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

Preliminary results for the 12 months ended 31 March 2010

Business overview

Bill Halbert, Executive Chairman

KCOM group

2010: Delivering KCOM's transformation

Focused on

- Increasing near and longer term financial strength and performance
- Improving competitive position and future growth potential

Delivery against transformation objectives

- Strengthened business fundamentals
- Simplified strategy and restructured business model
- Development of strategic relationships

KCOM Group transformed to a fully integrated communications services provider

kcom group

Financial highlights

Planned revenue reduction to £412.8m (2009: £472.4m)

- Consistent with focus on long term profitable customer relationships & exiting low margin commodity based operations

Increasing profitability and reduced debt

- EBITDA, cash generation, dividend and net debt levels all better than market expectations
- EBITDA before exceptional items improved to £69.8m (2009: £65.1m)
- Profit before tax and exceptional items increased 64 per cent to £29.4m (2009: £17.9m)
- Net cash flow from operations increased 20 per cent to £74.6m (2009: £62.3m)
- Net bank debt reduced to £116.8m (2009: £157.9m)

Increase in proposed final dividend to 1.25 pence (2009 1.00 pence)

Delivering our strategy

Clear Group business model

- Kingston Communications including KC & Eclipse
- Kcom managed communications business

Tightened focus

- Focused on activities customers value most including hosted & managed services and applications & contact centre integration

Extension in both the reach, range and quality of our communications services

- Agreements with BT Wholesale and Phoenix IT Group provide access to extensive national network coverage and market leading products and support services

Reduced ongoing capital investment and fixed costs

- Fixed costs become variable
- Opportunity and flexibility to invest in developing core strengths of the Group

Group now well positioned for growth

- Both KC, through geographic expansion and new product introduction, and Kcom, through enhanced capability, have growth opportunities

kcom group

Business overview: Kcom

Focus for transformational activity during year

- Reduced cost base
- Exiting low margin, non-core activities
- Partnership approach

Solid competitive platform for growth

- Customer segments – such as offering a range of managed services to mid-market customers
- Development of tailored propositions
- Future proposition roadmap - new launches planned for Summer 2010

Business overview: Kingston Communications

KC growth plans to offset behavioural decline in fixed line call revenue

Investment in products and services

- £2.8m upgrade programme strengthening the IP core of the network
- Further investment in broadband service performance

New services

- KC Cloud
- KC One – currently in consultation with Ofcom with a view to launch bundles in the Autumn

Geographic expansion by targeting nearby locations

Launch of new KC brand

Proud to be
part of local life

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

Preliminary results for the 12 months ended 31 March 2010

Financial overview

Paul Simpson, Chief Financial Officer

Summary financial results

	Mar 10 £m	Mar 09 £m	Movement
Revenue	412.8	472.4	(13%)
EBITDA	69.8	65.1	7%
EBITDA %	*17%*	*14%*	-
Operating profit	36.7	30.0	22%
Profit before taxation	29.4	17.9	64%
Net cash inflow from operations	74.6	62.3	20%
Net debt	116.8	157.9	£41.1m
Full year dividend per share (pence)	1.75	1.50	17%

All P&L amounts stated before exceptional items

Strong EBITDA progression

	Mar 10 £m	Mar 09 £m	Movement £m
Reported EBITDA	**69.8**	**65.1**	**4.7**
Share scheme provision release	-	(1.5)	
Other share scheme costs	1.7	0.7	
IAS19 curtailment gain	(1.7)	-	
Pension – net of interest cost and return on assets	4.6	1.2	
‘Trading’ EBITDA performance	**74.4**	**65.5**	**8.9**

KCOM group

Segmental performance

Kingston Communications

- Revenue decline due to Eclipse and Information Services
- Resilient EBITDA performance

Kcom

- Revenue decline driven by planned exit from product only sales and impact on related field engineering services
- EBITDA progression reflects these actions and associated cost reduction

PLC

- 2010 reflects net increase in pensions cost of £1.7m and an increase in net share plan cost of £2.5m

Revenue	**Mar 10 £m**	**Mar 09 £m**	**Movement**
Kingston Communications	123.5	127.9	(3%)
Kcom	291.0	345.6	(16%)
PLC	(1.7)	(1.1)	(55%)
	412.8	**472.4**	**(13%)**

EBITDA	**Mar 10 £m**	**Mar 09 £m**	**Movement**
Kingston Communications	57.3	57.9	(1%)
Kcom	22.7	14.2	60%
PLC	(10.2)	(7.0)	(46%)
	69.8	**65.1**	**7%**

Kingston Communications

	Mar 10 £m	Mar 09 £m	Movement
Revenue			
KC	90.9	91.2	-
Eclipse	21.5	24.2	(11%)
Information Services	11.1	12.5	(11%)
	123.5	**127.9**	**(3%)**
Gross Margin	98.7	98.6	-
Gross Margin %	*80%*	*77%*	
EBITDA	57.3	57.9	(1%)
EBITDA %	*46%*	*45%*	

Kcom segment

	Mar 10 £m	Mar 09 £m	Movement
Revenue			
Kcom	274.8	333.6	(18%)
Smart 421	16.2	12.0	35%
	291.0	**345.6**	**(16%)**
EBITDA			
Kcom	20.9	12.9	62%
Smart 421	1.8	1.3	38%
	22.7	**14.2**	**60%**
EBITDA %	*8%*	*4%*	

Kcom

	Mar 10 £m	Mar 09 £m	Movement
Revenue			
Product re-sale & network support	59.0	114.8	(49%)
Managed services	60.2	60.6	-
Connect services	155.6	158.2	(2%)
	274.8	**333.6**	**(18%)**
Gross margin	**77.4**	**84.5**	(8%)
Gross margin %	*28%*	*25%*	
EBITDA	**20.9**	**12.9**	62%
EBITDA %	*8%*	*4%*	

PLC and associated costs

	Mar 10 £m	Mar 09 £m	Movement £m
PLC and associated costs	6.5	7.1	
IAS 19 pension – net of interest cost and return on assets	4.6	1.2	
IAS 19 curtailment gain	(1.7)	-	
Share scheme expense/(net credit)	0.8	(1.3)	
Total	**10.2**	**7.0**	**3.2**

Exceptional Costs

	Mar 10 £m	Mar 09 £m
Restructuring costs	1.1	1.8
Restructuring costs relating to employees	5.0	12.6
Loss on sale of business	2.1	0.2
Onerous lease	2.0	7.0
Other	-	0.8
Exceptional items – other	**10.2**	**22.4**
Exceptional item – impairment of goodwill	-	106.9
Total charged to Income Statement	**10.2**	**129.3**

IAS 19 Pensions

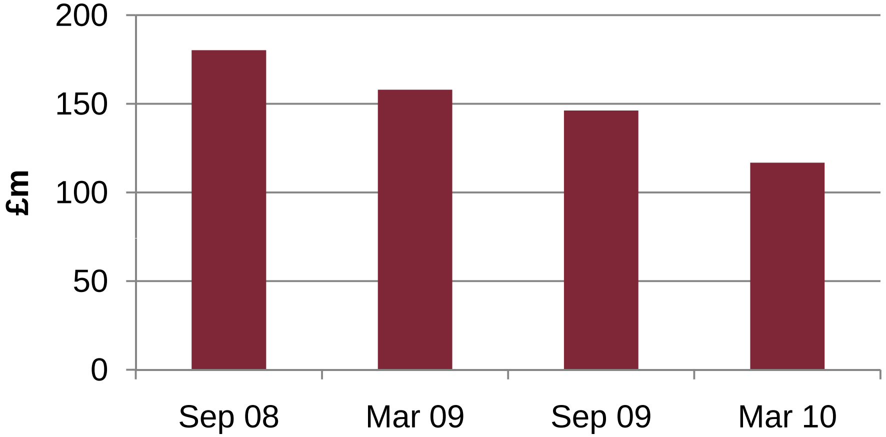
- Overall deficit decreased from £61.0m to £50.4m
- Reduction in discount rate leads to increase in liabilities
- Preliminary funding agreement reached with Trustees

Movement in Deficit	Mar 10 £m	Mar 09 £m	Movement
Assets	156.9	135.0	21.9
Liabilities	(207.3)	(196.0)	(11.3)
Deficit	**(50.4)**	**(61.0)**	**10.6**

	Mar 10	Mar 09
Inflation	3.5%	3.5%
Rate of increase in salaries	4.5%	4.5%
Discount rate for scheme liabilities	5.6%	6.5%
Expected return on plan assets	7.0%	6.5%

kcom group

Significant reduction in debt



	Sep 08	Mar 09	Sep 09	Mar 10
Net debt to EBITDA	**2.7x**	**2.4x**	**2.2x**	**1.7x**

- As a result of actions undertaken, £63.4m reduction in net debt over 18 month period from Sep 08 (£180.2m) to Mar 10 (£116.8m)
- Permanent reduction in working capital (and volatility) as a result of strategic decisions

Strong cash generation

Movement in net debt	Mar 10 £m	Mar 09 £m
Opening net debt	157.9	168.9
Closing net debt	116.8	157.9
Reduction in period	41.1	11.0

Reconciliation of Movement			Movement £m
Net cash inflow from operations (pre-exceptional)	94.4	70.0	24.4
Exceptional items and ETV	(19.8)	(7.7)	(12.1)
Net cash inflow from operations	**74.6**	**62.3**	**12.3**
Capex	(17.6)	(25.0)	7.4
Interest and taxation	(7.3)	(13.5)	6.2
Dividends	(7.7)	(12.3)	4.6
Other	(0.9)	(0.5)	(0.4)
Total	**41.1**	**11.0**	**30.1**

KCOM group

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

Preliminary results for the 12 months ended 31 March 2010

2011: Looking forward

- Second year of transformation
- Pension consultation and tri-annual valuation
- Improve financial position through appropriate combination of debt and working capital management and expenditure control
- Businesses well positioned for sustainable growth