

## Interim Management Statement

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TalkTalk Telecom Group PLC

08 February 2011

Tuesday 8 February 2011

### TalkTalk Telecom Group PLC

Interim Management Statement - Third Quarter FY 2010/11

- **Customer base unbundling ahead of schedule**
- **Last major integration milestone now completed successfully**
- **Reorganisation initiated to deliver operating efficiencies**
- **Confirming full-year guidance**

#### Q3 operating headlines

- 85% of broadband base unbundled at end of Q3
- Q3 broadband ARPU grew to £24.9 (Q3'10: £23.8)
- Total broadband customer base reduced by 25k to 4.224m
- Q3 broadband revenue grew 7% to £316m (Q3'10: £294m)
- Q3 total revenue £444m (Q3'10: £446m)

**Dido Harding**, Chief Executive of TalkTalk commented:

"We have made a good start implementing the new strategy we announced in November last year, focusing on simplifying our business, improving our operating margins, and delivering value for money products and services for our existing customers.

We successfully completed the last major milestone in our One Company integration programme at the end of January, migrating former Tiscali customers onto our core billing system, ahead of schedule. The integration programme has caused some customer disruption, but provides a strong platform for us to deliver a better experience for all our customers, and enables us to drive further operating efficiencies across the whole business.

Unbundling our customer base is ahead of target and the next phase of our network build-out is already under way. We have now initiated a major reorganisation that will simplify our business and deliver material operational efficiencies.

Our operating performance in the third quarter was in line with our expectations and we remain on track to deliver our full-year guidance."



## **BUSINESS REVIEW**

### **One Company integration**

The integration of the former Tiscali business is now in its final stages. The last major milestone in the programme was the migration of the Tiscali customer base onto our core billing system and this has now been achieved successfully, ahead of schedule. The remaining elements of the programme include migrating some smaller legacy customer bases, and finalising some network and systems consolidation. As well as delivering annual synergy benefits of £55m, the integration programme gives us a firm foundation from which to deliver a better experience for our customers, reduce churn, drive higher ARPU and enhance operational efficiency.

### **Largest unbundled UK network**

At the end of the third quarter we had achieved our full-year target of unbundling 85% of customers onto our own network. We are now making good progress towards our goal of a further 700 unbundled exchanges covering 93% of the population, with the unbundling of 55 new exchanges currently under way, and planning well advanced for unbundling the next wave of the exchange roll-out programme.

### **Operating efficiencies**

We have initiated a major reorganisation to simplify our business operations, that will enable us to further enhance the quality of service we provide to all our customers, as well as delivering major operational efficiencies. The reorganisation includes integrating all our technology and IT capabilities and eliminating functional duplication, and is expected to lead to the loss of approximately 580 jobs and generate annual cost savings of around £25m.

### **Fibre access**

We have introduced an availability checker and customer pre-registration facility for our "Fibre Optic Boost", in preparation for the full launch of this product over the coming months. The Boost will deliver download speeds of 15-40 mbps for customers seeking faster broadband access, and will make a real value-for-money, high-speed broadband service available to our customers who are located within the Openreach fibre network footprint.

To better understand the technical and commercial aspects of the next stage of the planned BT Openreach fibre roll-out, which will be based on fibre-to-the-home (FTTH), we have entered into a shared research and development project with BSkyB to deploy a small-scale FTTH network to 3,600 homes in North-West London. This project will allow us to input constructively into the Openreach FTTH programme, gaining insights into potential service offerings, set-up processes, usage patterns and costs to deliver. The project costs are being shared between the two companies and are not material.

### **Value-for-money quad play**

We launched three value-for-money mobile propositions at the beginning of the third quarter, aiming initially to develop effective operating processes and service levels, to ensure that we deliver the right customer experience. This programme is on track, and we will now accelerate development of our mobile offering and market these services more actively into our fixed line customer base.

We are one of the seven partners in the YouView joint venture developing the next generation TV platform, that will enable customers to enjoy their favourite TV content with integrated catch-up, pre-recording and video-on-demand capabilities. The project schedule is kept under review, but the development of YouView is progressing well and all the partners remain committed to creating a high quality TV experience for customers.

## **Q3 OPERATIONS**

### **Revenue**

Total revenue in the quarter of £444m was broadly flat year-on-year, with strong broadband revenue growth offset by the continuing decline in non-broadband revenue, in line with our expectations, and B2B revenue broadly flat year-on-year.

Broadband revenue in the quarter grew by 7.5% year-on-year to £316m (2010: £294m) reflecting the addition of 69,000 net new customers during the year, and 5% ARPU growth.

Non-broadband revenue declined to £48m (2010: £71m), reflecting the reduction in non-broadband customers during the year, and also the £4m impact in the quarter of the disposal of our customer bases in Ireland and Belgium last year.

Revenue in our business segment was broadly flat year-on year at £80m, (2010: £81m), as data service revenue growth continued to be offset by the decline of our legacy voice service revenues, in line with expectations.

## **Broadband**

The total broadband customer base fell by 25,000 in the quarter, to 4.224 million, mainly reflecting continuing churn in the former Tiscali base, as the network and systems migration processes continued to create disruption for some customers. This churn was significantly higher among off-net customers, and offset the continuing good on-net customer acquisition performance of our TalkTalk brand, which was supported by the successful marketing campaign based around our sponsorship of the X-Factor.

Broadband ARPU continued to grow, to £24.9. This partly reflected the impact of line rental and voice call tariff increases at the start of the quarter, although we have held the prices of our Essentials and Plus broadband services flat, further enhancing our strong value-for-money credentials in the market. Higher ARPU also reflected our improving customer mix, as we added more fully unbundled customers and grew sales of our higher value Plus product, which accounted for 11% of our total base at the end of the quarter.

## **Non-broadband**

The non-broadband customer base, comprising legacy voice-only customers and the small number of remaining narrowband subscribers, declined by 83,000 in the quarter to 755,000. This was in line with our expectations, as broadband penetration of the consumer market continues to grow. Non-broadband ARPU of £20.1 was flat year-on-year, but stronger than in the previous quarter (Q2: £18.1), reflecting price increases as well as normal seasonality.

## **Business**

Revenue in the B2B business, now re-branded TalkTalk Business, was broadly flat year-on-year, reflecting normal seasonality in the SME market that we serve.

Revenue from data services continued to grow, with our portfolio ranging from services marketed directly to small businesses, to higher-value Ethernet-based services marketed through our partner channels. Significant new contract wins in the quarter included a contract with Fujitsu for a range of data connectivity services. Since we launched our ethernet products last year, to exploit the capabilities of our leading Next Generation Network, we have signed up more than 30 partners.

Our legacy voice business revenues continued to decline, as expected, in line with the long-term trends seen across the B2B market.

## **OUTLOOK**

We remain on track to deliver the guidance for the year ending 31 March 2011 that we presented in November.

We have made a good start in implementing the strategy we announced in November last year and we remain confident that this will deliver the growth and substantial operating efficiencies that we are targeting in the medium-term.

## **Conference call**

There will be a conference call for investors and analysts starting at 9.00am this morning.

The dial-in details are +44 (0)20 7138 0845 (UK & Intl. excl. USA) and +1 718 247 0883 (USA). The passcode is 1109349.

A replay will be available for one week on +44 (0)20 7111 1244 (UK & Intl. excl. USA) and +1 347 366 9565 (USA). The passcode for replay is 1109349 #

The event will also be audio webcast at [www.talktalkgroup.com](http://www.talktalkgroup.com).

## **For Further Information**

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**Next Trading Update**

The Group will announce its Preliminary Results on 19 May 2011.



APPENDIX : QUARTERLY METRICS

BROADBAND	FY 2009/10				FY 2010/11		
	Q1 <sup>(1)</sup>	Q2 <sup>(2)</sup>	Q3	Q4	Q1	Q2	Q3
Net Adds ('000)	47	15	36	42	34	18	-25
Total Base (m)	2.853	4.119	4.155	4.197	4.231	4.249	4.224
ARPU (£)	23.3	23.7	23.8	23.6	23.9	24.7	24.9
Unbundled %	79%	72%	72%	74%	77%	81%	85%

NON-BB							
Total Base ('000)	1,061	1,199	1,097	999	910	838	755
ARPU (£)	20.8	17.8	20.1	21.8	19.3	18.1	20.1

REVENUE (£m)	340	449	446	451	444	443	444
Of which:							
Broadband (£m)	200	296	294	296	301	314	316
Non-BB (£m)	64	71	71	67	56	47	48
B2B (£m)	76	82	81	88	87	82	80

(1) Prior to acquisition of Tiscali

(2) Included acquisition of Tiscali and customer base adjustment

This information is provided by RNS  
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