

Tuesday 11 May 2010

TalkTalk Telecom Group PLC

Indicative financial update for the year to 31 March 2010

Strong broadband growth. Significant profit and cash-flow generation.

Integration on track. Positive outlook.

Highlights⁽¹⁾

- 42,000 net new Group broadband customers in Q4 (Q3: 36,000)
- TalkTalk base⁽²⁾ Q4 broadband net adds of 144,000 (Q3: 115,000)
- Year-end Group broadband base 4.197 million (2009: 2.806 million)
- Total revenue increased by 21.7% to £1,686m (2009: £1,385m)
- EBITDA increased by 27.1% to £230m (2009: £181m)
- Operating free cash-flow increased to £128m (2009: £40m)

(1) Unaudited; includes 9 months Tiscali results; excludes exceptional charges and Carphone Warehouse plc costs.

(2) Excludes former Tiscali customer base and AOL customer base.

Charles Dunstone, commented:

"Last year was transformational for TalkTalk. In July we completed the acquisition of Tiscali, to create the largest provider of unbundled broadband and voice services in the UK, with a 23% share of the broadband market. Just before the end of the year we completed our demerger from Carphone Warehouse plc, to become a separately listed, standalone telecoms company.

Our businesses performed well throughout the year, with the TalkTalk brand ending the year as the fastest growing ISP base in the UK. Our straight-forward, value-for-money customer propositions, and the benefits of our investment in the UK's most extensive Next Generation Network, enabled us to report strong revenue, profit and cash-flow growth.

This year we will focus on two main priorities for the business: maintaining our momentum in the broadband market through continuing to grow TalkTalk's broadband base and ARPU; and completing our "one company" integration programme, migrating customers onto our expanded network footprint and onto core customer management and billing systems. This continued focus on growth and integration will deliver sustainable operating cash-flow growth, and allows us to set out specific targets for our dividend growth going forward."

Key guidance for 2010-11

- Group broadband net customer additions of 140,000 - 180,000
- Total revenue growth of 6-8%
- EBITDA margin of 14.5-15.5%
- Operating free cash-flow margin of 8.5-9.5%
- Dividend per share of 5.40-5.60 pence, in line with underlying EPS growth of c.20%

Strategy update

TalkTalk Telecom Group PLC is today giving a strategy update and financial guidance for the year to March 2011. The Group is also providing indicative financial information for the year to March 2010, since following the recent demerger there will be no preliminary results announcement in respect of this year. A full set of audited results will be posted on the Group's website in July.

Indicative financial statements, 2009-10

Headline Profit & Loss	Year ended 31 March 2010	Year ended 29 March 2009
Revenue (£m)	1,686	1,385
EBITDA (£m) ⁽¹⁾	230	181
EBIT (£m) ⁽¹⁾	160	124
Profit after tax (£m) ⁽²⁾	103	-
Earnings per share (pence) ⁽²⁾	11.3	-

Headline Cash-flow	Year ended 31 March 2010	Year ended 29 March 2009
EBITDA (£m) ⁽¹⁾	230	181
Working capital	(2)	(35)
Capital expenditure	(100)	(106)
Operating free cash-flow ⁽¹⁾	128	40
Net Debt	(508)	-

(1) Unaudited & adjusted; includes 9 months Tiscali results; excludes exceptional charges and Carphone Warehouse plc costs.

(2) Unaudited & adjusted; includes 9 months Tiscali results; excludes exceptional charges.

BUSINESS REVIEW 2009-10

Broadband growth

We added 42,000 net new customers in the quarter, to end the year with a total of 4.197m broadband customers. The TalkTalk base (excluding AOL and former Tiscali customers) grew strongly, adding 144,000 net new broadband customers.

The momentum in the TalkTalk customer base accelerated during the year, driven by high-profile marketing campaigns, underpinned by increasingly effective inbound and outbound sales channels. The TalkTalk brand is now recognised as representing simple, compelling value-for-money broadband and voice propositions, in a market that consumers can find confusing and costly. Improved service levels, high data download allowances, and an uncongested network all contribute to a TalkTalk customer experience that drives both acquisition and retention.

The Tiscali base was re-branded to TalkTalk in January and the majority of customers have been migrated onto TalkTalk tariffs. As we expected, some customers outside our network footprint received price

increases, reflecting the higher cost of delivery. Customer churn in these areas increased in line with expectations. The new enlarged TalkTalk customer base, including the re-branded Tiscali customers, increased by 81,500 during the quarter.

We ended the year with 3.110 million unbundled customers, with 74% of our total broadband base being serviced over our own network of 1,748 unbundled exchanges, which is the UK's most extensive Next Generation Network. The increase in the unbundled base comprises both new acquisitions, most of which go straight onto our network, as well as migrations of customers from BT's wholesale infrastructure onto our own network. Over 80% of our customers are expected to be on our unbundled network by the end of the current calendar year.

Our non-broadband base, comprising mainly voice only customers and a small number of remaining narrowband customers, continued to decline in line with expectations, as we worked to up-sell these customers to our broadband services. The non-broadband base ended the year at 999,000 (2009: 1.114 million) including the non-broadband customers acquired as a result of the Tiscali acquisition.

ARPU progression

Broadband ARPU for the full year grew by 4.2% to £23.60 (2009: £22.65), in spite of the expected dilutive impact on ARPU of the Tiscali acquisition. ARPU growth has been driven by the successful launch of our higher value TalkTalk Pro service, and the success of Boosts, which enable customers to enhance their core broadband and voice services.

Ofcom's decision to allow BT to increase its regulated price for MPF from June 2009 also contributed to increased ARPU as some of these increases were passed through to our MPF customers. The Group has challenged this Ofcom decision at the Competition Appeal Tribunal.

Non-broadband ARPU was £20.40 (2009: £20.93), reflecting the dilutive impact of the Tiscali non-broadband base.

Business-to-business (Opal)

Revenue for the full year increased by 10.5% to £327m (2009: £296m). Excluding the impact of the Tiscali acquisition, revenue grew by 2.7%. This was due to the success of Opal's new business broadband and other data products, off-setting the continuing decline in inbound and outbound voice revenues.

Opal introduced new retail and wholesale Ethernet propositions in the second half of the year and signed its first contract for the supply of Ethernet circuits with a major global carrier in the last quarter. A pipeline of additional Ethernet opportunities is building and demonstrates the opportunity that exists for Opal to win business as a result of the capabilities of our network.

Integration

We continue to make good progress against our integration plans. We have started to see some of the planned synergy savings, through the migration of customers onto our own voice network, the first stages of the access migration programme, and the start of backhaul consolidation. During the year, we completed the migration of all TalkTalk customers to our new billing and CRM system, Trio, with AOL and Tiscali residential customers to follow during the course of the current year. The integration programme remains on track to deliver a total of £40-50m of synergy benefit by the end of 2010/11.

New services

We are on track to trial our MVNO during the first half of the year, extending TalkTalk's value for money proposition into mobile voice and data services, bundled with our fixed line products. We are continuing to explore super-fast Next Generation Access broadband opportunities, working with BT Openreach and other infrastructure developers. Our TV strategy, based on our participation as a partner in Project Canvas, remains on track for commercial launch in 2011.

GROUP FINANCIAL REVIEW 2009-10 (Unaudited)

Profit & Loss - Indicative

The Group increased total revenue in the year by 21.7% to £1,686m (2009: £1,385m), including the impact of the acquisition of Tiscali in July 2009. Excluding Tiscali, total Group revenue was broadly flat, in line with expectations.

EBITDA before SAC and marketing costs grew by 26.1% to £387m (2009: £307m). The EBITDA margin pre SAC and marketing improved to 23.0%, from 22.2% last year, reflecting the growing scale of our business and the higher proportion of unbundled customers in the base, partially offset by the expected margin dilution as a result of the Tiscali acquisition.

SAC and marketing costs increased by 24.6% to £157m (2009: £126m) driven by the strong growth of the TalkTalk customer base and our investment in the TalkTalk brand, through our highly visible above-the-line campaign and successful sponsorship of the X-Factor. Our acquisition cost per customer remained flat. EBITDA after SAC and marketing costs grew by 27.1% to £230m (2009: £181m) and the margin improved to 13.6%, from 13.1% last year.

Headline EBIT increased by 29.0% to £160m (2009: £124m), despite increased depreciation and amortisation of £70m (2009: £57m) arising from the acquisition of Tiscali and investment in our Trio customer management and billing system.

Headline earnings per share of 11.3p are stated net of an allocation of Carphone Warehouse plc costs of £9m, pro-forma interest charges of £5m and an effective tax rate of 29%. Underlying earnings per share taking into account standalone interest costs and the inclusion of plc costs were 10.5p.

Exceptional charges were incurred during the year as a result of the demerger and separation from Carphone Warehouse Group plc of £19m and "one company" integration programme costs of £29m.

Headline cash-flow

The Group generated operating free cash-flow of £128m (2009: £40m), a significant increase over prior year driven by the strong EBITDA performance and normalisation of working capital.

Capital expenditure in the year was £100m, 5.9% of total revenue, compared to £106m and 7.7% of revenue last year. Our strategic investment programme included expansion of the Group's network, with a further 45 exchanges unbundled during the year, and the continued build out and migration of customers onto our Trio customer management and billing system.

At 31 March 2010 the Group had net debt of £508m resulting from the demerger.

OUTLOOK

Medium term

We expect to deliver continuing top line growth, as we continue to grow our customer base and launch new services such as mobile and TV to our existing customers, and as Ethernet opportunities in our Opal business start to contribute significant revenue.

EBITDA margins are expected to continue to improve, as the synergy values of our "one company" programme are fully realised and we continue to leverage the benefits of our network, both through scale and as the range of services we are able to deliver to our residential and corporate customers continues to expand.

2010-11 Guidance

Revenue growth

We expect to grow total revenue in the year by 6-8%.

In the broadband market, we expect to maintain the current momentum of the TalkTalk brand in the market, and add between 140,000 and 180,000 net new broadband customers to the Group's total base. Broadband ARPU is also expected to continue to grow, to £24-25 per month, driven by continued penetration of new service offerings and up-selling to a richer product mix.

In the non-broadband base, we expect to see an ongoing decline in absolute terms as we continue to up-sell broadband to these customers, and we see the small narrowband base start to reach de minimis levels. Non-broadband ARPU is expected to remain broadly stable.

In the business-to-business market we expect to continue to deliver 2-3% revenue growth, with increasing sales of new data products such as Ethernet more than off-setting the expected continuing decline in traditional voice revenues.

EBITDA margins

We aim to grow the EBITDA margin to between 14.5% and 15.5%. This will be driven by higher ARPU, improved gross margins as we migrate customers on to our unbundled network, and integration synergies, partially offset by the continuing investment in driving broadband customer growth.

Cash-flow

We expect to generate operating free cash-flow margins of 8.5-9.5%, driven by EBITDA growth and continued control of capital expenditure.

We expect to maintain capital expenditure at approximately 6% of total revenue. In addition to ongoing maintenance expenditure on IT and the network, this will include investment in capacity to service the growing broadband customer base, and longer-term strategic investments such as expansion of our network coverage and the continuing build out of our Trio customer management and billing system.

Exceptional items

We expect to incur exceptional charges of approximately £30m, and cash costs of approximately £35m, in respect of our "one company" integration programme. This programme will generate annual savings in the £40-50m range, paying back in just over one year.

Demerger and separation costs will have no P&L impact but a cash impact of £15m in the year. We expect a cash inflow relating to post-acquisition adjustments in the Tiscali customer base, following completion of the expert determination process to more than offset the demerger cash costs.

Earnings and Dividend Policy

Our dividend policy will be progressive, with reference to our earnings per share growth before exceptional items. As a result, for the year to March 2011 we expect the dividend to be in the range of 5.40 to 5.60 pence per share, compared to the 4.65 pence per share paid by the Carphone Warehouse Group plc for the year to March 2010.

Presentation

A presentation for investors and analysts will be held at the offices of TalkTalk, 11 Evesham Street, London W11 4AR, starting at 09.30am. The dial-in details are +44 20 7138 0835 (UK & International excl. USA) and +1 866 850 2201 (USA). The passcode is 9983452#. A replay will be available for one week on +44 20 7111 1244 (UK & International excl. USA) and +1 866 932 5017 (USA). The passcode for the replay is also 9983452#. The event will also be audio webcast live at www.talktalkgroup.com.

Next trading update

The Group will announce its first quarter trading update in July 2010 and will publish audited financial highlights for 2009/10 at this point.

For Further Information

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