



*“Building a platform for sustainable growth”*

Interim results for the 6 months ended 30 September 2011

22 November 2011

**Business overview**  
**Bill Halbert, Executive Chairman**

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- Revenue of £198.0 million (2010: £194.8 million) reflects good performance across the Group
  - EBITDA (before exceptional items) improves to £40.7 million (2010: £38.9 million)
  - Profit before tax (and exceptional items) increases 22.7% to £27.0 million (2010: £22.0 million)
  - Strong cash generation reduces net debt further
  - Interim dividend increased in line with previously stated commitment

- KC
  - 3% growth outperforms market
  - continued demand for broadband and bundled services
  - next generation fibre deployment continues
- Eclipse focused and growing in small business market
- Smart421 showing strong growth



# Operational highlights

- Leading organisations recognising Kcom capability
- Early leader in Public Sector including preferred bidder for both Calderdale Council & emPSN



MORRISONS



**Financial overview**

**Paul Simpson, Chief Financial Officer**

# Summary financial results

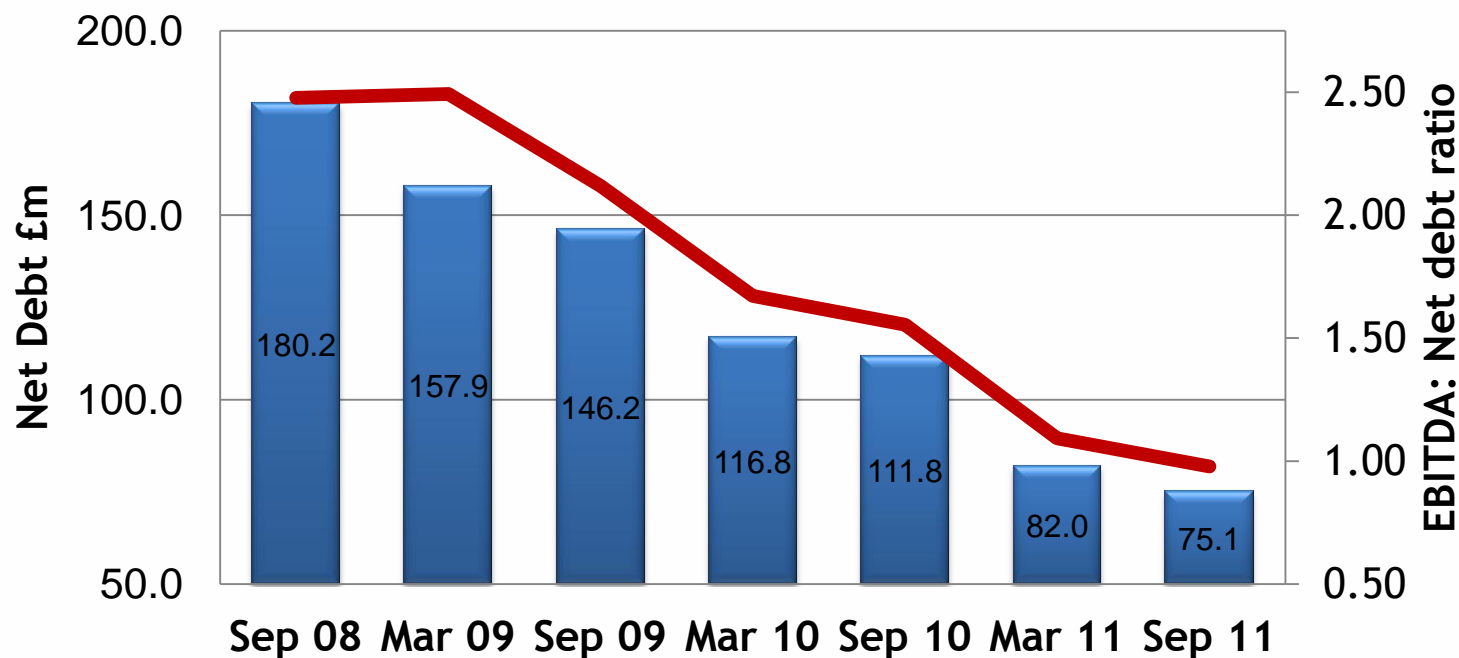


	Sept 11 £m	Sept 10 £m	Movement
<b>Revenue</b>	198.0	194.8	2%
<b>EBITDA</b>	40.7	38.9	5%
<i>EBITDA %</i>	21%	20%	
<b>Operating profit</b>	30.8	25.2	22%
<b>Profit before taxation</b>	27.0	22.0	23%
<b>Basic EPS (pence)</b>	3.86	3.21	20%
<b>Adjusted basic EPS (pence)</b>	3.86	3.03	27%
<b>Net cash inflow from operations</b>	35.3	21.2	66%
<b>Net debt</b>	75.1	111.8	£36.7m
<b>Interim dividend per share (pence)</b>	1.33	1.10	21%

All P&L amounts stated before exceptional items

# Further reduction in debt

Movement in net debt	Sept 11 £m	Sept 10 £m
Opening net debt	82.0	116.8
Closing net debt	75.1	111.8
Reduction in period	6.9	5.0





# Continued strength in conversion of EBITDA to cash



Reconciliation of movement in debt	Sept 11 £m	Sept 10 £m	Movement £m
Net cash inflow from operations (pre-exceptional & pensions)	40.9	32.4	8.5
Exceptional items and pensions	(5.6)	(11.2)	5.6
<b>Net cash inflow from operations</b>	<b>35.3</b>	<b>21.2</b>	<b>14.1</b>
Capex	(10.9)	(6.4)	(4.5)
Interest	(3.8)	(3.2)	(0.6)
Dividends	(12.9)	(6.5)	(6.4)
Other	(0.8)	(0.1)	(0.7)
<b>Total</b>	<b>6.9</b>	<b>5.0</b>	<b>1.9</b>

EBITDA	40.7	38.9
Net cash inflow from operations (pre-exceptional & pensions)	40.9	32.4
<b>EBITDA conversion to cash</b>	<b>100%</b>	<b>83%</b>

# Segmental performance

Revenue	Sept 11 £m	Sept 10 £m	Movement
KC & Eclipse	63.1	62.5	1%
Kcom & Smart421	137.7	134.3	3%
PLC	(2.8)	(2.0)	
	<b>198.0</b>	<b>194.8</b>	<b>2%</b>

EBITDA	Sept 11 £m	Sept 10 £m	Movement
KC & Eclipse	30.3	30.7	(1%)
Kcom & Smart421	13.4	12.6	6%
	<b>43.7</b>	<b>43.3</b>	<b>1%</b>
PLC	(3.0)	(4.4)	
	<b>40.7</b>	<b>38.9</b>	<b>5%</b>

	Sept 11 £m	Sept 10 £m	Movement
<b>Revenue</b>			
KC	46.4	45.2	3%
Contact Centre & Publishing	6.6	7.3	(10%)
Eclipse	10.1	10.0	1%
	<b>63.1</b>	<b>62.5</b>	<b>1%</b>
<b>EBITDA</b>	<b>30.3</b>	<b>30.7</b>	<b>(1%)</b>
<i>EBITDA %</i>	<i>48%</i>	<i>49%</i>	

# KC- increasing bundles and recurring revenues

## Eclipse - business growth

### KC

Revenue		Sept 11 £m	Sept 10 £m	Movement
Consumer	Voice usage	4.0	4.6	(13%)
	Subscriptions - Voice & Broadband	19.4	18.0	8%
Business	Voice usage and rental	9.0	8.9	1%
	Broadband and data	10.8	10.4	4%
Consumer & Business	Other	3.2	3.3	3%
		<b>46.4</b>	<b>45.2</b>	<b>3%</b>

### Eclipse





Revenue		Sept 11 £m	Sept 10 £m	Movement
Consumer	Broadband	3.5	4.0	(13%)
Business	Broadband and data	5.7	5.2	10%
	Other	0.9	0.8	13%
		<b>10.1</b>	<b>10.0</b>	<b>1%</b>

	Sept 11 £m	Sept 10 £m	Movement
<b>Revenue</b>			
Managed & Connect Services	100.2	102.1	(2%)
Smart421	13.6	10.8	26%
	<b>113.8</b>	<b>112.9</b>	<b>1%</b>
Product re-sale & network support	16.2	20.7	(22%)
Network Build	7.7	0.7	
	<b>137.7</b>	<b>134.3</b>	<b>3%</b>
<b>EBITDA</b>	<b>13.4</b>	<b>12.6</b>	<b>6%</b>
<i>EBITDA %</i>	<i>10%</i>	<i>9%</i>	
<i>LTM ROCE % <sup>1</sup></i>	<i>18%</i>	<i>8%</i>	

<sup>1</sup> Last Twelve Months EBIT / (Total Assets (excluding Deferred tax) less current liabilities)

	H1 FY12	H1 FY11	Movement
Non-PRS	93.4	92.7	1%
Carrier PRS	6.8	9.4	(28%)
	<b>100.2</b>	<b>102.1</b>	<b>(2%)</b>

- Major contract wins, including PSN, have contributed to growth in contract order backlog but have limited impact on H1 revenue
- Loss of carrier PRS volume has minimal impact on margins/earnings (sub 3% gross margin product)

	Reported revenue movement	Current trends	Future growth
	1%	Increased bundles KC Talk upsells ARPU growth	+ Broadband penetration + Fibre - Voice decline
	1%	Increased business connections	+ SME focus & broader portfolio - Consumer Churn
	-	LT contract wins (in transition to longer book to bill cycle)	+ Public Sector & PSN + Enterprise mkt penetration + Longer term contracts - PRS decline
	26%	Maintaining high levels of project activity	+ Kcom relationships + Reputation

## Outlook

**Bill Halbert, Executive Chairman**



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