

# KCOM Group PLC

Interim Results

November 2009



# Year on year progress

- Focused on:
  - improving near and longer term financial strength and performance
  - simplified business to create competitive position and future growth potential
- Progress:
  - cash and working capital
  - reduced debt
  - reduced operating costs
  - improved profitability
  - determined simplified strategic focus
  - restructured business model
  - developed strategic relationship with BT

# H1 financial results

- Actions taken reflected in results:
  - Revenue down 13.5% at £210m
  - Operating profit up 25% to £20.0m
  - EBITDA up 7.5% to £37.0m
  - Profit before tax up 71.2% to £16.2m
  - Net cash inflow up 53% to £32m
  - Net debt down 19% to £146.2m

# Business opportunity



# Summary

- Good progress
- Stronger financial position
- Simplified business
- Clear strategic focus
- Stronger competitive position
- Opportunity

# Financial performance

Paul Simpson, CFO



# Summary financial results

	H1 2010 £m	H1 2009 £m	YOY Change
<b>Revenue</b>	210.8	243.6	(13%)
<b>EBITDA</b>	37.0	34.4	8%
<i>EBITDA %</i>	18%	14%	
<b>Operating Profit</b>	20.0	16.0	25%
<b>Profit before taxation</b>	16.2	9.4	72%
<b>Net cash inflow from operations</b>	32.0	20.9	53%
<b>Net Debt</b>	146.2	180.2	(19%)
<b>Interim Dividend per share (pence)</b>	0.5	0.5	-
<b>Basic EPS</b>	2.46	2.06	19%

All amounts stated before exceptional items

## EBITDA progression

	H1 2010 £m	H1 2009 £m	Variance £m
<b>Reported EBITDA</b>	<b>37.0</b>	<b>34.4</b>	<b>2.6</b>
Share scheme provision release	-	(1.5)	1.5
IAS 19 curtailment gain	(1.4)		(1.4)
Pension – net of interest cost and return on assets	2.3	0.7	1.6
<b>'Trading' EBITDA performance</b>	<b>37.9</b>	<b>33.6</b>	<b>4.3</b>



# Revenue and EBITDA Segmentals

Revenue	H1 2010 £m	H1 2009 £m	YOY Change
Kingston Communications	64.9	67.9	(4%)
Kcom	147.2	176.7	(17%)
PLC	(1.3)	(1.1)	18%
<b>Total</b>	<b>210.8</b>	<b>243.6</b>	<b>(13%)</b>

EBITDA	H1 2010 £m	H1 2009 £m	YOY Change
Kingston Communications	30.7	29.9	3%
Kcom	10.7	7.2	49%
PLC	(4.4)	(2.6)	69%
<b>Total</b>	<b>37.0</b>	<b>34.4</b>	<b>8%</b>

## Kingston Communications

- Revenue decline due to fall in call volumes and Eclipse churn
- Improved EBITDA performance reflects efficiencies in Eclipse cost of delivery and SG&A

## Kcom

- Revenue decline mainly driven by strategic decision to exit low margin services
- EBITDA progression reflects SG&A efficiencies achieved

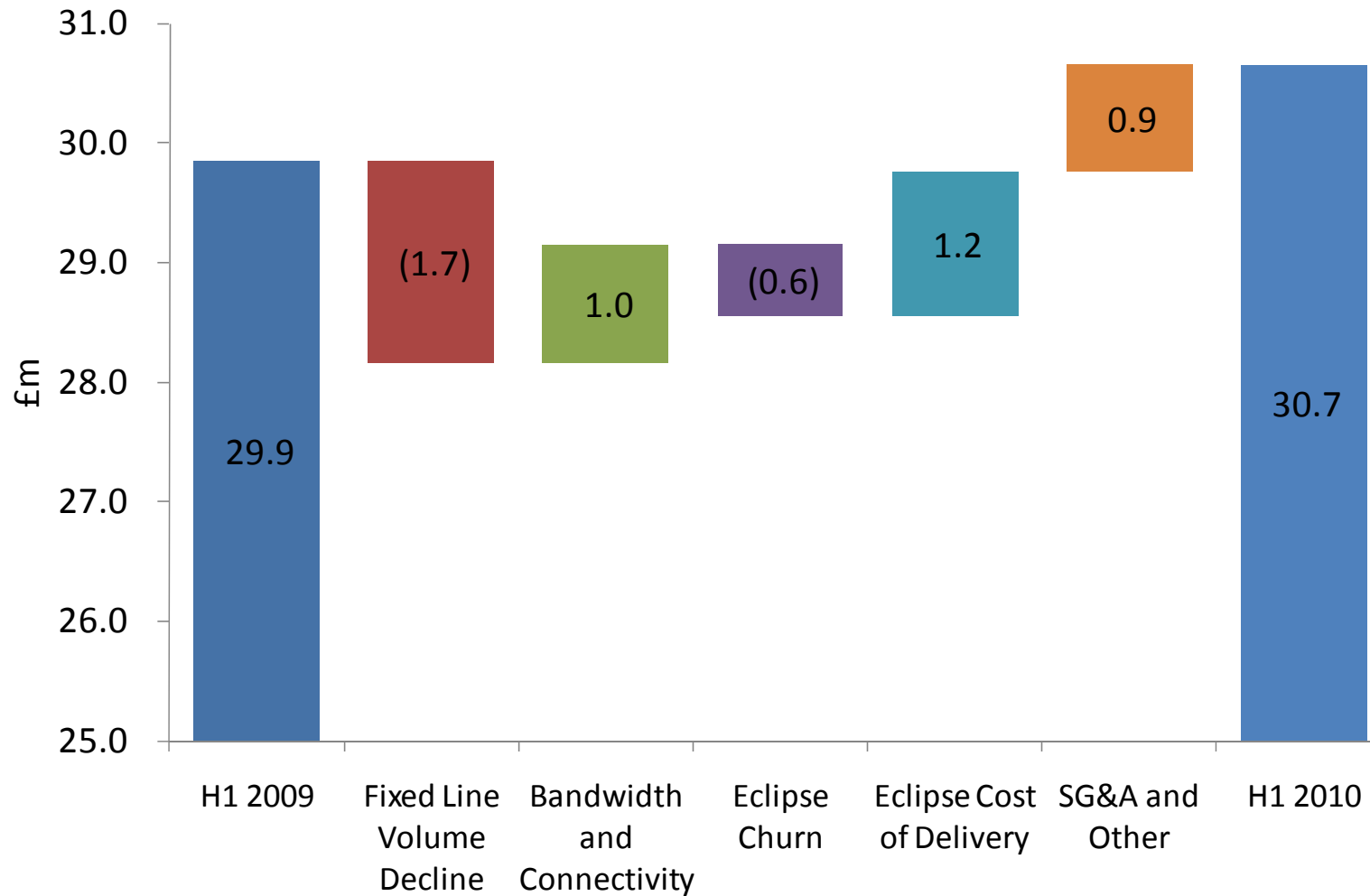
## PLC

- 2010 reflects £1.6m additional IAS19 net cost in respect interest costs and return on assets

# Kingston Communications

	H1 2010 £m	H1 2009 £m	YOY Change
<b>Revenue:</b>			
Original Licensed Area	45.5	46.1	(1%)
Eclipse	11.2	12.4	(10%)
Information Services	8.2	9.4	(13%)
<b>Total</b>	<b>64.9</b>	<b>67.9</b>	<b>(4%)</b>
<b>Gross Margin</b>	<b>51.1</b>	<b>50.6</b>	<b>1%</b>
<i>Gross Margin %</i>	79%	75%	
<b>EBITDA</b>	<b>30.7</b>	<b>29.9</b>	<b>3%</b>
<i>EBITDA %</i>	47%	44%	

# Kingston Communications EBITDA Bridge



# Kcom Segment

	H1 2010 £m	H1 2009 £m	YOY Change
<b>Revenue</b>			
Kcom	139.1	170.9	(19%)
Smart 421	8.1	5.8	40%
	<b>147.2</b>	<b>176.7</b>	<b>(17%)</b>
<b>EBITDA</b>			
Kcom	9.9	6.7	48%
Smart 421	0.8	0.5	60%
	<b>10.7</b>	<b>7.2</b>	<b>49%</b>
<i>EBITDA %</i>	7%	4%	

# Kcom

	H1 2010 £m	H1 2009 £m	YOY Change
<b>Revenue</b>			
Technology	17.1	43.0	(60%)
Network Support	12.7	17.0	(25%)
Managed Services	28.6	31.3	(9%)
Connect Services	80.7	79.6	1%
	<b>139.1</b>	<b>170.9</b>	<b>(19%)</b>
<b>Gross Margin</b>	<b>39.2</b>	<b>44.2</b>	<b>(11%)</b>
<i>Gross Margin %</i>	28%	26%	
<b>EBITDA</b>	<b>9.9</b>	<b>6.7</b>	<b>48%</b>
<i>EBITDA %</i>	7%	4%	

## PLC and associated costs

	H1 2010 £m	H1 2009 £m	Variance £m
PLC and associated costs	(3.2)	(3.3)	0.1
Pension – net of interest cost and return on assets	(2.3)	(0.7)	(1.6)
Pension – one-off curtailment gain	1.4		1.4
Share scheme costs	(0.3)	1.4	(1.6)
<b>EBITDA</b>	<b>(4.4)</b>	<b>(2.6)</b>	<b>(1.8)</b>

# Cash performance

<b>Movement in Net Debt</b>	<b>Six months ended Sep 09 £m</b>	<b>Six months ended Sep 08 £m</b>	<b>Year ended Mar 09 £m</b>
Opening Net Debt	157.9	168.9	168.9
Closing Net Debt	146.2	180.2	157.9
Reduction/(increase) in period	<b>11.7</b>	<b>(11.3)</b>	<b>11.0</b>
<b>Reconciliation of Movement</b>			
Net Cash inflow from operations (pre –exceptional)	45.5	23.8	70.0
Exceptional Items	(13.5)	(2.9)	(7.7)
<b>Net Cashflow inflow from operations</b>	<b>32.0</b>	<b>20.9</b>	<b>62.3</b>
<b>Capex</b>	(10.0)	(14.9)	(25.0)
<b>Interest &amp; taxation</b>	(3.8)	(7.9)	(13.5)
<b>Dividends</b>	(5.2)	(9.7)	(12.3)
<b>Other</b>	(1.3)	0.3	(0.5)
<b>Total</b>	<b>11.7</b>	<b>(11.3)</b>	<b>11.0</b>

# Pensions position

- Overall deficit increased from £61.0m to £71.9m
- Recovery of asset valuation less than increase in valuation of liabilities
- Reduction in discount rate due to falling yields on AA Corporate Bonds is key driver of liability increase
- Balance sheet position reflects the completion of the ETV exercise (funding of £4.9m) with take up rate of 40% of deferred members.

	£m
<b>Deficit at 31 March 2009</b>	<b>61.0</b>
Increase in assets	(9.5)
Increase in liabilities	20.4
<b>Deficit at 30 September 2009</b>	<b>71.9</b>

Key Assumptions	Sep 09	Mar 09
Inflation	3.4%	3.5%
Rate of increase in salaries	4.4%	4.5%
Discount rate for scheme liabilities	5.4%	6.5%
Expected return on plan assets	6.5%	6.5%



## Outlook

- Continued improvement in overall quality of Group's activities
- Overall financial position expected to improve in second half
  - Confident that net debt will continue to reduce

**Kcom**  
group

