

22 May 2007

**KINGSTON COMMUNICATIONS (HULL) PLC (KCOM.L) - PRELIMINARY ANNOUNCEMENT OF
 UNAUDITED RESULTS FOR YEAR ENDED 31 MARCH 2007**

"All our businesses have shown continued improvement, against a backdrop of continuing and rapid change in our markets. These strong results, and our clear strategy going forward, give us great encouragement for the future."

Michael Abrahams, Chairman

Kingston Communications (HULL) PLC (KCOM.L) ("Kingston" or the "Group") today announces its unaudited preliminary results for the year ended 31 March 2007.

Summary

	Year ended 31 March 2007 (£ million)	Year ended 31 March 2006 (£ million)	Change over prior year (%)
Results from continuing operations before exceptional items¹			
Revenue	483.1	453.9	6.4
Group profit from operations	31.4	21.6	45.4
Adjusted Group profit from operations ²	39.4	28.2	39.7
Profit before tax and amortisation ²	28.4	17.5	62.3
EBITDA	71.0	73.2	(3.0)
EBITDA less capital expenditure	37.9	26.4	43.6
Reported results			
Profit/(loss) before tax	10.6	(80.8)	-
Basic earnings/(loss) per share (pence)	4.66	(13.32)	-
Free cash flow ²	28.9	23.8	21.4
Adjusted basic earnings per share (pence) ²	5.52	3.40	62.4
Dividend per share (pence) ³	1.95	1.17	66.7

¹Exceptional items are disclosed in Note 2

²A reconciliation of reported to adjusted results is given in note 8.

³Dividend pence per share is the sum of the interim dividend of 0.65 (2006: 0.39) pence per share and the proposed final dividend of 1.3 (2006: 0.78) pence per share

Highlights

- Revenue up 6.4 per cent to £483.1 million (2006: £453.9 million)
- Adjusted Group profit from operations up 39.7 per cent to £39.4 million (2006: £28.2 million) leading to a 62.3 per cent rise in profit before tax and amortisation of £28.4 million (2006: £17.5 million)
- Profit before taxation of £10.6 million (2006: £80.8 million loss)
- Adjusted basic earnings per share of 5.52 pence per share (2006: 3.40 pence per share) an increase of 62.4 per cent
- EBITDA before exceptional items of £71.0 million (2006: £73.2 million), decreased by 3.0 per cent, more than offset by the decline in capital expenditure to £33.1 million (2006: £46.8 million) as the Affiniti business model becomes less capital intensive
- Free cash flow of £28.9 million (2006: £23.8 million) an increase of 21.4 per cent.
- Proposed final dividend of 1.3 pence per share (2006: 0.78 pence per share) resulting in growth in the full year dividend of 66.7 per cent to 1.95 pence per share (2006: 1.17 pence per share)

Effective implementation of our strategy also requires clear alignment to target markets and customer segments. Today, the Group targets three distinct markets:

- integrated and managed IT and communications solutions for medium and large enterprises (Affiniti and Smart421)
- internet and telecommunications services aimed primarily at small and medium enterprises ('SME') (Kingston Communications); and
- the provision of information to end users through a range of channels including web-based, paper-based and person-to-person (Information Services).

In each of these markets, we are committed to building and maintaining our reputation for the quality of the end-to end customer experience we deliver. It is through this that we create long term, sustainable relationships and build trust with our customers.

In order to ensure we are able to deliver the desired customer experience, we have over the course of the last six months been making important changes in the way we manage these different customer segments and how our people are rewarded.

We have done this by:

- ensuring that customers are managed through the most appropriate channel by realigning all of our medium and small customers under the Kingston Communications brand, rather than Affiniti. This includes customers served through both direct and indirect channels.
- across the Group, aligning a proportion of people's rewards to the delivery of an improved customer experience.
- investing in improving our IT environment and business processes to support our ability to deliver the right customer experience. During FY07, we invested £12.3 million in this area, representing around 40 per cent of our total capital expenditure for the year.

Whilst the business results are the key indicator of the Group's success, the strides we have made in improving quality are also demonstrated in a range of independent accreditations.

The Group recently achieved ISO27001 certification, the highest international quality standard for Information Security, covering all of our operational organisation, networks and systems that are involved in the design, planning, implementation and support of communications solutions and services delivered to our customers.

Smart421 became one of the first companies worldwide to achieve ISO/IEC 20000-1:2005 certification covering its provision of bespoke customer IT service management solutions and the management of internal IT systems.

Together with Affiniti's recognition as a key strategic partner for Cisco Systems, including in particular its recent award as Cisco's European Markets Gold Partner of the Year, these accreditations demonstrate the quality of our overall capabilities.

Financial overview

We have seen continuing organic growth across Affiniti and Kingston Communications (KC), supplemented by contributions from our acquisitions, resulting in Group revenue increasing 6.4 per cent to £483.1 million. Excluding the impact of acquisitions, organic revenue growth was 3.2 per cent.

Group EBITDA, before exceptional items, declined 3.0 per cent from £73.2 million to £71.0 million. This reduction reflects the change within the Affiniti revenue mix, and has been accompanied by a more than compensating fall in capital expenditure. The level of EBITDA less capital expenditure has as a result risen by 43.6 per cent from £26.4 million to £37.9 million.

Adjusted profit from operations of £39.4 million (2006: £28.2 million), increased 39.7 per cent, which underpinned a 62.4 per cent rise in the Group's Adjusted basic earnings per share to 5.52 pence (2006: 3.40 pence). Year on year second half earnings per share increased 45.5 per cent from 1.91 pence to 2.76 pence. This improvement in adjusted earnings reflects the increased contribution from Affiniti, resilience in our KC business and the earnings accretive nature of acquisitions undertaken in the period. The acquired businesses, Smart421, Jam IP and Mistral Internet, have all performed well and made positive contributions to revenue and earnings over the last six, four and two months respectively.

Group profitability has been impacted in the year by a charge of £2.1 million (2006: £Nil) reflecting an increase in the provision for long term incentive plans. The impact of this is partially offset by a one-off credit of £1.8 million arising as a result of changes in pension scheme legislation ("A day" changes) and the consequent impact this has on the underlying IAS19 pensions valuation. This credit is recognised primarily within the KC and Affiniti results.

The Group incurred exceptional items of £7.8 million (2006: £2.2 million) with the majority of this cost relating to onerous lease provisions in respect of vacant properties.

Profit after exceptional items and before taxation was £10.6 million (2006: £80.8 million loss). This reflects a combination of improved financial performance, partially offset by increases in exceptional property provision and the impact of the £89.5 million impairment of our national network infrastructure during 2006.

Overall free cash flow improved 21.4 per cent to £28.9 million (2006: £23.8 million) with, as expected, stronger cash flows in the second half.

Business review

Affiniti

<i>Results before exceptional items</i>	2007 (£ million)	2006 (£ million)	Change over prior year (%)
Revenue	345.4	332.0	4.0
EBITDA	28.7	34.4	(16.6)
Capital expenditure	16.7	28.2	(40.8)
EBITDA less capital expenditure	12.0	6.2	93.5
Adjusted Profit from operations	10.7	4.8	229.2

Revenues in Affiniti have increased 4.0 per cent to £345.4 million (2006: £332.0 million). The growth in revenues from direct sales to the enterprise and public sector was 5.6 per cent to £287.9 million (2006: £272.6 million) with overall growth impacted by the decline in indirect revenues from £59.4 million in 2006 to £57.5 million in 2007, a reduction of 3.2 per cent.

EBITDA reduced 16.6 per cent to £28.7 million (2006: £34.4 million) with a decline in the EBITDA margin from 10.4 per cent to 8.3 per cent. This reflects the change in mix of business within Affiniti and is entirely consistent with a reduction in the capital intensity of the overall revenue mix. This change in the business model has seen a 93.5 per cent rise in the level of EBITDA less capital expenditure to £12.0 million (2006: £6.2 million).

Whilst the overall capital intensity of the Affiniti business has declined, its EBITDA margins will continue to be influenced by the level of Group financed network-based contracts within the overall business mix.

In the direct market, we continue to see strong demand for converged network solutions as more businesses recognise the benefit of migration to IP based unified communications solutions. During the year, Affiniti has continued to maintain a robust sales pipeline with new customers including GE, Derby City Council and Lloyds TSB and renewed or extended contracts with Littlewoods Shop Direct Group, North Wales Police and Scarborough NHS Trust

The strategic, as well as financial, benefits of our recent acquisitions have started to be realised and we are currently working on a number of collaborative projects between Affiniti, Smart421 and JAM IP. We believe their combined capability will become a clear differentiator in the market place.

The growth that has been achieved within the direct part of Affiniti demonstrates that we have been able to establish a strong proposition for customers. Our commitment to a less capital intensive business model in this area is also starting to bring rewards. We anticipate that, whilst there may be volatility in the overall EBITDA margins of the business, we will see improving levels of contribution measured in terms of EBITDA less capital expenditure as well as growth in net earnings, from the direct part of the Affiniti business.

The indirect segment of Affiniti continues to be impacted by the adverse pricing and volume trends associated with the provision of some network based services. The ongoing reduction in the provision of wholesale ISP dial-up and a decline in the market for some premium rate services have impacted the overall revenues and earnings we deliver through indirect channels.

Whilst there continues to be adverse publicity surrounding the Media Telephony Services market place in general, we continue to see healthy revenue growth in this area. Our Myriad platform, which we believe already meets the standards recently introduced by ICSTIS, has provided a differentiated proposition to a number of media partners.

Smart421

	2007 (£ million)
Revenue	8.7
EBITDA	1.5
Adjusted profit from operations	1.4

The results for Smart421 represent performance for the six months ended 31 March 2007, following the acquisition on 29 September 2006.

During this period, the business has performed in line with our expectations and has been accretive to overall Group earnings.

The business remains focused on the provision of applications integration services. Whilst the majority of revenues are derived from consultancy and project services, there has been continuing growth in managed service activity, which now make up 23.9 per cent of revenues.

Since acquisition, the company has renewed or extended contracts with O2 and Norwich Union and been awarded new business with organisations including Alliance & Leicester.

Kingston Communications

<i>Results before exceptional items</i>	2007 (£ million)	2006 (£ million)	Change over prior year (%)
Revenue	117.1	109.3	7.1
EBITDA	47.4	42.8	10.7
Capital expenditure	16.0	17.4	(8.0)
EBITDA less capital expenditure	31.4	25.4	23.6
Adjusted profit from operations	34.9	28.2	23.8

Kingston Communications ("KC") continues to perform strongly across all areas of the business, delivering improved margins and strong cash flows.

Revenue increased 7.1 per cent to £117.1 million (2006: £109.3 million) with EBITDA up 10.7 per cent to £47.4 million (2006: £42.8 million). This increase reflects the underlying growth of the business and a two month contribution from Mistral Internet which was acquired on 31 January 2007.

EBITDA margins increased to 40.5 per cent from 39.2 per cent in the prior year as we continue to benefit from volume growth, the scalability of the business and ongoing operating efficiencies.

Within the business sector, we have seen strong customer demand for broadband, ethernet and mobile data based services. Our network expansion into Lincolnshire has delivered year on year growth which, although modest in the context of the overall business, provides an established customer base from which to develop, with any resulting capital investment driven by customer demand.

The rebalancing of our consumer revenues in East Yorkshire towards a greater level of subscription income continues following the successful launch of our inclusive calling packages in 2005.

At 31 March, our broadband customer base exceeded 180,000 representing growth of 49.4 per cent on the prior year. In East Yorkshire, we now have a broadband customer base of approximately 75,000.

Competition within the broadband market across the UK remains intense and is likely to remain so. Our decision to invest in our customer and technical service capabilities, rather than investing capital in speculative Local Loop Unbundling, has been rewarded with strong growth in customer numbers and has been recognised by the broadband industry with Eclipse, our national brand, winning the best consumer ISP at the UK ISPA awards in February 2007.

The recent acquisition of Mistral Internet increases KC's capabilities in the managed and hosting services sector of the fast growing broadband internet services market for small and medium enterprises. The business has been integrated within the existing management structure, providing it with the foundations for growth and development both in its own right and by exploiting the reach of KC's channels to market.

Information Services

<i>Results before exceptional items</i>	2007 (£ million)	2006 (£ million)	Change over prior year (%)
Revenue	13.6	13.2	3.0
EBITDA	3.7	3.5	5.7
Adjusted profit from operations	3.3	3.0	10.0

Our Information Services business continues to deliver robust results through its provision of directory publishing, outsourced contact centres and directory enquiry services. Revenues grew 3.0 per cent to £13.6 million (2006: £13.2 million) and EBITDA grew 5.7 per cent to £3.7 million (2006: £3.5 million).

A successful campaign for the Hull Colour Pages was completed in the first half of the year, achieving revenue growth of 6.7 per cent year on year, a strong performance in comparison with its peers. Within our contact centre operations, the outsourced directory enquiries market continues to provide a strong opportunity for growth. The call centre now handles over one million calls per month.

Group Earnings

EBITDA

Group EBITDA before exceptional items has decreased by 3.0 per cent to £71.0 million (2006: £73.2 million). EBITDA includes a loss on other activities of £10.3 million (2006: £7.5 million) representing primarily the unallocated operational costs and expenses associated with PLC activities. In addition, it includes provisions in respect of long term incentive plans covering Executive Directors and senior managers across the Group. These amounts represent liabilities that may crystallise annually based on three year growth targets for the Group's Adjusted Earnings. Therefore at any point in time, these costs can include estimates as to liabilities that may arise over the course of the next three years. In line with the progress that the Group is making in improving its overall profitability, a charge of £2.1 million (2006: £Nil) was made in respect of such scheme.

In April 2006, legislative changes to pension schemes, known as A day changes, increased the amount of the cash lump sum pensioners are entitled to take upon retirement. Actuarial assumptions underlying the IAS19 pension valuation have been changed to reflect this increased cash lump sum entitlement, and this has resulted in a one off credit of £1.8 million recognised in the Income Statement during the year. This credit reverses charges made to the profit and loss account in prior years.

The Group has incurred exceptional items of £7.8 million in 2007 (2006: £2.2 million) due primarily to a combination of onerous lease provisions in respect of vacant properties and redundancy costs relating to restructuring. The Group is committed to the ongoing rationalisation of its property portfolio with a view to minimising the liabilities associated with its vacant premises.

After exceptional items, Group EBITDA decreased 11.3 per cent to £63.1 million in 2007 (2006: £71.1 million).

Depreciation and amortisation

Depreciation and amortisation amounted to £39.6 million in the current year (2006: £51.6 million). This includes £8.0 million in respect of the amortisation of intangibles assets arising on acquisitions (2006: £6.6 million).

Group financing costs of £13.0 million (2006: £10.8 million) reflect a higher level of borrowings consistent with the financing in respect of the acquisitions completed in the year. In addition the cost includes the accelerated write off of unamortised loan fees of £1.9 million associated with the previous bank facility taken out in December 2004 which was refinanced in February 2007.

Group profit from operations

Group Adjusted profit from operations has increased 39.7 per cent to £39.4 million (2006: £28.2 million), resulting from a reduced depreciation and amortisation expense charged in the year.

Group profit from operations before exceptional items is £31.4 million (2006: £21.6 million), an increase of 45.4 per cent.

Profit and loss before tax

Group profit before taxation is £10.6 million against a prior year loss of £80.8 million. Prior to charging exceptional items of £9.7 million (2006: £91.7 million), profit before tax is £20.3 million (2006: £10.9 million), an increase of 86.2 per cent.

Taxation

During the year we have recorded a net taxation credit of £13.3 million (2006: £12.4 million). This credit arises as a consequence of the recognition of an additional deferred tax asset during the year and reflects our current view of the anticipated utilisation of unclaimed capital allowances in the Group.

The total deferred tax asset recognised in respect of capital allowances and short term timing differences is £32.8 million (2006: £22.0 million). The Group has a further unrecognised deferred tax asset of £22.1 million (2006: £42.7 million)

Discontinued operations

During the year, we disposed of the remaining European trading operations of Affiniti, Kingston Communications Data SA, which was previously reported within Affiniti. This disposal resulted in a loss on disposal of £0.6 million.

Earnings per share

Basic earnings per share amounted to a profit of 4.66 pence (2006: loss of 13.32 pence). Adjusted basic earnings per share amounted to 5.52 pence per share (2006: 3.40 pence).

Adjusted basic earnings per share	2007 (pence)	2006 (pence)	Change over prior year (%)
H1	2.76	1.49	85.2
H2	2.76	1.91	44.5
Total	5.52	3.40	62.4

Group Financing and Investment

Group net debt at 31 March 2007 was £164.2 million (2006: £127.7 million), reflecting the acquisitions made for cash during the year. As at 31 March 2007 pro-forma net debt to EBITDA is 2.3 times (2006:1.7 times).

Net cash inflow from operations of £59.1 million has decreased 14.0 per cent on an inflow of £68.7 million in 2006. This decrease is due to an increase in working capital of £4.1 million reflecting the organic growth and the cash impact of exceptional items in the year.

The purchase of tangible and intangible assets amounted to £30.2 million (2006: £46.1 million). This reduction is primarily due to the change of business mix within Affiniti. We anticipate this trend will continue as we move the business mix away from capital intensive network based contracts. Within the overall mix of capital expenditure, network-related capital (excluding directly customer-driven) amounted to less than 10 per cent of our total capital expenditure. IT-related investment totalled £12.3 million reflecting an ongoing drive to improve the quality of the experience we deliver to our customers.

During the year, the Group spent a total of £43.1 million on the acquisitions of Smart421, JAM IP and Mistral. This compares to net cash proceeds of £26.2 million from the purchase and sale of businesses in 2006.

Free cash flow before financing has increased 21.4 per cent to £28.9 million (2006: £23.8 million).

The cash cost of financing Group debt amounted to £12.9 million (2006: £8.7 million). The increase on the 2006 cost is consistent with higher Group debt levels arising on the acquisitions undertaken in the year. The refinancing of our bank facilities, announced at the end of March 2007, has resulted in a competitively priced debt facility, reflecting the Group's improved capacity to generate cash. This refinancing has resulted in one-off arrangement fee of £1.4 million in the year.

The cash cost of dividends in 2007 was £7.4 million (2006: £4.8 million) reflecting the increased interim dividend.

In accordance with IAS 19, the Group now recognises the liabilities associated with its defined benefit pension scheme in the financial statements. As at 31 March 2007, the Group had a net liability in respect of its pension scheme obligations of £8.9 million (2006: £11.7 million). The gross deficit within this net balance has fallen to £12.7 million as at 31 March 2007 from £16.7 million at 31 March 2006. The 24.0 per cent reduction in this gross liability reflects the improved equity returns experienced within the main Kingston Group defined benefit pension scheme.

Dividend

In light of the financial performance of the Group and the improvement in the Group free cash flow before financing costs, the Board is proposing a final dividend of 1.3 pence per share, resulting in a full year dividend payment of 1.95 pence per share, an increase of 66.7 per cent on the prior year. Subject to shareholder approval at the Company's Annual General Meeting on 1 August 2007, the final dividend will be payable on 10 August 2007 to shareholders registered at the close of business on 29 June 2007.

Notification of intention of shareholding disposal by Kingston upon Hull City Council

Kingston Communications (Hull) PLC ("Kingston") has received notification from Kingston upon Hull City Council ("the Council"), pursuant to the Relationship Agreement dated 22 June 1999, of the Council's intention to sell the 157,499,999 ordinary shares it holds in Kingston subject, inter alia, to market conditions. The sale, if completed, would represent the entire stake the Council holds in Kingston.

Outlook

We believe that with the skills we have built both from within and through targeted acquisitions, we are well placed to service the market for integrated IT and communications solutions. The Board believes that our strategy, strength of management and improving business performance offer a strong basis for continuing growth. Current trading is in line with our expectations.

Consolidated Income Statement

	Note	Unaudited Year ended 31 March 2007			Audited Year ended 31 March 2006		
		Before Exceptional Items	Exceptional Items	Total	Before Exceptional Items	Exceptional Items	Total
		£'000	£'000	£'000	£'000	£'000	£'000
Continuing Operations							
Revenue	1	483,120	-	483,120	453,891	-	453,891
Operating costs		(412,148)	(7,826)	(419,974)	(380,651)	(2,180)	(382,831)
Group EBITDA	1	70,972	(7,826)	63,146	73,240	(2,180)	71,060
Depreciation, amortisation and impairment		(39,569)	-	(39,569)	(51,591)	(89,521)	(141,112)
Group profit/(loss) from operations	1	31,403	(7,826)	23,577	21,649	(91,701)	(70,052)
Finance costs		(11,302)	(1,918)	(13,220)	(10,986)	-	(10,986)
Finance income		261	-	261	220	-	220
Share of profit of associates		12	-	12	-	-	-
Profit/(loss) before taxation	2	20,374	(9,744)	10,630	10,883	(91,701)	(80,818)
Taxation	3	13,339	-	13,339	12,394	-	12,394
Profit/(loss) for the period from continuing operations		33,713	(9,744)	23,969	23,277	(91,701)	(68,424)
Discontinued Operations							
Loss for the period from discontinued operations	6	(578)	-	(578)	(2,808)	-	(2,808)
Profit/(loss) for the period attributable to equity holders of the Company		33,135	(9,744)	23,391	20,469	(91,701)	(71,232)
Earnings/(loss) per share from continuing operations							
Basic	4			4.66p			(13.32)p
Diluted	4			4.66p			(13.32)p
Adjusted basic	4			5.52p			3.40p
Adjusted diluted	4			5.52p			3.40p
Earnings/(loss) per share from total operations							
Basic	4			4.55p			(13.87)p
Diluted	4			4.55p			(13.87)p

Consolidated Statement of Recognised Income and Expense

	Unaudited Year ended 31-Mar 2007 £'000	Audited Year ended 31-Mar 2006 £'000
Exchange differences on translation of foreign operations	12	1
Cash flow hedges	895	(241)
Actuarial (losses)/gains on retirement benefit obligation	(3,166)	11,782
Tax on actuarial losses on retirement benefit obligations	(1,201)	(3,999)
Net (expense)/income recognised directly in equity	(3,460)	7,543
Profit/(loss) for the period	23,391	(71,232)
Total recognised income and expense for the period	19,931	(63,689)

Consolidated Balance Sheet

	Unaudited Year ended 31-Mar 2007 £'000	Audited Year ended 31-Mar 2006 £'000
Non-current assets		
Goodwill	192,754	159,551
Intangible assets	48,511	39,450
Property, plant and equipment	132,385	127,857
Investments	854	840
Deferred tax assets	25,378	18,952
	399,882	346,650
Current assets		
Inventories	9,866	13,228
Trade and other receivables	88,087	99,636
Cash and cash equivalents	30,110	12,084
	128,063	124,948
Total assets	527,945	471,598
Current liabilities		
Trade and other payables	(138,234)	(149,322)
	(10,171)	(24,374)
Net current liabilities	(10,171)	(24,374)
Non-current liabilities		
Borrowings	(193,383)	(139,535)
Retirement benefit obligation	(12,665)	(16,670)
Long term provisions and other payables	(6,062)	(1,541)
	(350,344)	(307,068)
Total liabilities	(350,344)	(307,068)
Net assets	177,601	164,530
Capital and reserves, attributable to equity holders of the Company		
Share capital	51,493	51,480
Share premium account	352,450	352,360
Hedging and translation reserve	877	(30)
Retained earnings	(227,219)	(239,280)
	177,601	164,530
Total equity	177,601	164,530

Consolidated Cash Flow Statement

		Unaudited Year ended 31-Mar 2007 £'000	Audited Year ended 31-Mar 2006 £'000
	Note		
Net cash flow from operating activities			
Profit/(loss) from operations	7	23,564	(71,691)
Adjustments for:			
- Depreciation and amortisation		39,569	51,992
- Impairment		-	89,521
- Increase in working capital		(4,114)	(1,489)
- Employee share schemes		393	754
Income taxes paid		(284)	(399)
Net cash inflow from operations		59,128	68,688
Cash flows from investing activities			
Acquisition of businesses		(43,064)	(4,024)
Disposal of businesses		-	30,201
Purchase of property, plant and equipment		(23,721)	(38,202)
Proceeds from sale of property, plant & equipment		11	1,108
Purchase of intangible assets		(6,495)	(7,896)
Purchase of investments		(12)	(14)
Net cash used in investing activities		(73,281)	(18,827)
Cash flows from financing activities			
Dividends paid		(7,356)	(4,784)
Issue costs of long term loans		(1,416)	(18)
Interest paid		(11,496)	(8,673)
Interest received		261	219
Capital element of finance lease repayments		(301)	(279)
Repayment of bank loans		(13)	(52,431)
New loans		52,500	-
Net cash from/(used in) financing activities		32,179	(65,966)
Increase/(decrease) in cash and cash equivalents		18,026	(16,105)
Cash and cash equivalents at the beginning of the period		12,084	28,189
Cash and cash equivalents at the end of the period		30,110	12,084

1. Segmental Analysis

	Unaudited Year ended 31-Mar 2007 £'000	Audited Year ended 31-Mar 2006 £'000
Revenue		
Affiniti	345,400	331,983
Kingston Communications	117,099	109,280
Information Services	13,630	13,240
Smart421	8,714	-
Head office and eliminations	(1,723)	(612)
Total – continuing activities	483,120	453,891
Discontinued activities	75	9,944
Group total	483,195	463,835
Group EBITDA		
Affiniti	28,698	34,435
Kingston Communications	47,413	42,838
Information Services	3,684	3,494
Smart421	1,464	-
Head office and eliminations	(10,287)	(7,527)
Total – continuing activities before exceptional items	70,972	73,240
Exceptional items:		
Affiniti	(6,418)	(1,200)
Kingston Communications	(1,287)	(577)
Information Services	(91)	-
Head office and eliminations	(30)	(403)
	(7,826)	(2,180)
Total – continuing activities	63,146	71,060
Discontinued activities	(36)	(1,499)
Group total	63,110	69,561
Depreciation		
Affiniti	12,013	25,646
Kingston Communications	11,087	13,673
Information Services	358	446
Smart421	68	-
Head office	666	341
Total – continuing activities before exceptional items	24,192	40,106
Exceptional items:		
Affiniti	-	79,134
Kingston Communications	-	9,403
	-	88,537
Total – continuing activities	24,192	128,643
Discontinued activities	-	401
Group total	24,192	129,044

1. Segmental Analysis (continued)

	Unaudited Year ended 31-Mar 2007 £'000	Audited Year ended 31-Mar 2006 £'000
Amortisation		
Affiniti	11,290	9,722
Kingston Communications	2,749	1,763
Information Services	69	-
Smart421	1,269	-
Group total before exceptional items	15,377	11,485
Exceptional items:		
Affiniti	-	984
	-	984
Group total	15,377	12,469
Profit/(loss) from operations		
Affiniti	5,395	(933)
Kingston Communications	33,577	27,402
Information Services	3,257	3,048
Smart421	127	-
Segment result – continuing activities before exceptional items	42,356	29,517
Exceptional items:		
Affiniti	(6,418)	(81,318)
Kingston Communications	(1,287)	(9,980)
Information Services	(91)	-
Head office	(30)	(403)
	(7,826)	(91,701)
Segment result – continuing activities	34,530	(62,184)
Head office and other unallocated costs	(10,953)	(7,868)
Group profit/(loss) from operations	23,577	(70,052)
Share of profit of associate	12	-
Profit/(loss) from continuing operations	23,589	(70,052)
Segment result – discontinued activities	(578)	(3,042)
Group total	23,011	(73,094)
Assets		
Affiniti	277,732	296,075
Kingston Communications	155,442	128,195
Information Services	6,129	6,114
Smart421	27,307	-
Other	4,176	9,339
Unallocated assets	57,159	31,875
Total assets	527,945	471,598

1. Segmental Analysis (continued)

	Unaudited Year ended 31-Mar 2007 £'000	Audited Year ended 31-Mar 2006 £'000
Liabilities		
Affiniti	53,741	98,660
Kingston Communications	3,308	37,037
Information Services	3,851	4,733
Smart421	2,339	-
Other	40,671	26,723
Unallocated liabilities	246,434	139,915
Total liabilities	350,344	307,068

Capital expenditure on property, plant and equipment, development costs and software

Affiniti	16,654	28,200
Kingston Communications	16,004	17,439
Information Services	91	845
Smart421	122	-
Head office	191	329
Total – continuing activities	33,062	46,813
Discontinued operations	-	277
Group total	33,062	47,090

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

	Unaudited Year ended 31-Mar 2007 £'000	Audited Year ended 31-Mar 2006 £'000
Revenue from external customers		
Affiniti	344,184	331,619
Kingston Communications	114,457	106,254
Information Services	11,472	11,545
Smart421	8,714	-
Head office	4,293	4,473
Discontinued operations	75	9,944
Total	483,195	463,835
Inter-segment revenue		
Affiniti	1,216	364
Kingston Communications	2,642	3,026
Information Services	2,158	1,695
Head office and eliminations	(6,016)	(5,085)
Total	-	-
Group total	483,195	463,835

1. Segmental Analysis (continued)

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

	Unaudited	Audited
	Year ended	Year ended
	31-Mar	31-Mar
	2007	2006
	£'000	£'000
Geographical analysis of revenue		
United Kingdom	468,288	448,846
Europe	12,946	12,384
Other	1,961	2,605
Group total	483,195	463,835

The analysis of the Group's revenue between sale of goods and services is as follows:

	Unaudited	Audited
	Year ended	Year ended
	31-Mar	31-Mar
	2007	2006
	£'000	£'000
Continuing operations		
Sale of goods	83,718	87,132
Provision of services	399,402	366,759
Total – continuing operations	483,120	453,891
Discontinued operations		
Sale of goods and services	75	9,944
Group total	483,195	463,835

2. Profit/(loss) from continuing operations

The profit/(loss) before taxation from continuing operations is stated after charging/(crediting):

	Unaudited	Audited
	Year ended	Year ended
	31-Mar	31-Mar
	2007	2006
	£'000	£'000
Exceptional items:		
Restructuring costs	2,033	1,090
Onerous leases	5,770	720
Loss on disposal of business	-	108
Amounts written off investments	23	262
	7,826	2,180
Impairment of property, plant and equipment	-	88,537
Impairment of intangible assets	-	984
	7,826	91,701
Depreciation	24,192	40,105

2. Profit/(loss) from continuing operations (continued)

Amortisation of intangible assets		
- Intangible assets arising on acquisitions	8,016	6,599
- Software and development costs	7,361	4,886
	15,377	11,485
<hr/>		
Release of prior year network operating accruals	-	(3,201)
Pension past service credit for cash commutations at retirement	(1,806)	-
Employee share schemes	393	754
Long term incentive plans	2,122	-
<hr/>		

3. Taxation

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

	Unaudited	Audited
	Year ended	Year ended
	31-Mar	31-Mar
	2007	2006
	£'000	£'000
Corporation tax	(122)	633
Deferred tax	(13,217)	(13,027)
Group total	(13,339)	(12,394)

The combined tax effect of the exceptional items is £Nil (2006: credit of £542,000) in respect of current tax and a debit of £2,341,000 (2006: credit of £26,561,000) in respect of deferred tax.

4. Earnings per share

For the year ended 31 March 2006, the impact of share options on unadjusted earnings per share was anti-dilutive and these have therefore been excluded from the calculation of dilutive weighted average share capital for all unadjusted earnings per share calculations for that year.

	Unaudited Year ended 31 March 2007	Audited Year ended 31 March 2006
Weighted average number of shares	No.	No.
For basic earnings per share	513,941,128	513,659,129
Exercise of share options	171,636	838,079
For diluted earnings per share	<u>514,112,764</u>	<u>514,497,208</u>
Earnings	£'000	£'000
Profit/(loss) for the year attributable to equity holders of the Company	23,391	(71,232)
Adjustment to exclude loss for the year from discontinued operations	578	2,808
Profit/(loss) for the year from continuing operations	<u>23,969</u>	<u>(68,424)</u>
Adjustments:		
Exceptional items	7,826	91,701
Accelerated loan fee amortisation	1,918	-
Amortisation of intangibles arising on acquisition	8,016	6,599
Tax and deferred taxation	(13,339)	(12,394)
Adjusted profit for the year from continuing operations	<u>28,390</u>	<u>17,482</u>
Earnings/(loss) per share from continuing operations	pence	pence
Basic	4.66	(13.32)
Diluted	4.66	(13.32)
Adjusted basic	5.52	3.40
Adjusted diluted	5.52	3.40
Loss per share from discontinued operations		
Basic	(0.11)	(0.55)
Diluted	(0.11)	(0.55)
Total earnings/(loss) per share from continuing and discontinued operations		
Basic	4.55	(13.87)
Diluted	4.55	(13.87)

5. Dividends

	Unaudited Year ended 31-Mar 2007 £'000	Audited Year ended 31-Mar 2006 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 March 2005 of 0.54 pence per share	-	2,778
Interim dividend for the year ended 31 March 2006 of 0.39 pence per share	-	2,006
Final dividend for the year ended 31 March 2006 of 0.78 pence per share	4,012	-
Interim dividend for the year ended 31 March 2007 of 0.65 pence per share	3,344	-
Total	7,356	4,784

The proposed final dividend for the year ended 31 March 2007 is 1.30 pence per share amounting to a total dividend of £6,681,000. 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 these financial statements.

6. Acquisitions and disposals

Acquisitions

Smart421 Technology Group Limited

On 29 September 2006, the Group acquired 100% of the share capital of Smart421 Technology Group Limited. The acquired business contributed revenues of £8,714,000 and profit from operations of £127,000.

The fair value to the Group of net assets acquired is shown below:

	Book value of assets acquired £'000	Fair value adjustments £'000	Fair value to the Group of assets acquired £'000
Intangible fixed assets	-	12,179	12,179
Property, plant and equipment	239	-	239
Investments in associates	17	-	17
Trade and other receivables	2,963	-	2,963
Cash and cash equivalents	3,692	-	3,692
Trade and other payables	(1,711)	-	(1,711)
Deferred tax liability	-	(3,654)	(3,654)
Net assets acquired	5,200	8,525	13,725
Goodwill			12,133
Total consideration			25,859
Satisfied by:			
- cash paid			25,578
- direct costs relating to the acquisition			281
Total purchase consideration			25,859

Goodwill is attributable to the future cash flows arising from the operations of the company, excluding those cash flows associated with identified intangible assets. The realisation of the anticipated future synergies arising from the business combination and the amount of avoided cost associated with having established the business operations and workforce in place at the date of acquisition.

	£'000
Purchase consideration settled in cash	25,859
Cash and cash equivalents acquired	(3,692)
Cash outflow on acquisition	22,167

6. Acquisitions and disposals (continued)

JAM IP Limited

On 15 December 2006, the Group acquired 100% of the share capital of JAM IP Limited. The acquired business contributed revenues of £1,574,000 and loss from operations of £120,000.

The fair value to the Group of net assets acquired is shown below:

	Book value of assets acquired	Fair value adjustments	Fair value to the Group of assets acquired
	£'000	£'000	£'000
Intangible fixed assets	-	1,338	1,338
Property, plant and equipment	28	-	28
Trade and other receivables	584	-	584
Inventories	47	-	47
Cash and cash equivalents	522	-	522
Trade and other payables	(979)	-	(979)
Deferred tax liability	-	(402)	(402)
Net assets acquired	202	936	1,138
Goodwill			1,536
Total consideration			2,674
Satisfied by:			
- cash paid			2,562
- direct costs relating to the acquisition			112
Total purchase consideration			2,674

A further amount of contingent consideration capped at £1,195,000 may be payable in each of the three years ending 31 August 2007, 2008 and 2009 based on certain financial performance criteria. In view of the uncertainty over future performance, no amounts have been provided as at 31 March 2007.

Goodwill is attributable to future cash flows arising from the operations of the company, excluding those cash flows associated with identified intangible assets, the anticipated future synergies arising from the integration of the business within Affiniti and the amount of avoided cost associated with having established the business operations and workforce in place at the date of acquisition.

	£'000
Purchase consideration settled in cash	2,674
Cash and cash equivalents acquired	(522)
Cash outflow on acquisition	2,152

6. Acquisitions and disposals (continued)

Mistral Internet Group Limited

On 31 January 2007, the Group acquired 100% of the share capital of Mistral Internet Group Limited. The acquired business contributed revenues of £3,545,000 and loss from operations of £45,000.

The fair value to the Group of net assets acquired is shown below:

	Book value of assets acquired	Fair value adjustments	Fair value to the Group of assets acquired
	£'000	£'000	£'000
Goodwill	9,335	(9,335)	-
Intangible fixed assets	-	4,426	4,426
Property, plant and equipment	1,912	(15)	1,897
Trade and other receivables	2,792	(76)	2,716
Cash and cash equivalents	(214)	-	(214)
Trade and other payables	(5,453)	(1,241)	(6,694)
Deferred tax liability	-	(1,328)	(1,328)
Net assets/(liabilities) acquired	8,372	(7,569)	803
Goodwill			19,421
Total consideration			20,224
Satisfied by:			
- cash paid			15,894
- loans and other liabilities settled on acquisition			4,122
- direct costs relating to the acquisition			208
Total purchase consideration			20,224

Goodwill is attributable to future cash flows arising from the operations of the company, excluding those cash flows associated with identified intangible assets, the anticipated future synergies arising from the integration of the business within Eclipse and Kingston Communications and the amount of avoided cost associated with having established the business operations and workforce in place at the date of acquisition.

	£'000
Purchase consideration settled in cash	20,224
Cash and cash equivalents acquired	214
Cash outflow on acquisition	20,438

If all three acquisitions had occurred on 1 April 2006, group revenue would have been £508,668,000 and profit before taxation would have been £6,640,000. These amounts have been calculated using the group's accounting policies and by adjusting the results of the subsidiaries to reflect amortisation that would have been charged assuming the fair value adjustments to intangible assets had applied from 1 April 2006, together with the consequential tax effects.

Disposals

On 29 September 2006, the Group disposed of its remaining French business, Kingston Communications Data SA ("KC Data") for a nominal sum. KC Data made a loss in the period of £36,000 and the loss on disposal was £542,000. This disposal qualifies for treatment as a discontinued operation since it is the termination of operations in a geographical area. Accordingly the combined loss for the period and loss on disposal of £578,000 has been disclosed in the line 'discontinued items' on the face of the income statement.

The prior year figures also include results of Arche, the French operations acquired with Omnetica, which the Group disposed of for cash consideration of £30,336,000 on 31 May 2005.

The results of discontinued operations, which have been included in consolidated income statement, were as follows:

	Unaudited Year ended 31-Mar 2007 £'000	Audited Year ended 31-Mar 2006 £'000
Revenue	75	9,944
Expenses excluding depreciation and finance costs	(111)	(11,443)
EBITDA	(36)	(1,499)
Depreciation	-	(401)
Loss on sale of discontinued operations	(542)	(1,141)
Loss from operations	(578)	(3,041)
Finance costs	-	(43)
Loss before tax	(578)	(3,084)
Attributable tax	-	276
Net loss attributable to discontinued operations	(578)	(2,808)

The effect of discontinued operations on segment result is shown in note 1.

7. Reconciliation of profit from operations

	Unaudited Year ended 31-Mar 2007 £'000	Audited Year ended 31-Mar 2006 £'000
Group profit/(loss) from continuing operations	23,577	(70,052)
Loss from discontinued operations	(36)	(1,900)
Loss on write down of fixed asset investments	23	261
Group profit/(loss) from operations	23,564	(71,691)

8. Reconciliation of reported results to adjusted results

	Unaudited Year ended 31-Mar-2007	Unaudited Year ended 31-Mar-2007	Unaudited Year ended 31-Mar-2007
	Group profit from operations £'000	Profit before taxation £'000	Basic earnings per share £'000
As reported	23,577	10,630	4.66
Exceptional items	7,826	9,744	1.90
Amortisation of intangibles arising on acquisition	8,016	8,016	1.56
Taxation	-	-	(2.60)
As adjusted	39,419	28,390	5.52

	Audited Year ended 31-Mar-2006	Audited Year ended 31-Mar-2006	Audited Year ended 31-Mar-2006
	Group profit from operations £'000	Profit before taxation £'000	Basic earnings per share £'000
As reported	(70,052)	(80,818)	(13.32)
Exceptional items	91,701	91,701	17.85
Amortisation of intangibles arising on acquisition	6,599	6,599	1.28
Taxation	-	-	(2.41)
As adjusted	28,248	17,482	3.40

	Unaudited Year ended 31-Mar-2007	Audited Year ended 31-Mar-2006
	Free cash flow £'000	Free cash flow £'000
As reported	18,026	(16,105)
Net investment in/(proceeds from) acquisitions and disposals	43,064	(26,177)
Dividends	7,356	4,784
Interest	12,651	8,472
Movement in bank loans	(52,487)	52,431
Taxation	284	399
As adjusted	28,894	23,804

9. Basis of preparation

The consolidated financial statements have been prepared in accordance with EU Endorsed International Financial Reporting Standards (IFRS), IFRIC interpretations and the Companies Act 1985 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies.

At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective:

- IFRS 7 'Financial Instruments: Disclosures' (and the relevant amendment to IAS 1 on capital disclosures)
- IFRIC 8 'Scope of IFRS 2'
- IFRIC 9 'Re-assessment of Embedded Derivatives'
- IFRIC 10 'Interim Financial Reporting and impairment'
- IFRIC 11 'Group and Treasury Share Transactions'
- IFRIC 12 'Service Concession Arrangements'

All of the standards and interpretations listed above are not expected to have a material impact on the financial statements of the group or company.

10. Note to the preliminary announcement

The financial information set out in the announcement does not constitute the company's statutory accounts for the year ended 31 March 2007 or 2006. The financial information for the year ended 31 March 2006 is derived from the statutory accounts for that year, which have been delivered to the Registrar of Companies. The previous auditors reported on those accounts; their report 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 2007 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 21 May 2007.