



# **Interim results for the six months ended 30 September 2016**

29 November 2016



# Highlights

- Further progress with our strategy:
  - Shift in Enterprise focus towards high value integration and cloud based solutions
  - Accelerated fibre deployment in Hull and East Yorkshire, with market leading take-up
  - Integration of the business behind a single brand, enabled by investment in systems and processes
- Banking facility extended giving 5 year period on existing terms
- Interim dividend of 2.00 pence (2015: 1.97 pence)
- Reconfirming dividend commitment of no less than 6.00 pence per annum for current and next financial year





# Financial performance

Jane Aikman

Chief Financial Officer



## Summary financial results

	Sep 16 £m	Sep 15 £m	% Change
<b>Revenue</b>	165.3	177.9	(7%)
<b>EBITDA</b>	32.0	37.2	(14%)
<i>EBITDA %</i>	19%	21%	
<b>Operating profit</b>	18.9	26.3	(28%)
<b>Adjusted basic EPS (pence)*</b>	2.78	3.82	(27%)
<b>Net cash flow from operations</b>	(5.0)	35.9	(114%)
<b>Net debt</b>	45.7	103.0	(56%)
<b>Interim dividend per share (pence)</b>	2.00	1.97	

All amounts are before exceptional items.

\* Adjusted basic EPS is basic EPS adjusted for post tax impact of exceptional items

- Shift in focus away from commodity business towards value driven solutions in Enterprise
- Additional cost of the fibre network outsource
- Increased depreciation and amortisation due to investment in the business in line with strategy
- Cash and net debt are affected by the proceeds and timing of the network assets sale



## Segment performance

	Revenue		Contribution	
	Sep 16 £m	Sep 15 £m	Sep 16 £m	Sep 15 £m
Hull and East Yorkshire	50.4	52.2	36.0	35.5
Enterprise	68.3	75.4	13.7	15.2
SMB National	48.5	52.9	11.6	12.8
<b><i>Total contribution</i></b>			<b>61.3</b>	<b>63.5</b>
Eliminations/shared costs	(1.9)	(2.6)	(29.3)	(26.3)
	<b>EBITDA</b>			
<b>KCOM</b>	<b>165.3</b>	<b>177.9</b>	<b>32.0</b>	<b>37.2</b>



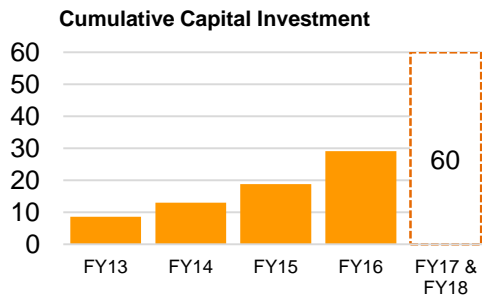
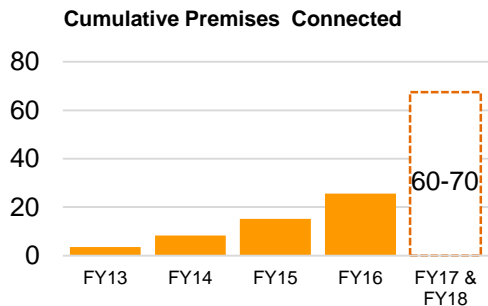
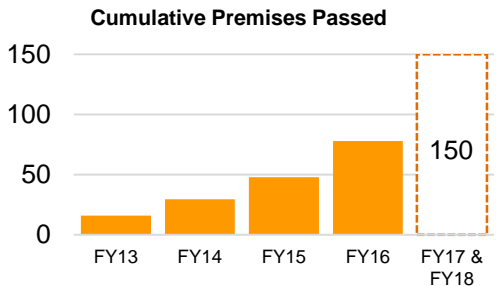
## Hull and East Yorkshire

	Sep 16 £m	Sep 15 £m	% Change
Consumer	27.8	27.2	2%
SMB Hull	15.8	17.5	(10%)
Wholesale	5.1	5.6	(9%)
Contact Centres	1.7	1.9	(11%)
<b>HEY Revenue</b>	<b>50.4</b>	<b>52.2</b>	<b>(3%)</b>
Contribution	36.0	35.5	1%
<i>Contribution %</i>	<i>71%</i>	<i>68%</i>	

- Increased access to fibre and market leading take up (>30%) supports 2% growth in consumer revenue
- Decline in business revenue primarily due to:
  - decline in legacy voice
  - reduction in Public Sector bandwidth - migration to a Public Services Network
- Lower wholesale revenues and anticipated decline in Contact Centres and Media
- Improved contribution % - enhanced by one-off supplier credit



# Fibre roll-out



- Continued re-investment of the proceeds of the network assets sale
- Acceleration of fibre roll out continued in H1 FY17, with expenditure of £7m YTD. Overall investment expected to total £60m
- Commitment to reach 150,000 premises by December 2017, 2/3 of customer base
- Level of take-up remains high, with 33,000 premises connected by 30 September 2016 (both consumer and business)
- Fibre roll out has enabled an ARPU uplift of 2% in the period
- Increased fibre roll-out continues to support an improved customer experience in Hull and East Yorkshire



# Enterprise

	Sep 16 £m	Sep 15 £m	% Change
Revenue	68.3	75.4	(9%)
Contribution	13.7	15.2	(10%)
<i>Contribution %</i>	20%	20%	

- Expanded relationship with HMRC, though early project phase revenue in FY16, means a decrease compared to H1 FY16
- Anticipated decline in network based legacy activities
- Small increase in other revenues
- Enterprise represents the best growth opportunity through our unique position in the convergence of IT and cloud communications solutions





## SMB National

	Sep 16 £m	Sep 15 £m	% Change
Partners	21.6	24.8	(13%)
SMB	26.9	28.1	(4%)
<b>SMB National Revenue</b>	<b>48.5</b>	<b>52.9</b>	<b>(8%)</b>
Contribution	11.6	12.8	(9%)
<i>Contribution %</i>	24%	24%	

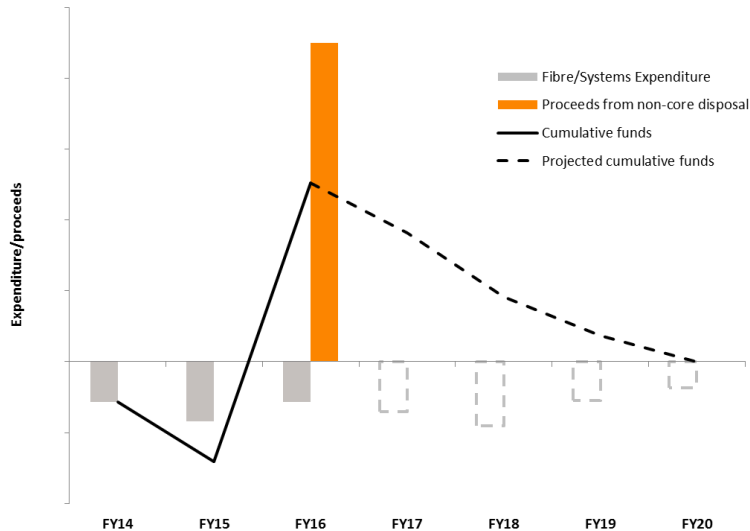
- SMB National no longer core - increasingly difficult to differentiate in highly commoditised market
- Lower investment than Enterprise and Hull and East Yorkshire
- Revenue and contribution performance reflects anticipated decline



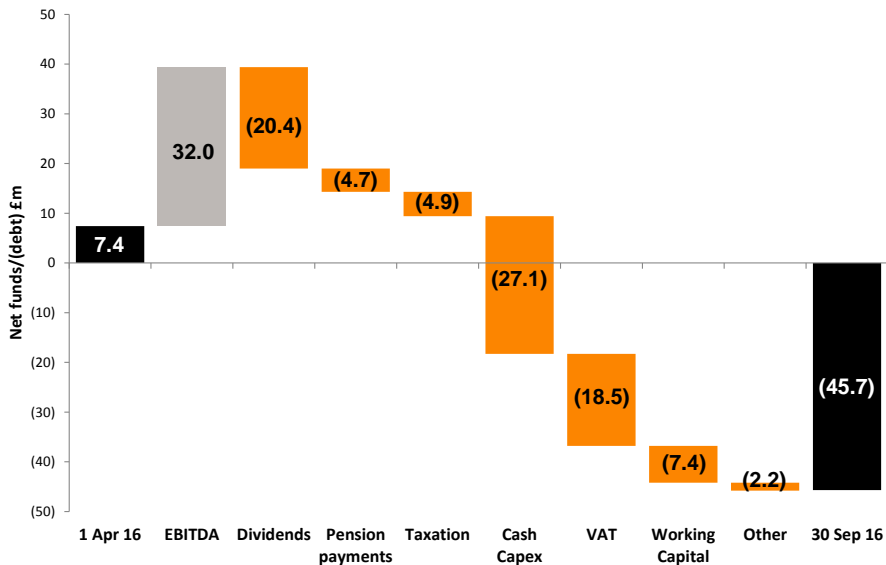
# Transformation journey

Fixed asset additions by category:	FY14 £m	FY15 £m	FY16 £m	FY17 (H1) £m
Fibre roll out	4.4	5.8	10.0	7.1
Strategic IT Investment	6.6	11.0	1.2	0.9
Workplaces	4.1	9.9	6.1	5.0
<b>Key investment areas</b>	<b>15.1</b>	<b>26.7</b>	<b>17.3</b>	<b>13.0</b>
Other investment	19.5	13.3	18.9	9.9
<b>Total investment</b>	<b>34.6</b>	<b>40.0</b>	<b>36.2</b>	<b>22.9</b>

- Investment in key areas has continued in FY17
- Expenditure on fibre roll-out and strategic IT investment is funded, and will continue to be funded, by proceeds from the disposal of non-core assets



# Net funds / debt



- Core obligations (dividends, pensions, tax) continue to be funded through trading performance
- “Transformation” capex funded by sale proceeds of non-core assets
- VAT on the network asset sale paid during the period
- Working capital movements fluctuate during the year, DSO well managed and remains consistent with prior year



# Pensions

	Sep 16 £m	Sep 15 £m
Fair value of assets	250.1	206.5
Present value of defined benefit obligation	(294.2)	(222.6)
<b>Retirement benefit obligation</b>	<b>(44.1)</b>	<b>(16.1)</b>
<b>Assumptions</b>	<b>%</b>	<b>%</b>
Discount rate	2.15	3.75
RPI	3.00	3.05

- IAS 19 pension liability £44.1m - impacted by decrease in discount rates, offset by strong asset performance
- Discount rate assumption has decreased since 31 March 2016 due to falls in corporate bond yields; inflation expectations remained broadly stable
- Triennial valuation (as at 31 March 2016) in the process of being finalised
- Current agreed level of deficit repair payment excluding the CAR (across both schemes) for FY17 is £6.7m





# Continuing our transformation journey

Bill Halbert

Chief Executive Officer



## A year of further progress

- Transformation continues to progress well
  - Integration under a single brand enables us to simplify ways of working
  - Investment in systems
  - Changing size and skills of teams
- Tighter focus on Enterprise and Hull and East Yorkshire
- Network disposal fundamental part of journey



# We make life easier and better for our customers by creating greater value from the way they interact, collaborate and connect with what matters to them.

## Enterprises

Organisations with complex needs look to us to help them integrate and leverage technology including contact, collaboration and cloud-based services

Our customers in this market include →



Investing for growth

## Hull & East Yorkshire Consumers & small businesses

Customers across Hull and East Yorkshire can choose from our range of voice, broadband and TV services to suit their needs

Our customers in this market include →

More than 140,000 customers in Hull and East Yorkshire



## National businesses

We help businesses embrace the power of technology to become more successful

Our customers in this market include →





## Enterprise

Continued shift to more complex integration activities

Deepening relationships with existing customers







## Consumer and small businesses

Accelerated fibre deployment

Take-up of over 30%

Future-proof capability

Over the top service development



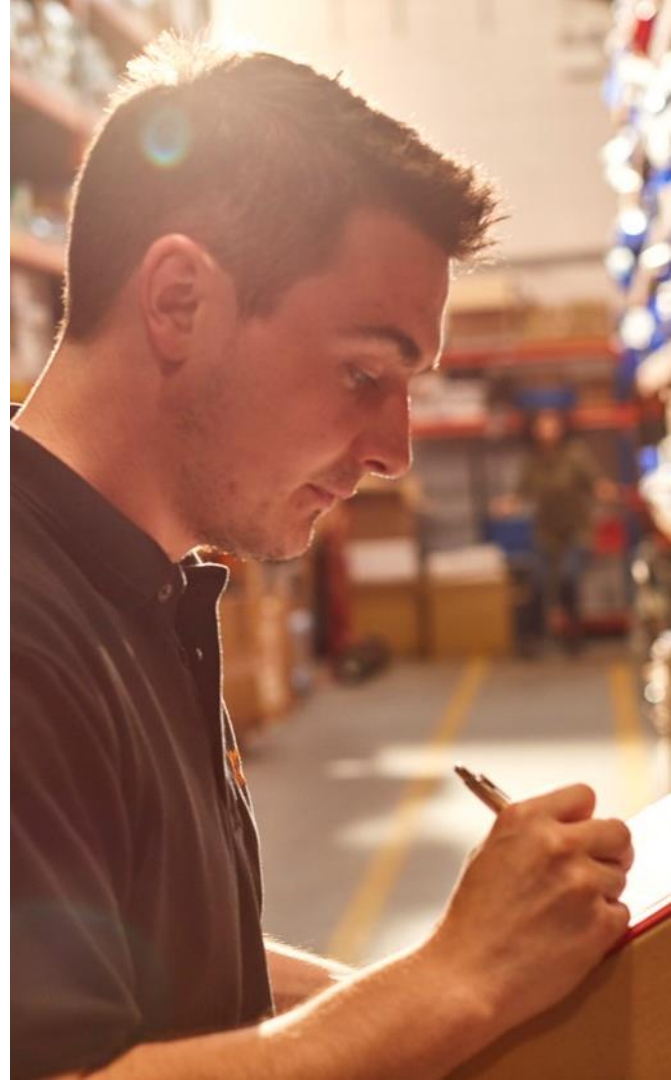


## SMB

Increasingly commoditised market

No material investment planned

Declining revenue in some service areas;  
trend expected to continue



# Outlook

- Confident in ability to exploit opportunities in enterprise and regional market
- Increased investment in coming year reflects focus
  - Continued fibre deployment and related fibre enabled services
  - Transformation of network technologies
  - Systems, processes, skills and capabilities
- Simplified business which generates sustainable value
- Minimum 6.00p per share dividend in each of the next two financial years

