



KCOM Group PLC

“Successful transformation and resultant financial stability enables dividend increase”

Interim results for six months ending 30 September 2010

Highlights

- Transformation activity complete – financial stability assured
- Significant dividend increase and future commitment
 - 3.3 pence for current full year
 - Minimum 10% growth per annum for subsequent 2 years
- Business restructured & repositioned
- Medium term pensions certainty achieved
- New £200m banking facility
- Continued improvement in results & outlook
- Stronger business

Consistent delivery on commitments

	Six months ended		
	Sep 08 £m	Sep 09 £m	Sep 10 £m
Operating Profit	16.0	20.0	25.2
Basic EPS (pence)	2.06	2.46	2.96
Dividend (pence)	0.50	0.50	1.10
Net debt	180.2	146.2	111.8
Debt:EBITDA	2.7x	2.2x	1.6x

All P&L amounts stated before exceptional items

Financial overview

Paul Simpson, Chief Financial Officer

Summary financial results

	Sep 10 £m	Sep 09 £m	Movement
Revenue	194.8	210.8	(8%)
EBITDA	38.9	37.0	5%
<i>EBITDA %</i>	20%	18%	-
Operating profit	25.2	20.0	26%
Profit before taxation	22.0	16.2	36%
Net cash inflow from operations	21.2	32.0	(34%)
Net debt	111.8	146.2	£34.4m
Interim dividend per share (pence)	1.10	0.50	120%

All P&L amounts stated before exceptional items

Segmental performance

KC & Eclipse

- Revenue decline due to Eclipse and KC Colour pages
- Resilient EBITDA performance

Kcom & Smart 421

- Revenue decline driven by reduction in maintenance support base and low margin carrier services
- EBITDA progression reflects full impact of actions taken on cost reduction during FY10

PLC

- Flat EBITDA performance – higher pensions and share scheme costs offset by saving in other PLC costs

Revenue	Sep 10 £m	Sep 09 £m	Movement
KC & Eclipse	62.5	64.9	(4%)
Kcom & Smart 421	134.3	147.2	(9%)
PLC	(2.0)	(1.3)	(54%)
	194.8	210.8	(8%)

EBITDA	Sep 10 £m	Sep 09 £m	Movement
KC & Eclipse	30.7	30.7	-
Kcom & Smart 421	12.6	10.7	18%
PLC	(4.4)	(4.4)	-
	38.9	37.0	5%

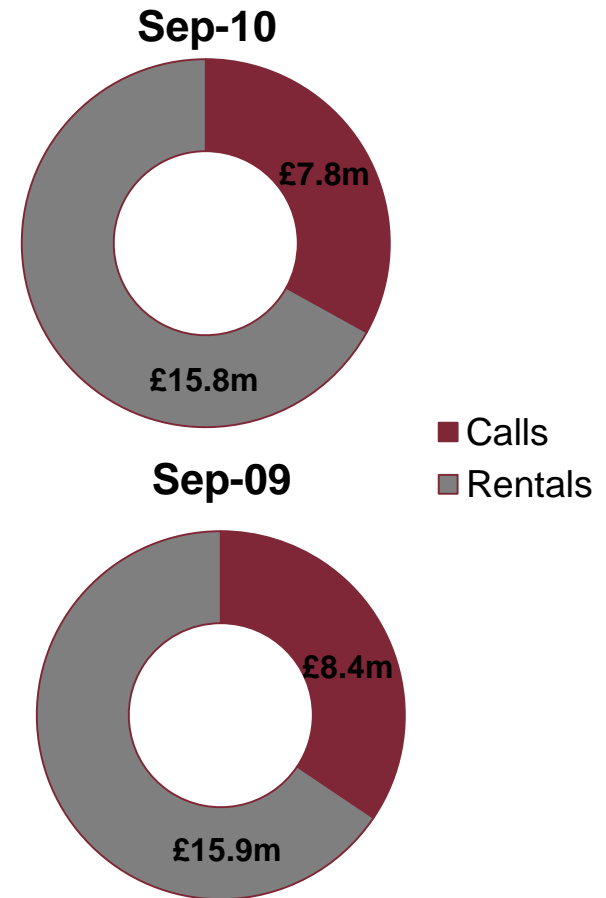
KC & Eclipse

	Sep 10 £m	Sep 09 £m	Movement
Revenue			
KC	52.5	53.7	(2%)
Eclipse	10.0	11.2	(11%)
	62.5	64.9	(4%)
Gross Margin	51.3	51.1	-
<i>Gross Margin %</i>	82%	79%	
EBITDA	30.7	30.7	-
<i>EBITDA %</i>	49%	47%	

KC trends consistent with overall UK market

	Sep 10 £m	Sep 09 £m	Movement
Voice	23.6	24.3	(3%)
Broadband, Data and Other	21.6	21.2	2%
Colour Pages and Contact Centres	7.3	8.2	(11%)
	52.5	53.7	(2%)

- Voice services account for 45.0% (2009: 45.3%) of KC revenue
- Decline in overall voice revenue driven by call volumes (as with rest of UK market) rather than rental decline
- Growth in broadband and data



Kcom & Smart 421

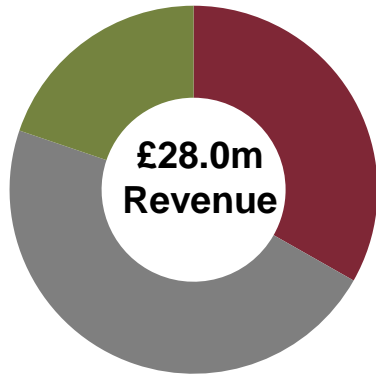
	Sep 10 £m	Sep 09 £m	Movement
Revenue			
Product re-sale & network support	20.7	29.8	(31%)
Managed services	25.0	23.3	7%
Connect services	77.8	86.0	(10%)
Smart 421	10.8	8.1	33%
	134.3	147.2	(9%)
Gross margin	39.8	41.7	(5%)
<i>Gross margin %</i>	<i>30%</i>	<i>28%</i>	
EBITDA	12.6	10.7	18%
<i>EBITDA %</i>	<i>9%</i>	<i>7%</i>	

Kcom & Smart – Direct Channel showing growth

	Sep 10 £m	Sep 09 £m	Movement
Revenue			
Enterprise & Mid Market	62.1	64.1	(3%)
Public Sector	22.7	19.9	14%
Direct Channels	84.8	84.0	1%
Carrier (Indirect)	28.8	33.4	(14%)
	113.6	117.4	(3%)
Product re-sale & network support	20.7	29.8	(31%)
	134.3	147.2	(9%)

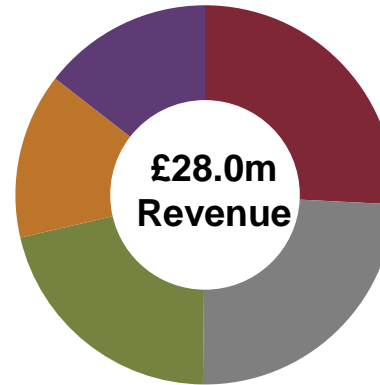
Kcom & Smart – Public Sector Resilient

Sep-10 Revenue by Service



- Managed
- Connect
- Product & Support

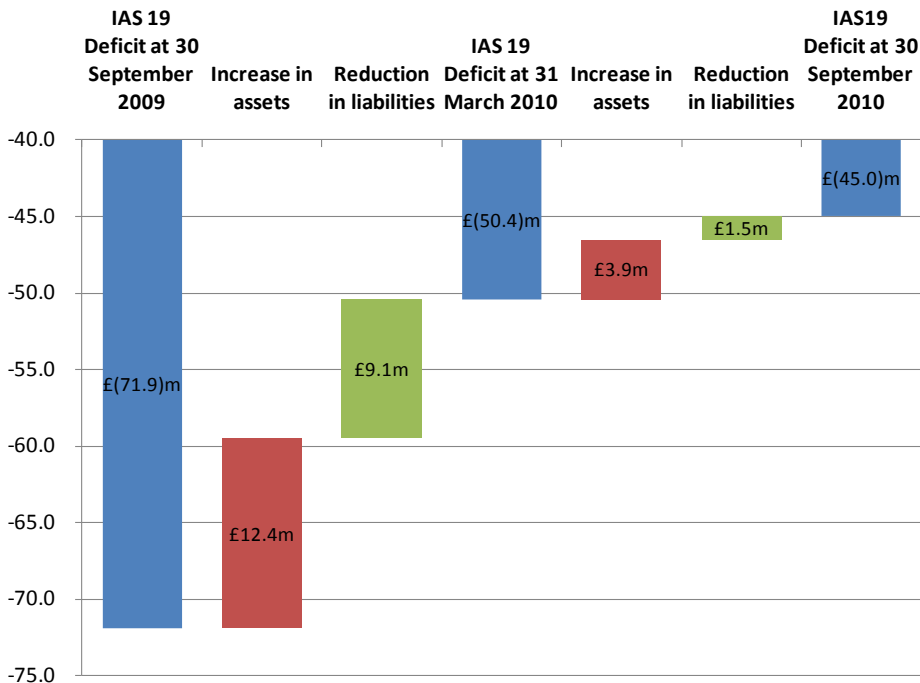
Sep-10 Revenue by organisation type



- Education
- Police
- Health
- Local Council
- Other

Reduced Pensions Risk

	Agreed Funding	Previous Funding
Committed Deficit Contributions per annum	£6.8m	£3.5m
One – off contribution in first six months of FY11	£3.3m	-



- Both schemes now closed to future accrual and final salary link broken
- Funding agreement reached with both schemes
- Increase in assets since March 2010 reflects increased level of deficit contributions
- Reduction in liabilities since March 2010 due to closure of scheme, offset by impact of lower AA bond yields
- Preliminary actuarial valuations in range of £60m-£65m
- Impact of movement from RPI to CPI not reflected (estimated at approximately £10m)

Further debt reduction

Movement in net debt	Sep 10 £m	Sep 09 £m
Opening net debt	116.8	157.9
Closing net debt	111.8	146.2
Reduction in period	5.0	11.7

Reconciliation of Movement			Movement £m
Net cash inflow from operations (pre-exceptional & pensions)	32.4	48.1	(15.7)
Exceptional items and pensions	(11.2)	(16.1)	4.9
Net cash inflow from operations	21.2	32.0	(10.8)
Capex	(6.4)	(10.0)	3.6
Interest	(3.2)	(3.8)	0.6
Dividends	(6.5)	(5.2)	(1.3)
Other	(0.1)	(1.3)	1.2
Total	5.0	11.7	(6.7)

Very strong EBITDA to cash conversion

	6 Months to Mar 09 £m	6 Months to Sep 09 £m	6 Months to Mar 10 £m	6 Months to Sep 10 £m	24 Months to Sep 10 £m
EBITDA	30.7	37.0	32.8	38.9	139.4
Operating Cashflow reported	41.4	32.0	42.6	21.2	137.2
Exceptional items and pensions	4.4	16.1	6.9	11.2	38.6
Operating Cashflow (pre-exceptional & pensions)	45.8	48.1	49.5	32.4	175.8
EBITDA conversion to cash	149%	130%	151%	83%	126%

- Strategic actions combined with operational performance has resulted in very strong EBITDA to cashflow conversion over last 24 months
- Performance in current period entirely driven by movement in trade and other payables to £129.6m (Mar 10: £144.7m)
- Operational management of trade and other receivables evidenced by balance sheet position of £76.7m (Mar 10: £76.9m)

Business overview

Bill Halbert, Executive Chairman

Simplified structure and clear focus



KC & Eclipse

- Revenue decline driven by lower end churn in Eclipse and KC Colour Pages advertising volumes
- EBITDA & cash across both brands remains strong
- Market opportunity
 - Upgrade to IP core
 - New product introductions
 - “Bundles” launched
 - Geographic expansion into adjacent area
 - Eclipse refocus producing results

Exploiting customer service



“The decision was based on our relationship with pre sales and their levels of service.... we were not receiving the level of service we desired with our incumbent supplier and, having some services already with KC, we knew the high standards to which they adhere which helped us in our final decision to go with KC”



“Our website is absolutely central to the success of our business. As soon as we moved from our basic web hosting to Eclipse’s Managed Server Hosting we noticed the difference. Managed Server Hosting has been the perfect solution to us, needing a reliable, secure server able to cope with the high demand and image-heavy design of our site. I’ve always been so impressed with Eclipse’s service I hardly ever need to call the offices, because my services have always been very reliable – but when I do, I’ve always had everything dealt with very quickly. Eclipse help and support me as a small business because it’s what they do – and I know they’ll understand what I need when I call in.”

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Kcom & Smart421

- Revenue decline due in part to sale of maintenance contracts to Phoenix IT
- Continued progression in EBITDA
- Tighter focus on sales and customer experience
- Strong growth through Smart421 offering

Expanding relationship with existing customers



“BA have worked for many years with Kcom and have great confidence in their commitment, professional approach and positive working relationships. I’m very happy to have awarded them a new contract covering both the data network management they have previously delivered, and additional services such as the management of much of our voice infrastructure. I look forward to a further period of excellent service from their team.”



“Our relationship with Smart421 has been in place for more than 10 years... They are all very skilled and professional.... Our Common Payment Interface was designed and developed by Smart421 specifically for O2. It processes millions of payment (top up) transactions per day and is a business critical service.”



Outlook

- Transformation activities complete
- Another strong set of results
- Strong cash flows
- Confidence leads to medium term dividend commitment
- Focus on organic growth opportunities