement in operating cashflow is despite cash outgoings in respect of exceptional costs of £14.9 million (2009: £7.7 million) and £4.9 million (2009: £Nil) paid on the pension scheme enhanced transfer exercise. The improvement in working capital across the year reflects the actions taken, in particular the reduction in product resale. This has lead to a permanent reduction in the absolute level of working capital required by the Group and the level of volatility within and between months. In addition, the year end debt position benefits from consistent second half over performance in the management of trade receivables.

Cash outflows associated with the purchase of tangible and intangible assets have reduced to £17.6 million (2009: £24.8 million) reflecting the benefits of lower capital spend through our partnership with BT, continued focus over capital spend as part of the drive to reduce debt, and delayed payments relating to various capital projects amounting to approximately £2.0 million.

Forward-looking statements

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

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

ENDS

Consolidated Income Statement

	Note	Unaudited Year Ended 31 Mar 2010 £'000	Audited Year ended 31 Mar 2009 £'000
Revenue	1	412,800	472,439
Operating expenses		(386,250)	(571,688)
Group operating profit/(loss)		26,550	(99,249)
Analysed as:			
Group EBITDA	1	69,795	65,141
Exceptional items - impairment of goodwill	2	-	(106,890)
Exceptional items – other	2	(10,205)	(22,380)
Depreciation of property, plant and equipment		(20,074)	(20,331)
Amortisation of intangible assets		(12,966)	(14,789)
Finance costs		(7,368)	(12,304)
Finance income		-	197
Share of (loss)/profit of associates		(12)	11
Profit/(loss) before taxation		19,170	(111,345)
Taxation	3	(1,477)	4,863
Profit/(loss) for the year		17,693	(106,482)
Profit/(loss) for the year attributable to equity holders of the Company		17,693	(106,482)
Earnings/(loss) per share (pence)			
Basic	4	3.47	(20.70)
Diluted	4	3.38	(20.70)

Consolidated Statement of Comprehensive Income

	Unaudited Year Ended 31 Mar 2010 £'000	Audited Year Ended 31 Mar 2009 £'000
Profit/(loss) for the year	17,693	(106,482)
Other comprehensive income		
Cash flow hedges	920	(6,568)
Actuarial gains/(losses) on retirement benefit obligation	5,620	(53,550)
Tax on items taken directly to equity	(1,832)	14,957
Other comprehensive income/(loss) for the year	22,401	(151,643)
Total comprehensive income/(loss) for the year attributable to equity holders	22,401	(151,643)

Consolidated Balance Sheet

	Unaudited As at 31 Mar 2010 £'000	Audited As at 31 Mar 2009 £'000
Non-current assets		
Goodwill	85,272	86,410
Other intangible assets	10,547	20,502
Property, plant and equipment	124,057	131,009
Investments	1,054	1,049
Deferred tax assets	56,115	59,424
	277,045	298,394
Current assets		
Inventories	3,608	4,117
Trade and other receivables	76,927	86,469
Cash and cash equivalents	13,890	17,508
	94,425	108,094
Total assets	371,470	406,488
Current liabilities		
Trade and other payables	(144,678)	(136,944)
Non-current liabilities		
Bank loans	(129,458)	(174,195)
Retirement benefit obligations	(50,373)	(60,993)
Long term provisions and other payables	(11,204)	(13,737)
Total liabilities	(335,713)	(385,869)
Net assets	35,757	20,619
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	(6,351)	(7,271)
Retained earnings	(362,783)	(377,001)
Total equity	35,757	20,619

Consolidated Statement of Changes in Shareholders' Equity

	Share Capital £'000	Share Premium Account £'000	Hedging and Translation Reserve £'000	Retained Earnings £'000	Total £'000
At 31 March 2008	51,627	353,111	(703)	(219,350)	184,685
Loss for the year	-	-	-	(106,482)	(106,482)
Increase in fair value of financial derivative instruments	-	-	(6,568)	-	(6,568)
Actuarial losses on defined benefit pension schemes	-	-	-	(53,550)	(53,550)
Tax on actuarial losses on defined pension scheme	-	-	-	13,118	13,118
Tax on movement in cash flow hedges	-	-	-	1,839	1,839
Total comprehensive income for the year ended 31 March 2009	-	-	(6,568)	(145,075)	(151,643)
Shares issued in the year	33	120	-	-	153
Purchase of ordinary shares	-	-	-	(795)	(795)
Employee share schemes	-	-	-	514	514
Dividends	-	-	-	(12,295)	(12,295)
Transactions with owners	33	120	-	(12,576)	(12,423)
At 31 March 2009	**51,660**	**353,231**	**(7,271)**	**(377,001)**	**20,619**
Profit for the year	-	-	-	17,693	17,693
Decrease in fair value of financial derivative instruments	-	-	920	-	920
Actuarial gains on defined benefit pension schemes	-	-	-	5,620	5,620
Tax on actuarial gains on defined benefit pension schemes	-	-	-	(1,574)	(1,574)
Tax on movement in cash flow hedges	-	-	-	(258)	(258)
Total comprehensive income for the year ended 31 March 2010	-	-	920	21,481	22,401
Purchase of ordinary shares	-	-	-	(820)	(820)
Employee share schemes	-	-	-	1,282	1,282
Dividends	-	-	-	(7,725)	(7,725)
Transactions with owners	-	-	-	(7,263)	(7,263)
At 31 March 2010	**51,660**	**353,231**	**(6,351)**	**(362,783)**	**35,757**

Consolidated Cash Flow Statement

	Unaudited Year Ended 31 Mar 2010 £'000	Audited Year Ended 31 Mar 2009 £'000
Net cash flow from operating activities		
Operating profit/(loss)	26,550	(99,249)
Adjustments for:		
Depreciation and amortisation	33,040	35,120
Impairment of goodwill	-	106,890
Decrease in working capital	31,815	26,478
Restructuring cost payment	(14,886)	(7,691)
Pension enhanced transfer value payment	(4,900)	-
Employee share schemes	821	712
Loss on sale of property, plant and equipment	42	-
Loss on sale of businesses	2,130	-
Net cash inflow from operations	74,612	62,260
Cash flows from investing activities		
Proceeds from sale of businesses	1,092	1,450
Earn-out payment on acquisition	(942)	(891)
Purchase of property, plant and equipment	(14,567)	(20,060)
Proceeds from sale of property, plant & equipment	-	25
Purchase of intangible assets	(3,011)	(4,747)
Purchase of investments	(17)	(176)
Net cash used in investing activities	(17,445)	(24,399)
Cash flows from financing activities		
Dividends paid	(7,725)	(12,295)
Interest paid	(7,302)	(13,670)
Interest received	-	196
Capital element of finance lease repayments	(758)	(815)
Repayment of bank loans	(45,000)	(25,000)
Net cash used in financing activities	(60,785)	(51,584)
Decrease in cash and cash equivalents	(3,618)	(13,723)
Cash and cash equivalents at the beginning of the period	17,508	31,231
Cash and cash equivalents at the end of the period	13,890	17,508

Notes to the unaudited financial information

1. Segmental Analysis

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

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

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

Following the reorganisation of the Group's reporting segments during the year, the comparative information has been restated to align with the new segmental disclosure.

	Unaudited Year ended 31 Mar 2010 £'000	Restated Audited Year ended 31 Mar 2009 £'000
Revenue		
Kingston Communications	123,536	127,969
Kcom	290,973	345,568
PLC[1]	(1,709)	(1,098)
Total	412,800	472,439
Group EBITDA		
Kingston Communications	57,277	57,892
Kcom	22,693	14,203
PLC[1]	(10,175)	(6,954)
Total – before exceptional items	69,795	65,141
Exceptional items:		
Kingston Communications	(1,422)	(2,728)
Kcom	(5,420)	(118,374)
PLC[1]	(3,363)	(8,168)
Total exceptional items	(10,205)	(129,270)
EBITDA post exceptional items	59,590	(64,129)

A reconciliation of total EBITDA to total profit/(loss) before income tax is provided as follows:

EBITDA post exceptional items	59,590	(64,129)
Depreciation	(20,074)	(20,331)
Amortisation	(12,966)	(14,789)
Finance costs	(7,368)	(12,304)
Finance income	-	197
Share of (loss)/profit of associates	(12)	11
Profit/(loss) before tax	19,170	(111,345)

[1] PLC includes head office costs, shared services, eliminations, share scheme expenses and the costs, excluding current and past service costs, associated with the Group's defined benefit pension schemes.

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 2010 £'000	Restated Audited Year ended 31 Mar 2009 £'000
Revenue from external customers		
Kingston Communications	122,070	126,337
Kcom	289,858	345,223
PLC[1]	872	879
Total	412,800	472,439
Inter-segment revenue		
Kingston Communications	1,466	1,632
Kcom	1,115	345
PLC[1]	(2,581)	(1,977)
Total	-	-
	412,800	472,439

	Unaudited Year ended 31 Mar 2010 £'000	Restated Audited Year ended 31 Mar 2009 £'000
Total assets		
Kingston Communications	91,675	101,216
Kcom	185,276	198,557
PLC	23,459	28,734
Total segmental assets	300,410	328,507
Unallocated assets	71,060	77,981
	371,470	406,488

[1] PLC includes head office costs, shared services, eliminations, share scheme expenses and the costs, excluding current and past service costs, associated with the Group's defined benefit pension schemes.

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. Restructuring costs arise as a result of organisational changes. Onerous lease provisions arise as a result of continued rationalisation of the Group's property portfolio.

	Unaudited Year ended 31 Mar 2010 £'000	Audited Year ended 31 Mar 2009 £'000
Exceptional items:		
- Restructuring costs	1,071	1,800
- Restructuring costs relating to employees	4,980	12,587
- Loss on sale of business	2,136	210
- Loss on Lehman Brothers	-	1,000
- Onerous lease provision	2,018	6,977
- Reversal of impairment of unlisted fixed asset investment	-	(194)
Exceptional items – other	10,205	22,380
Exceptional items – impairment of goodwill	-	106,890
Charged to operating profit/(loss)	10,205	129,270
Charged to profit/(loss) before taxation	10,205	129,270

The loss on sale of business relates to the disposal of Aghoco 1000 Ltd to Phoenix IT Group. The subsidiary contained certain customer contracts and working capital associated with field engineering services.

The loss of £1.0m on Lehman Brothers in the prior year arose through a combination of the loss incurred on specific project work in progress and the write off of outstanding trade receivables following their bankruptcy in the period.

The goodwill impairment in the prior year was an impairment of the carrying value of the Kcom division.

3. Taxation

The taxation (charge)/credit on activities is set out below:

	Unaudited Year ended 31 Mar 2010 £'000	Audited Year ended 31 Mar 2009 £'000
Corporation tax	-	(53)
Deferred tax	(1,477)	4,916
Group total	(1,477)	4,863

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

Notes to the unaudited financial information continued

4. Earnings per share

Weighted average number of shares	Unaudited Year ended 31 Mar 2010 No.	Audited Year ended 31 Mar 2009 No.
For basic earnings/(loss) per share	510,389,977	514,388,032
Share options in issue	12,452,341	1,962,524
For diluted earnings/(loss) per share	522,842,318	516,350,556

Earnings	£'000	£'000
Profit/(loss) attributable to equity holders of the company	17,693	(106,482)
	17,693	(106,482)

Earnings/(loss) per share	pence	pence
Basic	3.47	(20.70)
Diluted	3.38	(20.70)

5. Dividends

	Unaudited Year ended 31 Mar 2010 £'000	Audited Year ended 31 Mar 2009 £'000
Final dividend for the year ended 31 March 2008 of 1.88 pence per share	-	9,712
Interim dividend for the year ended 31 March 2009 of 0.5 pence per share	-	2,583
Final dividend for the year ended 31 March 2009 of 1.0 pence per share	5,142	-
Interim dividend for the year ended 31 March 2010 of 0.5 pence per share	2,583	-
Total	7,725	12,295

The proposed final dividend for the year ended 31 March 2010 is 1.25 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.

Notes to the unaudited financial information continued

6. Movement in net debt

	Unaudited Year ended 31 Mar 2010 £'000	Audited Year ended 31 Mar 2009 £'000
Opening net debt	157,900	168,905
Closing net debt	116,796	157,900
Reduction in the year	41,104	11,005
Reconciliation of movement in the year		
Net cashflow from operations	74,612	62,260
Capital expenditure	(17,595)	(24,958)
M&A investments	150	559
Interest	(7,302)	(13,474)
Dividends	(7,725)	(12,295)
Other	(1,036)	(1,087)
Reduction in the year	41,104	11,005

7. Basis of preparation and publication of unaudited results

The Group prepares its unaudited 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 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 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 2009 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 2010 or 2009. The financial information for the year ended 31 March 2009 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 s237 (2) or (3) of the Companies Act 1985. The statutory accounts for the year ended 31 March 2010 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 25 May 2010 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.