



20th July 2016

TalkTalk Telecom Group PLC

Trading update for the 3 months to 30 June 2016 (Q1 FY17)

- Good revenue performance (flat year on year) despite lower customer base
- Strong growth in Corporate revenue (+7.5%) and Data (+38.5%)
- Healthy growth in RGU penetration (+6.8% year on year), driven by mobile and fibre
- On-net churn reduced year on year and stable quarter on quarter at 1.36%
- York fibre to the premise trial on track to deliver proof of concept
- Reiterating all FY financial guidance, including EBITDA of £320m-£360m

A strong start to the year

The year has started well with Q1 trading in line with our plan and the trends we guided to at the time of our preliminary results in May.

Q1 revenues were flat year-on-year (-0.4%). On-net revenues were down 2.0% as anticipated, reflecting the smaller average on-net base in the quarter. Corporate revenue grew strongly by 7.5% with continuing growth in Data (+38.5%) and further growth in Carrier revenues (+40%) helping offset a legacy voice decline of 31%. Off-net revenues (2.7% of total revenues) declined by 14.3%.

The broadband base was 9,000 lower during the quarter, with Mobile net adds strong at 48,000 and Fibre net adds of 36,000. The TV base was 23,000 lower at the end of Q1 as we maintained our focus on driving engagement rather than base growth.

On-net churn was down year on year and stable quarter on quarter at 1.36% (Q4FY16: 1.34%), driven by RGU penetration (up 6.8% year on year at 1.72) and ongoing improvements in customer service delivered through Making TalkTalk Simpler (MTTS). Key programmes such as improved dynamic line management (DLM), backhaul upgrades, fault diagnostics and simpler billing are gaining real traction in driving an improved customer experience. MTTS savings are being realised in line with our plan and we are on track to deliver £35-£40m of savings by the end of the year.

TalkTalkBusiness has also started the year well with strong ethernet connections (2,000 new lines added in the quarter) and the order book is seeing substantial further volume growth as we reinvest lower regulated costs into pricing. The next generation voice product that we launched following last year's acquisition of tIPicall is gaining good traction, with 33% more SIP channels now active than when we acquired the business.

We remain on track to complete the billing and CRM migration of current mobile customers; launch 4G and national roaming services on our new MVNO agreement with Telefonica; extend our full mobile proposition to business customers; and commence the migration of the mobile base from Vodafone to Telefonica, in H2FY17.

We have continued to make good progress with our fibre to the premise (FTTP) trial Ultra Fibre Optic (UFO) in York. The build has passed nearly 11,000 homes to date, with penetration reaching c12% only 3 ½ months after commercial launch, and ramping steadily. Nearly half of the TalkTalk connections are from customers who were not previously with TalkTalk, driving a material increase in our market share in the area. With build costs already established at below £500 per home passed, we are increasingly confident of reaching our targeted penetration rate of 30%-40% and delivering the proof of concept required to expand beyond York.

Reiterating FY financial guidance

Revenue and EBITDA: We expect FY17 revenues to grow modestly over the full year, driven by a broadly stable broadband base and continued growth in TalkTalk Business; and Headline EBITDA of £320m-£360m.

Net debt: We expect Net debt/EBITDA to fall towards our target leverage of 2x by the end of FY17. With capex planned at 6%-7% of revenues and a material reduction in cash exceptional costs we expect year end net debt to be broadly similar to that at the end of FY16.

Dividend: We expect the FY17 dividend to be at least in line with that of FY16 and covered by free cashflow.

H1 Results

We will announce H1 results on 15th November 2016. As we indicated at the time of our preliminary results in May we expect headline revenue to decline in H1, reflecting the smaller on net base and strong growth in on-net revenues during the comparative period (Q1FY16: +6.2%; Q2FY16: +8.9%). We expect to return to growth in H2 as comparatives ease.

In line with this, and consistent with our guidance at the time of the preliminary results, H1 EBITDA is expected to be approximately one-third of FY EBITDA or £107m-£120m – equating to material double-digit year on year growth.

Conference call

There will be a conference call for analysts and investors at 8.00am

Dial in:

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

Replay (available for 7 days)

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

PIN code: 1099706#

Webcast:

<http://cache.merchantcantos.com/webcast/webcaster/4000/7464/16532/62848/Lobby/default.htm>

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Note: This announcement contains inside information which is disclosed in accordance with the Market Abuse Regulation which came into effect on 3 July 2016.