



Investor Presentation
Wednesday 20th July 2011



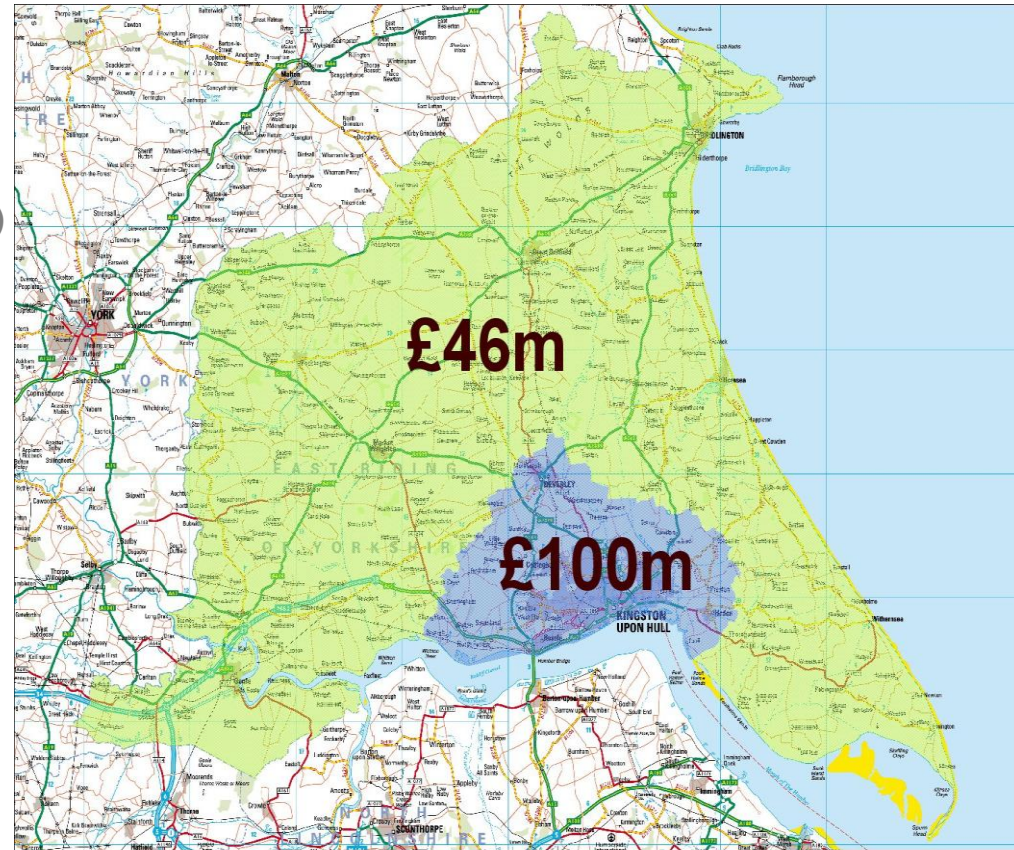
Proud to be part
of local life

East Yorkshire's leading telco brand



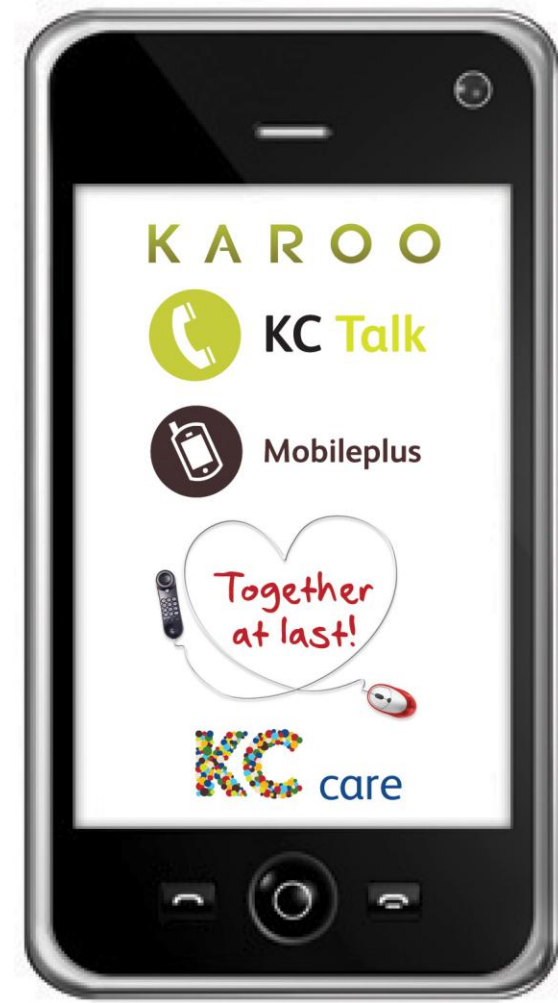
Approx £150m fixed line communications market in Hull & East Yorkshire

- KC's original licensed area ('OLA') covers Hull & adjacent surrounding areas in East Yorkshire (blue area)
- KC also delivers unregulated services to selected towns in East Yorkshire (green area)
- KC market share in East Yorkshire (green + blue) is approx 60%
- KC total market share in our OLA (blue area) is approx 90%
- Broadband penetration in OLA (blue area) is approx 55% vs national average of 68%
- Total KC business voice lines approx 55k
- Total Business customers approx 10k
- Total KC Talk customers approx 135k
- Total Broadband customers 90k



Sources: Office of National Statistics (2010) - number of businesses by region
BEER/BIS (2010) - proportion of registered/non registered businesses
Ofcom (2010) - annual average business spend

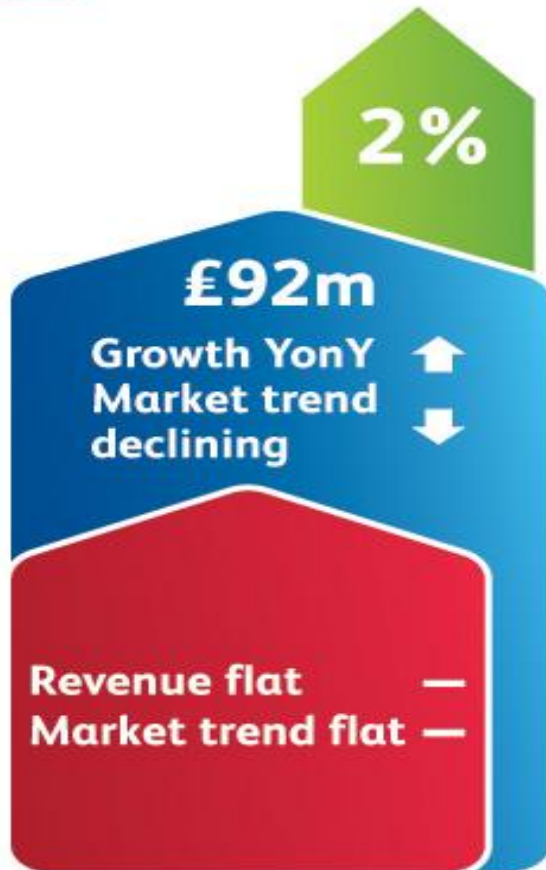
More than just voice and broadband



Improving financial performance



FY11
FY05



KC REVENUE

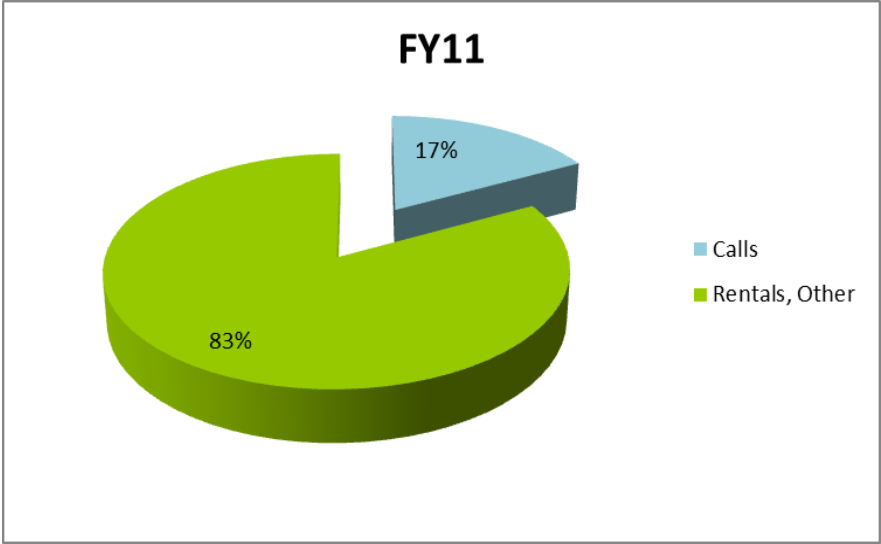
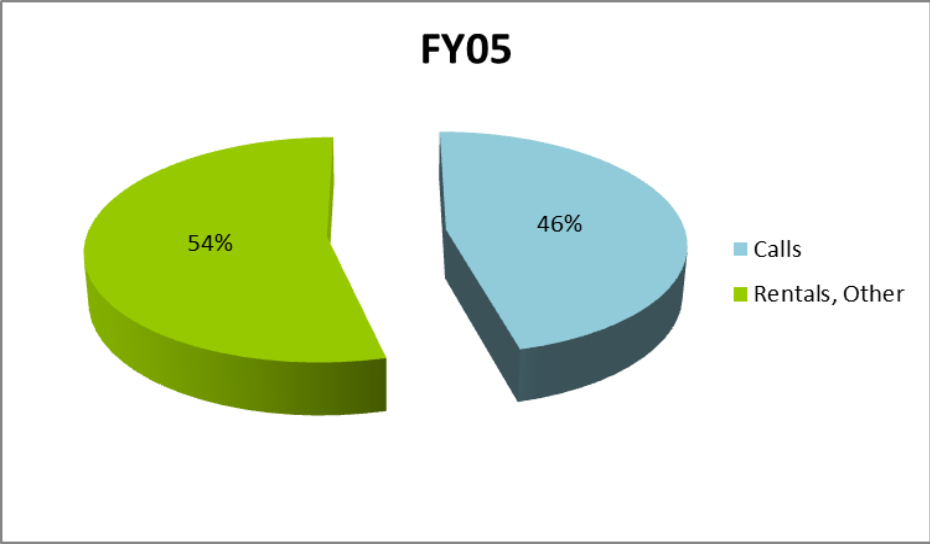


KC EBITDA

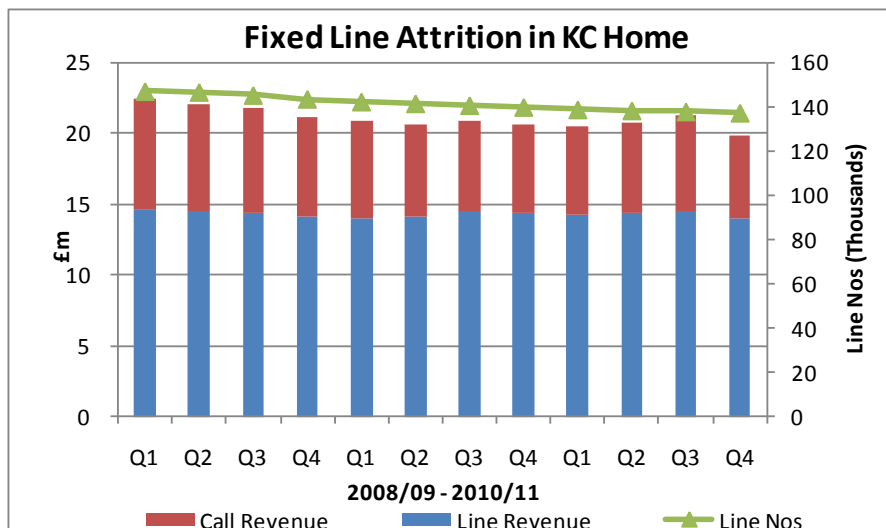


KC CASH

Shift to more predictable revenues

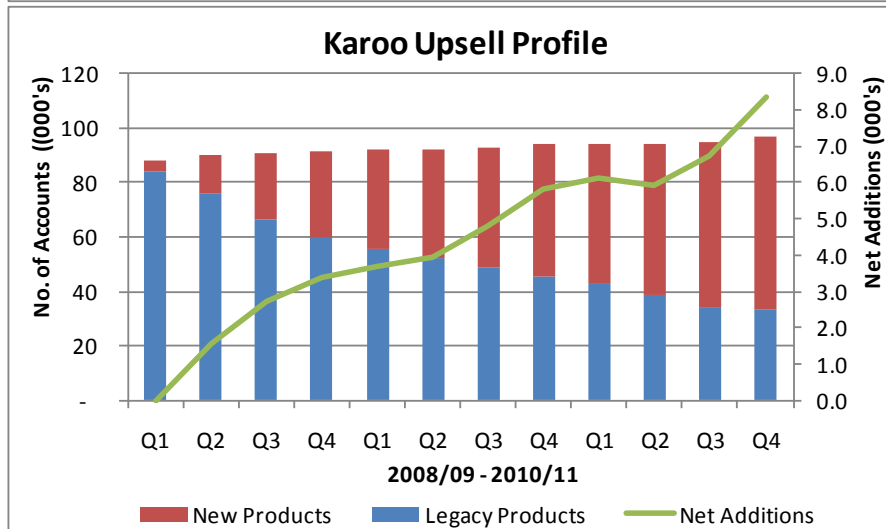


ARPU growth + fast broadband offset voice decline



KC Talk & Karoo

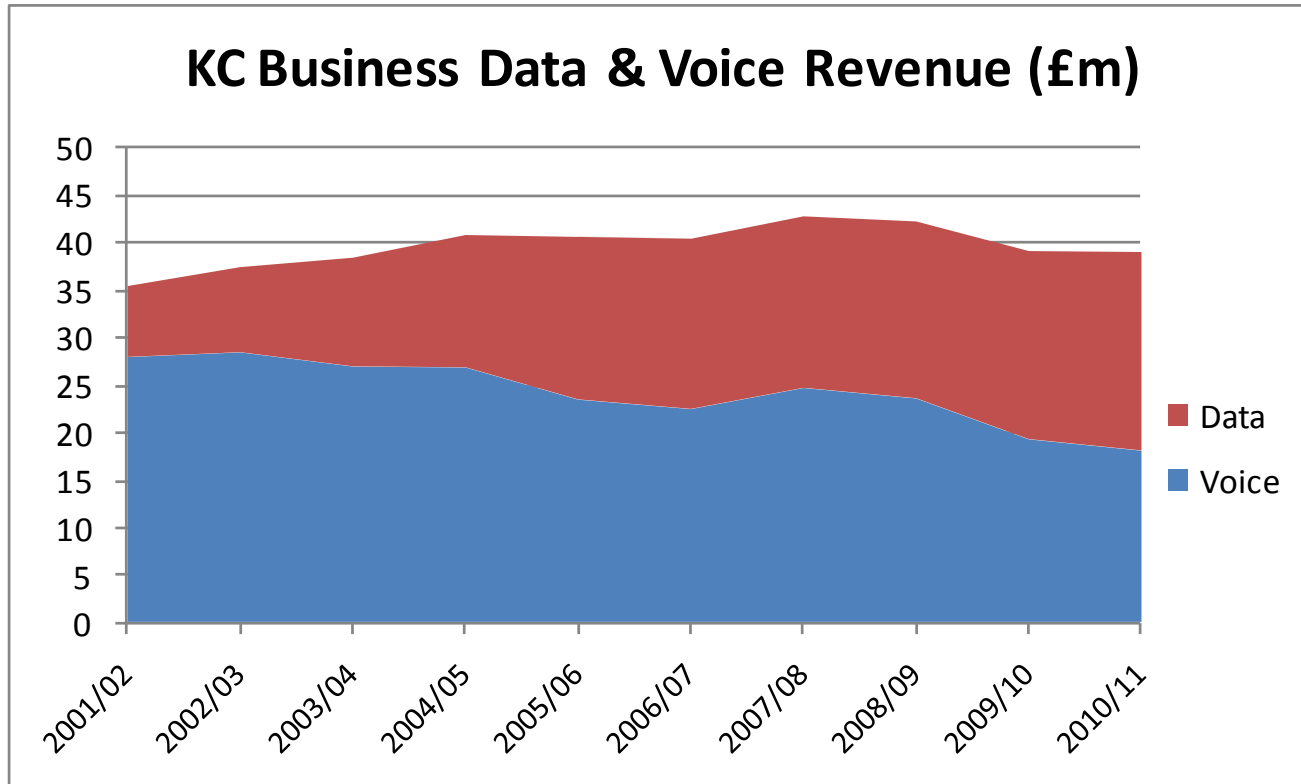
- 2% reduction per year in lines mirrors national market trends
- Call revenues decrease 9% pa since 2007/08, with 3% reduction in FY11
- Call minutes decline 15% pa since 2007, in line with BT
- Karoo broadband connections show YoY growth of 3% to 90k customers in FY11



KC Consumer ARPUs

- Improving mix has seen ARPUs grow YoY by 7%, driven by Karoo and KC Talk upsells

Increase in data services offsets declining voice



- Voice revenues decline 32% in the last 5 years
- 66% increase in bandwidth revenues over the period
- Bandwidth and broadband now account for 44% of KC Business revenues in FY11

KC's edge over its competitors



KC Talk offers Britain's best value talk packages - cheaper than BT by as much as 48%

Our objective is for Karoo to be Britain's Best Broadband Experience

SMARTComms our new hosted phone system using VOIP for KC Business customers

80% of customers within 3km of an exchange, compared to 43% in the rest of the UK

Local businesses served by local people

KC's a big fish in our small pond - contributing £150m per year to the local economy

All exchanges are ADSL2+ enabled, delivering average speeds of 10.1Mbps - better than the UK's 7.5Mbps

Refreshed brand - an award-winning experience



16,000+
Bundles sold


14,000+
KC Talk upsells

3,000+ net
Karoo additions

6% Growth
KC Business
Data &
Broadband

GROWTH OPPORTUNITIES

1. Further ARPU Growth
2. Further 'in-area' penetration
 - Mobile only homes
 - Broadband
3. Test 'out-of-area' expansion

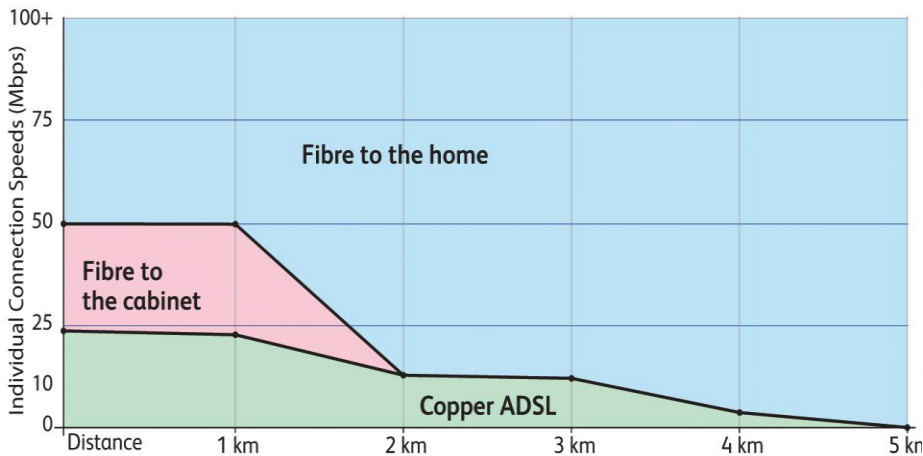
		 Focus Areas				
		Increasing ARPUs	Increasing market share	Operating efficiency	Leveraging partner relationships	Value for money
Strategic goals	Digital agenda	✓	✓		✓	✓
	Growth	✓	✓		✓	✓
	Brand experience		✓	✓		✓



Increasing customer bandwidth - demands fibre?

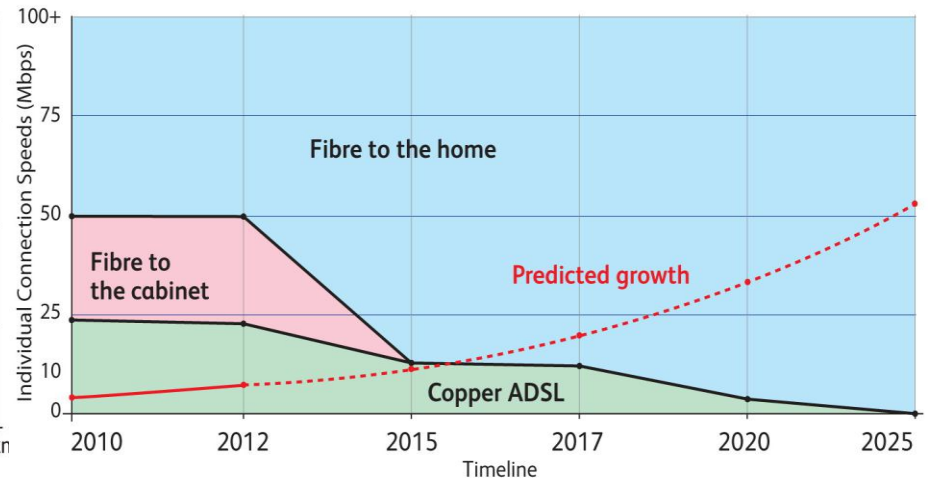


Technology performance



Source: Keymile

Estimated bandwidth growth



Source: Compiled from Cisco, Analysys Mason and KCOM Group

- Global internet traffic grew by 45% in 2009 and 37% in 2010. Within the UK, Virgin Media saw peak time broadband traffic grow by nearly 300% between 2007-2010 at an annual rate of c40-50%
- Forecast suggests that in approx 7 years customer demand is likely to exceed the capabilities of current copper networks
- KC overall customer demand has driven traffic growth across our network of 200% in the last three years
- Current KC customer demand for faster speeds is increasing by 25-30% per annum

KC announce deployment of a fibre network



- Recent investments in our core network position us well to meet future growth in internet demands.
- The next stage in our programme to upgrade our network is to provide the capability to deliver super-fast broadband, using fibre technologies
- Over the next 18 months, we plan to undertake an initial deployment across specific areas of our Hull and East Yorkshire network, passing 15,000 homes
- Mixed fibre solutions will be deployed
- The total investment over FY2011/12 and FY 2012/13, is within the previously announced capital expenditure guidance
- Progress in deploying the network and connecting customers will be shared at the next results presentation (November 2011)
- Further investment beyond this initial deployment is dependent on a favourable commercial outcome