Interim Results for the half-year ended 30 September

Summary

- Continued strong KC brand performance with top line growth, strong cash generation and growing fibre uptake
- Good market share and revenue growth in Eclipse
- Solid underlying performance and market position in Smart421
- Good progress in key customer contracts in Kcom including HMRC
- Revenue challenges in Kcom
- Increased interim dividend to 1.79p, in line with commitment to increase full-year dividend by 10% per annum through to March 2016

Financial performance

Paul Simpson

Chief Financial Officer

Summary financial results

KCOM group

	Sept 14 £m	Sept 13 £m	Movement
Revenue	173.0	185.5	↓
EBITDA	36.1	37.4	↓
EBITDA %	*21%*	*20%*	↑
Operating profit	28.5	27.3	↑
Adjusted basic EPS (pence)[1]	3.98	3.76	↑
Net cash inflow from operations	20.4	20.0	↑
Bank debt	97.8	99.7	↓
Net debt	103.0	99.7	↑
Interim dividend per share (pence)	1.79	1.63	↑

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

All amounts are before exceptional items.

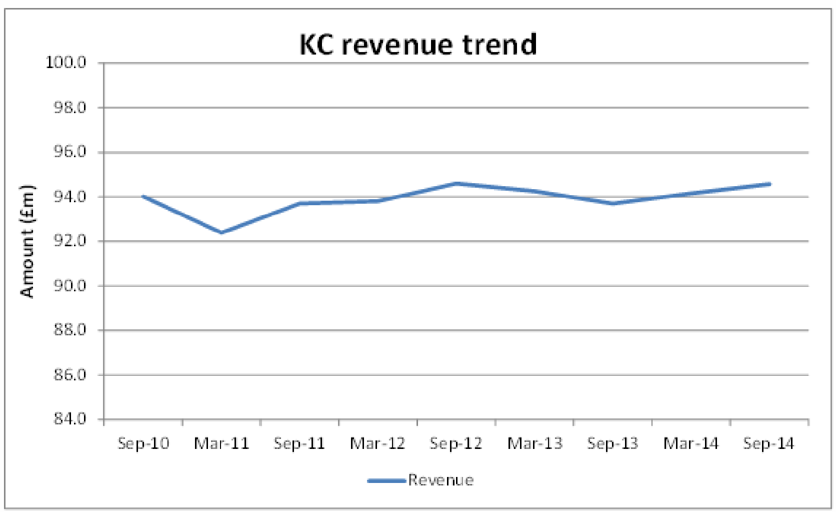
KC brand

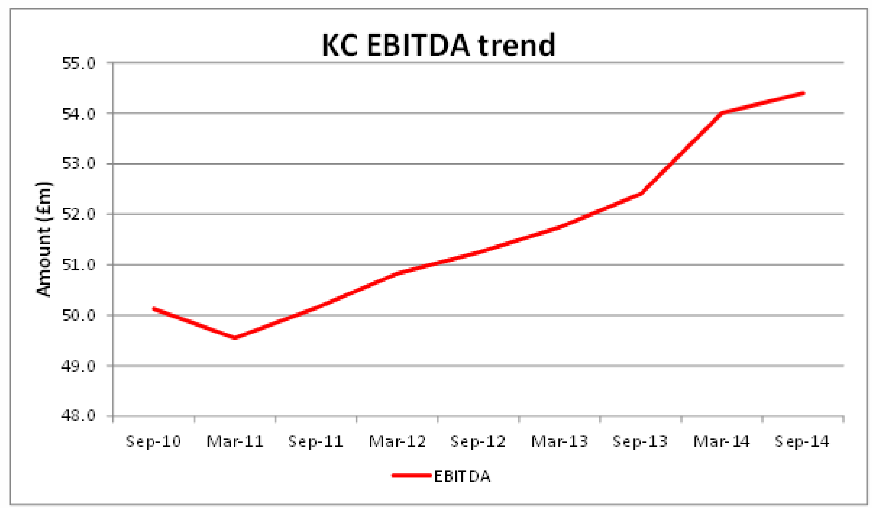
Continuing profit trend

	Sept 14 £m	Sept 13 £m	Movement
KC revenue[1]	**47.1**	**46.7**	**1%**
KC EBITDA[1]	**26.8**	**26.4**	**2%**
LTM EBIT	47.1	46.4	1%
Capital employed[2]	68.5	60.1	14%
ROCE	**69%**	**77%**	

[1] Revenue and EBITDA excludes Contact Centres and Publishing.
[2] Capital employed calculation detailed in the Appendix.

- Core KC revenue and EBITDA ahead of prior year and showing positive five year trends
- Consumer trends remain positive alongside outperformance in the business market
- Fibre investment increasing value of capital base with investment returns positive to the original expectations





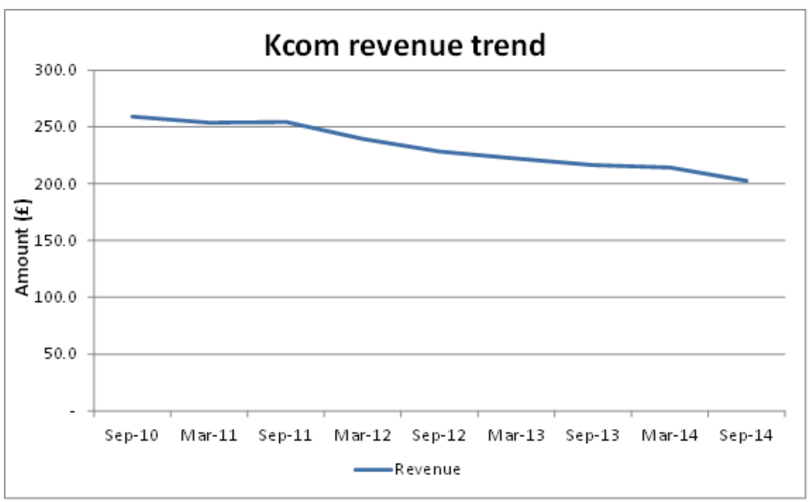
Kcom brand

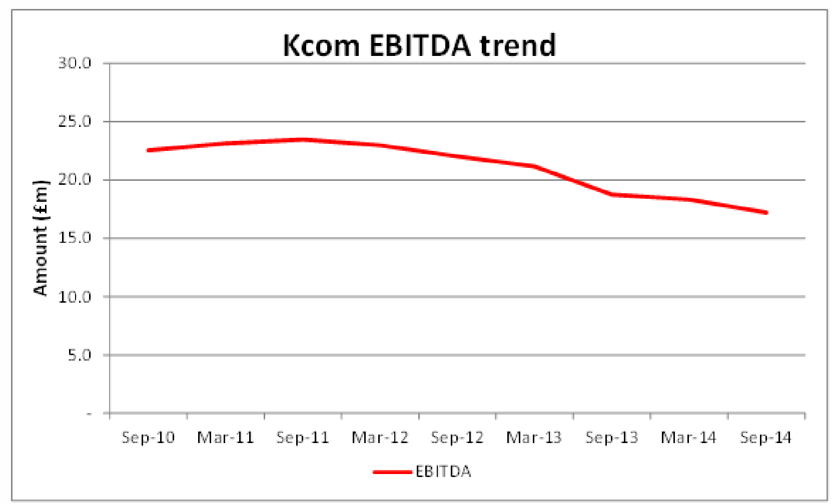
Challenging revenue trends partially offset by cost management

	Sept 14 £m	Sept 13 £m	Movement
Revenue	**95.6**	**107.2**	**(11%)**
EBITDA	**7.4**	**8.5**	**(13%)**
LTM EBIT	11.2	10.1	2%
Capital employed[1]	118.9	111.1	7%
ROCE	**9%**	**9%**	

[1] Capital employed calculation detailed in the Appendix.

- Revenue trends impacted by decline in certain service lines and weaker sales performance in the period
- Revenue decline has impacted profitability - partially offset by cost reduction initiatives. Further action taken at the end of the period to reflect outlook
- EBIT improvement reflects reduction in depreciation on the Group's long distance and metropolitan network infrastructure outside of Hull and East Yorkshire





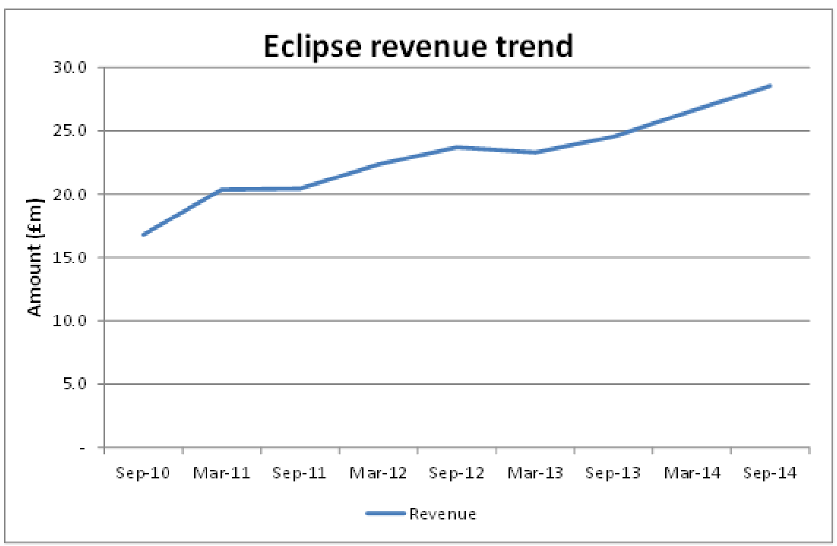
Eclipse brand

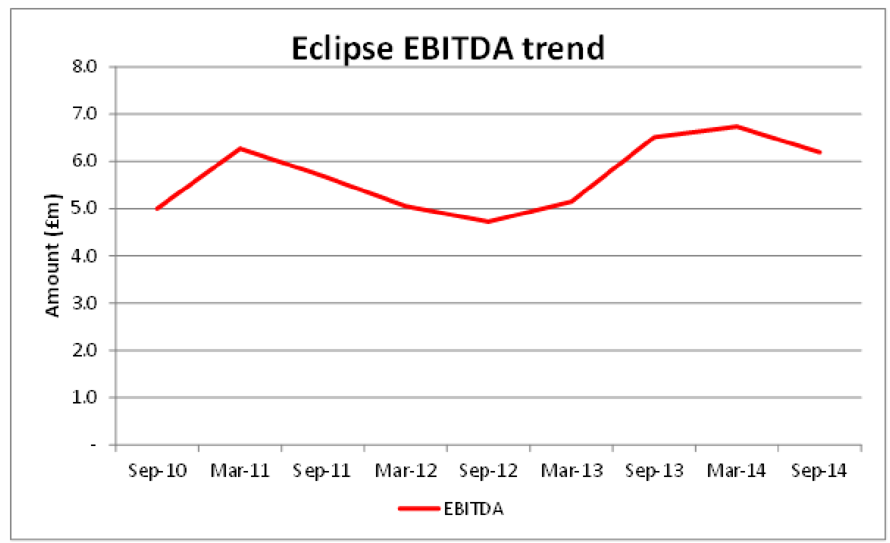
Market share gains

	Sept 14 £m	Sept 13 £m	Movement
Revenue	**14.7**	**12.7**	**16%**
EBITDA	**3.2**	**3.8**	**(16%)**
LTM EBIT	4.9	5.4	(9%)
Capital employed[1]	9.8	12.1	(19%)
ROCE	**50%**	**44%**	

[1] Capital employed calculation detailed in the Appendix.

- Business demand driving revenue growth alongside anticipated consumer decline
- Overall profitability and returns remain strong (prior year includes a non-recurring item of £0.6 million)





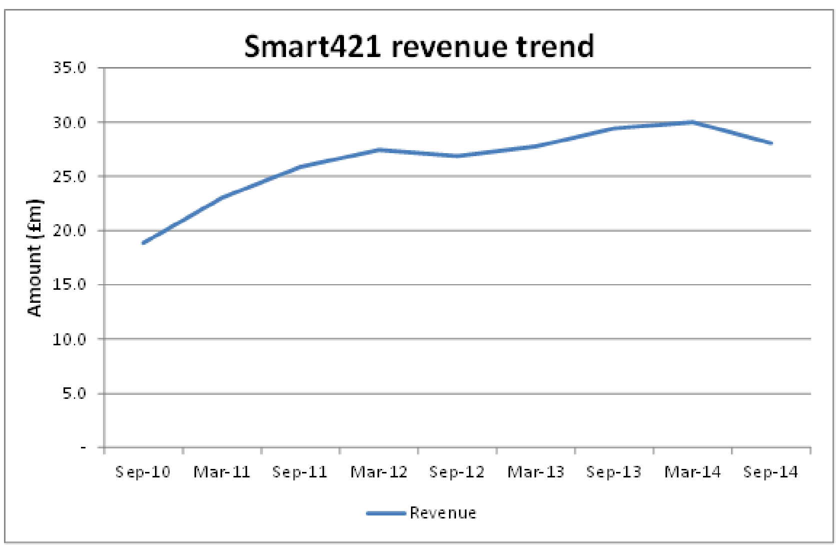
Smart421 brand

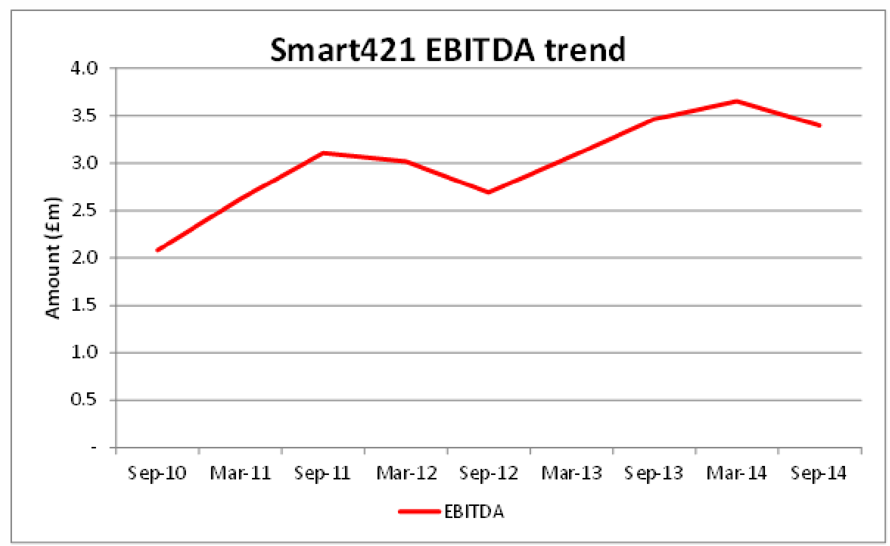
Continuing strong returns offset by adverse impact from one customer

	Sept 14 £m	Sept 13 £m	Movement
Revenue	**12.8**	**14.8**	**(16%)**
EBITDA	**1.4**	**1.6**	**(13%)**
LTM EBIT	3.3	3.3	-
Capital employed[1]	7.2	5.8	24%
ROCE	**46%**	**57%**	

[1] Capital employed calculation detailed in the Appendix.

- Overall performance impacted by decrease in consulting revenue with one financial services customer
- This reduction accounts for all of the overall revenue decline and, adjusting for this, EBITDA has grown year on year
- Material progress made over the last five years both in overall revenue and profitability





Movement in net debt

Increased capital investment

	Sept 14 £m	Sept 13 £m
EBITDA reported	34.3	38.5
Working capital movement	(8.6)	(15.4)
Other operating cash items[1]	(1.7)	(0.6)
Net cash inflow from operations (pre-exceptional & pensions)	**24.0**	**22.5**
Exceptional items	(1.8)	(2.2)
Pensions	(1.8)	(0.3)
Net cash inflow from operations	**20.4**	**20.0**
Capex	(21.4)	(13.5)
Interest	(3.5)	(2.2)
Dividends	(16.8)	(15.3)
Share purchases & dividend equivalents	(2.3)	(0.6)
Payments of finance lease liabilities	(0.6)	-
Other	1.4	0.1
Increase in bank debt	**(22.8)**	**(11.0)**
Finance lease additions	(5.2)	-
Increase in net debt	**(28.0)**	**(11.0)**
Net debt	**103.0**	**99.7**
Net debt: EBITDA ratio	**1.36 x**	**1.33 x**

[1] Other operating cash items include tax payments of £1.4m (Sept 13: £0.3m) and profit on sale of property, plant & equipment of £0.3m (Sept 13: £0.3m).

Strategic focus

Bill Halbert

Chief Executive Officer

Market focus

KCOM group

Enterprise Public Sector

KCOM

smart421

SMB

eclipse

Consumer

KC

Common services & capability

KC brand

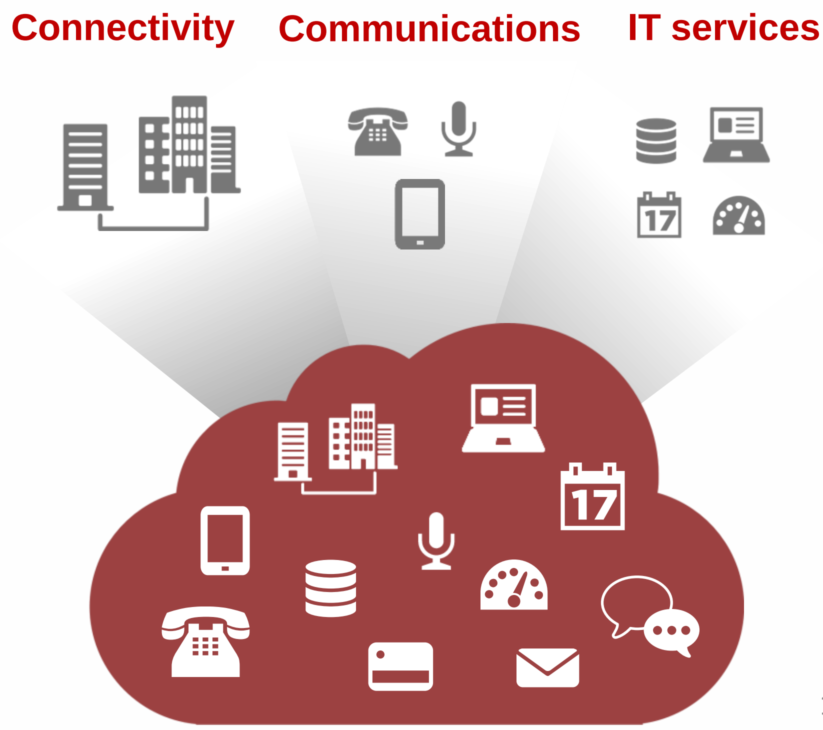
Continuing profit trend

- Core revenue growth of +1% year on year; EBITDA growth of +2% year on year
- EBITDA Margin improved to 56.9%
- Particularly strong performance in consumer
- Business outperforms challenging economic environment
- Fibre take-up rate 29% of premises passed
- On target to provide access to 45,000 premises with high speed services by March 2015

Eclipse

Market share gains

- Strong revenue growth of 13%; EBITDA margin of 20% +
- Growing demand for business broadband solutions from new and existing customers
- Launch of Cloud and Connect propositions



Smart421

Continuing strong returns

- Revenue down 13.5% offset by reduced consulting revenue from one client
- Market position strengthened, particularly in cloud-based integration services
- EBITDA margin of 11%
- Market leading partnerships remain a key differentiator

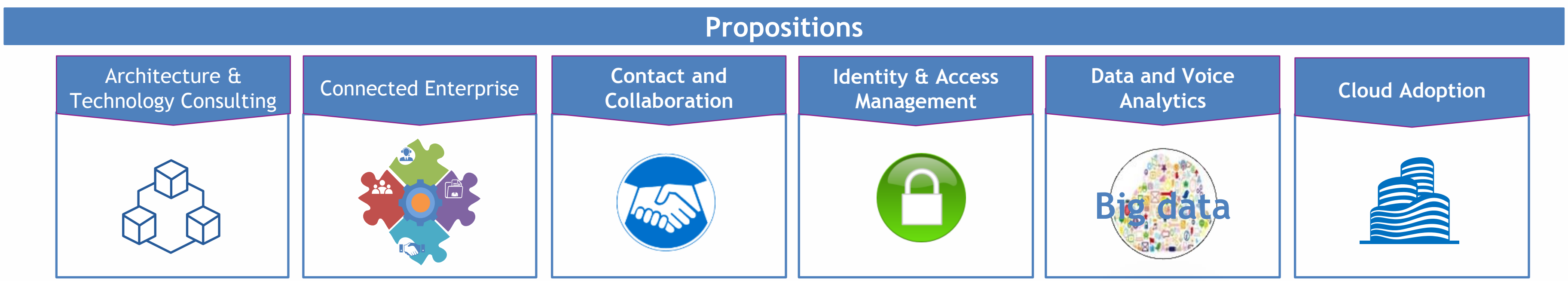
Kcom brand

Challenging revenue trends

- Revenue down 11.8%
- Progress in key accounts
- Growth in new areas insufficient to compensate for areas of decline
- Successful deployment of Workplaces to HMRC provides high confidence in ability to win and deliver high value, managed services contracts
- Plans to accelerate development
- Action taken to reduce cost base to support current earnings

Enterprise focus aligned with CIO agenda

- Leveraging our deep domain knowledge
- Build profitable partner relationships
- Drive growth through best of breed solutions



Outlook

- Well positioned to exploit target growth opportunities
- Growth in consumer activities expected to continue
- Focus on further gains in SMB market share, continued growth expected
- Continued strengthening of Smart421 market position in enterprise market
- Overall Group revenue outlook declines as a result of insufficient order intake in Kcom brand
- Plans to accelerate change of revenue mix in enterprise market
- Cost reduction undertaken to support earnings in line with current range of expectations
- Comfortable net debt position
- Dividend commitment to March 2016

Appendices

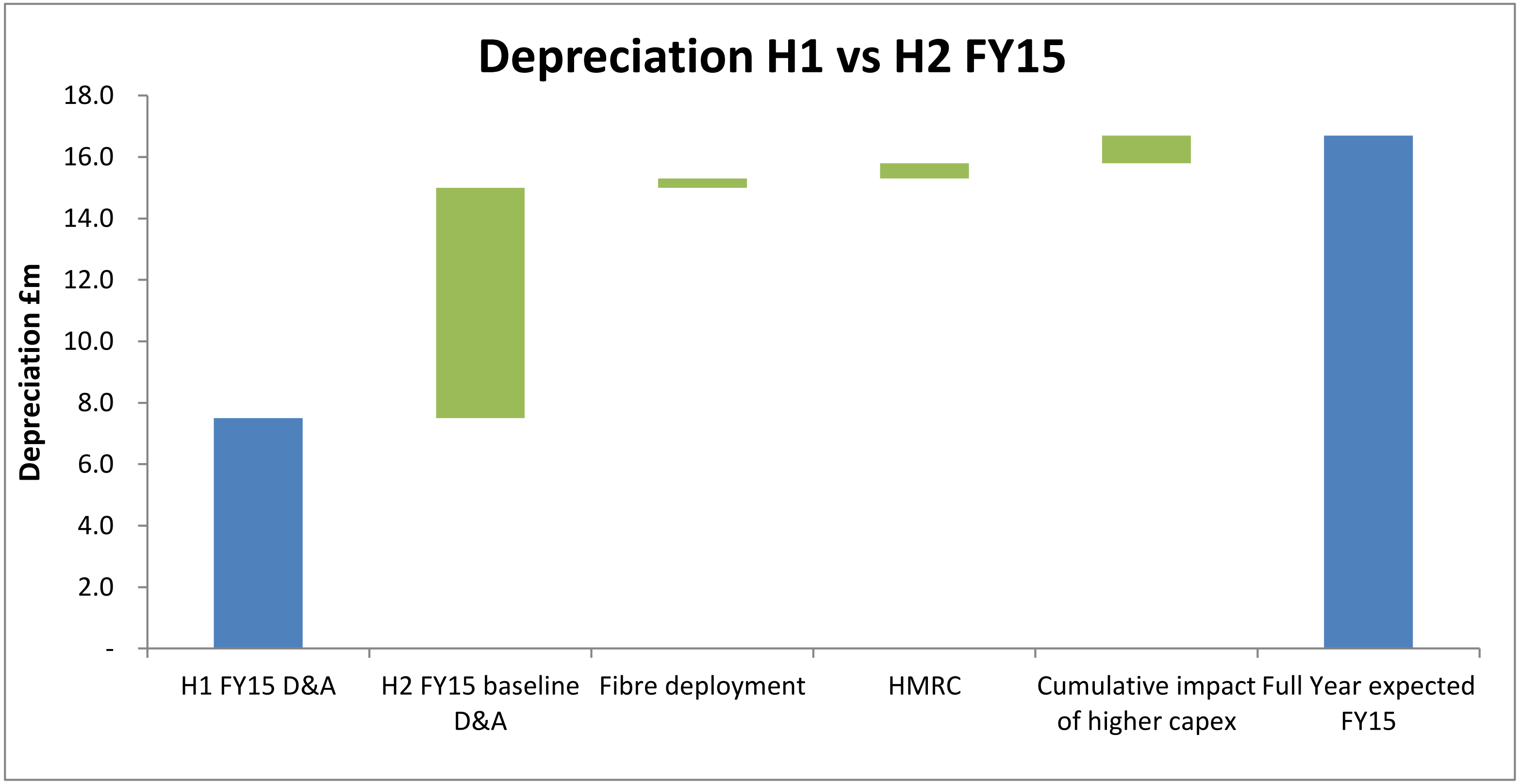
Summary financial results

By Brand and Segment

	Revenue £m	EBITDA £m
KC	47.1	26.8
Contact Centres & Publishing	5.4	0.9
Total KC segment	**52.5**	**27.7**
Kcom	95.6	7.4
Eclipse	14.7	3.2
Smart421	12.8	1.4
Total Kcom segment	**123.1**	**12.0**
PLC segment	(2.6)	(3.6)
KCOM Group	***173.0***	***36.1***

Depreciation and amortisation

Trends and forecasts



The FY16 D&A is anticipated to be higher as a result of our continued capex investment, in particular:

- Strategic IT investment £2.4m (FY15: £Nil)
- Fibre deployment £1.0m (FY15: £0.6m)
- HMRC £1.9m (FY15: £0.9m)

Balance sheet extract

	Sept 14 £m	Sept 13 £m
Non-current assets[1]	160.6	137.3
Trade and other receivables	79.2	86.8
Trade and other payables	(117.3)	(124.3)
IAS 19 retirement benefit obligation	(34.0)	(14.8)
Net debt	**103.0**	**99.7**
Net debt: EBITDA ratio	**1.36 x**	**1.33 x**
Bank debt[2]	97.8	99.7
Bank debt: EBITDA ratio	1.28 x	1.31 x

[1] Non-current assets includes property, plant and equipment and other intangibles assets only.
[2] Bank debt is net debt excluding finance leases.

Capital Employed calculation

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	0.2	77.2	7.9	-	-
Trading capital[1]	(1.7)	(18.3)	(0.3)	7.0	(18.8)
Capital employed	**68.5**	**118.9**	**9.8**	**7.2**	**9.4**

Sept 13	KC £m	Kcom £m	Eclipse £m	Smart421 £m	PLC £m
Fixed assets	64.9	54.0	1.5	0.2	16.7
Goodwill	0.2	77.2	7.9	-	-
Trading capital[1]	(5.0)	(20.1)	2.7	5.6	(14.0)
Capital employed	**60.1**	**111.1**	**12.1**	**5.8**	**2.7**

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

Pensions

Discount rate driving increased deficit

	Sept 14 £m / %	Mar 14 £m / %
Retirement benefit obligation (IAS 19)	(34.0)	(26.5)
Assumptions		
Discount rate	3.9%	4.3%
RPI	3.2%	3.4%
Sensitivity analysis[1]		
Discount rate	4.0	
RPI	(3.0)	

[1] Shows the impact on the Sept 14 retirement benefit obligation of a decrease in each assumption by 1%.