



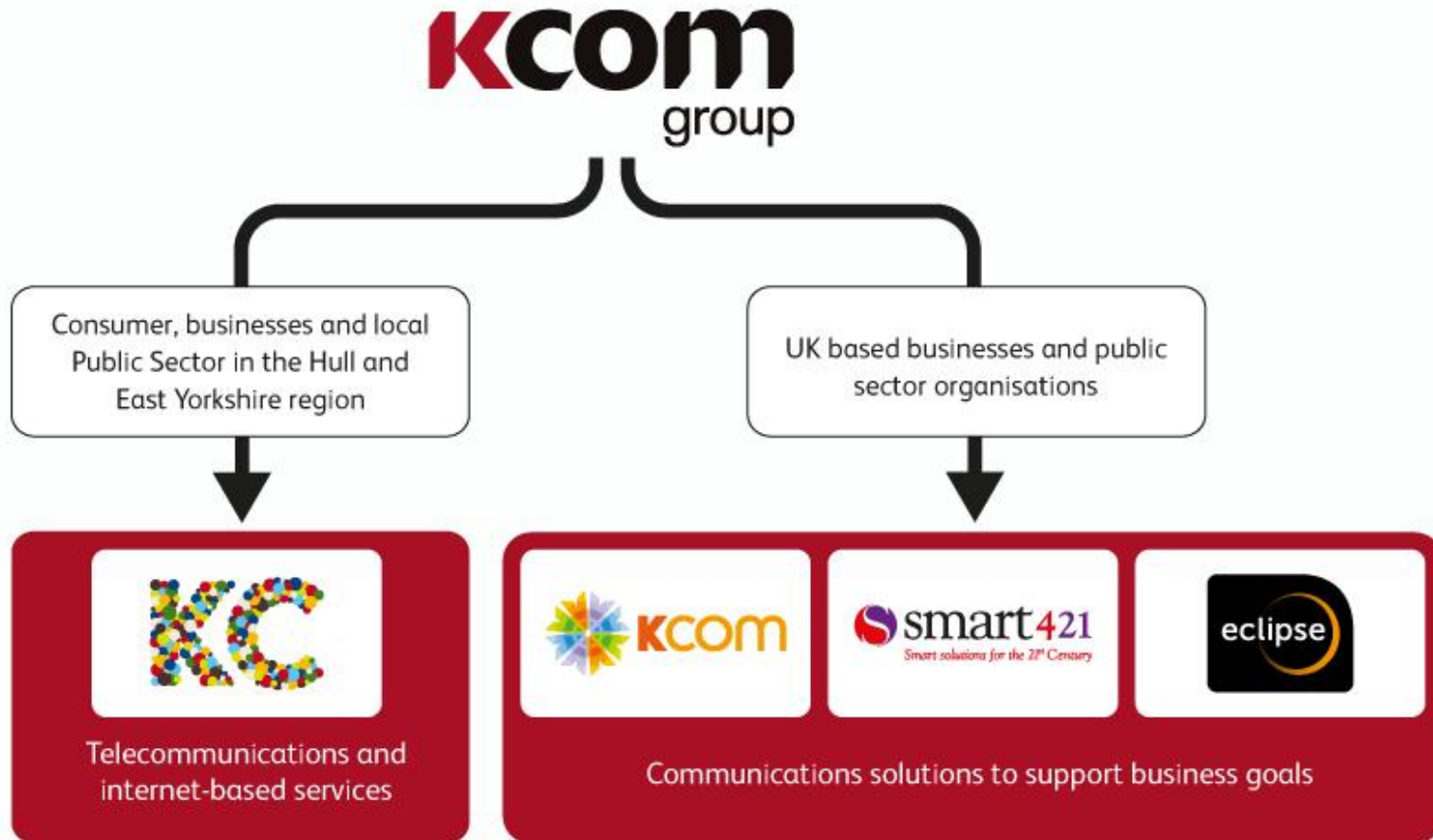
“Building a platform for sustainable growth”

Interim results for the year ended 30 September 2012

Business overview
Bill Halbert, Executive Chairman

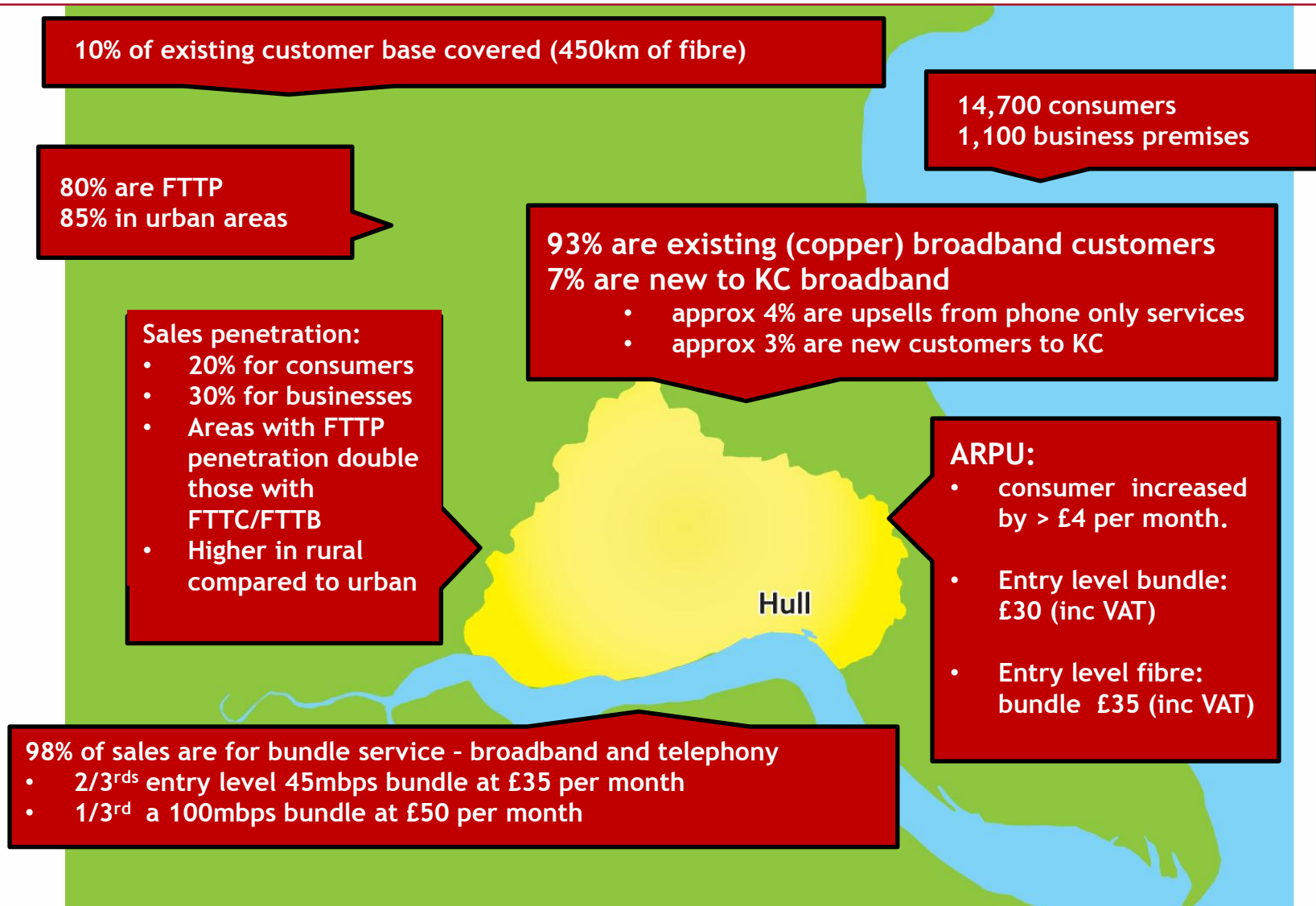
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- Revenue & EBITDA performance, in line with our expectations
 - Solid performance in challenging market conditions
 - Profit before tax of £27.6 million, up 2.2%
 - Net debt increased to £94.3 million, comfortably below 1.5x EBITDA
 - Initial deployment of super-fast, fibre-based broadband complete
 - Continuation of roll-out to further 30,000 homes and businesses
 - Growth in Kcom multi-year order backlog
 - Increase in interim dividend of 10.5%, to 1.47p

The Group is organised around its two principal markets



KC

- Growth in both revenue and EBITDA
- Driven by continued demand for
 - Bundles within consumer market
 - Connectivity services across business market
- First phase of roll-out of super-fast fibre-based broadband complete
 - Launch of KC TV, based on YouView platform
- Outperforming market



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- A further 30k premises over the next two years, covering 30% of network with FTTP
 - Why FTTP?
 - Future proof
 - Better enable the development of “over the top” services
 - An all fibre network may enable future cost savings
 - Higher performance than FTTC
 - Competitive deployment costs
 - Trialling a KC TV proposition - includes broadband, phone bundle and YouView from £42 per month - £12 uplift over current bundle.

Kcom

- Revenue in key strategic focus areas slightly ahead and stable at £122.1 million
- Overall revenue and EBITDA decline year on year, includes a £7.7 million reduction from one-off network build
- Focus on long term recurring revenue delivers positive results in local authority, multi-site enterprise and small business market
- Migration of 1000 schools onto emPSN completed successfully
- Backlog growth

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- Focused on core skills and capabilities
 - Exit pure product and maintenance
 - Secure competitive connectivity partner
 - Partner with key organisations to deliver other non-core/specialist areas
 - Clearly defined markets which match capability
 - Investment in customer impacting areas
 - NOC tools, provisioning, core services, people
 - Appointment of MD for Kcom
 - Stephen Long joins in January

Financial overview
**Paul Simpson, Chief Financial
Officer**

Summary financial results



	Sept 12 £m	Sept 11 £m	Movement
Revenue	188.7	198.0	(5%)
EBITDA¹	39.1	40.7	(4%)
<i>EBITDA %</i>	21%	21%	
Operating profit¹	29.8	30.8	(3%)
Profit before taxation¹	27.5	27.0	2%
Basic EPS (pence)	4.08	3.86	6%
Adjusted basic EPS (pence)²	4.07	3.86	5%
Net cash inflow from operations	19.0	35.3	(46%)
Net debt	94.3	75.1	(£19.2m)
Interim dividend per share (pence)	1.47	1.33	10%

¹ Amounts stated before exceptional items

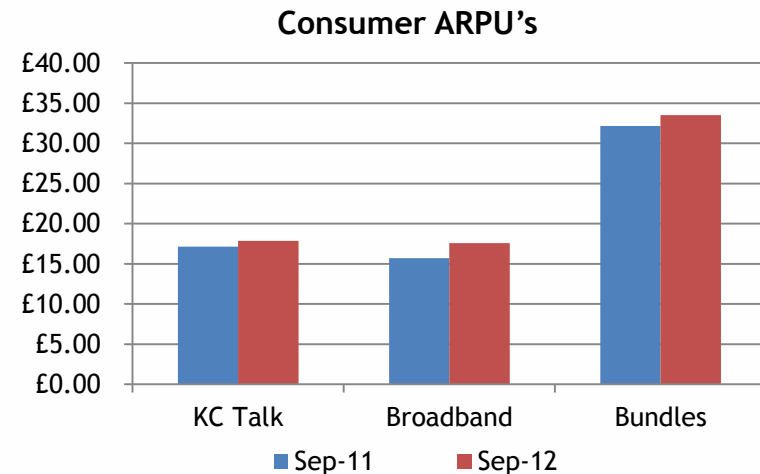
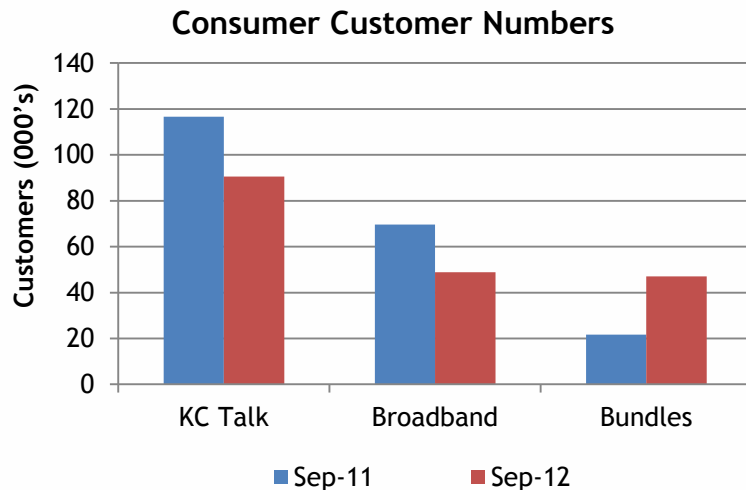
² Adjusted basic EPS is Basic EPS adjusted for exceptional items (including the tax impact of the exceptional item)

	Sept 12 £m	Sept 11 £m	Movement
Revenue			
KC	47.3	46.4	2%
Contact & Publishing	6.3	6.6	(4%)
	53.6	53.0	1%
EBITDA	27.8	27.6	1%
<i>EBITDA %</i>	<i>52%</i>	<i>52%</i>	

KC

Growth in consumer and business

		Sept 12 £m	Sept 11 £m	Movement
Consumer	Voice Usage	3.5	3.7	(5%)
	Subscriptions - Voice & Broadband	20.8	19.9	4%
Business	Voice usage & rental	9.1	9.3	(2%)
	Broadband & data	11.3	10.8	5%
Consumer & Business	Other	2.6	2.7	(4%)
		47.3	46.4	



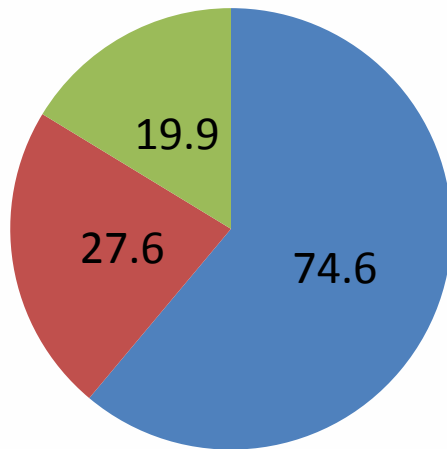
Kcom

Stable revenue position

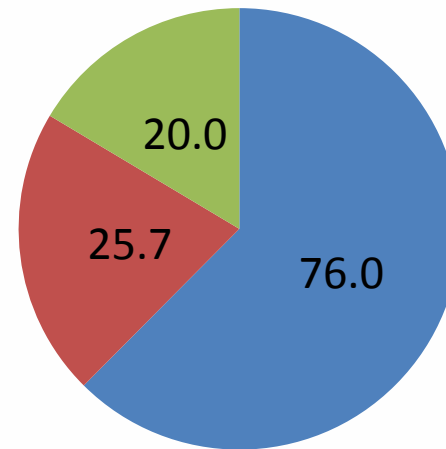


	Sept 12 £m	Sept 11 £m	Movement
Revenue			
Strategic focus areas	122.1	121.7	-
Network build	-	7.7	(100%)
Other	15.4	18.4	(16%)
	137.5	147.8	(7%)
EBITDA	14.5	16.1	(10%)
<i>EBITDA %</i>	<i>11%</i>	<i>11%</i>	

H1 FY13 (£m)



H1 FY12 (£m)



■ Enterprise ■ Public Sector ■ Wholesale

- Revenue from strategic focus areas stable
- Public sector growth of 7.4%
- Macro-economic environment impacting enterprise decision making
- Growth in multi-year backlog

Pensions

- IAS19 deficit only small increase of £1.1m from March 12 to £15.0m
- EBITDA includes credit of £0.8m. Change of accounting rules from next financial year means credit only occurs if scheme in surplus and would be reflected in net interest

Share schemes

- 13.4m shares acquired during year for satisfaction of EIP and LTCIP schemes
- Further 4.8 million of shares to purchase for remaining obligations:
 - 0.4m FY13
 - 2.2m FY14
 - 2.2m FY15

Taxation

- Absent mitigating deductibles, anticipate £3m-£4m cash liability for FY13

Movement in debt in period

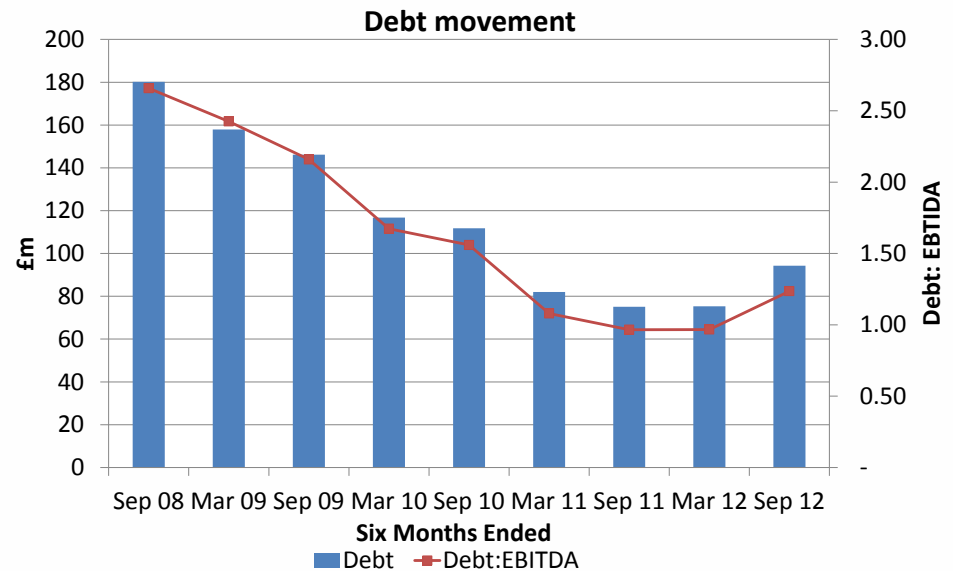
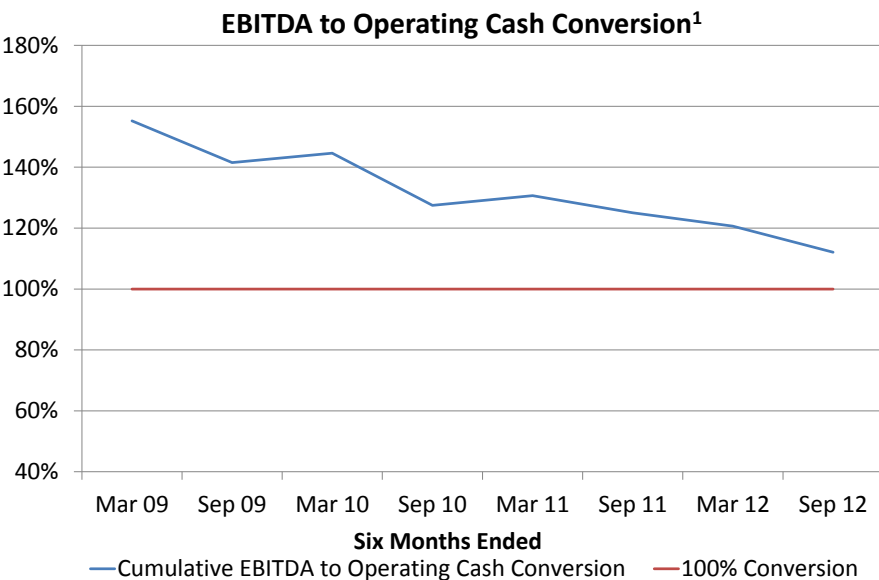
Reconciliation of Movement in debt	Sept 12 £m	Sept 11 £m	Movement £m
Net cash inflow from operations (pre-exceptional & pensions)	22.0	40.9	(18.9)
Exceptional items	(2.4)	(2.2)	(0.2)
Pensions	(0.6)	(3.4)	2.8
Net cash inflow from operations	19.0	35.3	(16.3)
Capex	(14.3)	(10.9)	(3.4)
Interest	(2.0)	(3.8)	1.8
Dividends	(13.8)	(12.9)	(0.9)
Share scheme purchases	(10.0)	(0.2)	(9.8)
Other	2.1	(0.6)	2.7
Total	(19.0)	6.9	(25.9)

Investment profile



Balance Sheet additions	Six months to Sep 11 £m	Six months to Mar 12 £m	Six months to Sep 12 £m
Network, including NGA	1.8	5.2	5.6
Infrastructure, software licenses and systems related	4.2	3.5	7.7
Propositions and customer driven	3.2	4.6	2.5
Other	1.4	0.5	1.5
Total	10.6	13.8	17.3

Outstanding cash conversion and debt reduction **Kcom** group



- Cumulative EBITDA to cash conversion exceeds 100%
- Anticipate improvement in EBITDA to cash conversion in the second half
- Debt comfortably below 1.5x EBITDA

¹ EBITDA pre exceptional. Operating cashflows pre-exceptional & pension

Outlook

Bill Halbert, Executive Chairman

Outlook

- KC continues to outperform peers
- Kcom winning market share, in spite of economic conditions
- 10% dividend reflects confidence in current performance and future prospects

Segmental Performance



Revenue	Sept 12 £m	Sept 11 £m	Movement
KC	53.6	53.0	1%
Kcom	137.5	147.8	(7%)
PLC	(2.4)	(2.8)	14%
	188.7	198.0	(5%)

EBITDA	Sept 12 £m	Sept 11 £m	Movement
KC	27.8	27.6	1%
Kcom	14.5	16.1	(10%)
PLC	(3.2)	(3.0)	(7%)
	39.1	40.7	(4%)

Kcom Restatement



	Revenue		EBITDA	
	Sept 12 £m	Sept 11 £m	Sept 12 £m	Sept 11 £m
Kcom & Smart	126.8	137.7	12.1	13.4
Eclipse	10.7	10.1	2.4	2.7
	137.5	147.8	14.5	16.1

Pensions

Movement in IAS19 Deficit	Sept 12 £m	Mar 12 £m	Movement £m
Assets	183.7	185.5	(1.8)
Liabilities	(198.7)	(199.4)	0.7
Deficit	(15.0)	(13.9)	(1.1)

IAS19 costs	Sept 12 £m	Sept 11 £m	Movement £m
Return on assets	(5.4)	(5.5)	0.1
Interest Cost	4.6	4.7	(0.1)
Charge/(Credit)	(0.8)	(0.8)	-

IAS19 assumptions	Sept 12 £m	Sept 11 £m
CPI Inflation	2.0%	2.3%
Discount Rate	4.4%	5.1%
Expected return on assets	6.1%	6.9%