



“Building a platform for sustainable growth”

Interim results for the 6 months ended 30 September 2011

22 November 2011

Business overview
Bill Halbert, Executive Chairman

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- Revenue of £198.0 million (2010: £194.8 million) reflects good performance across the Group
 - EBITDA (before exceptional items) improves to £40.7 million (2010: £38.9 million)
 - Profit before tax (and exceptional items) increases 22.7% to £27.0 million (2010: £22.0 million)
 - Strong cash generation reduces net debt further
 - Interim dividend increased in line with previously stated commitment

- KC
 - 3% growth outperforms market
 - continued demand for broadband and bundled services
 - next generation fibre deployment continues
- Eclipse focused and growing in small business market
- Smart421 showing strong growth



Operational highlights

- Leading organisations recognising Kcom capability
- Early leader in Public Sector including preferred bidder for both Calderdale Council & emPSN



MORRISONS



Financial overview

Paul Simpson, Chief Financial Officer

Summary financial results

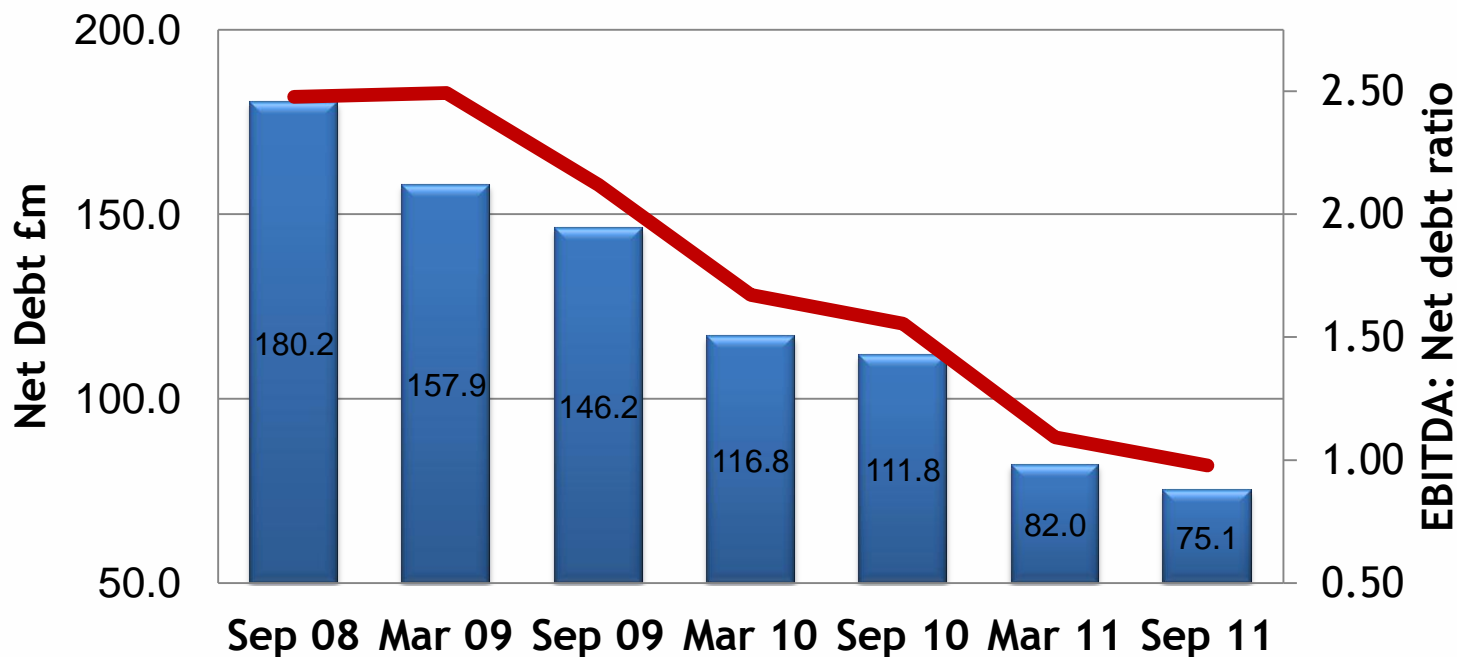


	Sept 11 £m	Sept 10 £m	Movement
Revenue	198.0	194.8	2%
EBITDA	40.7	38.9	5%
<i>EBITDA %</i>	21%	20%	
Operating profit	30.8	25.2	22%
Profit before taxation	27.0	22.0	23%
Basic EPS (pence)	3.86	3.21	20%
Adjusted basic EPS (pence)	3.86	3.03	27%
Net cash inflow from operations	35.3	21.2	66%
Net debt	75.1	111.8	£36.7m
Interim dividend per share (pence)	1.33	1.10	21%

All P&L amounts stated before exceptional items

Further reduction in debt

Movement in net debt	Sept 11 £m	Sept 10 £m
Opening net debt	82.0	116.8
Closing net debt	75.1	111.8
Reduction in period	6.9	5.0



Continued strength in conversion of EBITDA to cash



Reconciliation of movement in debt	Sept 11 £m	Sept 10 £m	Movement £m
Net cash inflow from operations (pre-exceptional & pensions)	40.9	32.4	8.5
Exceptional items and pensions	(5.6)	(11.2)	5.6
Net cash inflow from operations	35.3	21.2	14.1
Capex	(10.9)	(6.4)	(4.5)
Interest	(3.8)	(3.2)	(0.6)
Dividends	(12.9)	(6.5)	(6.4)
Other	(0.8)	(0.1)	(0.7)
Total	6.9	5.0	1.9

EBITDA	40.7	38.9
Net cash inflow from operations (pre-exceptional & pensions)	40.9	32.4
EBITDA conversion to cash	100%	83%

Segmental performance

Revenue	Sept 11 £m	Sept 10 £m	Movement
KC & Eclipse	63.1	62.5	1%
Kcom & Smart421	137.7	134.3	3%
PLC	(2.8)	(2.0)	
	198.0	194.8	2%

EBITDA	Sept 11 £m	Sept 10 £m	Movement
KC & Eclipse	30.3	30.7	(1%)
Kcom & Smart421	13.4	12.6	6%
	43.7	43.3	1%
PLC	(3.0)	(4.4)	
	40.7	38.9	5%

	Sept 11 £m	Sept 10 £m	Movement
Revenue			
KC	46.4	45.2	3%
Contact Centre & Publishing	6.6	7.3	(10%)
Eclipse	10.1	10.0	1%
	63.1	62.5	1%
EBITDA	30.3	30.7	(1%)
<i>EBITDA %</i>	<i>48%</i>	<i>49%</i>	

KC- increasing bundles and recurring revenues

Eclipse - business growth

KC

Revenue		Sept 11 £m	Sept 10 £m	Movement
Consumer	Voice usage	4.0	4.6	(13%)
	Subscriptions - Voice & Broadband	19.4	18.0	8%
Business	Voice usage and rental	9.0	8.9	1%
	Broadband and data	10.8	10.4	4%
Consumer & Business	Other	3.2	3.3	3%
		46.4	45.2	3%

Eclipse





Revenue		Sept 11 £m	Sept 10 £m	Movement
Consumer	Broadband	3.5	4.0	(13%)
Business	Broadband and data	5.7	5.2	10%
	Other	0.9	0.8	13%
		10.1	10.0	1%

	Sept 11 £m	Sept 10 £m	Movement
Revenue			
Managed & Connect Services	100.2	102.1	(2%)
Smart421	13.6	10.8	26%
	113.8	112.9	1%
Product re-sale & network support	16.2	20.7	(22%)
Network Build	7.7	0.7	
	137.7	134.3	3%
EBITDA	13.4	12.6	6%
<i>EBITDA %</i>	<i>10%</i>	<i>9%</i>	
<i>LTM ROCE % ¹</i>	<i>18%</i>	<i>8%</i>	

¹ Last Twelve Months EBIT / (Total Assets (excluding Deferred tax) less current liabilities)

	H1 FY12	H1 FY11	Movement
Non-PRS	93.4	92.7	1%
Carrier PRS	6.8	9.4	(28%)
	100.2	102.1	(2%)

- Major contract wins, including PSN, have contributed to growth in contract order backlog but have limited impact on H1 revenue
- Loss of carrier PRS volume has minimal impact on margins/earnings (sub 3% gross margin product)

	Reported revenue movement	Current trends	Future growth
	1%	Increased bundles KC Talk upsells ARPU growth	+ Broadband penetration + Fibre - Voice decline
	1%	Increased business connections	+ SME focus & broader portfolio - Consumer Churn
	-	LT contract wins (in transition to longer book to bill cycle)	+ Public Sector & PSN + Enterprise mkt penetration + Longer term contracts - PRS decline
	26%	Maintaining high levels of project activity	+ Kcom relationships + Reputation

Outlook

Bill Halbert, Executive Chairman

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