



Interim Results FY18

15 November 2017

Strong market opportunity for growth

Simpler strategy has momentum

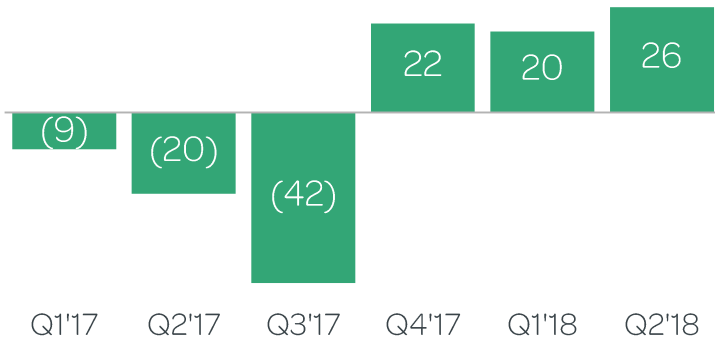
- Our uniquely simple propositions are resonating well and driving base growth
- Uncertain economic environment is driving customer demand for better value and price certainty
- Premium priced operators are focused on protecting high margin customer bases
- Our customer service operation is stable; and network efficiencies are paying off
- Delivered growth in H1; expect to step up further in H2

Growth ahead of plan

- ➔ On-net net adds +46k with double digit growth in both Retail and Wholesale bases; 1.6m customers now on FLPP
- ➔ Return to on-net revenue growth in Q2 (+1.3%)
- ➔ Churn continues to fall supported by improved NPS
- ➔ Headline EBITDA £95m (excluding MVNO loss)
- ➔ Opportunity to step up investment in growth to deliver further strong net adds progress in H2
- ➔ Costs of growth expected to drive FY Headline EBITDA towards lower end of guidance range

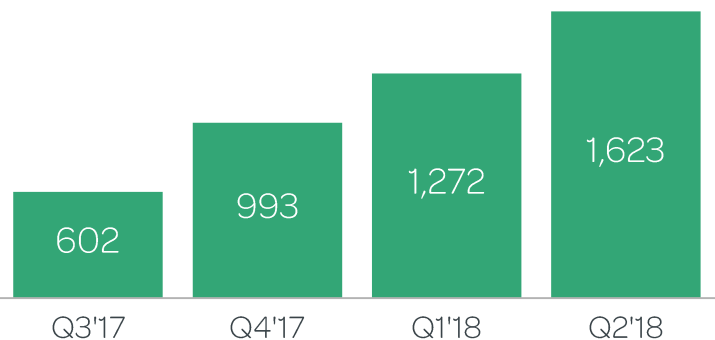
Third consecutive quarter of base growth

On Net BB Net Adds

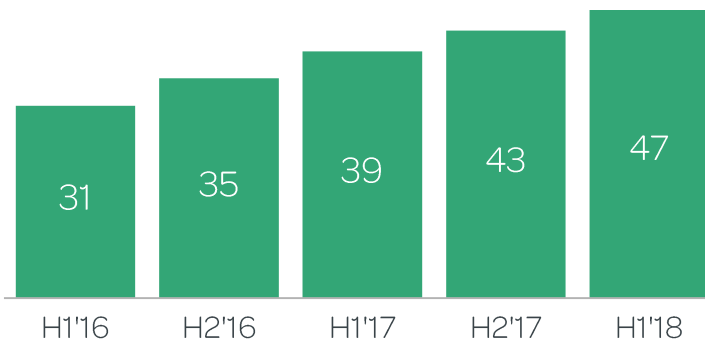


- ➔ Strong gross adds and reducing churn
- ➔ Over half the base on fixed price plans
- ➔ Strong take up of Ethernet circuits in B2B

Total FLPP Base

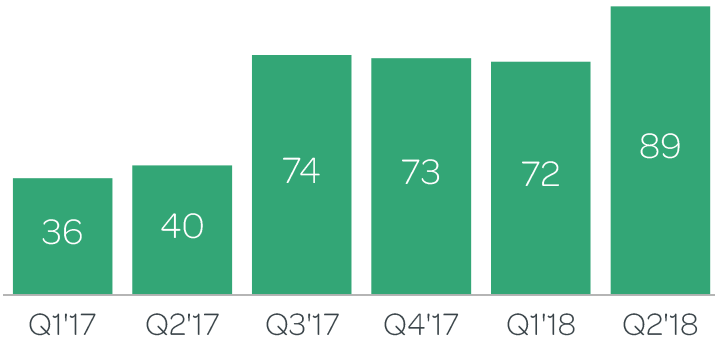


EFM & Ethernet Base



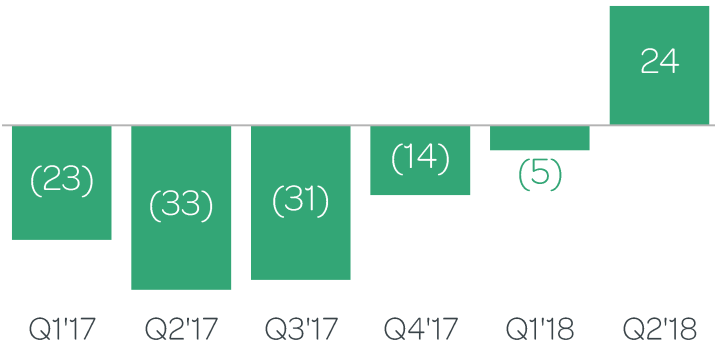
Growth in fibre, reducing churn and TV turnaround

Fibre Net Adds

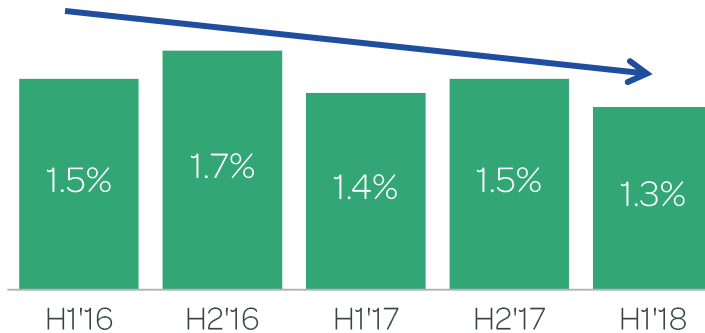


- ➔ Strong momentum in fibre
- ➔ TV turnaround
- ➔ Reducing churn

TV Net Adds



On Net Churn










Moving to a simpler distribution model in Mobile

- ➔ Exit of thick MVNO and legacy mobile costs (and trading losses) close to completion
- ➔ Discussions to finalise a simpler, mobile distribution agreement are progressing well
- ➔ Existing customers will also benefit from these tariffs
- ➔ Capital light, revenue share, simple distribution

Growth in on-net revenue in Q2; ARPU outlook starting to stabilise

- ➔ On-net revenue growth in Q2 (+1.3%); total revenue decline driven by voice and a lower average base
- ➔ Fibre and TV growth plus legacy price inflation; is off-setting ARPU dilution from fixed price plans
- ➔ ARPU stabilising

Significant price delta*

							
Copper	£387	Unlimited Broadband & No calls £529	Unlimited Broadband & Weekend Calls £831	Vivid 50 & Weekend Calls £738	Unlimited Broadband & No Calls £442	Broadband & Weekend Calls £538	Unlimited Standard BB 17 + No calls £538
FTTC (40)	£495	Fibre Unlimited & No Calls £867	Unlimited Infinity 1 & Weekend Calls £821	Vivid 100 & Weekend Calls £738	Unlimited Fibre & No Calls £609	Unlimited Fibre (38Mbps) & Weekend Calls £648	Unlimited Fibre 38 + No calls £513
BB + TV	£495	Original TV & Unlimited Broadband & No calls £959	Essential TV & Unlimited Broadband & Weekend Calls £944	Player Bundle & Weekend Calls £834			

Key

TT Pricing

Cheaper than TT

More Expensive than TT

Prices correct 6/11/17

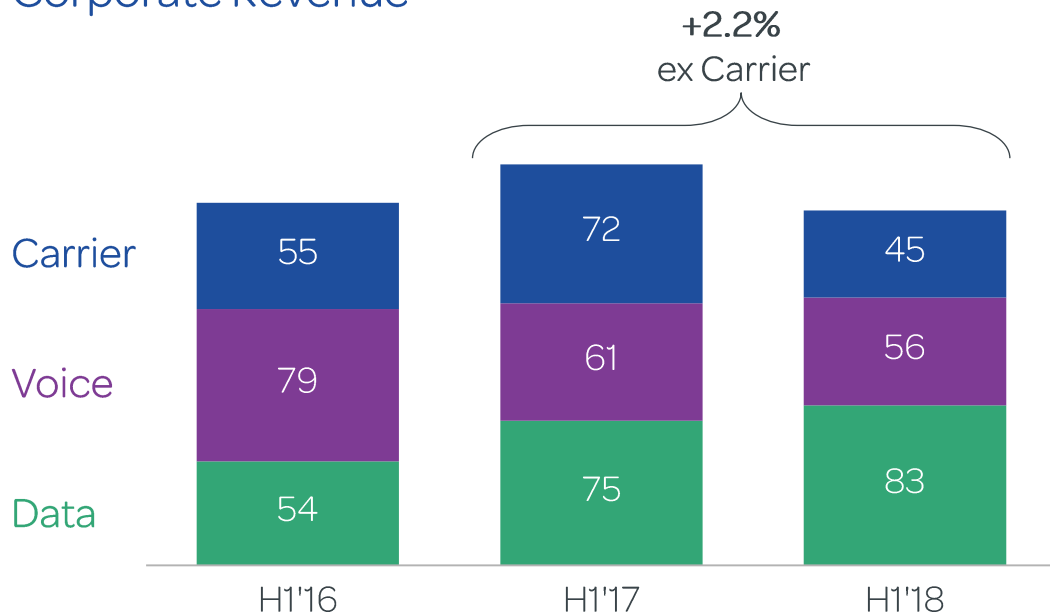
Prices based on nearest like for like packages, including connection fees. Standard price applies after contract ends. For up to date prices please visit pricing tool

<http://talktalk.comparison.solutions/>

*18m contract

Continuing strong Data revenues at TTB

Corporate Revenue



- ➔ Data revenue growth of 11%
- ➔ Data now 45% of Corporate (H1FY17: 36%; H1 FY16: 29%)
- ➔ Slow down in ongoing decline of legacy voice
- ➔ Carrier revenue significantly down YoY in line with plan

Ambition in fibre to the premise

Significant expansion of York trial

- ➔ Extending to additional 40,000 homes
- ➔ Take-up (30%); cost per home; and customer satisfaction all ahead of target

Regulation remains critical to future plans:

- ➔ FTTC regulation; workable PIA system and continued Government infrastructure competition and support for FTTP

Actively exploring co-investment opportunities to take learnings from York to additional cities



Ongoing focus on customer experience is delivering sustainable improvements



Consistently good Service

- ➔ Call centre consolidation ●
- ➔ Case Management ◐
- ➔ Digital First ◑
- ➔ Joined-up multi-channel ◒



Join/Move & Repair

- ➔ Join/Move re design ◑
- ➔ Repair re design ◑



In Home Experience

- ➔ New Homesafe 2.0 ●
- ➔ New Nuisance Call Service ◐
- ➔ New MyAccount APP ◑
- ➔ New TV multi-room ◒
- ➔ New Email ◑
- ➔ New Routers ◒



Customer Satisfaction



NPS



Churn

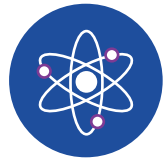
Network improvement on track and delivering for customers

The largest unbundled broadband and Ethernet network



Network Technology

- ➔ On track 700 exchange upgrade ●
 - ↑ resilience ↓ cost
 - 4x footprint increase for Ethernet
- ➔ Dark Fibre ready ●



Core Capacity

- ➔ On track with our forecast ●
- ➔ 20% of network on 10GB backhaul by y/e ●
- ➔ Largest Netflix caching ●



Network Systems

- ➔ New DNS ●
- ➔ New DLM ●
- ➔ IP Voice ●
- ➔ Next Generation Monitoring ●
- ➔ Incremental improvements ●

#1 FTTC on SamKnows™

#1 throughput at peak times

Summary

More stable operations delivering benefits and network investments paying off. Leading to:

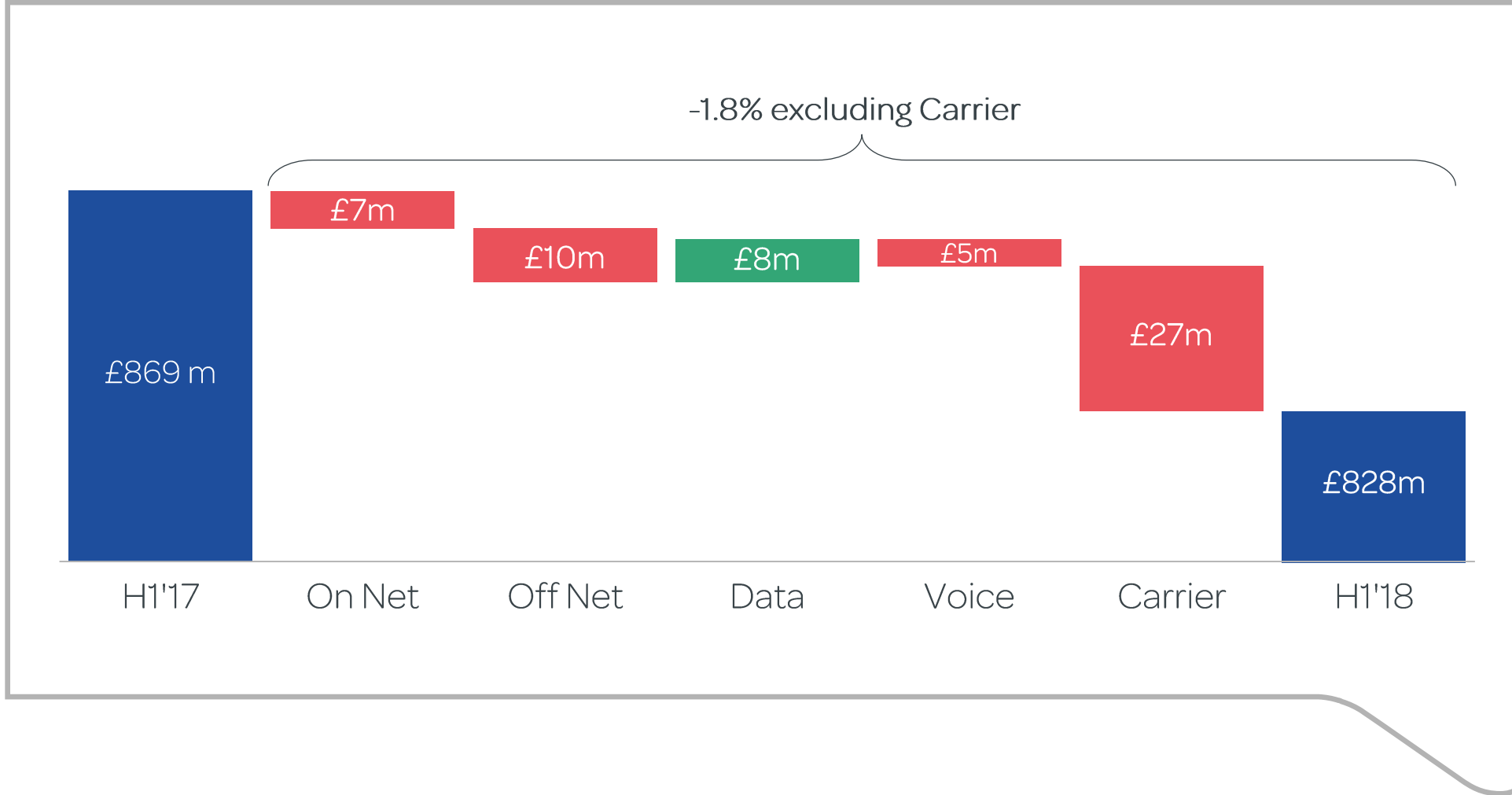
- ➔ Increasing NPS
- ➔ Decreasing churn
- ➔ Strong foundations for growth

Financials

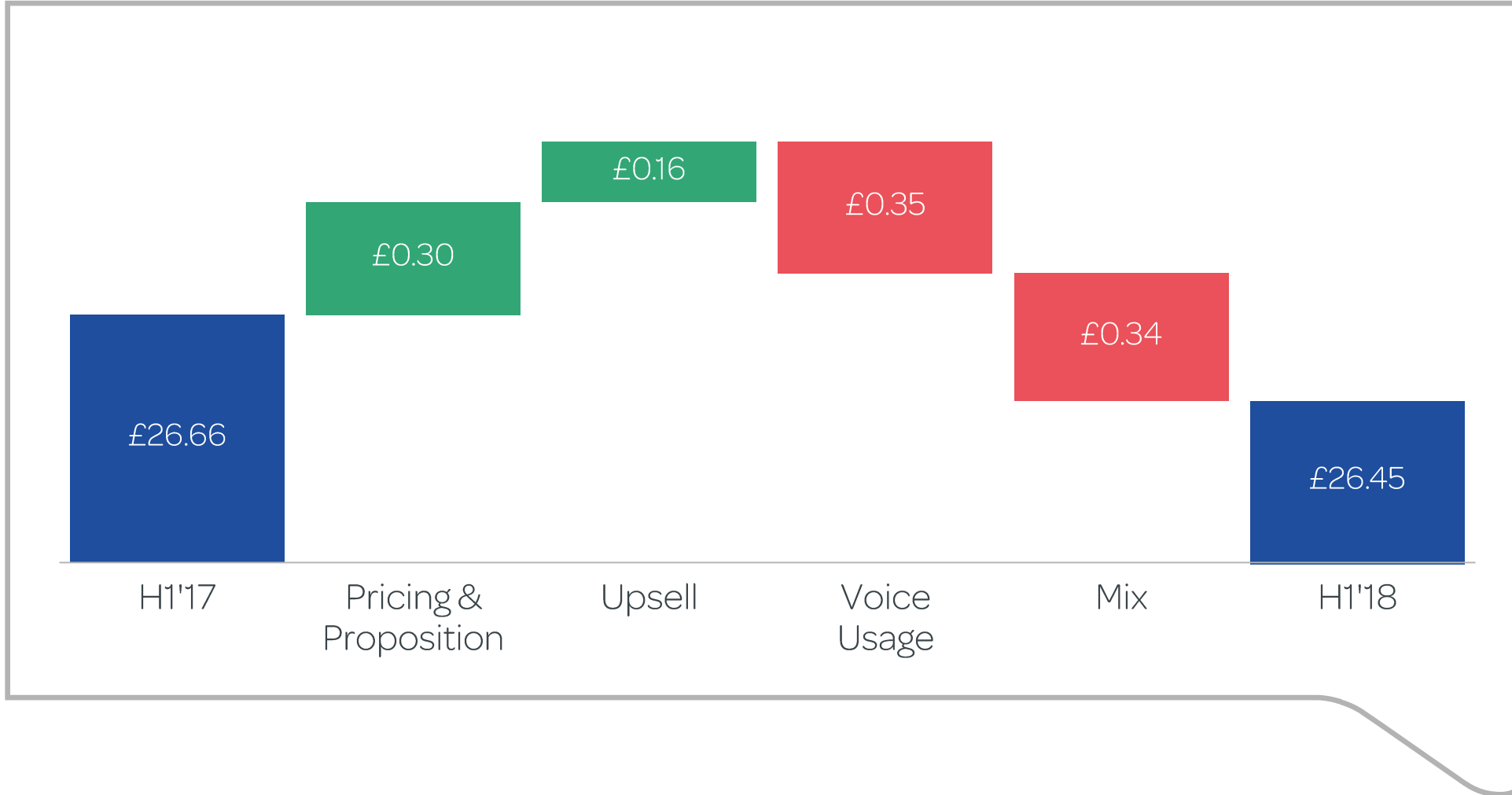
Summary Profit & Loss

	H1FY18 £'m	H1FY17 £'m
Headline Revenue	828	869
Gross Profit	435	459
<i>Margin</i>	52.5%	52.8%
Operating costs & SAC	(340)	(315)
Headline EBITDA	95	144
<i>Margin</i>	11.5%	16.6%
(Loss)/Profit after taxation	(71)	21
Headline EPS (Basic)	(0.5p)	5.0p
Dividend per share	2.50p	5.29p

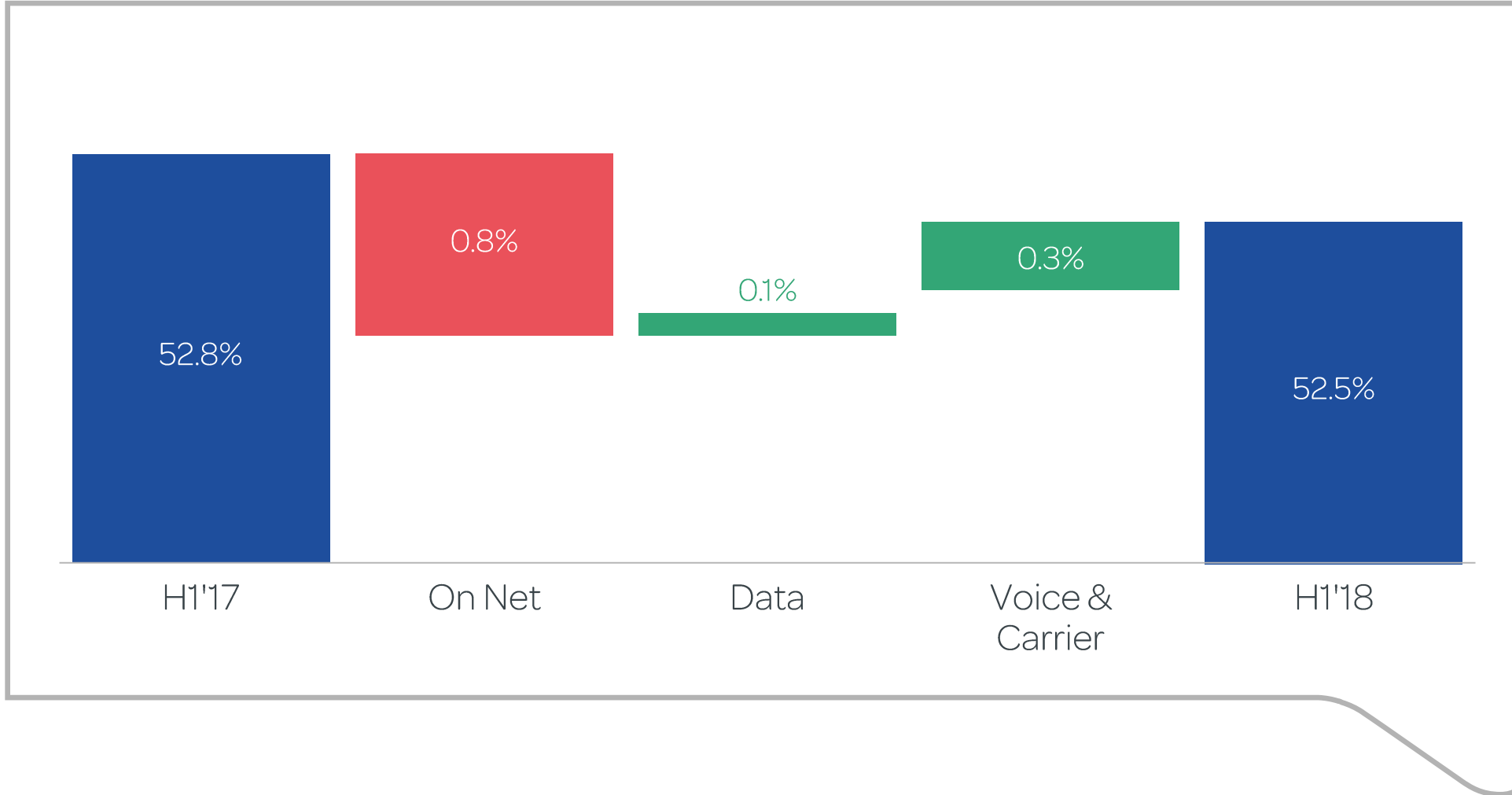
Revenue



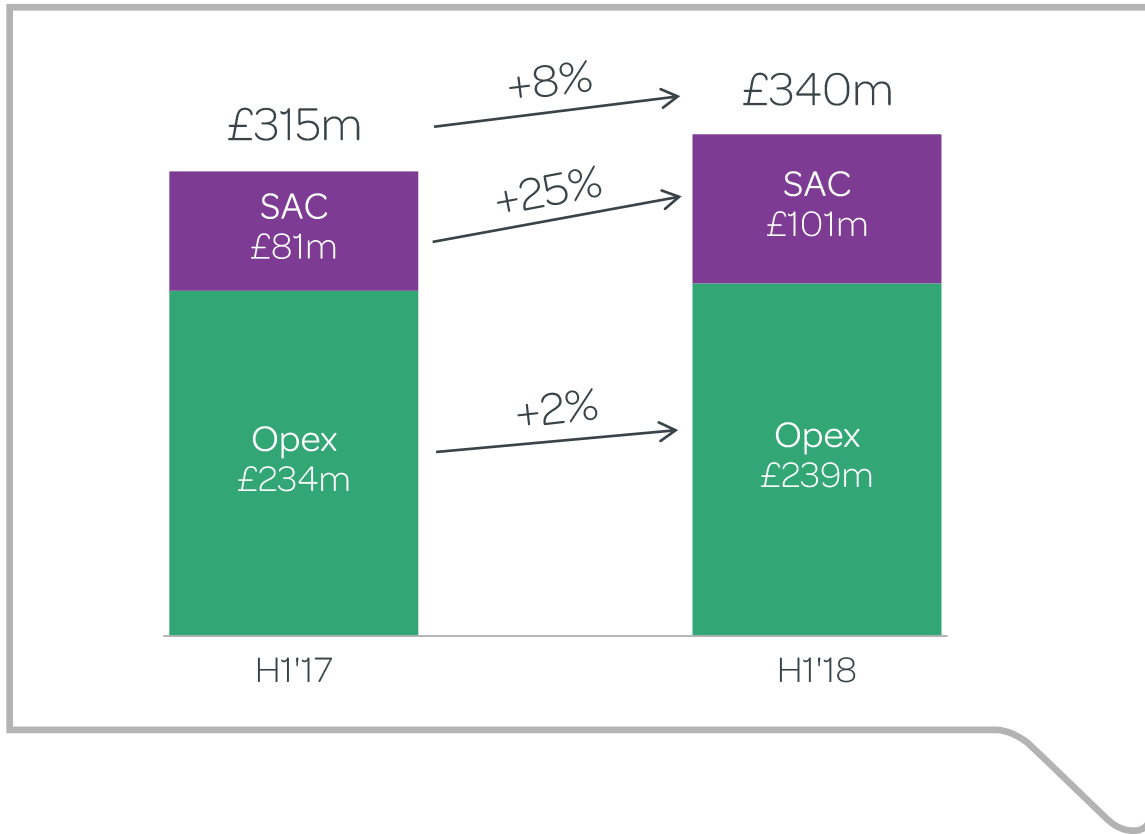
On-net ARPU



Gross margin



SAC and Operating Costs



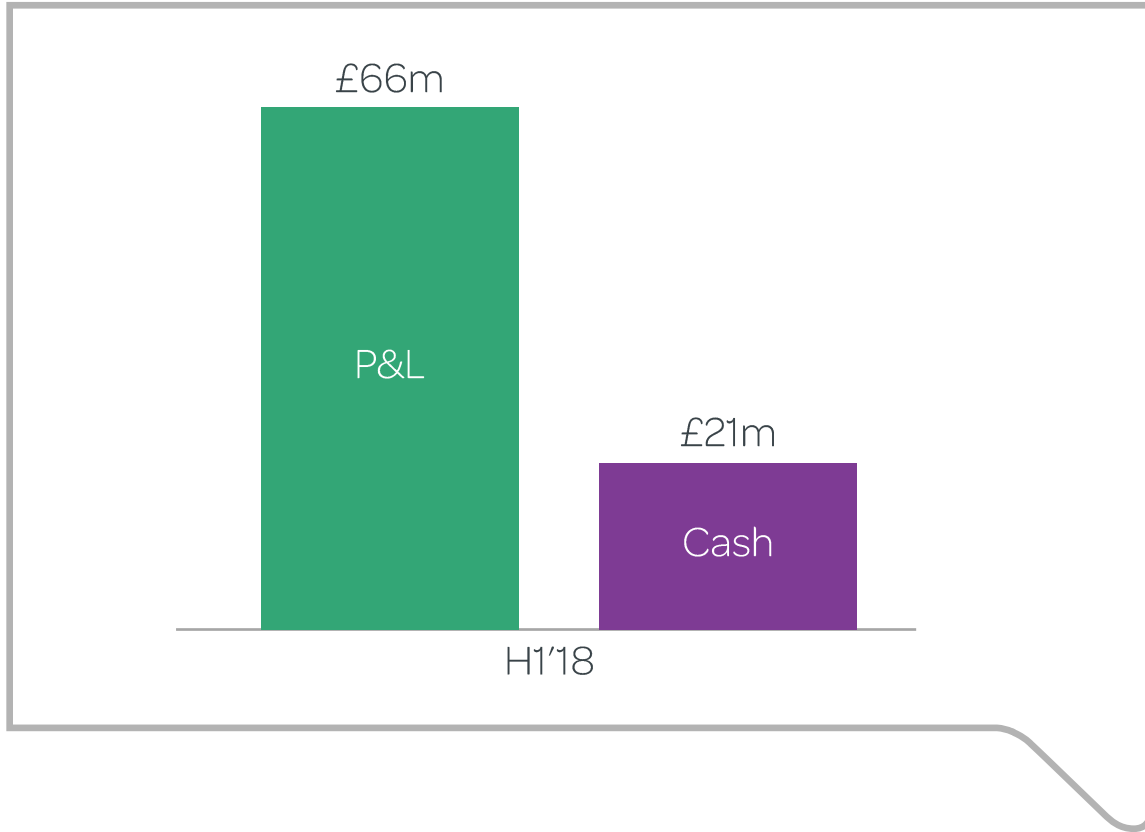
- ➔ Investment in base growth and brand marketing
- ➔ Increased cost to serve and ongoing network investment
- ➔ Annualising savings from last year's MTTS programmes

Cash Flow

	H1FY18 £'m	H1FY17 £'m
Headline EBITDA	95	144
Working Capital	14	(73)
Capital Expenditure	(63)	(99)
Operating Free Cash Flow	46	(28)
Interest & Taxation	(28)	(11)
Free Cash Flow	18	(39)
Exceptional Items	(21)	(15)
Acquisitions	(5)	(14)
Dividends	(47)	(100)
Net Cash Flow	(55)	(168)
Opening Headline Net Debt	(782)	(679)
Closing Headline Net Debt	(837)	(847)
Net Debt / EBITDA*	2.88x	2.51x

* As calculated for the purposes of the Group's borrowings

Adjusting & Exceptional Items



- P&L
 - Mobile
 - Group organisational structure and rationalisation of property estate
 - Network transformation
- Cash:
 - Spend against FY17 provisions
 - Mobile
- FY cash exceptional cost expected to be c£30m

Full year outlook

- ➔ Step up in H2 investment to drive materially higher base growth
 - ARPU impact from re-contracting
 - Mix impact from growth in fibre
 - Further investment in SAC
 - Associated growth in costs to serve
- ➔ Ongoing momentum in TTB
- ➔ Headline EBITDA (excluding MVNO losses) towards lower end of guidance
- ➔ Dividend 7.5p

Summary

- ➔ Growth agenda is working and has momentum
- ➔ The market opportunity for a value provider of simple, fixed connectivity has never been stronger
- ➔ We are making sensible investment decisions to deliver this growth

Appendices

Key metrics

	FY16			FY17			FY18
	H1	H2	FY	H1	H2	FY	H1
Total On-Net Base ('000)	4,097	3,996	3,996	3,967	3,947	3,947	3,993
On-Net Churn %	1.5%	1.7%	1.6%	1.4%	1.5%	1.5%	1.3%
Mobile Closing Base	596	699	699	793	913	913	852
Fibre Closing Base	578	704	704	780	927	927	1,088
TV Closing Base	1,439	1,389	1,389	1,333	1,288	1,288	1,307
Off-Net Base (inc. Voice Only)	301	281	281	215	189	189	139
TOTAL BROADBAND	4,189	4,072	4,072	4,036	4,009	4,009	4,048
Headline revenue (£m)							
On-Net	665	668	1,333	637	642	1,279	630
Corporate	188	196	384	208	189	397	184
Data	54	66	120	75	82	157	83
Voice	79	66	145	61	58	119	56
Carrier	55	64	119	72	49	121	45
Off-net	27	28	55	24	20	44	14
Group Total	880	892	1,772	869	851	1,720	828
Headline revenue growth							
On-Net				-4.2%	-3.9%	-4.1%	-1.1%
Data				38.9%	24.2%	30.8%	10.7%
Voice				-22.8%	-12.1%	-17.9%	-8.2%
Corporate Revenue Growth less Carrier				2.3%	6.1%	4.2%	2.2%
Carrier				30.9%	-23.4%	1.7%	-37.5%
Off-net				-11.1%	-28.6%	-20.0%	-41.7%
Group Revenue Growth less Carrier				-3.4%	-3.1%	-3.3%	-1.8%
ARPU (£)							
On-Net	26.79	27.51	27.18	26.66	27.04	26.84	26.45
Year-on-Year Growth				-0.5%	-0.5%	-1.3%	-0.8%