

21 January 2020

TalkTalk Telecom Group PLC

TalkTalk sells FibreNation for £200 million

TalkTalk Telecom Group PLC (LSE: TALK) ("**TalkTalk**", the "**Company**" and together with its subsidiary undertakings, the "**Group**") announces that it has agreed to sell the entire issued share capital of FibreNation Limited and TalkTalk's shareholding in Bolt Pro Tem Limited (the "**Fibre Assets**") to CityFibre Infrastructure Holdings Limited and CityFibre Holdings Limited (together, "**CityFibre**") for an aggregate cash consideration of £200 million (the "**Sale**"), conditional upon shareholder approval.

Transaction highlights

- Sale of Fibre Assets¹ to CityFibre for £200 million. The Group will also be repaid, up to an agreed capped amount, the increase in the amount of intercompany indebtedness between the Group and the Fibre Assets from and including 15 November 2019 up to and including completion.
- Sale underpinned by long-term wholesale agreement with TalkTalk for residential and business products in the areas where CityFibre builds, whilst also allowing TalkTalk the flexibility to partner with other network providers.
- Long-term benefits of the transaction for TalkTalk: giving access to full fibre, delivering a superior customer experience for residential customers and businesses, thereby, supporting customer retention and reducing cost to serve.
- The agreement will establish a Northern Centre of Excellence and help to deliver the next generation of digital infrastructure throughout the North of England.
- TalkTalk intends to use the net proceeds from the Sale to strengthen the Group's balance sheet.
- The Sale is conditional upon shareholder approval. The Company has received commitments from shareholders holding, in aggregate, 57.5 per cent. of the entire issued share capital of the Company to vote in favour of the Sale.
- Completion is targeted to occur in March 2020.

Tristia Harrison, Chief Executive of TalkTalk, commented: *"We are pleased to announce today's agreement with CityFibre, which is good news for TalkTalk, and good news for Britain and its full fibre roll-out ambition. Our investment over the last five years and the excellent work delivered by the FibreNation team, combined with CityFibre's well-established platform, will support wide-geographic reach of full fibre and further drive competition in the market."*

"The sale of FibreNation to CityFibre, in combination with a competitive wholesale agreement, enables us to continue our strategy to accelerate TalkTalk's fibre growth for our residential and business customers, thereby delivering a superior customer experience at an affordable price."

The Sale and the Break Fee (as defined below) each constitutes a Class 1 transaction under the Listing Rules of the Financial Conduct Authority (the "**FCA**"), (the "**Listing Rules**") and are therefore conditional upon the approval of the Company's shareholders in general meeting (the "**General Meeting**"). A circular (the "**Circular**") containing, amongst other things, further details of the Sale, the Company's board of directors' (the "**Board**") recommendation to vote in favour of the resolutions approving the Sale (the "**Sale Resolution**") and the Break Fee (the "**Break Fee Resolution**", and together with the Sale Resolution, the "**Resolutions**") and the notice of the General Meeting will be published by the Company in due course and will be available for inspection at www.talktalkgroup.com. Completion of the Sale is therefore targeted to take place in March 2020.

The person responsible for arranging the release of this announcement on behalf of the Company is Tim Morris, General Counsel and Company Secretary.

Contacts:

Investor Relations:	Tim Warrington	+44 (0) 77754 14240
Media:	Jonathan Sibun	+44 (0) 77799 99683 talktalk@tulchangroup.com
Financial Advisers:	Lazard & Co. Ltd Cyrus Kapadia / Nicholas Page	+44 (0) 20 7187 2000

¹ The Fibre Assets comprise the entire issued share capital of FibreNation Limited and two thirds of the entire issued share capital of Bolt Pro Tem Limited

Further details of the Sale

1. Introduction

TalkTalk announces that it has today entered into a conditional sale and purchase agreement to sell the Fibre Assets to CityFibre (the "**Sale Agreement**"). The Fibre Assets comprise the entire issued share capital of FibreNation Limited ("**FibreNation**") and two thirds of the entire issued share capital of Bolt Pro Tem Limited (the remaining third already held by CityFibre).

The consideration payable by CityFibre is £200 million in cash on completion ("**Completion**"). The Group will also be repaid, up to an agreed capped amount, the amount of intercompany indebtedness between the Group and the Fibre Assets from and including 15 November 2019 up to and including Completion ("**Intercompany Indebtedness**").

2. Background to, and reasons for, the Sale

Over the last two years, TalkTalk has been going through a period of simplifying its business and strategy. This Sale is consistent with that. Since the launch of FibreNation, with the stated ambition of rolling out full fibre broadband to three million homes and businesses, TalkTalk has been clear that this would not be fully funded from its own balance sheet. Since that time, TalkTalk has been in discussions with certain infrastructure investors on the right long-term capital structure for FibreNation and concluded that the Sale to CityFibre is the most attractive option for its shareholders and customers.

The Sale to CityFibre for £200 million represents a good return on investment, and more importantly comes with a long-term wholesale agreement with CityFibre for residential and business products in the areas where it builds, further details of which are set out below.

The Sale will help strengthen TalkTalk's balance sheet and will accelerate the Continuing Group's fibre strategy, delivering an improved customer experience and further lowering cost to serve.

3. Principal terms of the Sale

The Sale Agreement

The Sale Agreement was entered into today between TalkTalk Communications Limited, TalkTalk Group Limited, TalkTalk Corporate Limited (together, the "**Sellers**"), CityFibre and the Company. Each of the Sellers are wholly owned subsidiaries of the Company. Pursuant to the terms of the Sale Agreement the Sellers have agreed to sell the Fibre Assets to CityFibre.

The aggregate consideration payable to the Sellers under the Sale Agreement is £200 million, plus the repayment of the Intercompany Indebtedness.

The Sale Agreement contains certain warranties, undertakings, covenants and tax indemnities from the Sellers to CityFibre in respect of the Group's fibre business which are in a customary form for such a transaction.

The Sale Agreement is conditional upon the approval of the Company's shareholders of the Sale Resolution to be proposed at the General Meeting.

The Company has received an irrevocable undertaking from Sir Charles Dunstone to vote in favour of the Resolutions in respect of 339,953,838 ordinary shares of 0.1 pence each in the capital of the Company ("**Ordinary Shares**"), representing approximately 29.66 per cent. of the existing issued share capital of the Company as at 16 January 2020 (being the latest practicable date prior to this announcement) (the "**Latest Practicable Date**"). In addition, the Company has received a non-binding letter of intent from Toscafund Asset Management Limited (in its capacity as discretionary investment manager of several funds) to vote in favour of the Resolutions in respect of 319,077,314 Ordinary Shares, representing approximately 27.84 per cent. of the existing issued share capital of the Company as at the Latest Practicable Date.

Accordingly, the Company has received commitments to vote in favour of the Resolutions in respect of 659,031,152 Ordinary Shares, representing approximately 57.5 per cent. of the existing issued share capital of the Company as at the Latest Practicable Date.

In the event that the Sale Resolution is not approved by shareholders at the General Meeting on or before 30 April 2020 (the "**Longstop Date**") and Completion does not occur, the Company has agreed to pay CityFibre a break fee of:

- (a) £30 million in cash (the "**Break Fee**") if the Break Fee Resolution is approved by shareholders at the General Meeting on or before 30 April 2020; or
- (b) an amount equal to £13.1 million being 1% of the market capitalisation of the Company if the Break Fee Resolution is not approved by shareholders at the General Meeting on or before 30 April 2020.

In addition, if the Sale Resolution has been approved by the Longstop Date and CityFibre is unable to discharge its payment obligations under the Sale Agreement, at the Company's option either:

- (a) CityFibre shall pay the Company a break fee of:
 - (i) £30 million in cash if the Break Fee Resolution is approved by shareholders at the General Meeting on or before 30 April 2020; or
 - (ii) an amount equal to £13.1 million being 1% of the market capitalisation of the Company if the Break Fee Resolution is not approved by shareholders at the General Meeting on or before 30 April 2020; or
- (b) if CityFibre has notified the Sellers that it is able to pay £150 million but not the balance due under the Sale Agreement, then the Sellers may elect to proceed to Completion on the basis that:
 - (i) the £150 million shall be applied first in satisfying CityFibre's obligations to repay the amount of intercompany indebtedness between the Group and the Fibre Assets and thereafter the consideration due; and
 - (ii) the balance outstanding, including the repayment of the Intercompany Indebtedness, shall be treated as deferred consideration ("**Deferred Consideration**") which shall be set-off against any payment obligations of the Sellers or the Company under the Wholesale Agreement (as defined below). Any outstanding Deferred Consideration, which may be paid (in whole or in part) at any time by CityFibre, shall accrue interest at a compound rate of 15 per cent. per annum.

Further details of the Sale Agreement will be set out in the Circular.

The Wholesale Agreement

The Wholesale Agreement between TalkTalk and CityFibre will be entered into on Completion (the "**Wholesale Agreement**"). Under this agreement, TalkTalk will become an anchor tenant on CityFibre's full fibre network as it is rolled out, providing more of TalkTalk's customers with affordable, faster and more reliable connectivity for many years to come.

The Wholesale Agreement is both long-term and competitive. Further details of the Wholesale Agreement will be set out in the Circular.

4. Information on the Fibre Assets

FibreNation was launched by TalkTalk to roll-out FTTP to over three million homes and businesses. Over the last 18 months, the Group announced Harrogate, Ripon, Knaresborough and Dewsbury as the first towns to benefit, building upon the Group's FTTP venture in York.

For the year ended 31 March 2019, FibreNation reported underlying losses before taxation of £6 million. As at 31 March 2019, the gross assets of FibreNation were £47 million, representing 2.8 per cent. of the Group's gross assets as at that date.

5. Information on the Continuing Group

TalkTalk is the UK's leading value for money connectivity provider, supplying landline, broadband, TV and mobile services to over four million customers. The Group operates Britain's biggest unbundled broadband network, covering 96 per cent. of the population, providing services to consumers through the TalkTalk brand, to businesses through TalkTalk Business, and by wholesaling to resellers. Since entering the market in the early 2000s, TalkTalk has a proud history as an innovative challenger brand, and are committed to providing simple, affordable, reliable and fair connectivity to everyone.

6. Current trading, prospects and operational trends of the Group

On 15 November 2019, the Company published its unaudited interim results for the six-month period ended 30 September 2019. These results included the following summary of the significant trends in the financial performance of the Group for the period:

- Headline revenue (ex-carrier and off-net) of £764 million and on-net ARPU of £24.49 down 0.9 per cent. and 2.1 per cent. respectively, largely due to lower voice usage and call boost revenue across Consumer and B2B. The Group also targeted its remaining higher ARPU legacy copper customers to re-contract onto a Fixed Low Price Plan, ahead of regulatory and industry commitments on out-of-contract pricing, increasing the Group's in-contract base to 72 per cent. (Q4 FY19: 68 per cent.). Headline revenue decrease was offset in part by increased fibre penetration.
- Statutory revenue of £792 million contracted by 3.6 per cent. mainly due to exiting MVNO operations and declining carrier revenue.
- Headline EBITDA (pre-IFRS 16) of £115 million represents 13.9 per cent. growth with increased fibre penetration and head office move efficiencies driving a materially lower cost base.

- Within the Group's Statutory EBITDA there were non-Headline items of £10 million (H1 FY19: £6 million) associated with the moving the Group's head office to Salford and various transformation costs.
- Increase in net debt (pre-IFRS 16) to £830 million was driven by working capital outflows due to a change in distribution model and accelerated fibre growth, the cash cost of our head office move and continued investment in FibreNation.

A further update on current trading and prospects of the Group will be announced when the results for the nine month period ended 31 December 2019 are published on 31 January 2020.

7. Financial effects of the Sale and use of proceeds

The gross cash proceeds before transaction costs arising from the Sale are expected to be £200 million, plus the repayment of the Intercompany Indebtedness. It is TalkTalk's intention to retain the net cash proceeds from the Sale to strengthen the Group's balance sheet, reduce indebtedness and thereby improve the Group's net debt/EBITDA leverage ratio.

The Sale will have a small beneficial impact on the Group's Headline EBITDA performance. TalkTalk's dividend policy of paying 2.5 pence per Ordinary Share per annum until the Group's net debt/EBITDA leverage ratios returns towards 2.0x remains unchanged as a result of the proposed Sale.

8. Intended recommendation

The Board considers the terms of the Sale to be in the best interests of the Company and its shareholders as a whole. Accordingly, the Board intends to unanimously recommend that shareholders vote in favour of the resolution to approve the Sale to be proposed at the General Meeting.

About CityFibre:

CityFibre is the UK's third national digital infrastructure platform. With existing networks in more than 60 towns and cities, CityFibre provides wholesale connectivity to multiple business and consumer service providers, local authorities and mobile operators.

CityFibre has network rollouts underway with plans to pass up to 8 million homes and businesses with open-access full fibre infrastructure. A growing number of Gigabit City projects have been announced for full-city rollouts and CityFibre continues to prime its existing network assets for expansion.

CityFibre is based in London and is jointly controlled by Antin Infrastructure Partners and West Street Infrastructure Partners.

IMPORTANT NOTICES

General

Certain statements contained in this announcement, constitute or may be deemed to be "forward-looking statements". In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "projects", "aims", "plans", "predicts", "prepares", "anticipates", "expects", "intends", "may", "will" or "should" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. Shareholders should specifically consider the factors identified in this announcement, which could cause actual results to differ before making an investment decision. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company, the Group and/or the Continuing Group, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Company's and/or the Continuing Group's present and future business strategies and the environment in which the Company and/or the Continuing Group will operate in the future. These forward-looking statements speak only as at the date of this announcement. Except as required by the FCA, the London Stock Exchange or applicable law (including as may be required by the Listing Rules or the Disclosure Guidance and Transparency Rules of the FCA), the Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this announcement to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

No statement in this announcement is intended to be a profit forecast or profit estimate for any period and no statement in this announcement should be interpreted to mean that earnings or earnings per share of the Company for the current or future financial years would necessarily match or exceed the historical published earnings or earnings per share of the Company.

Neither the content of the Company's website nor any website accessible by hyperlinks to the Company's website is incorporated in, or forms part of, this announcement.

Certain figures contained in this announcement, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances, the sum or percentage change of the numbers contained in this announcement may not conform exactly with the total figure given.

All references to time in this announcement are to London time, unless otherwise stated.

Important information relating to the financial adviser

Lazard & Co., Limited, which is authorised and regulated by the FCA in the United Kingdom, is acting exclusively for TalkTalk and for no one else in connection with the Sale and will not be responsible to anyone other than TalkTalk for providing the protections afforded to its clients or for providing advice in connection with the Sale, the contents of this announcement or any other matter referenced above. Neither Lazard & Co., Limited nor any of its affiliates owes or accepts any duty, liability or responsibility whatsoever (whether direct or indirect, whether in contract, tort or otherwise) to any person who is not a client of Lazard & Co., Limited in connection with the Sale, any statement contained herein or otherwise.