

1st February 2017

TalkTalk Telecom Group PLC
Q3 trading update

- Success of Fixed Low Price Plans on track to deliver lower churn and positive net adds in Q4
- Short term impact on Q3 on-net performance, as expected
- Continuing strong trends at TalkTalk Business - Corporate (ex-Carrier) +3.0%
- Reiterating strong EBITDA growth in line with previous guidance

Success of Fixed Low Price Plans on track to deliver lower churn and positive net adds in Q4

We launched our innovative Fixed Low Price Plans in Early October. Our unique plans fix prices for the duration of customers' contracts, treat existing customers fairly by allowing them to re-contract onto the new plans, and give customers control of their bundles. The stronger than expected re-contracting rates that we saw in Q3 continued through January and are proving transformative for our brand reputation and business:

- 516,000 customers re-contracted on the 18m plan during Q3, representing over 13% of the on-net base at the end of Q3. An additional 81,000 customers have re-contracted during the first 4 weeks of January, of which over 75% have re-contracted on the newly introduced 24m plan
- Re-contracting customers have shown strong upselling activity with 20% choosing to buy voice calling boosts and 12% choosing to take fibre
- Encouragingly, over 45% of new customers chose to take fibre and over 40% chose to take a paid-for TV set top box
- Re-contracted customers are showing early-life churn rates of less than half the levels we have seen under historic re-contracting activity

As a result we expect to deliver positive on-net net adds and lower churn in Q4, with a stable and higher quality Retail base driving revenue growth during FY18.

Short term impact on Q3 on-net performance, as expected

As highlighted in November, the high levels of re-contracting and the re-pricing of our legacy tariffs has had a number of short term impacts on Q3 on-net revenue: heightened churn amongst legacy cohorts that were re-priced in line with our strategy of simplifying tariffs, driving on-net churn 1.6%; on-net net adds -42k, impacted both by churn and by lower new acquisition activity in October driven by our decision to launch integrated pricing a month earlier than the rest of the industry. These effects were partially mitigated by the positive impact of pricing activity on customers who have chosen to remain on legacy tariffs, and continued growth in fibre (74k net adds) and mobile (75k net adds) penetration, helping to limit the year-on-year decline in Q3 on-net revenues to 5.4% with ARPU of £28.05 (Q3FY16: £28.91).

Continuing strong trends at TalkTalk Business - Corporate (ex-Carrier) +3.0%

TTB has continued to show strong growth in high margin Data revenues, which were up by 30% in Q3, and helped offset the ongoing decline in legacy voice revenues (-19%). Excluding Carrier revenues which declined as expected, by 17% year-on-year, Corporate revenues grew by 3.0% (-3.2% including Carrier). We are continuing to grow market share with new partners looking to sell our Ethernet and next generation voice portfolio and have a strong forward pipeline across our Partner and Direct business in both the SoHo/SME segments and Enterprise segment in which we have a lower share than our competitors today.

Reiterating strong EBITDA growth in line with previous guidance

As previously indicated, the strong re-contracting activity, while delivering sustainable long term benefits in the form of a more stable and higher quality base, will impact current year revenue and EBITDA. As a result, we expect FY EBITDA to be in line with previous guidance. As previously announced we expect the Final dividend for FY17 to be unchanged year-on-year at 10.58p.

We have continued to drive improved cash flows during H2, and as a result year-end leverage (net debt/EBITDA) is expected to be below 2.5x. We have also continued to make good progress towards diversifying our sources of finance and extending the maturity of our facilities and in January, we refinanced £400m of our short dated bank debt through the successful issue of a debut 5 year public bond.

Q3 summary performance

Group revenue of £435m (FY16: £459m) comprised On-net £332m (FY16: £351m), Corporate £92m (FY16: 95m) and Off-net £11m (FY16: £13m). On-net net adds -42k (on-net churn 1.6%), mobile +75k, fibre +74k, TV - 31k, Ethernet and EFM +2.3k.

END

Conference call

There will be a conference call for analysts and investors at 7.30am

Dial in:

UK & International: +44 (0) 20 3003 2666

Replay (available for 7 days)

UK & International: +44 (0) 20 8196 1998

PIN code: 3864880#

Webcast:

<http://cache.merchantcantos.com/webcast/webcaster/4000/7464/16532/70131/Lobby/default.htm>

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