



*“Board recommends accelerated dividend progression”*

Preliminary results for the 12 months ended 31 March 2011

26 May 2011

**Business overview**

**Bill Halbert, Executive Chairman**

- Revenue in the second half demonstrates growth opportunity
- EBITDA before exceptionals improves to £76.0 million (2010: £69.8 million)
- Improved profitability across the Group, with 71.3 per cent increase in PBT to £32.9 million
- Strong cash generation reduces net debt by £34.8 million to £82.0 million
- Pension deficit reduction to £6.9 million
- Full year dividend 106% higher - 3.60 pence (2010: 1.75p); full year dividend payment to grow at least 10 per cent pa over next two years

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- *Key contract wins* – Virgin Atlantic Airways, Domino's, Eversheds, Morrisons, NHS Business Services Authority
  - *Leader in Public Sector Networks (PSNs)* - Won Staffordshire and preferred bidder for Dorset, as Kcom gains traction in a key growth market
  - *Business positioned to deliver* – Reduced debt, access to funding and pensions certainty enable investment across the Group, and accelerated dividend progression

# Solid performance across all brands



Growth in business and consumer revenues offsets decline in Colour Pages. Increasing take up by customers since launch of bundled services in November.



Growing SME base; ongoing churn from lower end consumer market. Broadening portfolio of services offered to existing business customers



Strong second half revenue growth in managed and connect services with new contracts secured and existed contracts renewed in public and private sectors.



42% growth in revenue as organisations like Telefónica O<sub>2</sub> UK Ltd, Virgin Atlantic Airways, Aviva UK, Citigroup and Drax Group seek Smart421's skill in systems integration and managed services of business critical systems

**Financial overview**

**Paul Simpson, Chief Financial Officer**

# Summary financial results



	Mar 11 £m	Mar 10 £m	Movement
<b>Revenue</b>	395.4	412.8	(4%)
<b>EBITDA</b>	76.0	69.8	9%
<i>EBITDA %</i>	19%	17%	-
<b>Operating profit</b>	48.6	36.7	32%
<b>Profit before taxation</b>	41.2	29.4	40%
<b>Basic EPS (pence)</b>	4.44	3.47	22%
<b>Adjusted basic EPS (pence)</b>	5.62	5.22	8%
<b>Net cash inflow from operations</b>	68.0	74.6	(9%)
<b>Net debt</b>	82.0	116.8	£34.8m
<b>Full year dividend per share (pence)</b>	3.60	1.75	106%

All P&L amounts stated before exceptional items

# Segmental Performance

- positive in all areas

Revenue	Mar 11 £m	Mar 10 £m	Movement
KC & Eclipse	122.9	123.5	-
Kcom & Smart421	276.9	291.0	(5%)
PLC	(4.4)	(1.7)	-
	<b>395.4</b>	<b>412.8</b>	<b>(4%)</b>

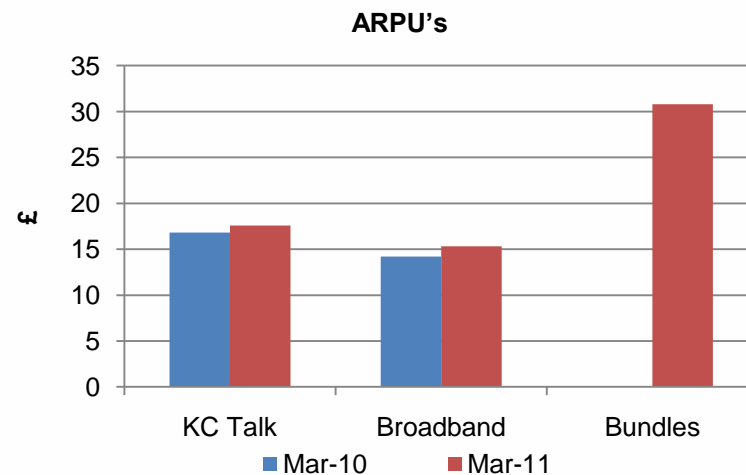
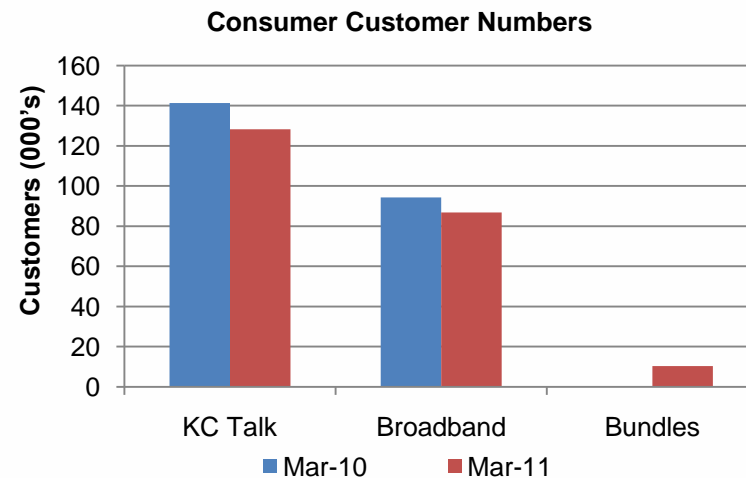
EBITDA	Mar 11 £m	Mar 10 £m	Movement
KC & Eclipse	57.9	57.3	1%
Kcom & Smart421	25.8	22.7	14%
PLC	(7.7)	(10.2)	25%
	<b>76.0</b>	<b>69.8</b>	<b>9%</b>

	Mar 11 £m	Mar 10 £m	Movement
<b>Revenue</b>			
KC	92.4	90.9	2%
Contact & Publishing	10.1	11.1	(9%)
Eclipse	20.4	21.5	(5%)
	<b>122.9</b>	<b>123.5</b>	<b>-</b>
<b>Gross Margin</b>	100.7	99.8	1%
<i>Gross Margin %</i>	82%	81%	
<b>EBITDA</b>	57.9	57.3	1%
<i>EBITDA %</i>	47%	46%	

# KC

## - increasing ARPUs

Revenue		Mar 11 £m	Mar 10 £m	Movement
<b>Consumer</b>	KC Talk	28.9	28.9	-
	Broadband	16.9	15.8	7%
	Bundles	0.7	-	-
<b>Business</b>	Voice	18.1	19.3	(6%)
	Broadband and data	21.0	19.9	6%
<b>Consumer and business</b>	Other*	6.8	7.0	(3%)
		<b>92.4</b>	<b>90.9</b>	<b>2%</b>

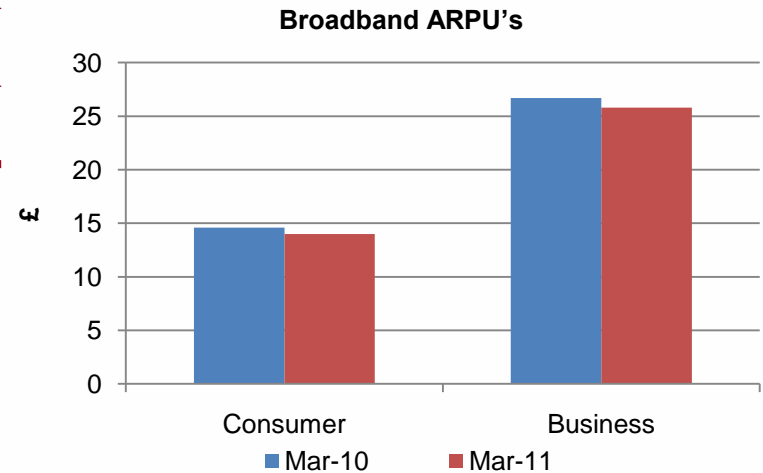
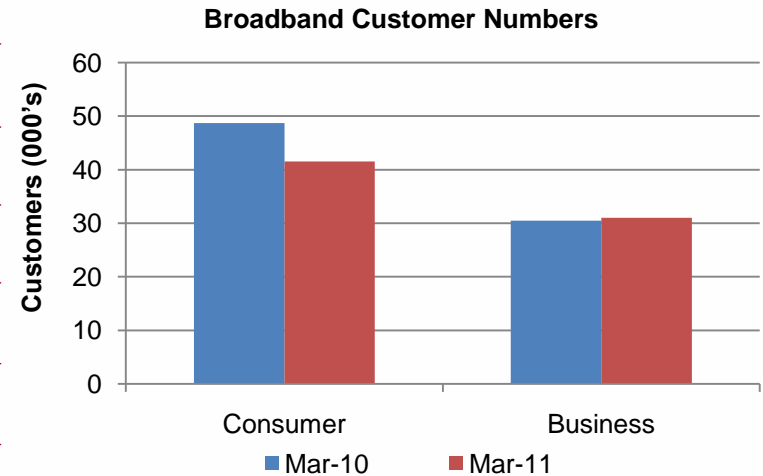


\* Includes one-off items of £1.1m

# Eclipse

## - growth in SME customer base

Revenue		Mar 11 £m	Mar 10 £m	Movement
<b>Consumer</b>	Broadband	7.5	9.4	(20%)
	Other *	0.8	0.3	167%
		<b>8.3</b>	<b>9.7</b>	<b>(14%)</b>
<b>Business</b>	Broadband	9.5	10.0	(5%)
	Other	2.6	1.8	44%
		<b>12.1</b>	<b>11.8</b>	<b>3%</b>
<b>Total</b>		<b>20.4</b>	<b>21.5</b>	<b>(5%)</b>



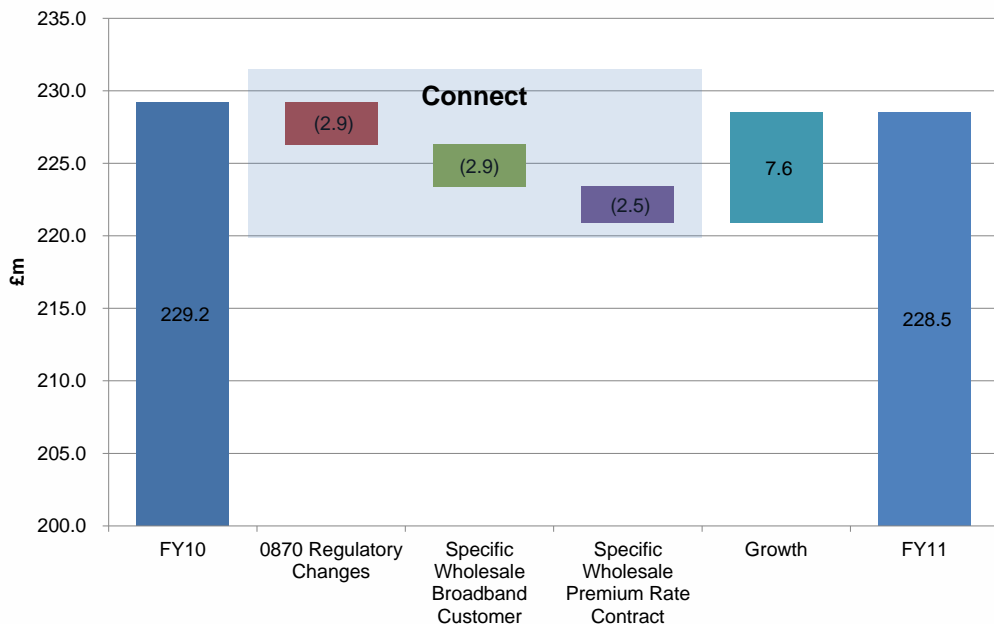
\* Includes one-off item of £0.6m

	Mar 11 £m	Mar 10 £m	Movement
<b>Revenue</b>			
Managed services	48.7	46.5	5%
Connect services	156.8	166.5	(6%)
Smart421	23.0	16.2	42%
	<b>228.5</b>	<b>229.2</b>	-
Product re-sale & network support	35.3	59.0	(40%)
Network Build	13.1	2.8	-
	<b>276.9</b>	<b>291.0</b>	<b>(5%)</b>
<b>Gross margin</b>	<b>78.1</b>	<b>82.5</b>	<b>(5%)</b>
<i>Gross margin %</i>	<i>28%</i>	<i>28%</i>	
<b>EBITDA</b>	<b>25.8</b>	<b>22.7</b>	<b>14%</b>
<i>EBITDA %</i>	<i>9%</i>	<i>8%</i>	

# Kcom & Smart421

## - growth in Direct Channels

	Mar 11 £m	Mar 10 £m	Movement
<b>Revenue</b>			
Enterprise & Mid Market	125.7	121.6	3%
Public Sector	45.4	43.6	4%
<b>Direct Channels</b>	<b>171.1</b>	<b>165.2</b>	<b>4%</b>
Carrier (Indirect)	57.4	64.0	(10%)
	<b>228.5</b>	<b>229.2</b>	-



# PLC and associated costs

## - reducing IAS19 pension cost

	Mar 11 £m	Mar 10 £m	Movement
<b>PLC and associated costs</b>	<b>5.7</b>	<b>6.5</b>	<b>0.8</b>
IAS19 pension – net of interest cost and return on assets	0.3	4.6	4.3
IAS19 curtailment gain	-	(1.7)	(1.7)
<b>Total IAS19 pension cost</b>	<b>0.3</b>	<b>2.9</b>	<b>2.6</b>
<b>Share scheme expense</b>	<b>1.7</b>	<b>0.8</b>	<b>(0.9)</b>
<b>Total</b>	<b>7.7</b>	<b>10.2</b>	<b>2.5</b>

## Exceptional items

	Mar 11 £m	Mar 10 £m
Loss on Network Build	7.1	-
Restructuring costs relating to employees	4.2	5.0
Pension curtailment gain	(3.0)	-
Restructuring costs	-	1.1
Loss on sale of business		2.1
Onerous lease		2.0
<b>Total</b>	<b>8.3</b>	<b>10.2</b>

<b>Movement in IAS19 Deficit</b>	<b>Mar 11 £m</b>	<b>Mar 10 £m</b>	<b>Movement</b>
Assets	168.8	156.9	11.9
Liabilities	(175.7)	(207.3)	31.6
<b>Deficit</b>	<b>(6.9)</b>	<b>(50.4)</b>	<b>43.5</b>

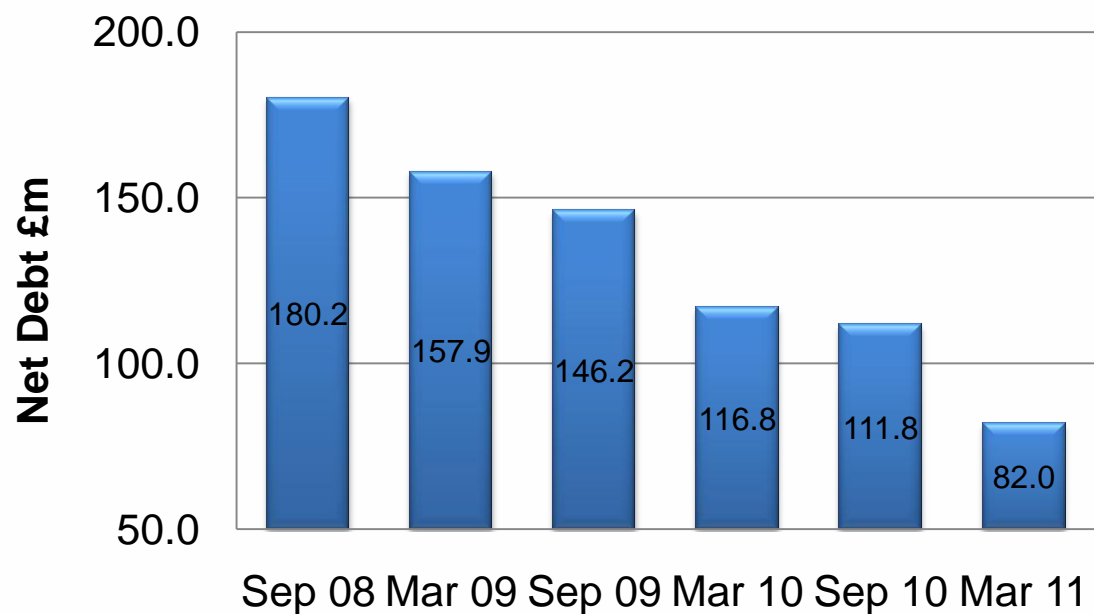
### **Committed funding for three years from 1<sup>st</sup> April 2010:**

Annual deficit contributions	£6.9m
Committed one-off contribution paid during year to March 2011	£3.3m
<b>Approximate funding position at 31<sup>st</sup> March 2011</b>	<b>£25m</b>

- Reduction in IAS19 deficit mainly reflects reduction in liabilities as a result of movement from RPI to CPI
- Increase in assets reflects increased level of deficit contributions
- Both schemes now closed to future accrual and final salary link broken
- Funding agreements reached with both schemes
- Current funding deficit £17.2m higher than IAS19 position
- Focus now on mitigating risk on assets through a reduction in the proportion of return seeking assets held (currently around 60%)

# Further reduction in debt

Movement in net debt	Mar 11 £m	Mar 10 £m
Opening net debt	116.8	157.9
Closing net debt	82.0	116.8
Reduction in period	34.8	41.1



# Continued strength in conversion of EBITDA to cash



	Mar 11 £m	Mar 10 £m	Movement £m
<b>Reconciliation of Movement in debt</b>			
Net cash inflow from operations (pre-exceptional & pensions)	85.3	97.6	(12.3)
Exceptional items and pensions	(17.3)	(23.0)	5.7
<b>Net cash inflow from operations</b>	<b>68.0</b>	<b>74.6</b>	<b>(6.6)</b>
Capex	(13.9)	(17.6)	3.7
Interest	(8.6)	(7.3)	(1.3)
Dividends	(12.1)	(7.7)	(4.4)
Other	1.4	(0.9)	2.3
<b>Total</b>	<b>34.8</b>	<b>41.1</b>	<b>(6.3)</b>
EBITDA	76.0	69.8	
Net cash inflow from operations (pre-exceptional & pensions)	85.3	97.6	
<b>EBITDA conversion to cash</b>	<b>112%</b>	<b>140%</b>	

**Strategy and Outlook**  
**Bill Halbert, Executive Chairman**

## Investing in the Future

- *Investing in technology* – Committed £2.5m to enhancing network operations tools to improve support for distributed, corporate and public sector networks
- *Increasing presence in target markets* – Building on capabilities and relationships following early PSN wins in a key growth area for Kcom
- *Enhancing user experience in Hull* – Reviewing investment in broadband in KC's core market
- *Expanding geographic footprint* – Enhancing capabilities and services in wider East Yorkshire region

- Accelerated dividend underlines out-performance in cash generation, debt management and earnings. Committed to minimum 10% growth pa in dividend for the next 2 years
- Focused on building skills and capacity for growth in key target markets
- Group expected to continue trading in line with expectations in the financial year ahead