



Interim results for the half year ended 30 September 2015

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- Group revenue ahead of prior year, up 3% at £177.9 million
 - EBITDA ahead of prior year, up 3% to £37.2 million
 - Interim dividend up 10%
 - Minimum dividend commitment for next two years
 - Growth in focus areas demonstrates progress in strategy
 - Kcom segment revenue up 4%
 - KC brand revenue up 2%



Financial performance

Paul Simpson

Chief Financial Officer

Summary financial results



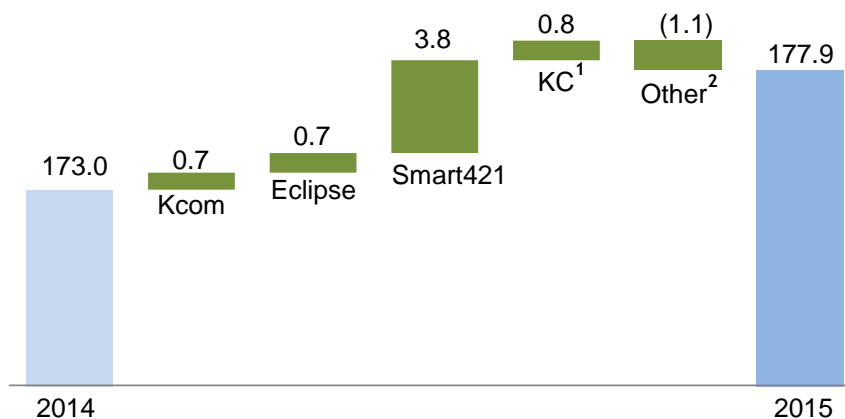
	Sept 15 £m	Sept 14 £m	Movement
Revenue	177.9	173.0	↑
EBITDA	37.2	36.1	↑
EBITDA %	21%	21%	↔
Adjusted basic EPS (pence) ¹	3.82	3.98	↓
Net cash inflow from operations	35.9	16.9	↑
Net debt	103.0	103.0	↔
Interim dividend per share (pence)	1.97	1.79	↑

All amounts are before exceptional items.

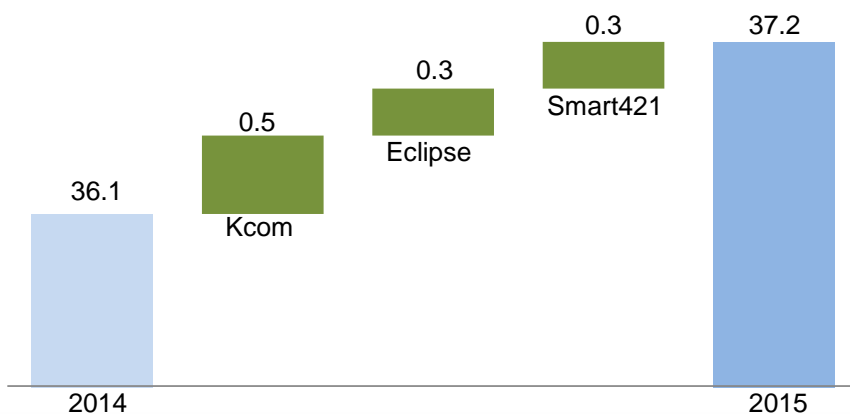
¹Adjusted basic EPS is Basic EPS adjusted for exceptional items (including the tax impact of the exceptional item).

H1 2016 Performance

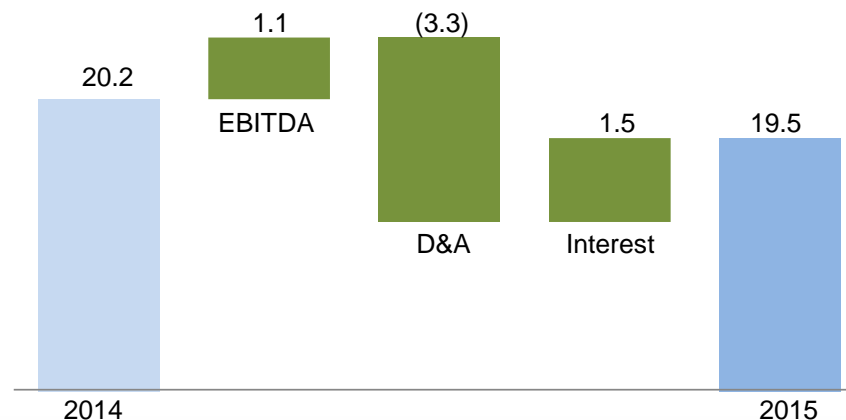
Revenue



EBITDA



Profit after Tax



All amounts are before exceptional items (including the tax impact of the exceptional item).

¹ Excludes Contact Centre and Publishing.

² Includes Contact Centre, Publishing and PLC segment.

Kcom brand

Growth driven by major accounts



	Sept 15 £m	Sept 14 £m	Movement
Revenue	92.7	92.0	1%
EBITDA	7.4	6.9 ¹	7%
EBITDA %	8%	8%	
LTM EBIT	9.5	11.2	(15%)
Capital employed ²	77.5	113.8	(32%)
ROCE ³ (post impairment) ⁴	12%	10%	
ROCE (pre impairment)	9%	10%	

- Six month period shows an improved revenue and EBITDA performance
- Revenue growth of 1% reflects growth in specific contracts offset by the anticipated decline in certain legacy revenue streams
- Actions initiated during the prior year to reduce the overall cost base ensure that EBITDA growth exceeds growth in revenue
- Performance on major contracts in the period provides confidence in our ability to deliver revenue growth in future periods notwithstanding the ongoing decline in certain areas

¹ Prior year restated for Hosting customers who passed from Kcom to Eclipse in the period ending 30 Sept 15.

² Capital employed calculation detailed in the Appendix.

³ All ROCE % are pre-tax.

⁴ Sept 15 includes an impairment charge of £33.9m booked at the year end Mar 15

Smart421 brand

Excellent growth in revenue and EBITDA

	Sept 15 £m	Sept 14 £m	Movement
Revenue	16.6	12.8	30%
EBITDA	1.8	1.5	20%
EBITDA margin %	11%	12%	
LTM EBIT	3.4	3.3	3%
Capital employed ¹	12.6	12.3	2%
ROCE	27%	27%	

- Excellent performance in the current year at both revenue and EBITDA level
- Reflects the increases in contracted revenue value that arose in the prior year from both new customer wins and extensions to existing relationships
- Impact of major customer decline quoted at previous results still ongoing but now less significant given its magnitude
- Future growth is underpinned by this contracted revenue stream plus the opportunities available through the wider propositions developed for the Enterprise market

¹ Capital employed calculation detailed in the Appendix.

Eclipse brand

Business revenue and overall EBITDA growth

	Sept 15 £m	Sept 14 £m	Movement
Revenue			
Business	17.6	16.2	9%
Consumer	1.4	2.1	(33%)
	19.0	18.3	4%
EBITDA	3.9	3.6¹	8%
<i>EBITDA %</i>	<i>21%</i>	<i>20%</i>	
LTM EBIT	6.6	4.9	35%
Capital employed ²	14.8	9.8	51%
ROCE	45%	50%	

- Another strong year of performance with 4% and 8% overall growth in revenue and EBITDA respectively
- Business growth driven by a combination of new product launches, new contract wins and wholesale broadband
- Focus remains on driving faster penetration of new services into existing and new name customers

¹ Prior year restated for Hosting customers who passed from Kcom to Eclipse in the period ending 30 Sept 15.

² Capital employed calculation detailed in the Appendix.

KC brand

Another period of growth and strong returns

	Sept 15 £m	Sept 14 £m	Movement
Revenue¹			
Consumer	27.2	26.2	4%
Business	15.2	15.0	1%
Wholesale	5.5	5.9	(7%)
	47.9	47.1	2%
EBITDA¹	26.8	26.8	-
EBITDA %	56%	57%	
LTM EBIT	46.7	47.1	(1%)
Capital employed²	61.4	68.5	(10%)
ROCE	76%	69%	

- Six month period reflects recent trends with non-wholesale revenue growth of 2.9%
- Revenue performance strongest in Consumer segment at 4% growth by increasing broadband penetration of existing customers with an accelerating demand for fibre services
- Strong business performance, with government funded Superfast Broadband strengthening the demand for fibre services
- Wholesale revenue reduction reflects a decline in certain specific network services
- Overall returns continue to be very strong with increase in capital employed reflective of investment in next generation fibre services

¹ Revenue and EBITDA above exclude Contact Centre and Publishing.

² Capital employed calculation detailed in the Appendix.

Movement in net debt

Strong working capital performance

	Sept 15 £m	Sept 14 £m
EBITDA reported	36.8	34.3
Working capital movement	5.4	(12.1)
Exceptional items - cash	(1.9)	(1.8)
Pensions	(2.5)	(1.8)
Other operating cash items ¹	(1.9)	(1.7)
Net cash inflow from operations	35.9	16.9
Capex - cash	(16.3)	(17.8)
Interest	(1.7)	(3.5)
Dividends	(18.5)	(16.8)
Share purchases & dividend equivalents	(0.2)	(2.3)
Other	(1.2)	0.7
Increase in bank debt²	(2.0)	(22.8)
Net increase in finance lease liabilities	(1.6)	(5.2)
Increase in net debt	(3.6)	(28.0)
Net debt	103.0	103.0
Net debt: EBITDA ratio³	1.36 x	1.36 x

¹ Includes tax payments of £1.9m (Sept 14: £1.4m) and net profit on sale of PPE and investments of £Nil (Sept 14: £0.3m).

² Bank debt is net debt excluding finance leases.

³ EBITDA is pre-exceptional.



Continuing our transformation journey

Bill Halbert

Chief Executive Officer

Enterprise & Public Sector



Consulting, integration and managed services for the enterprise customer, focused on contact, collaboration and communication, increasingly cloud based

SMB



Cloud, hosted and communication based services for the SMB customer. Packaged and increasingly on a subscription, or managed service basis

Consumer




















Broadband-based services for the local residential consumer market, to help people communicate and live their lives in a digital age

Group provides supporting services - thought leadership, capability, service, innovation, technology, finance, IT, HR, facilities

Enterprise

Market opportunity

Proposition					
Architecture and Technology Consulting	Connected Enterprise	Cloud Adoption	Contact and Collaboration	Smart Identity	Data and Voice Analytics
					
  	  	 	  	 	 <small>Association of Train Operating Companies</small>

Enterprise

Initiatives to continue to drive performance



- Grow existing relationships and contracts over time
- Combined Smart421 and Kcom capability a true differentiator
- Kcom Workplaces a market-leading and disruptive capability
- Investment in sales and broader go to market capability
- Strong partner network in key growth areas, eg cloud, access management



Connect better

Our customers need to be connected to their colleagues, partners and customers, whether in the office, out in the field or at home.



Communicate better

Our customers need to communicate in ways that create new experiences, allowing them to be more productive and successful.



Collaborate better

Our customers need their data and business applications to be available wherever, whenever and by whomever they choose.

Our propositions

...are aligned to our customer needs and to growth markets:

They include:

1. Always connected
2. Joined-up communications
3. Your data where you need it
4. Work anywhere, anytime
5. End user compute and services



£4.4bn
addressable
market



233,000
SMBs

- Continuing portfolio development, particularly hosted and cloud-based
- Cross and up-sell into customer base
- Focused sales and marketing campaigns in target segments to acquire new customers
- Continued deployment of fibre-based services in East Yorkshire, targeting new SMB customers and enhancing the service to existing customers
- Slow rate of decline in some of legacy activities
- Reseller channel and referrer programme development

Consumer

Regional market opportunity



70%
Market
penetration

138,000
current
customers

110,043
broadband
customers

Consumer

Key initiatives

- Continued deployment of fibre; 53,000 homes passed as at 30 September 2015
- 40 per cent take-up, well ahead of national average
- Over the top content driving demand
- Market opportunity through development of new propositions to appeal to a wider range of customers

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- Focus on growing areas of strategic importance
 - Continue to pursue the opportunities available in accordance with our strategic strategy
 - Interim dividend up 10% at 1.97p per share
 - Minimum 6p dividend commitment for next two years

Summary financial results

By Brand and Segment



	Revenue £m	EBITDA £m
KC	47.9	26.8
Contact Centres & Publishing	4.3	0.9
Total KC segment	52.2	27.7
Kcom	92.7	7.4
Eclipse	19.0	3.9
Smart421	16.6	1.8
Total Kcom segment	128.3	13.1
PLC segment	(2.6)	(3.6)
KCOM Group	177.9	37.2

Balance sheet extract

	Sept 15 £m	Sept 14 £m
Non-current assets ¹	172.4	160.6
Trade and other receivables	92.5	79.2
Trade and other payables	(132.6)	(120.6)
IAS 19 retirement benefit obligation	(16.1)	(34.0)
Net debt	103.0	103.0
Net debt: EBITDA ratio	1.36 x	1.36 x
Net bank debt ²	94.5	92.4
Net bank debt: EBITDA ratio ³	1.31 x	1.25 x

¹ Non-current assets includes property, plant and equipment, other intangibles assets and assets held for sale only.

² Net bank debt is net debt excluding finance leases.

³ EBITDA is pre-exceptional.

Capital Employed calculation

Sept 15	KC £m	Kcom £m	Eclipse £m	Smart421 £m	PLC £m
Fixed assets	75.9	64.8	2.8	0.2	28.7
Goodwill	-	38.4	7.9	5.1	-
Trading capital ¹	(14.5)	(25.7)	4.1	7.3	9.3
Capital employed²	61.4	77.5	14.8	12.6	38.0

Sept 14	KC £m	Kcom £m	Eclipse £m	Smart421 £m	PLC £m
Fixed assets	70.0	60.0	2.2	0.2	28.2
Goodwill	-	72.3	7.9	5.1	-
Trading capital ¹	(1.5)	(18.5)	(0.3)	7.0	(18.7)
Capital employed²	68.5	113.8	9.8	12.3	9.5

¹ Trading capital represents current assets and current liabilities excluding any intercompany balances.

² Capital employed is calculated using year end balances rather than average capital employed in the year.

Pensions

Discount rate driving reduced deficit

	Sept 15 £m / %	Mar 15 £m / %
Retirement benefit obligation (IAS 19)	16.1	31.4
Assumptions		
Discount rate	3.75%	3.25%
RPI	3.05%	2.95%