

Interim Results

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TalkTalk Telecom Group PLC

15 November 2011

Tuesday 15 November 2011

TalkTalk Telecom Group PLC
Interim results for the 6 months to 30 September 2011

Strategy delivering: 36% increase in earnings and 53% increase in dividend in H1
159k fully unbundled customers added; broadband base now 89% unbundled
Delivering a better experience for our customers and operating efficiencies on track
Significant progress on upsell into Plus, Homesafe™ and Boosts
TV offering on track for launch Spring 2012 with YouView Service

Financial Headlines ⁽¹⁾

- Revenue of £844m (H1'11: £887m)
- EBITDA up £25m to £146m (H1'11: £121m) with margin increased to 17.3% (H1'11: 13.6%)
- H1 EBIT up 25% to £100m (H1'11: £80m); EPS up 38% to 7.6p (H1'11: 5.5p)
- Operating free cashflow up 59% to £97m for the first half (H1'11: £61m)
- Interim dividend increased 53% to 2.6p per share (H1'11: 1.7p) in line with enhanced dividend policy

⁽¹⁾ Excludes exceptional charges and amortisation of acquisition intangibles

Operational Headlines

- 159,000 fully unbundled customer growth with decline in legacy SMPF and off-net leading to total broadband base reduction of 70,000
- 89% of total broadband base now unbundled with 201 new exchanges added
- Significant progress in upsell:
 - 800,000 Plus customers, 19% of the base, up from 16% in Q1
 - 250,000 customers taking Mobile Minute Boosts
 - 200,000 customers activated unique HomeSafe™ network level security since May launch
- Ongoing customer service improvement with 40% reduction in customer service calls and 75% of calls now resolved on first contact
- £40m of operating efficiencies target of £40 - 50m now identified

Q2 Operating Headlines

- Q2 broadband ARPU steady at £24.70 (Q1: £24.70)
- 171 exchanges added
- 83,000 fully unbundled customer growth with decline in legacy SMPF and off-net leading to total broadband base reduction of 43,000

Outlook

- Revenue stabilising, now expected to be broadly flat in the second half versus the first half
- Expecting EBITDA margin at the top of our 17-18% range as cost reductions and unbundling continue to deliver growth
- Earnings per share for the full year expected to be at the top end of our 15.5 - 16.5p range
- Now expecting positive total broadband net adds during the first half of calendar year 2012

Commenting on the results, Dido Harding, Chief Executive of TalkTalk, said:

"These results prove we are delivering on our strategy. Earnings are up 36% half on half and this growth, combined with our enhanced dividend policy, has driven an increase in the dividend of more than 50%. We are ahead of plan on our unbundled exchange roll out and making significant progress towards our £40-50m operating efficiency target.

We are pleased that we are delivering a better experience for our customers, demonstrated by the continuing reduction in calls into our contact centres and a significant increase in the number of customers' queries being resolved first time. This reflects our priority to improve customer experience and make our end to end systems and processes both more effective and more efficient. There is a lag between these initiatives and improvements in customer numbers, but we are confident that the effects will soon become more apparent.

One of the biggest issues on the internet right now is safety and security. The Government has asked all ISPs to pledge to offer new customers an active choice regarding parental controls by October 2012. Our unique HomeSafe™ product is the only one of its kind that enables parents to filter unwelcome content and protect all devices that use broadband. It has been enthusiastically received and it's working: since launch over 200,000 customers have activated Homesafe™ and it has blocked more than 1 million unwelcome websites at their request.

We continue to be the best value provider, with more of our customers saving money by buying more products from us and we are making significant progress on upsell to Plus, Homesafe™ and Boosts. The launch of YouView next year will be a major development for TalkTalk and we are on track to offer a value for money product of phone, broadband and TV in Spring 2012.

In the short term, we fully expect to achieve the upper end of our margin and earnings targets for this year. Looking further ahead, we remain confident that the combination of our attractive market positioning, ongoing operational improvements and compelling developments in our product offering leaves us well placed to achieve our medium term objectives of 20% EBITDA margins and 2% revenue CAGR."

Headline Profit & Loss ⁽¹⁾	6 months ended 30 September 2011	6 months ended 30 September 2010	% growth
Revenue (£m)	844	887	-4.8%
EBITDA (£m)	146	121	20.7%
EBITDA margin (%)	17.3%	13.6%	
EBIT (£m)	100	80	25.0%
Profit after tax (£m)	68	50	36.0%
Earnings per share (p)	7.6	5.5	38.2%
Dividend per share (p)	2.6	1.7	52.9%
Headline Cashflow (£m)			
EBITDA ⁽¹⁾	146	121	20.7%
Working capital	-	(10)	-
Capital expenditure	(49)	(50)	2.0%
Operating free	97	61	59.0%

cashflow

Exceptional items	(23)	(28)
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Acquisitions and disposals	(13)	11
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Purchase of own shares	(54)	-
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Interest and Tax	(9)	(12)
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Dividends	(35)	-
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Net Debt	(475)	(476)
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(1) Excludes exceptional charges and amortisation of acquisition intangibles

APPENDIX 1: QUARTERLY METRICS

BROADBAND	FY 2010/11				FY 2011/12	
	Q1	Q2	Q3	Q4	Q1	Q2
On-net adds ('000)	+157	+174	+130	+36	+35	+26
Of which:						
MPF net adds ('000)	+223	+173	+79	+65	+76	+83
SMPF net adds ('000)	-66	+1	+51	-29	-41	-57
Off-net adds ('000)	-124	-156	-155	-61	-62	-69
Total Net Adds ('000)	+34	+18	-25	-25	-27	-43
On-net base (m)	3.267	3.441	3.571	3.607	3.642	3.668
Of which:						
MPF base (m)	2.434	2.607	2.686	2.751	2.827	2.910
SMPF base (m)	0.833	0.834	0.885	0.856	0.815	0.758
Off-net base (m)	0.964	0.808	0.653	0.592	0.530	0.461
Total Base (m)	4.231	4.249	4.224	4.199	4.172	4.129
On-net (%)	77%	81%	85%	86%	87%	89%
ARPU (£)	23.9	24.7	24.9	25.0	24.7	24.7
New LLU exchanges	112	149	4	0	30	171
Total LLU exchanges	1,854	2,003	2,007	2,007	2,037	2,208

NON-BROADBAND						
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Total Base (m)	0.910	0.838	0.755	0.678	0.621	0.573
ARPU (£)	19.3	18.1	20.1	17.7	18.8	18.1

REVENUE (£m)	444	443	444	434	423	421
Of which:						
Broadband (£m)	301	314	316	316	310	307
Non-BB (£m)	56	47	48	38	36	33
B2B (£m)	87	82	80	80	77	81

Presentation

A presentation for investors and analysts will be held at The London Stock Exchange starting at 8:30am.

The event will also be audio webcast live at <http://www.talktalkgroup.com>

The dial in details (listen-only) are as follows:

UK/International: +44 (0)20 7136 2050

USA: +1 877 249 9037

Passcode: 7098684#

A replay will be available until midnight on 23rd November 2012

UK/International: +44 (0)20 7111 1244

USA: +1 347 366 9565

Access code: 7098684#

The Group will announce its third quarter trading update at the end of January 2012.

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Our focus in the first half of the year has been on making real progress in each of the five core elements of our strategy.

1. Largest unbundled network

In the first half, we added 61k net new on-net customers, comprising strong growth of 159k in our core MPF broadband and voice product, offset by the net loss of 98k legacy SMPF broadband-only customers. 89% of our broadband customers are now unbundled and able to benefit from our added value products such as Plus and Homesafe™ which in turn lead to lower customer churn. The off-net base declined by 131k, resulting in a total broadband customer loss of 70k.

Our unbundling programme continues at pace with 201 new exchanges added in the period extending the reach of our value for money products to 2,208 exchanges and approximately 89% of the population.

2. Operating efficiencies

Significant improvements in our customer experience have continued throughout the first half with a 40% year on year reduction in calls into our contact centres and 75% of our customers now benefitting from first time resolution of their query.

Better diagnostic processes and tools and greater network stability, following completion of our customer migration programme, were reflected in a substantial reduction in technical support calls during the period. Improved self serve capabilities and higher first time query resolution resulted in lower volumes of general service calls, including billing queries. More than 50% of our total customer contacts are now online, compared to around 30% in H1 last year. This improves both customer experience and future profitability.

This ongoing reduction in call volumes has enabled us to rationalise the number of outsource partners we work with and to restructure our outsourcing partnership contracts to incentivise further reductions in call volumes and improvement in the quality of customer interaction. We also announced in the period the closure of our Waterford contact centre and have successfully transitioned all associated call centre activity to our other sites. The cost of the closure of Waterford is expected to be £15 - 20m with benefits of £5m being delivered in the second half and an annualised benefit of £15m.

We have made significant improvements in the speed and reliability with which customers are provisioned. In H1, 95% of our new joiner orders were completed within 20 days, up 50% from the same period last year. The number of calls from joining customers has halved and the rate of "leakage" of customers between sale and connection has fallen by 30%.

The restructuring programme announced in January of this year is now complete and will result in cost savings in FY12 of £15m with an annualised benefit of £25m.

As a result of the initiatives set out above, we are making significant progress towards our target of £40-50m of operating efficiencies, with a further £20m expected to be realised in FY13 and £40m on an annualised basis.

3. Value for money Quad play

In H1, we have launched a series of new prices and products, to maintain our positioning as best value in the market. These initiatives include the repricing of our line rental offer, the reduction of headline pricing of our Essentials and Plus broadband packages and the launch of both our unique Homesafe™ service and a 500 Mobile Minute Boost.

In the last six months a record 400,000 customers have joined or upsold to Plus, our inclusive calls product, reflecting its unbeatable value and appeal to customers in these challenging economic times. Plus customers now comprise 19% of our total customer base. A further 250,000 customers are now also benefitting from a capped cost of calling mobiles through our innovative 200 and 500 Mobile Minute Boosts.

Homesafe™, our network-level security and safety service that protects all devices using the internet connection in the home, is unique to TalkTalk. Homesafe™ gives customers the ability to block inappropriate content as well as protect devices from viruses and appeals strongly to parents in particular. Homesafe™ is available free of charge to TalkTalk customers and since its launch in May, more than 200,000 customers have activated the service.

YouView remains on track for launch in Spring 2012. Development within the YouView team is progressing well and within TalkTalk we are making great progress on provisioning capability, as well as operational and CRM readiness to support our TV service within our existing operational structures. We anticipate running "Friends and Family" trials in Q4 which will focus on the end to end customer experience.

Our mobile base continues to grow with over 50,000 customers now taking mobile in addition to their phone and broadband service and we plan

to launch a handset proposition, in addition to our existing SIM only and data products, in the Spring.

4. TalkTalk Business Services

TalkTalk Business generates approximately 20% of the revenue of the Group and comprises three main areas; business data services, voice services and carrier services.

Business data services, including Ethernet, managed networks and co-location is building momentum delivering a 17% increase in revenue half on half as we continue to expand our product set and start to scale up our volume capability.

As anticipated, voice revenues in the B2B business continue to be under pressure as we have seen the impact of mobile termination rates and fixed line voice minutes decline continuing throughout the first half of the year.

Our carrier service operations, which leverage our interconnected voice network and scale of customer base, has traded broadly in line with the prior period.

Charles Bligh joins in November as Managing Director of TalkTalk Business from IBM, reflecting our strategic intent to significantly develop our product and sales reach in B2B.

5. Fibre Access

Our Fibre Optic Boost was available throughout the first half of the year and we have seen modest increases in demand with fibre connections now running at 300 per week and an installed base of 3,000.

We are offering our Fibre Boost, priced at £10, to customers who are actively seeking to upgrade to faster speeds. At the same time we are continuing to work with Openreach to develop the product further, focusing on improving the customer connection process and reducing the initial set-up and ongoing provisioning costs.

As Ofcom have recently reported, demand for fibre is low in the UK today. We believe the principle driver of growth in the long run will be IPTV services which require higher bandwidth and therefore expect fibre sales to lag the growth of IPTV. We have reached broad agreement with Openreach on a commercially viable basis for an 80 meg fibre product. We plan to launch pre-registration for this boost in January priced at £15, giving a saving of £200 against the similar speed and contract Virgin product, and make this product available to new as well as existing customers.

Q2 Operating Review

Total revenue in the quarter was £421m, broadly flat compared with Q1 as revenue stabilises.

Broadband revenue was marginally lower in the quarter at £307m, reflecting constant ARPU quarter on quarter and the reduction in the total customer base. In line with our expectations and continued trends, non-broadband revenue declined by £3m in the quarter. Revenue from TalkTalk Business increased in the quarter to £81m (Q1: £77m) as usage returned to more normal levels after the reduction seen in Q1 as a result of the unusual holiday pattern.

Broadband ARPU was flat at £24.70 in the quarter as the headline price reduction announced in May offset the benefit of customer mix improvements.

We added 83k fully unbundled broadband and voice customers in the quarter, partially offset by the net loss of 57k SMPF broadband only customers. The off-net base declined by 69k, resulting in a total broadband customer loss of 43k. The rate of exchange of unbundling increased in the second quarter with 171 new exchanges coming on stream. The quality of our customer base continues to improve as we add more fully unbundled customers, grow our on-net base and drive higher contribution per customer.

OUTLOOK

While the economic environment remains challenging for all consumer facing businesses, we continue to believe that TalkTalk is well positioned as the UK's leading value for money broadband provider of what is increasingly, an essential service.

We expect growth in our fully unbundled base to accelerate in the second half as new exchanges added towards the end of the first half come on stream and we build to 450 exchanges. Our broadband only (SMPF) and off-net legacy bases will continue to decrease in the second half with the net effect on our total broadband base now expected to be a modest decline year on year. As customer experience initiatives accelerate, we expect to see benefits in our customer numbers. There is a lag between these initiatives and improvements in customer numbers and we are now expecting positive net adds during the first six months of 2012.

Revenue in the second half of the year is expected to be broadly in line with revenue during the first half. This reflects both the customer base

profile and that the underlying growth in broadband ARPU will be offset by continued loss of high ARPU low margin off-net customers.

EBITDA margins are expected to be at the top end of the 17-18% range as cost reductions and unbundling continue to deliver.

Operating free cashflow is expected to be at the top end of the 10-11% range as our profitability improves. We still expect to see a working capital outflow of £15-20m for the full year.

EPS is expected to be at the top end of the 15.5-16.5p range adjusted for the number of shares now held by the Employee Benefit Trust.

Looking further ahead, we remain confident that the combination of our attractive market positioning, ongoing operational improvements and compelling developments in our product offering leave us well placed to achieve our medium term objectives of 20% EBITDA margins and 2% revenue CAGR.

Headline Profit & Loss

Total revenue fell by 4.8% to £844m (H1'11: £887m). Broadband revenue was broadly flat at £617m (H1'11: £615m) as the good progress on Plus and Boost penetration was offset by the decline in voice usage. Non-broadband revenue at £69m (H1'11: £103m) has declined in line with our expectations. Corporate revenue reduced by £11m to £158m as a result of lower mobile termination rates, voice usage as well as a tougher half year on half year comparator and was in line with our expectations.

Headline EBITDA grew by 20.7% to £146m (H1'11: £121m). Our EBITDA margin showed significant improvement, growing from 13.6% in the first half of last year to 17.3% in the first half of this financial year. This reflected the impact of our unbundling programme in gross margin, the benefit of the exit run rate of the Tiscali integration programme and successful delivery of our operating efficiencies together with a continued focus on cost reduction.

The first phase of our £40-50m cost reduction target has been delivered through our back office reorganisation and has reduced our costs by £5m in the first half with a further reduction of approximately £5m expected in the second half. The financial impact of the closure of our Waterford contact centre is expected to generate a cost reduction of approximately £15m per annum of which approximately £5m is expected in the second half. We anticipate incurring an additional £15-20m of exceptional costs in this financial year in relation to Waterford.

Our Headline EBIT increased by 25% to £100m (H1'11: £80m) resulting from the improvement in EBITDA offset by a small increase in depreciation and amortisation from our continued investment in exchange roll out and billing systems.

Finance costs were £8m (H1'11: £10m) reflecting a lower average net debt in the period and reduced margin.

The effective headline tax rate was in line with our expectations at 26%. During the period, we reached agreement with HMRC on the utilisation of tax losses acquired with Tiscali, including those of Video Networks Limited. As a result of this agreement, we have recognised a deferred tax asset of £47m in relation to these losses and the associated tax credit has been treated as an exceptional item in the income statement. We anticipate that the overall cash value of these losses over the longer term will be approximately £75m on a discounted basis.

Headline earnings per share grew from 5.5 pence to 7.6 pence, an increase of 38% resulting from the improved profitability of the business. The purchase of shares during July, August and September by the Employee Benefit Trust ("EBT") reduced the weighted average number of shares for the period and increased EPS by approximately 0.1 pence.

The Board has declared an Interim Dividend of 2.6 pence per share in line with our enhanced dividend policy announced at the preliminary results. The ex-dividend date is 23 November and the record date is 25 November. We expect the dividend to be paid on or around 16 December.

Headline Cashflow

The Group generated £97m of operating free cash flow in the first half, a substantial increase of 59% on the prior period (H1'11: £61m). This represents 11.5% of revenue, slightly ahead of our full year guidance (H1'11: 6.9%).

Capital expenditure in the first half was £49m (H1'11: £50m), representing 5.8% of revenue. Investment in the first half included the build-out of 201 unbundled exchanges, as well as ongoing development of our billing systems.

Working capital was neutral in the first half (H1'11: outflow of £10m) as the reduction in debtors from a lower revenue base was broadly offset by a reduction in creditors resulting from both our operating efficiency and cost reduction actions and timing of payments to certain creditors that we expect to reverse in the second half.

Net cash exceptional spend in the first half was £23m. This consisted of cash costs associated with the first phase of our operating efficiencies programme announced on 26th January of £14m, "One Company" integration programme costs of £3m in relation to redundant circuits, £3m in relation to the second phase of our operating efficiencies programme which includes the closure of our Waterford contact centre and £3m in relation to the Ofcom fine.

In August, Ofcom determined that a fine of £3.1m was payable as a result of the breach of General Condition II under section 94 of the Communication Act 2003. Due to the size and nature of this cost, it has been treated as an exceptional item.

We now expect full year cash exceptional cash costs to be in the region of £40-50m, with the cash costs associated with the back office restructuring and the majority of the cash outflow in relation to the closure of the Waterford contact centre coming through in the second half.

Interest and tax paid in the period was £9m (H1'11:£12m). Tax reflected a payment of £1m (H1'11: £2m) in relation to the final stages of the Luxembourg liquidation and interest was broadly in line with the income statement charge.

In order to cover anticipated future option exercises, during July, August and September the Employee Benefit Trust ("EBT") purchased 42m shares at a total cost of £54m. This number of shares broadly equates to the diluting effect of options as at 31 March 2011. The EBT has waived its right to receive dividends on shares held in both the current and previous periods.

Net acquisition expenditure in the period was £13m. This principally related to the acquisition of Executel for £10m with a further £1m of future deferred consideration and our continued investment in the YouView joint venture of £2m. In the second half we expect to invest a further £7m in relation to the YouView joint venture and Greystone Telecom Ltd, a small B2B acquisition.

The dividend paid in the period was £35m, being the final dividend for FY11 of 3.9 pence per share.

Net cashflow was £36m and net debt at the end of the first half increased to £475m reflecting the Executel acquisition consideration and the purchase of shares by the EBT.

Re-financing

Since the half year we have refinanced the £550m revolving credit facility which was due to mature in March 2013. On 11th November the Group signed a new £520m revolving credit facility which matures in November 2015 taking the Group's total committed facilities to £690m. The cost of funding for the Group has remained broadly unchanged with associated fees of £7m to be paid in the second half.

Condensed consolidated income statement for the 6 months ended 30 September 2011

With 6 months ended 30 September 2010 comparatives

		Before amortisation of acquisition intangibles and exceptional items	Amortisation of acquisition intangibles and exceptional items *	After amortisation of acquisition intangibles and exceptional items	Before amortisation of acquisition intangibles and exceptional items	Amortisation of acquisition intangibles and exceptional items *	After amortisation of acquisition intangibles and exceptional items
		6 months ended 30 September 2011 (Unaudited)			6 months ended 30 September 2010 (Unaudited)		
Notes	£m	£m	£m	£m	£m	£m	£m
Revenue		844	-	844	887	-	887
Cost of sales		(409)	-	(409)	(450)	-	(450)
Gross profit		435	-	435	437	-	437
Operating expenses excluding amortisation and depreciation	7	(289)	(20)	(309)	(316)	(17)	(333)
EBITDA		146	(20)	126	121	(17)	104
Depreciation		(32)	-	(32)	(27)	-	(27)
Amortisation	7	(12)	(31)	(43)	(14)	(36)	(50)
Share of results of joint venture		(2)	-	(2)	-	-	-
Profit before interest and taxation		100	(51)	49	80	(53)	27

Finance costs	3	(8)	-	(8)	(10)	-	(10)
Profit before taxation		92	(51)	41	70	(53)	17
Taxation	4, 7	(24)	56	32	(20)	13	(7)
Profit for the period		68	5	73	50	(40)	10
Attributable to the equity holders of the parent company		68	5	73	50	(40)	10
Earnings per share							
Basic (pence)	8	7.6		8.1	5.5		1.1
Diluted (pence)	8	7.2		7.8	5.2		1.0

* A reconciliation of Headline information to statutory information is provided in note 7 to the interim condensed financial statements.

The accompanying notes are an integral part of this condensed consolidated income statement. All amounts relate to continuing operations.

Condensed consolidated income statement for the 6 months ended 30 September 2011

With year ended 31 March 2011 comparatives

		Before amortisation of acquisition intangibles and exceptional items	Amortisation of acquisition intangibles and exceptional items*	After amortisation of acquisition intangibles and exceptional items	Before amortisation of acquisition intangibles and exceptional items	Amortisation of acquisition intangibles and exceptional items*	After amortisation of acquisition intangibles and exceptional items
		6 months ended 30 September 2011 (Unaudited)			Year ended 31 March 2011 (Audited)		
	Notes	£m	£m	£m	£m	£m	£m
Revenue		844	-	844	1,765	-	1,765
Cost of sales		(409)	-	(409)	(877)	-	(877)
Gross profit		435	-	435	888	-	888
Operating expenses excluding amortisation and depreciation	7	(289)	(20)	(309)	(612)	(48)	(660)
EBITDA		146	(20)	126	276	(48)	228
Depreciation	7	(32)	-	(32)	(57)	(3)	(60)
Amortisation	7	(12)	(31)	(43)	(26)	(66)	(92)
Share of results of joint venture		(2)	-	(2)	(1)	-	(1)
Profit before interest and taxation		100	(51)	49	192	(117)	75

Finance costs	3	(8)	-	(8)	(18)	-	(18)
Profit before taxation		92	(51)	41	174	(117)	57
Taxation	4, 7	(24)	56	32	(52)	30	(22)
Profit for the period		68	5	73	122	(87)	35
Attributable to the equity holders of the parent company		68	5	73	122	(87)	35
Earnings per share							
Basic (pence)	8	7.6		8.1	13.5		3.9
Diluted (pence)	8	7.2		7.8	12.8		3.7

* A reconciliation of Headline information to statutory information is provided in note 7 to the interim condensed financial statements.

The accompanying notes are an integral part of this condensed consolidated income statement. All amounts relate to continuing operations.

Condensed consolidated statement of comprehensive income for the 6 months ended 30 September 2011

	6 months ended	6 months ended	Year ended
	30 September 2011	30 September 2010	31 March 2011
	(Unaudited)	(Unaudited)	(Audited)
	£m	£m	£m
Profit for the period	73	10	35
Exchange differences on translation of foreign operations	-	-	1
Currency translation and cash flow hedges	(1)	-	(1)
Taxation of items recognised directly in reserves	-	-	2
Total recognised income for the period	72	10	37
Attributable to the equity holders of the parent company	72	10	37

Condensed consolidated statement of changes in equity for the 6 months ended 30 September 2011

	Share capital	Share premium	Translation reserve	Demerger reserve	Retained earnings and other reserves	Total
	£m	£m	£m	£m	£m	£m
At 1 April 2011	1	586	(65)	(513)	406	415
Total comprehensive income for the period	-	-	-	-	72	72

Net purchase of own shares (note 11)	-	-	-	-	(54)	(54)
Net cost of share-based payments	-	-	-	-	2	2
Share-based payments reserve debit	-	-	-	-	(1)	(1)
Equity dividends (note 6)	-	-	-	-	(35)	(35)
At 30 September 2011	1	586	(65)	(513)	390	399

	Share capital	Share premium	Translation reserve	Demerger reserve	Retained earnings and other reserves	Total
	£m	£m	£m	£m	£m	£m
At 1 April 2010	1	586	(60)	(513)	378	392
Total comprehensive income for the period	-	-	-	-	10	10
Net sale of own shares	-	1	-	-	-	1
Net cost of share-based payments	-	-	-	-	1	1
At 30 September 2010	1	587	(60)	(513)	389	404

	Share capital	Share premium	Translation reserve	Demerger reserve	Retained earnings and other reserves	Total
	£m	£m	£m	£m	£m	£m

At 1 April 2010	1	586	(60)	(513)	378	392
Total comprehensive income for the year	-	-	(1)	-	38	37
Recycling of translation reserve	-	-	(4)	-	-	(4)
Settlement of Group ESOT shares	-	-	-	-	1	1
Net cost of share-based payments	-	-	-	-	4	4
Equity dividends (note 6)	-	-	-	-	(15)	(15)
At 31 March 2011	1	586	(65)	(513)	406	415

Condensed consolidated balance sheet as at 30 September 2011

		30 September 2011	30 September 2010 (*as restated)	31 March 2011
	Notes	(Unaudited)	(Unaudited)	(Audited)
		£m	£m	£m
Non-current assets				
Goodwill	5	478	470	471
Other intangible assets		232	281	255
Property, plant and equipment		289	289	290
Non-current asset investments		1	1	1
Investment in joint venture	5	4	2	4
Deferred tax assets		145	147	116
		1,149	1,190	1,137
Current assets				
Cash and cash equivalents		28	1	1
Inventories		3	2	3
Trade and other receivables		176	192	155
Loans to related parties		2	2	2
		209	197	161
Total assets		1,358	1,387	1,298
Current liabilities				
Trade and other payables		(395)	(425)	(376)

Corporation tax liabilities		(20)	(41)	(22)
Loans and other borrowings		-	(34)	(44)
Provisions	10	(28)	(21)	(32)
		(443)	(521)	(474)
Non-current liabilities				
Loans and other borrowings		(505)	(445)	(395)
Provisions	10	(11)	(17)	(14)
		(516)	(462)	(409)
Total liabilities		(959)	(983)	(883)
Net assets		399	404	415
Equity				
Share capital		1	1	1
Share premium		586	587	586
Translation reserve		(65)	(60)	(65)
Demerger reserve		(513)	(513)	(513)
Retained earnings and other reserves		390	389	406
Funds attributable to equity shareholders		399	404	415

* The 30 September 2010 consolidated balance sheet has been restated to reflect the finalisation of the deferred consideration on UK Telco Limited resulting in an adjustment to goodwill of £1m.

Condensed consolidated cash flow statement for the 6 months ended 30 September 2011

		6 months ended	6 months ended	Year ended
		30 September 2011	30 September 2010	31 March 2011
	Notes	(Unaudited)	(Unaudited)	(Audited)
		£m	£m	£m
Operating activities				
Profit before interest and taxation		49	27	75
Adjustments for non-cash items:				
Share-based payments		2	1	4
Depreciation		32	27	60
Amortisation		43	50	92
Share of losses of joint venture		2	-	1
Recycling of translation reserve		-	-	(4)
Fair value gain on step acquisition		-	(1)	(1)
Profit on disposal of customer base	5	(3)	-	-
Operating cash flows before movements in working capital		125	104	227
(Increase) decrease in trade and other receivables		(19)	(21)	11
Increase in inventory		-	-	(1)
Increase (decrease) in trade and other payables		20	5	(28)
Decrease in provisions		(8)	(10)	(4)

Cash generated by operations		118	78	205
Income taxes paid		(1)	(2)	(2)
Net cash flows generated from operating activities		117	76	203
Investing activities				
Acquisition of subsidiaries and joint venture, net of cash acquired	5	(13)	10	5
Disposal of subsidiaries, net of cash disposed	5	3	1	4
Acquisition of intangible assets		(15)	(12)	(27)
Acquisition of property, plant and equipment		(34)	(38)	(83)
Cash flows from investing activities		(59)	(39)	(101)
Financing activities				
Settlement of Group ESOT shares		-	1	1
Net purchase of own shares		(54)	-	-
Repayment of borrowings		-	(35)	(72)
Drawdown on borrowings		75	-	-
Interest paid		(8)	(9)	(17)
Net decrease in loans to related parties		-	1	1
Dividends paid		(35)	-	(15)
Cash flows from financing activities		(22)	(42)	(102)

Net increase (decrease) in cash and cash equivalents	36	(5)	-
Cash and cash equivalents at the start of the period	(8)	(8)	(8)
Effect of exchange rate fluctuations	-	(1)	-
Cash and cash equivalents at the end of the period	28	(14)	(8)

Cash and cash equivalents for the purposes of this statement comprise:

Cash and bank balances	9	28	1	1
Bank overdrafts*	9	-	(15)	(9)
		28	(14)	(8)

* Bank overdrafts are disclosed within Loans and other borrowings less than one year.

1. Basis of preparation and accounting policies

Basis of preparation

The unaudited interim condensed consolidated financial statements for the 6 months ended 30 September 2011 have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' ('IAS 34') and thereby in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB') and as adopted by the European Union ('EU').

The interim condensed financial statements for the 6 months ended 30 September 2011 do not comprise statutory accounts for the purpose of section 434 of the Companies Act 2006, and should be read in conjunction with the Annual Report 2011 of TalkTalk Telecom Group PLC (the 'Annual Report 2011'). The Annual Report 2011 was audited by the Group's auditor, Deloitte LLP, their report was unqualified and did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report.

The Annual Report 2011 can be found on the Group's corporate website www.talktalkgroup.com.

The financial information for the 6 months ended 30 September 2011 and 30 September 2010 has not been subject to audit or review by the Group's auditor.

The Group's future cash forecasts and revenue projections, which are considered to be based on prudent assumptions, indicate that the Group will be able to operate within the level of its current committed facilities as disclosed for the foreseeable future and as such the Directors believe that it is appropriate to continue to prepare the financial statements of the Group on a going concern basis. The committed facilities were disclosed in the Annual Report 2011; the revolving credit facility was refinanced on 11 November 2011, further details of which are disclosed in note 14.

The interim condensed financial statements for the 6 months ended 30 September 2011 have been prepared using accounting policies and methods of computation consistent with those set out on pages 49 to 55 of the Annual Report 2011.

2. Segmental reporting

IFRS 8 'Operating Segments' requires the segmental information presented in the financial statements to be that used by the chief operating decision maker to evaluate the performance of the business and to decide how to allocate resources. The Group has identified the Board of Directors as its chief operating decision maker. The Board of Directors considers the results of the business as a whole when assessing the performance of the business and making decisions about the allocation of resources. Accordingly the Group has one operating segment.

The Group's revenue is presented split by Broadband, Non-broadband and Corporate products as this information is provided to the Group's chief operating decision maker. Broadband and Non-broadband comprise consumer customers and business customers that receive similar products.

	6 months ended 30 September	6 months ended 30 September	Year ended 31 March
	2011	2010	2011
	£m	£m	£m
Broadband	617	615	1,247
Non-broadband	69	103	189
Corporate	158	169	329
	844	887	1,765

3. Finance costs

Interest expense is analysed as follows:

	6 months ended 30 September	6 months ended 30 September	Year ended 31 March
	2011	2010	2011
	£m	£m	£m
Interest on bank loans and overdrafts	6	7	13
Facility fees and similar charges	1	2	3
Unwinding of discount on provisions	1	1	2

4. Taxation

An effective rate of 26% (6 months ended 30 September 2010: 29%; year ended 31 March 2011: 30%) has been applied to Headline profit before taxation from continuing operations. A tax credit at 26% has been recognised in the current period (6 months ended 30 September 2010: 28%; year ended 31 March 2011: 28%) in respect of the amortisation of acquisition intangibles net of any adjustments in respect of prior periods.

During the six months ended 30 September 2011 the Group has reached agreement with HMRC over the utilisation of brought forward tax losses acquired with the Tiscali UK business in 2009, including those of Video Networks Limited. This has resulted in the recognition of deferred tax assets of £47m, in addition to those that were recognised at the acquisition date. The associated tax credit has been treated as an exceptional item in the income statement (note 7).

On 5 July 2011 a reduction in the UK Statutory rate of Corporation tax was substantively enacted, bringing the tax rate down from 26% to 25% with effect from 1 April 2012. Accordingly the tax assets and liabilities recognised at 30 September 2011 take account of these changes. This resulted in a tax charge to the Income statement as the value of the Group's tax assets has been reduced.

5. Acquisitions and disposals

Goodwill

The gross balance of the Group's goodwill is:

	Goodwill
	£m
At 1 April 2010 (*as restated)	470
Acquisitions	2
Disposals	(2)
At 30 September 2010 (*as restated)	470
Acquisitions	1
At 31 March 2011	471
Acquisitions (i)	7
At 30 September 2011	478

* The prior period balance sheets have been restated to reflect the finalisation of the Tiscali UK purchase price and the UK Telco deferred consideration settlement. In August 2010 a net adjustment in respect of working capital and customer numbers was agreed between the Group and Tiscali S.p.A. for the acquisition of Tiscali UK resulting in an adjustment to goodwill of £14m. In December 2010 the deferred consideration on UK Telco Limited was finalised and settled in the year to 31 March 2011, resulting in an adjustment to goodwill of £1m.

(i) Acquisitions

On 8 April 2011, the Group acquired Executel Limited for cash consideration net of cash acquired of £10m and deferred consideration of £1m, which resulted in provisional acquisition intangibles of £5m and provisional goodwill of £7m. The goodwill recognised was in relation to the future opportunities arising from the nature of the business and its fit with the Group's existing operations. The impact of this acquisition on the results of the Group for the 6 months ended 30 September 2011 had the business been acquired on 31 March 2011, is immaterial.

During the 6 months ended 30 September 2011, the Group paid cash consideration of £1m in respect of TalkTalk Business (2CCH) Limited (formerly 'Opal (2CCH) Limited') and dealer buyouts.

(ii) Disposals

In June 2011 the Group entered into an agreement to sell its Valuecall operations for cash consideration of £3m. There was no associated goodwill or acquisition intangibles in respect of this business, resulting in a £3m profit on disposal.

Investments

A further £2m has been invested in YouView TV Limited in the 6 months ended 30 September 2011 (6 months ended 30 September 2010: £2m; year ended 31 March 2011: £4m). The share of losses recognised by the Group was £2m (6 months ended 30 September 2010: £nil; year ended 31 March 2011: £1m) in the period. The resulting net investment at 30 September 2011 was £4m (6 months ended 30 September 2010: £2m; year ended 31 March 2011: £4m).

6. Equity dividends

	6 months ended	6 months ended	Year ended
	30 September 2011	30 September 2010	31 March 2011
	£m	£m	£m
Ordinary dividends			
Interim dividend for the year ended 31 March 2011 of 1.7p per ordinary share	-	-	15
Final dividend for the year ended 31 March 2011 of 3.9p per ordinary share	35	-	-
Total dividends	35	-	15

The proposed dividend for the 6 months ending 30 September 2011 is 2.6p per ordinary share on 869 million shares (£23m) (30 September 2010: 1.7p per ordinary share on 905 million shares (£15m)). The proposed interim dividend was approved by the Board on 14 November 2011 and has not been included as a liability as at 30 September 2011.

7. Reconciliation of Headline information to statutory information

	EBITDA	Profit before interest and taxation	Profit before taxation	Profit for the period
6 months ended 30 September 2011	£m	£m	£m	£m
Headline results	146	100	92	68
Exceptional items - Operating expenses (a)	(3)	(3)	(3)	(2)
Exceptional items - Operating expenses (b)	(14)	(14)	(14)	(14)
Exceptional items - Ofcom fine (c)	(3)	(3)	(3)	(3)

Amortisation of acquisition intangibles (e)	-	(31)	(31)	(23)
Exceptional items - taxation (f)	-	-	-	47
Statutory results	126	49	41	73

6 months ended 30 September 2010

Headline results	121	80	70	50
Exceptional items - Operating expenses (d)	(17)	(17)	(17)	(13)
Exceptional items - Amortisation (d)	-	(4)	(4)	(4)
Amortisation of acquisition intangibles (e)	-	(32)	(32)	(23)
Statutory results	104	27	17	10

Year ended 31 March 2011

Headline results	276	192	174	122
Exceptional items - Operating expenses (a)	(12)	(12)	(12)	(9)
Exceptional items - Operating expenses (d)	(36)	(36)	(36)	(28)
Exceptional items - Depreciation (d)	-	(3)	(3)	(2)
Exceptional items - Amortisation (d)	-	(4)	(4)	(3)
Amortisation of acquisition intangibles (e)	-	(62)	(62)	(45)
Statutory results	228	75	57	35

7. Reconciliation of Headline information to statutory information (continued)

Headline information is provided because the Directors consider that it provides assistance in understanding the Group's underlying performance.

a) Operating efficiencies - Phase I (Back office restructuring)

On 26 January 2011 a major restructure of the Group was announced to integrate technology and IT capabilities and consolidate back office functions. The reorganisation principally resulted in a reduction in headcount, and required project management and consulting costs to deliver these benefits. The total charge incurred in the 6 months ended 30 September 2011 was £3m (6 months ended 30 September 2010: £nil; year ended 31 March 2011: £12m).

A total taxation credit of £1m has been recognised in the 6 months ended 30 September 2011 (6 months ended 30 September 2010: £nil; year ended 31 March 2011: £3m).

b) Operating efficiencies - Phase II (Contact centre rationalisation, including Waterford)

On 7 September 2011, the Group announced the consolidation of the Group's contact centre operations which has resulted in redundancy, consultancy and onerous property lease costs, principally in relation to the closure of the Group's Waterford contact centre. The total charge incurred in the 6 months ended 30 September 2011 was £14m (6 months ended 30 September 2010: £nil; year ended 31 March 2011: £nil).

c) Ofcom fine

On 17 August 2011, Ofcom announced that the Group would be fined £3.1m as a result of contravention of General Condition 11 under section 94 of The Communication Act 2003.

d) One Company integration

The One Company integration was implemented during the year ended 31 March 2010 following the acquisition of Tiscali UK on 3 July 2009. The Group revisited its overall operating structure in order to both integrate the Tiscali business and deliver efficiencies in existing operations. The programme has generated significant synergies, through the elimination of duplicated costs and migration of customers onto the Group's unbundled network.

The programme includes network integration costs related to the termination of contracts, and the write down of associated assets principally, of backhaul circuits. This comprises both those acquired with the Tiscali business and those previously contracted for by the Group prior to its acquisition of Tiscali. These contracts have been terminated as it was necessary to replace the previous backhaul solutions in order to provide one combined backhaul solution for the Group and to create a higher capacity network.

Operating reorganisation costs of £17m were incurred during the 6 months ended 30 September 2010, principally comprising redundancies and site closures, an integration project team and consulting costs (year ended 31 March 2011: £40m). Costs of £4m were incurred in respect of redundant software and fixed asset write downs during the 6 months ended 30 September 2010 (year ended 31 March 2011: £7m).

A total taxation credit of £4m was recognised in respect of these costs in the 6 months ended 30 September 2010 (year ended 31 March 2011: £10m).

A credit of £4m has been recognised in respect of recycling of Translation reserves in the year ended 31 March 2011 in relation to legal entities which have been liquidated. No taxation has been recognised in respect of this credit.

e) Amortisation of acquisition intangibles

A tax credit at 26% (6 months ended 30 September 2010: 28%; year ended 31 March 2011: 28%) has been recognised in respect of the amortisation of acquisition intangibles, net of any adjustments in respect of prior periods, this was £8m for the 6 month period ended 30 September 2011 (6 month period ended 30 September 2010: £9m, year ended 31 March 2011: £17m).

f) Exceptional items - taxation

During the six months ended 30 September 2011 the Group has reached agreement with HMRC over the utilisation of brought forward tax losses acquired with the Tiscali UK business in 2009. This has resulted in the recognition of deferred tax assets of £47m, in addition to those recognised at the acquisition date.

The recognition of the deferred tax asset has been recognised in exceptional items as it is both material and one off in nature, and does not relate to the underlying performance of the business.

8. Earnings per share

Basic and diluted earnings per ordinary share have been calculated in accordance with IAS 33 'Earnings per share'. Earnings per share is shown on both a Headline and Statutory basis to assist in the understanding of the underlying performance of the Group.

	6 months ended	6 months ended	Year ended
	30 September 2011	30 September 2010	31 March 2011
	£m	£m	£m
Headline earnings (note 7)	68	50	122
Statutory earnings	73	10	35
Weighted average number of shares (millions)			
Shares in issue	914	914	914
Less weighted average holdings by Group ESOT	(14)	(9)	(7)
For basic earnings per share	900	905	907
Dilutive effect of share options	38	50	45
For diluted earnings per share	938	955	952
Basic earnings per share			
Headline (pence)	7.6	5.5	13.5
Statutory (pence)	8.1	1.1	3.9

Diluted earnings per share

Headline (pence)	7.2	5.2	12.8
Statutory (pence)	7.8	1.0	3.7

9. Net debt**Analysis of net debt**

	30 September 2011	30 September 2010	31 March 2011
	£m	£m	£m
Cash and cash equivalents	28	1	1
Bank overdrafts*	-	(15)	(9)
Current loans and other borrowings	-	(19)	(35)
Non-current loans and other borrowings	(505)	(445)	(395)
Loans to related parties	2	2	2
Total net debt	(475)	(476)	(436)

* Bank overdrafts are disclosed within Loans and other borrowings less than one year.

All movements relate to net cash flows. The impact of foreign exchange in the period was £nil (6 months ended 30 September 2010: £1m; year ended 31 March 2011: £nil).

Since the half year, the Group has refinanced the £550m revolving credit facility which was due to expire on 31 March 2013 (note 14).

10. Provisions

	Operating efficiencies	One Company integration	Property	Contract and other	Total
	£m	£m	£m	£m	£m
At 1 April 2011	12	10	9	15	46
Charged to income statement	10	-	1	-	11
Utilised in the year	(10)	(4)	(1)	(3)	(18)
Released in the year	-	-	-	(1)	(1)
Unwinding of discount	-	-	-	1	1
At 30 September 2011	12	6	9	12	39

	Operating efficiencies	One Company integration	Property	Contract and other	Total
	£m	£m	£m	£m	£m
At 1 April 2010	-	14	9	24	47
Charged to income statement	-	1	-	-	1
Utilised in the year	-	(4)	(1)	(6)	(11)
Unwinding of discount	-	-	-	1	1
At 30 September 2010	-	11	8	19	38

	Operating efficiencies	Company integration	Property	Contract and other	Total
	£m	£m	£m	£m	£m
At 1 April 2010	-	14	9	24	47
Charged to income statement	12	6	1	-	19
Utilised in the year	-	(10)	(2)	(10)	(22)
Unwinding of discount	-	-	1	1	2
At 31 March 2011	12	10	9	15	46

11. Net purchase of own shares

During the 6 months ended 30 September 2011 the TalkTalk Telecom Holdings ESOT purchased 42 million shares at a cost of £54m. At 30 September 2011 the TalkTalk Telecom Holdings ESOT owned 45 million shares (6 months ended 30 September 2010: 9 million shares; year ended 31 March 2011: 5 million shares).

12. Capital commitments

	30 September 2011	30 September 2010	31 March 2011
	£m	£m	£m
Expenditure contracted, but not provided for in the financial statements	24	29	14

13. Related party transactions

	Loans owed to the Group
	£m
6 months ended 30 September 2011	
Other related parties	2

Other related parties	2
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Year ended 31 March 2011

Other related parties	2
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14. Post Balance Sheet Events

Since the half year, the Group refinanced the £550m revolving credit facility which was due to mature in March 2013. On 11 November 2011, the Group signed a new £520m revolving credit facility which matures in November 2015. The interest rate payable in respect of drawings under this facility is at a margin over Sterling LIBOR and for the appropriate period. The actual margin applicable to any drawing depends on the ratio of net debt to EBITDA calculated in respect of the most recent accounting period. Covenants included in this facility restrict the ratio of net debt to EBITDA and require minimum levels of interest cover and fixed charges (interest and operating lease expenditure) cover. In addition to the revolving credit facility the Group also signed £70m of bilateral agreements which mature in March 2015 and November 2015. These, together with the existing £100m term loan, brings the Group's total committed facilities to £690m.

Risks and uncertainties

The Board continually assesses and monitors the principal risks and uncertainties that they believe should have a material adverse effect on the Group's reputation, operations or financial performance.

The following key risks that could affect the Group's long-term performance, and the factors which mitigate these risks, are set out in more detail on pages 20 to 21 of the 2011 Annual Report. The Board does not consider that the following principal risks and uncertainties have changed, except in relation to the specific risk in relation to the notification received from Ofcom regarding General Condition 11 under section 94 of The Communication Act 2003, under which the Group received a fine of £3.1m during the period.

Additional risks and uncertainties of which we are not aware or which we currently believe are immaterial may also adversely affect our business, financial condition, prospects, liquidity or results of operations.

- Increased competition in the UK broadband market may impact the Group's financial performance.
- Changes in regulated prices can significantly impact the Group's performance.
- Provision of television services could become a more important driver of competitive advantage in the broadband market.
- Failure to provide a reliable service causes our customers to churn.
- We have undertaken a significant change to our contact centre structure during the period. Disruption to business operations could impact financial performance.
- Demand for fibre access could grow significantly before a wholesale product with acceptable economics is available for the Group to market to customers.
- Loss of customer data could lead to data protection breaches causing damage to our reputation and fines. Failure to operate effective processes across the Group may lead to customer churn, and non-compliance with regulatory requirements.
- During the period we have had notification from Ofcom of contravention of section 128 of The Communication Act 2003. Ofcom may issue a penalty to the Group under this Act, however at this point no estimate can be made with any certainty.
- In addition to the above the Group is exposed to financial risks from external factors, including changes in interest rates, and other factors such as the long-term economic growth rate of the UK.

Any of the above could impact the assumptions underlying the carrying value of the Group's assets and could result in asset impairments.

Statement of Directors' responsibilities

The unaudited interim condensed financial statements for the 6 months ended 30 September 2011 have been prepared in accordance with IAS 34 'Interim Financial Reporting', as adopted by the European Union and the Disclosure and Transparency Directive Rules ('DTR'). The interim management report herein includes a fair review of the important events during the first 6 months and description of principal risks and uncertainties for the remainder of the financial period, as required by DTR

4.2.7R, and a fair review of disclosure of related party transactions and changes therein, as required by DTR 4.2.8R.

The Directors of TalkTalk Telecom Group PLC are listed on page 28 of the Annual Report 2011 and on the Group's website www.talktalkgroup.com.

By order of the Board

Diana Harding
Chief Executive Officer
14 November 2011

Amy Stirling
Chief Financial Officer
14 November 2011

This information is provided by RNS
The company news service from the London Stock Exchange

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