

KINGSTON COMMUNICATIONS (HULL) PLC (KCOM.L) - PRELIMINARY ANNOUNCEMENT OF UNAUDITED RESULTS FOR YEAR ENDED 31 MARCH 2006

"The combination of clear strategy, strong management and improved business performance led to a much stronger second half. The Board is proposing an increased final dividend of 0.78 pence making a total of 1.17 pence for the year, a 30.0 per cent increase."

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 2006.

Summary

	Year ended 31 March 2006 (£ million)	Year ended 31 March 2005 (£ million)	Change over prior year (%)
Results from continuing operations before exceptional items¹			
Revenue	453.9	348.4	30.3
EBITDA	73.2	61.3	19.4
Group profit from operations	21.6	20.5	5.4
Adjusted Group profit from operations ²	28.2	24.6	14.6
Reported results			
(Loss)/profit before tax	(80.8)	8.0	
Basic (loss)/earnings per share (pence)	(13.32)	3.60	
Free cash flow ³	23.4	15.4	51.9
Adjusted earnings per share (pence) ⁴	3.40	3.82	(11.0)
Dividend per share (pence) ⁵	1.17	0.90	30.0

¹Exceptional items are disclosed in Note 2

²Adjusted Group profit from operations excludes amortisation of intangible assets relating to acquisitions

³Free cash flow represents the movement in net debt in the year adjusted for the net proceeds/investments from acquisitions and disposals and the payment of dividends, interest and taxation

⁴Adjusted basic earnings per share excludes discontinued operations, exceptional items, amortisation of intangible assets relating to acquisitions and taxation

⁵Dividend pence per share is the sum of the interim dividend of 0.39 (2005: 0.36) pence per share and the proposed final dividend of 0.78 (2005: 0.54) pence per share

Highlights

- Business strategy and repositioning firmly on track
- Revenue up 30.3 per cent to £453.9 million (2005: £348.4 million)
- Group EBITDA before exceptional items of £73.2 million (2005: £61.3 million), an increase of 19.4 per cent, after adopting an approach to recognition of bundled connection income which defers £3.4 million in revenue and £2.8 million in profit into future financial periods
- Adjusted Group profit from operations up 14.6 per cent to £28.2 million (2005: £24.6 million)
- Stronger second half revenues and earnings with second half Adjusted earnings per share increasing 29.9 per cent on the prior year to 1.91 pence (2005: 1.47 pence)
- Loss before taxation of £80.8 million (2005: £8.0 million profit) including the impact of a network impairment provision of £89.5 million, reflecting the changing business mix and increasing commoditisation of legacy network services. The network impairment provision materially impacts loss per share of 13.32 pence (2005: 3.60 pence earnings per share)
- Free cash flow before financing has increased 51.9 per cent to £23.4 million (2005: £15.4 million)
- Proposed final dividend of 0.78 pence per share (2005: 0.54 pence per share) resulting in growth in the full year dividend of 30.0 per cent to 1.17 pence per share (2005: 0.9 pence per share)

- internet and regional telecommunications services aimed primarily at small and medium enterprises ('SME'); and
- the provision of information to end users through a range of channels (including web-based, paper-based and person-to-person).

In each of these markets our mission is to build and maintain a reputation for the quality of the end-to end customer experience we deliver thereby building long term, sustainable relationships with our customers.

The capability of our business to deliver the quality of experience our customers demand is critically dependent on the skills and ability of our people. In this regard our strategy is underpinned by a significant ongoing commitment to enhance the quality of our people both through investing in their learning and development and in the active management of their performance. In the course of the last year the Group passed a significant milestone by attaining Investor in People accreditation, providing recognition of the progress we are making.

Financial overview

The Group's underlying financial performance has continued to improve during the year with, as expected, stronger trading during the second half of the year. Group revenue for the year increased 30.3 per cent to £453.9 million and Group EBITDA, before exceptional items, increased 19.4 per cent from £61.3 million to £73.2 million.

The Group reported an Adjusted profit from operations of £28.2 million, an increase of 14.6 per cent. The Group's Adjusted basic earnings per share was 3.40 pence (2005: 3.82 pence). Year on year, the second half earnings per share increased 29.9 per cent from 1.47 pence to 1.91 pence.

The reported loss before taxation of £80.8 million (2005: £8.0 million profit) includes the impact of a network impairment provision of £89.5 million, reflecting the changing business mix and increasing commoditisation of legacy network services. Excluding this provision, the Group reported a 8.8 per cent increase in profit before taxation of £8.7 million (2005: £8.0 million). The network impairment provision results in a loss per share of 13.32 pence (2005: 3.60 pence earnings per share).

Business review

Affiniti

	2006 (£ million)	2005 (£ million)	Change over prior year (%)
Revenue	332.0	232.9	42.6
EBITDA before exceptional items	34.4	23.4	47.0

Affiniti, our business-to-business communications integrator, increased revenue by 42.6 per cent to £332.0 million (2005: £232.9 million), including the full impact of the acquisitions of Omnetica and Technica, whilst EBITDA before exceptional items rose 47.0 per cent to £34.4 million (2005: £23.4 million). Indirect revenue fell from £31.5 million in the first half to £27.9 million in the second, whilst direct revenues continued to grow from £129.8 million to £142.8 million over the same period. After including the full year contribution from Omnetica and Technica in 2005, the full year proforma growth in direct revenue was 4.9 per cent.

Affiniti addresses the first of our target markets. Our breadth of service offering and depth of skills and experience mean we are uniquely positioned to connect our customers, enable them to communicate, support their capability to contact their own customers, help them store their information, ensure their networks are secure and provide a flexible managed service to them. This service breadth is an important enabler behind the proposition we offer customers which is to deliver tangible business benefit to them through improving productivity, supporting business continuity and ensuring their business is effectively connected.

Much of our focus during the year has been on the business integration process and we have made good progress in managing the transition of Affiniti into a leading provider of integrated communications and managed services. Core to the Affiniti proposition is the customer experience. Significant activity has been focused on improvements in this area, which is essential to our ability to retain and grow existing relationships as well as win new customers.

Growth within Affiniti is being driven by increased activity in the delivery of secure converged communications services over IP networks, both local and wide area, enabling a range of communication applications to be provided. At the same time the opportunity to deliver managed services for our larger enterprise and public sector customers continues to increase, as more applications are delivered over common infrastructure with customers looking to a partner to manage the day-to-day tasks around their communications environment.

In contrast to the strong growth in this area, Affiniti's indirect business, delivered through our Partner Services channel, is continuing to see weakness and volatility in certain fixed line voice services, such as dial-up internet access and Premium Rate Services. Whilst these trends are expected to continue, we have recently invested in a mass interactive media platform, which exploits both our network and integration skills, to service some partner requirements for innovative call response solutions. Following a launch in March, we have already secured a significant contract with an established interactive media company.

As stated in our trading statement on 31 March, the change in our business mix from traditional network services to more integrated and complex managed solutions has resulted in longer implementation and billing cycles. This shift alters the financial profile of the business model as it becomes less capital intensive with a commensurate reduction in EBITDA margins.

As our business model develops, the nature of contracts that we enter into with our customers is changing. This is particularly relevant in the context of the provision of traditional network services delivered within scope of major managed services contracts. As a consequence, in line with our accounting policies, we have recognised the connection revenue within such contracts that have arisen in the current year, as a "bundle" over the appropriate contract term, matched with the appropriate operating costs, rather than separating the connection income from future service revenues. The impact of this decision on the 2006 reported results is to defer £3.4 million of revenue and £2.8 million of profit into future financial periods. Where it is possible to identify clearly "unbundled" services, such as the provision and installation of customer premise equipment, we will continue to recognise revenue accordingly.

Over the course of the year Affiniti order intake levels have increased, particularly through our direct channels, following completion of significant parts of the integration process. This has been more noticeable during the second half as the new organisation gains momentum, building on the quality and sustainability of existing customer relationships as seen through both reduced churn and contract extensions, as well as the winning of new customers. Recent contract wins include Morrisons, Fife Council, BSKyB, Carphone Warehouse, Royal Liverpool & Broadgreen University Hospital Trust.

Affiniti's overall capability received industry recognition during the year with the winning of Nortel's EMEA Partner of the Year 2005 and Cisco Systems IPC Partner and Services Partner of the Year 2005 awards.

Kingston Communications (including broadband)

	2006 (£ million)	2005 (£ million)	Change over prior year (%)
Revenue	109.3	98.0	11.5
EBITDA before exceptional items	42.8	38.8	10.3

Kingston Communications, our regional consumer, business and internet services business, has delivered a strong performance. Revenue has increased from £98.0 million to £109.3 million, an increase of 11.5 per cent year on year reflecting in part the full year impact of the

acquisition of Eclipse in September 2005. After including the full year contribution from Eclipse in 2005, full year proforma revenue growth was 4.8 per cent. EBITDA rose 10.3 per cent to £42.8 million (2005: £38.8 million) including the impact of the acquisition of Eclipse.

Kingston Communications, together with Eclipse, addresses the second market in which we operate, delivering internet and regional telecommunication services, aimed primarily at SME enterprises. The business has responded to market trends positively, rebalancing revenues, launching new services and extending its regional network footprint. The focus on the provision of broadband has reduced its dependency on traditional services whilst at the same time opening up new opportunities for the business to grow new internet based service revenues.

Broadband access has been a key area for growth. We have increased our customer base to 120,500 at the end of March, an increase of 63 per cent year on year, with around 30 per cent being business customers. In our national broadband business, some 49 per cent are business customers contributing more than 60 per cent of national broadband revenues, and we expect this percentage to increase as we enhance the proposition for our national SME customers. Product innovation and development continues to be a priority in this area of the business as we raise the profile of Eclipse as a challenger brand in our chosen market segments. Recent service enhancements include an 8Mbps service, managed web hosting and a broadband teleworker service.

Activity in our regional business has focused on managing the continued effects of both mobile and internet services on traditional voice revenues. The launch of our subscription based access and usage packages ('KC Talk') for residential customers in August has proved successful in rebalancing revenues away from variable usage charges and mitigating the trend of falling fixed call volumes. This has been followed by the introduction of more flexible business packages subsequent to the year end.

Following the expansion of our regional network into North East Lincolnshire, the provision of services to new business customers in this area has continued with contract wins including Business Link Humber, North Lincolnshire Council, Harry Carr and Linkwave. We are now in a strong position to build on our brand recognition in the local region and continue to drive growth in the business.

Whilst we are seeing continued competitive activity across a range of service offerings, the business continues to be resilient and through its focus on broadband delivered internet services for the SME segment, offers continued growth opportunities.

Information Services

	2006 (£ million)	2005 (£ million)	Change over prior year (%)
Revenue	13.2	18.1	(27.1)
EBITDA before exceptional items	3.5	7.5	(53.3)

Our Information Services business performed well during the year. The fall in revenue, from £18.1 million to £13.2 million, and fall in EBITDA from £7.5 million to £3.5 million, reflects the full impact of the end of the BT directory production contract. The underlying business remains strong.

The Information Services business targets markets requiring the provision of information to end users through a range of channels from web-based to paper-based and delivered person-to-person. The paper-based and online directory business delivered strong sales growth with successful campaigns in Hull and, on behalf of Manx Telecom, in the Isle of Man.

The strategy of exploiting both expertise and infrastructure within our contact centre to enter the outsourced directory enquiry market has seen the business continue to win new wholesale customers and move in to profit. To build on this success, we acquired the business of 118 800 Limited in March which will enable us to increase our retail presence in the provision of number information services and further exploit our call handling capabilities.

Our quality of service in this market was recognised during the year with the winning of Best Wholesale Directory Enquiry Service 2005.

Group Earnings

EBITDA

Group EBITDA before exceptional items has increased by 19.4 per cent to £73.2 million from £61.3 million, benefiting from improved performance within Kingston Communications and a full year's contribution from the acquisitions of Omnetica, Technica and Eclipse. The recognition of connection revenue in respect of traditional network services as a "bundle" with future service revenues, has reduced our reported EBITDA by £2.8 million in the current year and will be recognised in future financial periods.

The Group has incurred exceptional items of £91.7 million in 2006 (2005: £3.8 million) including a network impairment provision of £89.5 million (2005: nil). The remaining £2.2 million of this primarily relates to provisions in respect of liabilities associated with the Group's property portfolio. The rationalisation of the Group's commitments in respect of properties continues.

After exceptional items, Group EBITDA has increased 23.7 per cent to £71.1 million in 2006 (2005: £57.5 million).

Depreciation and amortisation

Depreciation and amortisation of the Group's tangible and intangible fixed assets (excluding the provision for the network impairment of £89.5 million) totalled £51.6 million (2005: £40.9 million). Depreciation of £40.1 million (2005: £32.6 million) has increased due to a combination of the full year inclusion of the Omnetica business within Affiniti and an increase within Kingston Communications. The Kingston Communications increase from £9.6 million in 2005 to £13.7 million in 2006 is primarily a result of the growth that has been experienced within broadband, including the capitalisation of free of charge modems provided to customers and depreciated over 12 months.

In light of the change in our business mix towards a service-based model, together with the increased commoditisation of legacy network services, and greater flexibility in the market for wholesale network delivery options, the Group has made an impairment provision of £89.5 million against the carrying value of its network assets.

Amortisation of intangible fixed assets (excluding the impairment provision) was £11.5 million (2005: £8.3 million) reflecting the amortisation of the intangible fixed assets acquired through the acquisitions of Eclipse, Omnetica and Technica in the previous financial year.

Group profit from operations

Group Adjusted profit from operations has increased 14.6 per cent to £28.2 million (2005: £24.6 million).

Group profit from operations before exceptional items is £21.6 million (2005: £20.5 million), an increase of 5.4 per cent.

The significant impact from the impairment of £89.5 million means that the Group has reported an operating loss from operations of £70.1 million (2005: profit of £16.6 million).

Profit and loss before tax

Group finance costs of £10.8 million (2005: £8.6 million) reflect a higher level of borrowings consistent with the financing in respect of the Eclipse, Omnetica and Technica acquisitions undertaken in 2005.

The Group has reported a loss before taxation of £80.8 million (2005: profit of £8.0 million) including the network impairment provision of £89.5 million. Excluding this provision, the Group reported a 8.8 per cent increase in profit before taxation of £8.7 million (2005: £8.0 million).

Taxation

During the year we have recorded a net taxation credit of £12.4 million (2005: £7.1 million). This credit arises as a consequence of the recognition of an additional deferred tax asset during the year and is reflective of our current view as to the anticipated utilisation of unclaimed capital allowances in the Group.

Discontinued operations

The loss from discontinued operations of £2.8 million (2005: profit of £2.4 million) arises on the disposal of Arche Communications SAS undertaken in the first half of the year.

Earnings per share

Basic earnings per share amounted to a loss of 13.32 pence (2005: profit of 3.6 pence) reflecting the network impairment provision of £89.5 million. Adjusted basic earnings per share amounted to 3.40 pence per share (2005: 3.82 pence). The £2.8 million reduction in Group profit arising as a consequence of recognising connection revenue as a "bundle" with future service revenues, has reduced our Adjusted earnings per share from 3.95 pence (3.4 per cent increase on prior year) to the reported 3.40 pence.

Earnings per share	2006 (pence)	2005 (pence)	Change over prior year (%)
H1	1.49	2.35	(36.6)
H2	1.91	1.47	29.9
Total	3.40	3.82	(11.0)

Group Financing and Investment

Group net debt at 31 March 2006 was £127.7 million (2005: £163.6 million).

Cash inflow from operations of £68.7 million has increased 37.7 per cent on an inflow of £49.9 million in 2005.

The purchase of tangible and intangible assets amounted to £46.1 million (2005: £37.0 million). This investment has been driven by specific customer-driven activity, expansion of our network footprint into North Lincolnshire and further investment in our IT infrastructure.

Free cash flow before financing has increased 51.9 per cent to £23.4 million (2005: £15.4 million).

The Group received net proceeds from acquisitions and disposals of £26.2 million reflecting the disposal of Arche Communications SAS in June 2005 net of cash payments in respect of acquisitions undertaken.

The cash cost of financing Group debt amounted to £8.7 million (2005: £7.8 million). The increase on the 2005 cost is consistent with higher Group debt levels arising on the acquisitions undertaken in 2005. The cash cost of dividends in 2006 was £4.8 million (2005: £1.4 million).

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 2006, the Group had a net liability in respect of its pension scheme obligations of £11.7 million (2005: £21.0 million). The gross deficit within this net balance has fallen to £16.7 million as at 31 March 2006 from £30.0 million at 31 March 2005. The 44.3 per cent reduction in this gross liability reflects the improved equity returns experienced within the main Kingston defined benefit pension scheme.

Dividend

In light of the financial performance of the Group and the improvement in the Group cash flow, the Board is proposing a final dividend of 0.78 pence per share, resulting in a full year dividend payment of 1.17 pence per share representing growth of 30.0 per cent. Subject to shareholder approval at the Company's Annual General Meeting on 28 July, the final dividend will be payable on 4 August to shareholders registered at the close of business on 30 June 2006.

Approach

Further to the announcement made on 10 November 2005, we announced on 31 March that the discussions relating to an unsolicited potential offer for the Company ended because the parties failed to agree on price and structure.

Outlook

The successful repositioning of the Group to deliver integrated converged communication services strengthens our position in a demanding market environment. The Board believes that the combination of clear strategy, strong management and the improved business performance in the second half provides a firm basis for continued growth in the current year, where trading is in line with our expectations.

Consolidated Income Statement

	Note	Unaudited Year ended 31-Mar 2006 £'000	Audited Year ended 31-Mar 2005 £'000
Continuing Operations			
Revenue	1	453,891	348,426
Group EBITDA before exceptional items		73,240	61,346
Exceptional items	2	(2,180)	(3,836)
Group EBITDA	1	71,060	57,510
Group profit from operations before exceptional items		21,649	20,461
Exceptional items	2	(91,701)	(3,836)
Group (loss)/profit from operations	1	(70,052)	16,625
Finance costs		(10,766)	(8,638)
(Loss)/profit before taxation	2	(80,818)	7,987
Taxation	3	12,394	7,051
(Loss)/profit for the period from continuing operations		(68,424)	15,038
Discontinued Operations			
(Loss)/profit for the period from discontinued operations	6	(2,808)	2,446
(Loss)/profit for the period attributable to equity holders of the Company		(71,232)	17,484
(Loss) /earnings per share from continuing operations			
Basic	4	(13.32)p	3.60p
Diluted	4	(13.32)p	3.59p
Adjusted basic	4	3.40p	3.82p
Adjusted diluted	4	3.40p	3.81p
(Loss) / earnings per share from total operations			
Basic	4	(13.87)p	4.19p
Diluted	4	(13.87)p	4.18p

Consolidated Balance Sheet

	Unaudited Year ended 31-Mar 2006 £'000	Audited Year ended 31-Mar 2005 £'000
Non-current assets		
Goodwill	159,551	184,352
Other intangible assets	39,450	43,333
Property, plant and equipment	127,857	222,599
Investments	840	1,087
Deferred tax assets	18,952	9,924
	346,650	461,295
Current assets		
Inventories	13,228	13,042
Trade and other receivables	99,636	123,340
Cash and cash equivalents	12,084	28,189
	124,948	164,571
Total assets	471,598	625,866
Current liabilities		
Trade and other payables	(149,322)	(169,422)
Net current liabilities	(24,374)	(4,851)
Non-current liabilities		
Bank loans	(139,535)	(191,280)
Retirement benefit obligation	(16,670)	(30,000)
Long term provisions and other payables	(1,541)	(3,072)
Total liabilities	(307,068)	(393,774)
Net assets	164,530	232,092
Equity		
Share capital	51,480	51,454
Share premium account	352,360	352,229
Hedging and translation reserve	(30)	210
Retained earnings	(239,280)	(171,801)
Total equity	164,530	232,092

Consolidated Statement of Recognised Income and Expense

	Unaudited Year ended 31-Mar 2006 £'000	Audited Year ended 31-Mar 2005 £'000
Exchange differences on translation of foreign operations	1	210
Currency translation difference on foreign currency net investments	-	(534)
Currency translation difference on related borrowings	-	534
Cash flow hedges (note 7)	(241)	0
Actuarial gains / (losses) on defined benefit pension schemes	11,782	(3,500)
Tax on items taken directly to equity	(3,999)	1,050
Net income/(expense) recognised directly in equity	7,543	(2,240)
(Loss)/profit for the period	(71,232)	17,484
Total recognised income and expense for the period	(63,689)	15,244

Consolidated Statement of Changes in Equity

	Unaudited Year ended 31-Mar 2006 £'000	Audited Year ended 31-Mar 2005 £'000
(Loss)/profit for the period	(71,232)	17,484
Dividends	(4,784)	(1,390)
Exchange movements	1	210
Issue of ordinary shares (net of issue costs)	26	13,421
Employee share schemes	754	(860)
Actuarial gains / (losses) on defined benefit pension schemes	11,782	(3,500)
Tax on actuarial gains / losses on defined benefit pension schemes	(3,999)	1,050
Share premium arising on issue of new ordinary shares	131	69,855
Cash flow hedges (note 7)	(241)	-
(Decrease) / increase in equity	(67,562)	96,270
Opening equity	232,092	135,822
Closing equity	164,530	232,092

Consolidated Cash Flow Statement

	Unaudited Year ended 31-Mar 2006 £'000	Audited Year ended 31-Mar 2005 £'000
Net cash flow from operating activities		
(Loss)/profit from operations (note 8)	(71,691)	16,003
Adjustments for:		
Depreciation, amortisation and impairment	141,511	41,916
Gain on sale of property, plant & equipment	-	(300)
Increase in working capital	(1,487)	(6,795)
Employee share schemes	754	(860)
Income taxes paid	(399)	(101)
Cash inflow from operations	68,688	49,863
Cash flows from investing activities		
Purchase of businesses	(4,024)	(108,894)
Sale of businesses	30,201	36,667
Purchase of property, plant and equipment	(38,202)	(27,747)
Proceeds from sale of property, plant & equipment	1,108	402
Purchase of intangible assets	(7,896)	(9,280)
Purchase of investments	(14)	(266)
Proceeds from sale of investments	-	939
Net cash used in investing activities	(18,827)	(108,179)
Cash flows from financing activities		
Dividends paid	(4,784)	(1,390)
Issue costs of long term loans	(18)	(3,467)
Interest paid	(8,673)	(7,838)
Interest received	219	173
Capital element of finance lease repayments	(279)	(142)
Repayment of bank loans	(52,431)	(22,000)
New loans	-	114,500
Proceeds from new share issue	-	80
Net cash (used in)/from financing activities	(65,966)	79,916
(Decrease)/increase in cash and cash equivalents	(16,105)	21,600
Cash and cash equivalents at the beginning of the period	28,189	6,589
Cash and cash equivalents at the end of the period	12,084	28,189
Analysis of Net Debt		
Cash and short term deposits	12,084	28,189
Bank loans	(139,535)	(191,280)
Finance leases	(229)	(508)
	(127,680)	(163,599)

1. Segmental Analysis

	Unaudited Year ended 31-Mar 2006 £'000	Audited Year ended 31-Mar 2005 £'000
Revenue		
Affiniti	331,983	232,946
Kingston Communications	109,280	98,015
Information Services	13,240	18,110
Other including eliminations	(612)	(645)
Total – continuing activities	453,891	348,426
Discontinued activities	9,944	18,111
Group total	463,835	366,537
Group EBITDA		
Affiniti	34,435	23,376
Kingston Communications	42,838	38,799
Information Services	3,494	7,486
Other	(7,527)	(8,315)
Total – continuing activities before exceptional items	73,240	61,346
Exceptional items:		
Affiniti	(1,200)	(3,794)
Kingston Communications	(577)	-
Information Services	-	(212)
Other	(403)	170
	(2,180)	(3,836)
Total – continuing activities	71,060	57,510
Discontinued activities	(1,637)	579
Group total	69,423	58,089
Depreciation		
Affiniti	25,646	22,035
Kingston Communications	13,673	9,557
Information Services	445	788
Other	341	209
Total – continuing activities before exceptional items	40,105	32,589
Exceptional items:		
Affiniti	79,134	-
Kingston Communications	9,403	-
	88,537	-
Total – continuing activities	128,642	32,589
Discontinued activities	126	1,031
Group total	129,044	33,620

1. Segmental Analysis (continued)

	Unaudited Year ended 31-Mar 2006 £'000	Audited Year ended 31-Mar 2005 £'000
Amortisation		
Affiniti	9,722	7,092
Kingston Communications	1,763	1,204
Group total before exceptional items	11,485	8,296
Exceptional items:		
Affiniti	984	-
	984	-
Group total	12,469	8,296
(Loss)/profit from operations		
Affiniti	(933)	(5,751)
Kingston Communications	27,402	28,038
Information Services	3,048	6,698
Segment result – continuing activities before exceptional items	29,517	28,985
Exceptional items:		
Affiniti	(81,318)	(3,794)
Kingston Communications	(9,980)	-
Information Services	-	(212)
Other	(403)	170
	(91,701)	(3,836)
Segment result – continuing activities	(62,184)	25,149
Head office and other unallocated costs	(7,868)	(8,524)
(Loss)/profit from continuing operations	(70,052)	16,625
Segment result – discontinued activities	(3,042)	2,446
Group total	(73,094)	19,071
Assets		
Affiniti	190,117	341,495
Kingston Communications	120,333	107,849
Information Services	5,315	4,028
Other	123,958	117,806
Unallocated assets	31,875	54,688
Total assets	471,598	625,866
Liabilities		
Affiniti	98,660	123,173
Kingston Communications	37,037	31,380
Information Services	4,733	4,511
Other	26,723	12,701
Unallocated liabilities	139,915	222,009
Total liabilities	307,068	393,774

1. Segmental Analysis (continued)

	Unaudited	Audited
	Year ended	Year ended
	31-Mar	31-Mar
	2006	2005
	£'000	£'000
Capital expenditure on property, plant and equipment and intangible assets		
Affiniti	28,200	20,426
Kingston Communications	17,439	12,422
Information Services	156	285
Other	327	210
Total – continuing activities	46,122	33,343
Discontinued operations	277	629
Group total	46,399	33,972

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

	Unaudited	Audited
	Year ended	Year ended
	31-Mar	31-Mar
	2006	2005
	£'000	£'000
Revenue from external customers		
Affiniti	331,619	232,946
Kingston Communications	106,254	95,437
Information Services	11,545	16,329
Other	4,473	3,714
Discontinued operations	9,944	18,111
Total	463,835	366,537
Inter-segment revenue		
Affiniti	364	-
Kingston Communications	3,026	2,578
Information Services	1,695	1,781
Other including eliminations	(5,085)	(4,359)
Total	-	-
Group total	463,835	366,537

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
	2006	2005
	£'000	£'000
Geographical analysis of revenue		
United Kingdom	448,846	349,860
Europe	12,384	15,734
Other	2,605	943
Group total	463,835	366,537

1. Segmental Analysis (continued)

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

	Unaudited Year ended 31-Mar 2006 £'000	Audited Year ended 31-Mar 2005 £'000
Continuing operations		
Sale of goods	87,132	42,953
Provision of services	366,759	305,473
Total – continuing operations	453,891	348,426
Discontinued operations		
Sale of goods and services	9,944	18,111
Group total	463,835	366,537

2. Profit from continuing operations

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

	Unaudited Year ended 31-Mar 2006 £'000	Audited Year ended 31-Mar 2005 £'000
Exceptional items:		
Restructuring costs	1,810	4,006
Loss on disposal of business	108	-
Amounts written off investments	262	141
	2,180	4,147
Profit on sale of investments	-	(311)
Impairment of property, plant and equipment	88,537	-
Impairment of intangible assets	984	-
	91,701	3,836
Depreciation	40,105	32,589
Amortisation of intangible assets		
- Intangible assets arising on acquisitions	6,599	4,111
- Software and development costs	4,886	4,185
	11,485	8,296
Release of prior year network operating accruals	(3,201)	(2,378)

Restructuring costs relate to redundancy and excess property costs.

3. Taxation

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

	Unaudited Year ended 31-Mar 2006 £'000	Audited Year ended 31-Mar 2005 £'000
Corporation tax	625	21
Deferred tax	(13,019)	(7,072)
Group total	(12,394)	(7,051)

4. Earnings per share

	Unaudited Year ended 31 March 2006	Audited Year ended 31 March 2005
Weighted average number of shares	No.	No.
For basic earnings per share	513,659,129	417,503,168
Exercise of share options	838,079	1,046,401
For diluted earnings per share	<u>514,497,208</u>	<u>418,549,569</u>
Earnings	£'000	£'000
(Loss)/profit for the period attributable to equity holders of the Company	(71,232)	17,484
Adjustment to exclude loss/(profit) for the period from discontinued operations	2,808	(2,446)
(Loss)/profit for the period from continuing operations	<u>(68,424)</u>	<u>15,038</u>
Adjustments:		
Exceptional items	91,701	3,836
Amortisation of intangibles	6,599	4,111
Tax and deferred taxation	(12,394)	(7,051)
Adjusted profit for the period from continuing operations	<u>17,482</u>	<u>15,934</u>
(Loss)/earnings per share from continuing operations	pence	pence
Basic	(13.32)	3.60
Diluted	(13.32)	3.59
Adjusted basic	3.40	3.82
Adjusted diluted	3.40	3.81
(Loss)/earnings per share from discontinued operations		
Basic	(0.55)	0.59
Diluted	(0.55)	0.58
Total (loss)/earnings per share from continuing and discontinued operations		
Basic	(13.87)	4.19
Diluted	(13.87)	4.18

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

5. Dividends

	Unaudited Year ended 31-Mar 2006 £'000	Audited Year ended 31-Mar 2005 £'000
Amounts recognised as distributions to equity holders in the period:		
Interim dividend for the year ended 31 March 2005 of 0.36 pence per share		1,390
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	-
Total	4,784	1,390

The proposed final dividend for the year ended 31 March 2006 is 0.78 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 these financial statements.

6. Acquisitions and disposals

On 28 April 2004, the Group disposed of its Satellite and Broadcast division for a cash consideration of £34,000,000. On 31 May 2005, the Group disposed of Arche, the French operations acquired with Omnetica, for a cash consideration of £30,336,000.

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

	Unaudited Year ended 31-Mar 2006 £'000	Audited Year ended 31-Mar 2005 £'000
Revenue	9,944	18,111
Expenses excluding finance costs	(11,844)	(18,563)
Loss from operations	(1,900)	(452)
Finance costs	(43)	-
Loss before tax	(1,943)	(452)
Attributable tax	276	-
Loss after tax	(1,667)	(452)
(Loss)/profit on sale of discontinued operations	(1,141)	2,898
Net (loss)/profit attributable to discontinued operations	(2,808)	2,446

During the current period, Arche contributed £634,000 to the Group's net operating cash flows, paid £301,000 in respect of investing activities and paid £42,000 in respect of financing activities.

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

6. Acquisitions and disposals (continued)

118800 Limited

On 30 March 2006, the Group acquired 118800 Limited. The consideration paid was £1,188,000, including acquisition costs.

	Book value of assets acquired	Fair value adjustments	Provisional fair value to the Group of assets acquired
	£'000	£'000	£'000
Goodwill	80	(80)	-
Intangible fixed assets	-	689	689
Trade and other receivables	151	(12)	139
Bank loans and overdraft	(27)	-	(27)
Trade and other payables	(223)	27	(196)
Net assets acquired	(19)	624	605
Goodwill			583
Total consideration			1,188
Satisfied by:			
Cash			982
Kingston Communications (HULL) PLC shares			152
Acquisition costs			54
Total consideration			1,188

7. Reconciliation of profit from operations

	Unaudited Year ended 31-Mar 2006 £'000	Audited Year ended 31-Mar 2005 £'000
Group (loss)/profit from continuing operations	(70,052)	16,625
Loss from discontinued operations	(1,900)	(452)
Profit on sale of fixed asset investments	-	(311)
Loss on write down of fixed asset investments	261	141
Group (loss)/profit from operations	(71,691)	16,003

8. Contingent Liabilities

Contingent liabilities existed at 31 March 2006 in respect of guarantees given by the Parent Company on behalf of subsidiary undertakings, together with contingencies arising in the normal course of the Group's business in respect of the overdraft facilities. None of these guarantees are considered material in the context of the net assets of the Group.

As reported previously, the Company has responded to the European Commission (EC) in connection with its investigation into a third party complaint that the Government's rating of the Company's network infrastructure (and that of BT) constitutes illegal state aid. The Company has submitted a robust response to the EC and based on external advice the Board considers the complaint is without foundation. The EC continues to review the case and the Company's response but as at 31 March 2006 no claim has been made against the Company. Accordingly no provision has been made in the accounts for the year ended 31 March 2006.

9. Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and their interpretations adopted by the International Accounting Standards Board (IASB).

These are the Group's first consolidated financial statements prepared under IFRS and IFRS1 has been applied. Comparatives for 31 March 2005 have been restated to reflect the transition. Disclosures required by IFRS1 concerning the transition from UK GAAP to IFRS are given in note 35 of the Report and Accounts.

The financial information has been prepared on the historical cost basis. The principal accounting policies are set out in the Report and Accounts. IFRS 1 permits those companies adopting IFRS for the first time to take certain exemptions from the full requirement of IFRS in the transition period. Kingston Communications (HULL) PLC has taken advantage of the following exemptions:

- i) IFRS 3 "Business Combinations" - Kingston Communications (HULL) PLC has elected not to apply IFRS 3 retrospectively to acquisitions that took place before 31 March 2004.
- ii) IFRS 2 "Share-based payments" - Kingston Communications (HULL) PLC has elected to apply IFRS 2 only to those share-based payment options that were granted after 7 November 2002 and remained unvested at 1 January 2005.
- iii) IAS 21 "The effects of changes in foreign exchange rates" – Kingston Communications (HULL) PLC has elected to reset the hedging and translation reserve to zero at 1 April 2004.
- iv) IAS 32 "Financial instruments: Disclosure and presentation" and IAS 39 "Financial instruments: Recognition and measurement" – Kingston Communications (HULL) PLC has elected to apply UK GAAP to its comparative accounts (i.e. 1 April 2004 to 31 March 2005) and implement IAS 32 and IAS 39 at 1 April 2005. On 1 April 2005, in accordance with IAS 32 and IAS 39, all derivative financial instruments were recorded at their fair value. The difference between the fair value and book value of all derivative financial instruments at 1 April 2005 has been recorded in 2005 through the Consolidated Statement of Recognised Income and Expense.

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 2006 or 2005. The financial information for the year ended 31 March 2005 is derived from the statutory accounts for that year, which have been delivered to the Registrar of Companies. The 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 2006 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 2006.