TalkTalk Telecom Group PLC
Annual Report 2011

TalkTalk Telecom Group PLC

We are one of the leading fixed line voice and broadband telecommunications businesses in the UK. We have over 4.8 million customers.

Demerger from Carphone Warehouse

In March 2010 we demerged from The Carphone Warehouse Group PLC and listed on the London Stock Exchange as TalkTalk Telecom Group PLC, and are now a constituent of the FTSE 250.

For more information visit:
www.talktalkgroup.com

Financial highlights

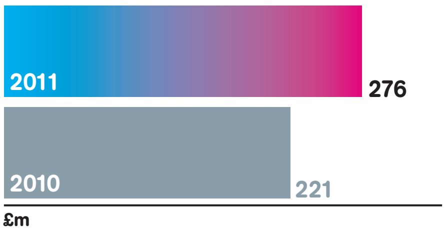
- We have had strong EBITDA, earnings and cash flow growth, during a year of major change across the business.
- We achieved our integration synergies run rate of £55m, making good progress towards implementing our strategy.

Revenue

+4.7%

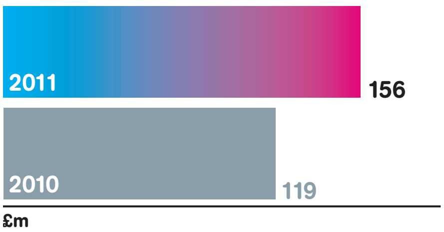
Headline EBITDA*

+25%



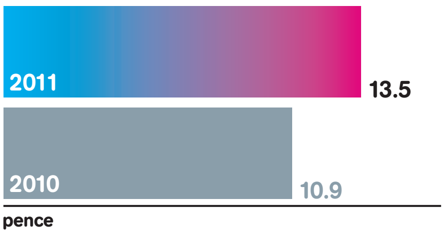
Operating free cash flow*

+31%



Headline earnings per share*

+24%

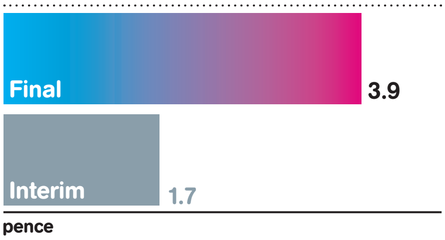


Statutory profit before tax

>100%

Dividends per share

5.6



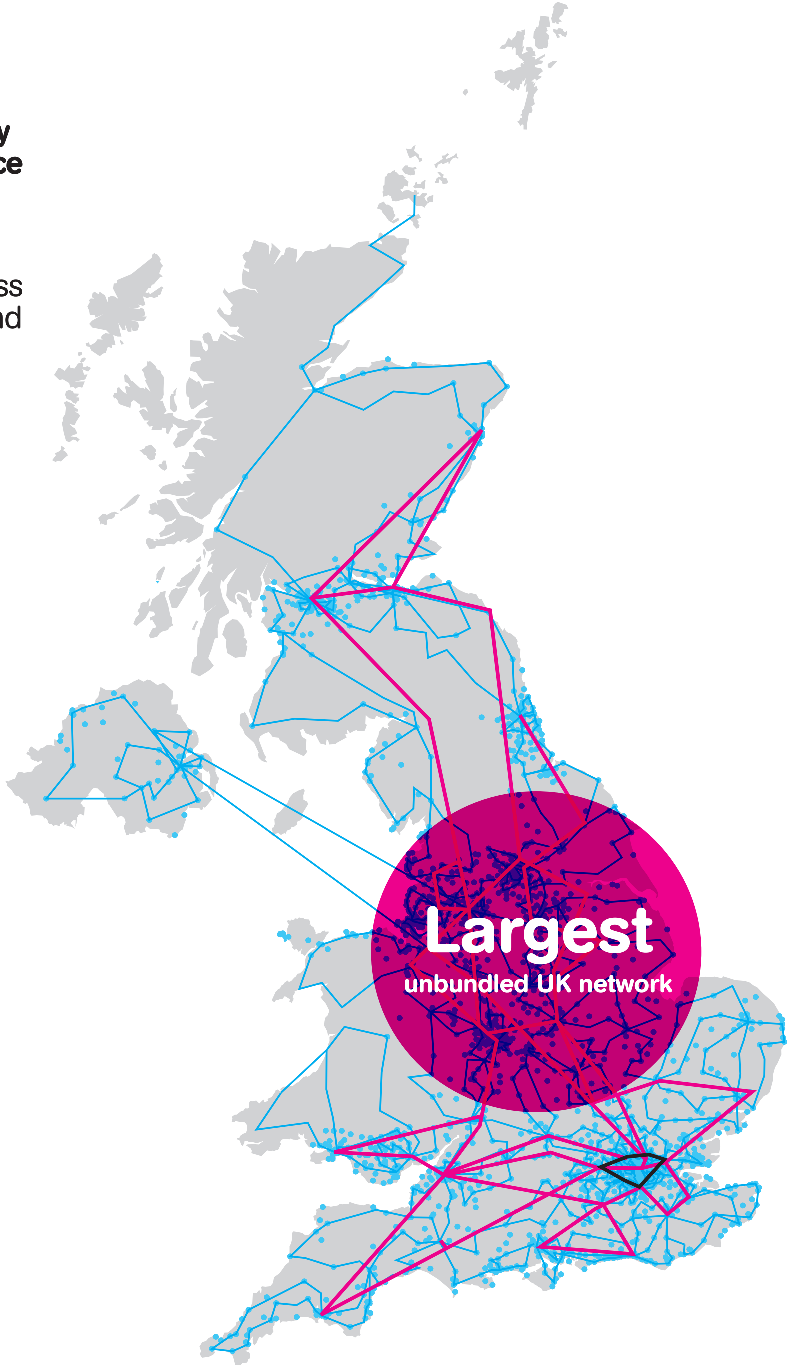
* We use adjusted measures where measures are not defined under IFRS or IFRS numbers have been adjusted. For details see page 97.

Directors' Report: Overview

What we do

We are the UK's leading value for money provider of fixed line broadband and voice telephony services to consumers and business users.

We serve over 4.8 million customers across the UK under the TalkTalk, AOL Broadband and TalkTalk Business brands.



Over the past five years, through a combination of organic growth and acquisitions, we have built one of the UK's largest broadband and voice customer bases. During the year we completed the integration of the former Tiscali business we had acquired in 2009, so that the majority of our base now comprises TalkTalk customers.

How we are delivering value for money services for our customers:
We operate the UK's most extensive Next Generation Network. We use this advanced network to provide our customers with a range of clear, consistent value for money broadband, voice and associated services.

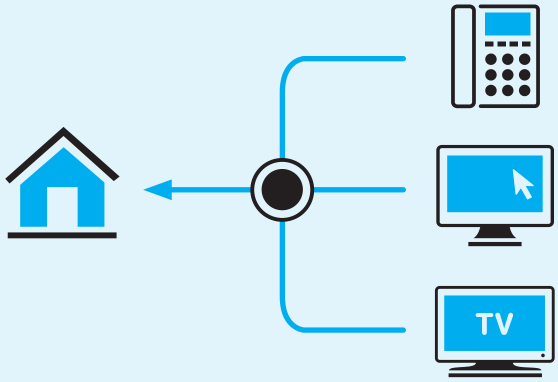
For more information visit:
www.talktalkgroup.com

Our network

We have installed our own advanced equipment in more than 2,000 of the UK's local telephone exchanges, which serve around 86% of the country's households. These exchanges are connected via our own high speed, high capacity all IP national network, enabling us to carry all of our customers' voice and data traffic efficiently and cost effectively.

This investment enables us to take control of the telephone line from the exchange to the customer's premises (on terms established by the telecoms regulator Ofcom) and to manage all of the voice and broadband services we provide over this line.

Known as 'local loop unbundling', this process brings major advantages for the customer, such as optimised broadband speed and service quality and access to our growing range of additional products and services. At the end of the year, 86% of our customers were being served through our own network. Further unbundling, to extend our network coverage to 93% of the UK's households, is central to our plans to continue growing our revenue and our profit margins.



Our consumer business

TalkTalk is strongly positioned as the value for money broadband and voice provider in the UK market. We offer two straightforward, compelling customer propositions:

TalkTalk "Essentials"

TalkTalk "Plus"

In 2011 we launched three mobile products aimed at our customers seeking to reduce the costs of calling between family members.

In 2012 we plan to launch innovative value for money, broadband based television services to our customers. These will be built around YouView, a new technical standard for mass market television being developed by a joint venture that comprises TalkTalk and all the UK Public Service Broadcasters, including the BBC, BT and Arqiva.

TalkTalk Business

In January we rebranded our Opal business to business operation as TalkTalk Business, to benefit from the strength of the TalkTalk brand.

This business is a long-established supplier of voice and data services to the small and medium sized enterprise market, using our extensive, low cost network infrastructure to deliver a wide range of propositions to these customers.

Chairman's statement

"This first year since our demerger has been one of intense activity for TalkTalk, building a strong base on which we can offer an enhanced experience for all our customers, and continue to grow our revenue and profitability."

Charles Dunstone
Chairman

The demerger of TalkTalk from Carphone Warehouse at the end of last year was designed to build value for Shareholders by giving both companies the freedom, focus and flexibility to develop and pursue the strategies that were right for each of them. One year on, there can be no doubt that the demerger has worked. TalkTalk's first year as a standalone company has been one of intense activity and we are delivering the benefits of our growth and scale, reporting strong growth in earnings and operating free cash flow.

I have sometimes described TalkTalk's acquisition of Tiscali in 2009 as being like a snake swallowing a goat – prolonged, sometimes painful but worth it in the end! We started the year with our Tiscali customers having been rebranded and moved onto TalkTalk tariffs, but still on separate networks and separate billing systems. Through the course of the year we migrated almost all of them onto our own network and billing system. This was an enormous and complex operation, at the end of which we have a stronger, integrated business that is ready to take the next big steps forward.

The process of absorbing Tiscali's customers into TalkTalk was not always painless, and some suffered disruption to their service. We sometimes did not deal with these problems as well as we should have done, and this resulted in some customers getting frustrated with us and leaving TalkTalk. However, I am certain that for those customers who stayed with TalkTalk, and they are the vast majority, the journey was worthwhile and they will now enjoy a consistently better customer experience.

The successful integration of Tiscali has given us a strong base to build on, but there is still a huge job to do to make TalkTalk more efficient and to give our customers an even better experience. We are now implementing a new strategy to do this, and to drive further revenue and profit growth. This includes transforming the way we work, expanding the coverage of our network, and developing exciting new products and services for our customers.

At the heart of TalkTalk is our commitment to be the UK's best value for money provider of broadband, voice and television services. That commitment is now more important than ever. Consumers and businesses are still facing a difficult economic environment, with budgets under pressure and likely to remain so for some time. Broadband is now an essential service, and we will be absolutely true to our heritage of giving customers consistently the best value for money products in the market.

Giving customers value is about more than offering them the lowest prices. It is also about what they get for their money, and we have now included our unique new HomeSafe service into all TalkTalk products. Parents are becoming increasingly concerned about what the internet can bring into their homes, and HomeSafe allows them to control this effectively. It also demonstrates how TalkTalk can use its advanced network technology to develop innovative services that customers want.

Early next year we will be transforming our customers' television viewing experience. UK households can currently choose between Freeview, the free, basic multi channel TV service with limited functionality, and high cost pay TV services, offering an extensive range of content and functions. YouView from TalkTalk will bridge the gap between these two extremes. Customers will get all the Freeview content they are used to, but with advanced catch up and video on demand functions, all integrated within a simple, intuitive program menu. And they will get all this in value for money packages that are just not available in the market now.

In this very active year, we have mapped out our course for the next phase of TalkTalk's development, and taken some major steps forward. To reflect this progress, from the start of the 2012 financial year, we intend to distribute 50% of our Headline earnings per share as regular dividends.

Last year was a challenging one for our employees, and on behalf of the Board I would like to thank them all for their efforts, and for their continuing commitment to TalkTalk and to our customers.

Chief Executive Officer's statement

"This was a strong all round performance in a year of major change across the business. We have made good progress implementing our strategy, by extending our network, driving operating efficiencies, and offering customers consistently best value for money services."

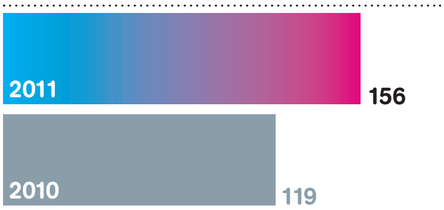
Dido Harding
Chief Executive Officer

Headline EBITDA

+25%

Operating free cash flow

+31%



TalkTalk delivered a strong all round performance, in a year of major change across the whole business. In our first year as a stand alone company we added almost 500k customers to our own network, improved ARPU by 6%, grew Headline EBITDA by 25%, and Operating free cash flow by 31%.

Integration

Our priority during the year was the integration of the former Tiscali business. This was a complex process that included transferring all former Tiscali customers onto TalkTalk branded price plans, moving them onto our email platform, migrating a substantial majority of them onto our extended network, and moving their billing details onto our upgraded billing system. We successfully completed all the major elements of this program by the year end and delivered our run rate target of £55m of annual synergies.

During this process a number of customers suffered disruption, which caused higher levels of complaints and churn, and gave rise to a formal Ofcom investigation. We have worked hard to mitigate the impact of the disruption on our customers, and to address the specific billing problem highlighted by Ofcom, which we believe has now been resolved. As customers are migrated onto our own network and systems, their experience improves significantly and churn reduces.

Implementing our strategy

With 4.2 million broadband customers, and the UK's most extensive and most advanced 'Next Generation Network', our aim now is to realise the potential of this scale for the benefit of both customers and Shareholders. We therefore launched a new strategy in November, and have made good progress implementing this.

The strategy is focused around five areas, and aims to deliver our medium-term financial objectives of 20% Headline EBITDA margin and 2% revenue CAGR.

Chief Executive Officer's statement
continued

HomeSafe
Exclusively available to TalkTalk customers free of charge, HomeSafe provides unique network level safety and security for all devices using the internet connection in the home including games consoles and smart phones. The parental control features, including homework time, help parents make choices about how to keep their families safer online.

TalkTalk
HomeSafe

1. Extending our network
We ended the year with our own advanced equipment in 2,007 of the UK's local telephone exchanges, covering over 86% of the country's households. These unbundled exchanges are linked to our core national Next Generation Network by our high capacity, low cost backhaul circuits. This all IP network enables us to manage multiple services efficiently, control service quality, and develop new services rapidly and cost effectively.

Unbundling delivers substantial benefits including higher ARPU and lower churn across the customer base, access to inbound call termination revenue, lower regulated charges, and lower backhaul costs. Migrating our customers onto our network delivers a better experience for our customers, the opportunity to offer them more products and a rapid return on the investment.

We are now extending our network by unbundling a further 700 exchanges. This will bring our coverage up to 93% of the UK's households, and with 2,700 unbundled exchanges our aim is to serve 93% of our customers on our own network.

2. Improving operating efficiency and effectiveness
Our target is to generate £40-50m of operating efficiencies over the medium-term, by simplifying our business processes, eliminating duplication, and in doing so deliver a better service to our customers.

Towards the end of the year we launched a major organisation restructuring that will generate £25m of operating efficiencies annually. Changes include integrating all our technology and IT capabilities into one organisation and streamlining all our non customer facing business operations. These changes will also greatly improve the quality of the end to end experience we deliver to our customers, which will enable us to address customer services issues and start to reduce our overall customer service costs.

3. Delivering value for money quad play services
We are committed to providing an expanding range of clear, value for money services for our customers. More of our customers now take both broadband and voice services, and more also opt for our higher value "Plus" product, which now makes up 14% of our total base. We aim to drive this customer mix improvement further, and introduce more "Boosts", which give customers extra value and billing certainty.

TalkTalk is all about giving customers consistently the best value for money experience in the market, and we have reinforced this commitment by recently reducing the Headline price of our Essentials and "Plus" products for all our customers taking either of these products.

Value for money is not just about price, it is also about what customers get for their money, and we have now added our new, free HomeSafe option to our Essentials and Plus propositions. HomeSafe is the UK's first network-level security product, which works by filtering a customer's broadband before it enters the premises. It allows parents to decide what internet content they want to come into their home, and protects every internet device in the household.

We have extended our product range by offering great value mobile services for our existing customers, aimed at families seeking to reduce the costs of calling between family members, and we now plan to extend the range of our mobile offers.

The next major milestone in the implementation of our quad play strategy will be the launch of an innovative value for money television service to our customers. This will be built around YouView, a new, open technical standard for mass market television being developed by a joint venture that includes TalkTalk and all the UK Public Service Broadcasters, including the BBC, BT and Arqiva.

Overview
Performance review
Governance
Financial statements
Other information

Always Better Value
The services TalkTalk provides are at the very heart of our homes and we believe they should be available to everyone. This belief defines our commitment to Always Better Value. Because Always Better Value means a brighter home for everyone.

YouView will bring to our customers all the ‘plug in and watch’ simplicity they are used to, combined with the UK’s leading catch up and video on demand services, all instantly available through one simple, intuitive set-top box. Our customers’ on screen program guide will go backwards in time as well as forwards, for the first time allowing them to discover and watch great programs whenever they want, including a choice of pay TV channels and on demand programs. YouView from TalkTalk will be in trial by the end of 2011, with a full consumer launch planned for spring 2012.

4. Growing our range of data services for businesses
We are using our Next Generation Network to develop new services to exploit the growth of business data traffic. These include products based on Ethernet, a technology that delivers symmetrical, uncontended, fast access that is displacing high cost legacy leased line products. We aim to grow our wholesale, carrier grade Ethernet connectivity propositions for large operators supplying the enterprise market, as well as copper-based ‘Ethernet First Mile’ solutions for the mid market.

5. Offering fibre access
We are making delivery of our services future proof, and meeting potential customer demand for high speed broadband, by developing our ‘Next Generation Access’ capabilities. We have launched a fibre optic “Boost” product, and are working with BT Openreach to develop this further, and in particular to improve the customer connection experience and reduce costs.

Our other fibre initiatives include a shared research and development project with BSkyB to deploy a small scale ‘Fibre To The Home’ network to 3,600 homes in north west London, and active support for Fujitsu as it seeks access to government funds earmarked for investment in superfast broadband in rural communities.

Brighter basics
Successful delivery of our strategy is not just about what we plan to do, it’s also about how we do it. The way people work together and the culture we develop is a crucial element to our success. Through the course of this year we have developed our Brighter Basics – five core values that define what kind of team we aspire to be. They define our aspirations as a way of daily life, they capture what makes TalkTalk unique, and will guide us in implementing our plans to make TalkTalk a brighter place for everyone.

For more information visit:
www.talktalkgroup.com

Market overview

At the end of December 2010 there were 19.5 million household broadband connections in the UK, 3.9% more than at the same time the previous year. It is estimated that more than 75% of UK households now have a fixed line broadband connection.

The UK has one of the most competitive and innovative telecommunications markets in Europe. With consumers and businesses still facing a tough economic environment, and budgets under pressure, TalkTalk is clearly positioned as a value for money provider, with a strong appeal to customers seeking the best value offers for what is now an essential household and business service.

Fixed line broadband

With 4.2 million fixed line broadband customers, TalkTalk's market share at the end of December 2010 was 21.5%. BT Retail was the largest broadband service provider, with a 27.7% market share. The other large scale service providers were Virgin Media and BSkyB.

Unbundled broadband

At the end of March 2011 there were 7.6 million unbundled broadband lines in the UK. TalkTalk was the largest unbundler, with 3.6 million lines, 47.3% of the total UK market, and a total of 2,007 local exchanges unbundled.

21.5%

TalkTalk market share at December 2010

47.3%

TalkTalk share of unbundled market

On-net base

million

Percentage of customers on-net

%

UK telecoms regulation

The UK telecoms market is regulated by Ofcom, which sets the charges for wholesale access to infrastructure and associated services owned by BT Openreach, where BT is deemed to enjoy 'significant market power'.

Ofcom's objective is to ensure fair competition in the market, so that consumers and businesses benefit from a choice of services and service providers. Three areas regulated by Ofcom are most material for TalkTalk.

LLU Charges

A consultation is currently in progress to establish the level of BT Openreach charges for LLU for the period until 30 March 2014. This consultation covers MPF, SMPF and WLR charges, and takes account of a range of factors including BT Openreach's cost of capital, the value of the local loop infrastructure for regulatory purposes, and potential efficiency gains. Ofcom's mid case proposals (based on update published on 18 May 2011) are for MPF prices to change to RPI minus 2.7% and RPI minus 4.6% for WLR. A final decision on the new charges is expected in Autumn 2011.

IPStream Charges

This covers the charge control for BT's wholesale broadband services, of which IPStream is the most relevant, being the service used in areas that are outside TalkTalk's unbundled network footprint. Ofcom's market review in 2010 established that there should be a charge control for IPStream covering the 12% of the population located in the most rural, least competitive areas of the market. A consultation process on the actual charge levels is now in progress and Ofcom's initial proposal is that this should be based on a mid case of RPI minus 13%.

Next Generation Access

BT Openreach's NGA infrastructure, currently mainly comprising its FTTC network is now being rolled out. BT Openreach is required to offer a wholesale NGA product on equivalent terms and conditions for all communications providers. At present it is not subject to formal price controls. The current wholesale product is GEA, which TalkTalk is using to provide customers with its Fibre Optic "Boost" product. The development of this product further is the subject of discussions between TalkTalk, BT Openreach and Ofcom, aiming to improve the customer experience and to make its economics more attractive for providers and customers.

Other regulation

Other significant areas of current or potential legislation for TalkTalk.

Digital Economy Act

This Act was enacted in 2010 and requires Internet Service Providers to send notifications to customers whose connections have been identified as being used for illegal file sharing. The Act includes reserve powers to require the ISP to disconnect these customers. TalkTalk, along with BT, was given permission for a judicial review of these provisions of the Act, on five grounds. In a judgment handed down in April 2011 the majority of the challenge was rejected. An appeal is currently being considered.

In parallel, the Government is considering whether there should be a requirement on ISPs to block certain websites that promote illegal file sharing, and whether such a scheme should be voluntary or compulsory.

Net Neutrality

A number of parties have lobbied vocally at national and EU level for the introduction of rules to prevent certain forms of data traffic management by ISPs. However, the EU, the UK Government and Ofcom all appear to be committed currently to allow market transparency and competition to protect consumers' interests, rather than prescriptive regulation.

FTTC	Fibre to the Cabinet
GEA	Generic Ethernet Access
ISP	Internet Service Provider
LLU	Local Loop Unbundling
MPF	Full unbundling
NGA	Next Generation Access
RPI	Retail Price Index
SMPF	Partial unbundling
WLR	Wholesale Line Rental

Directors' Report: Performance review

Business review

Overview

The Group delivered a strong performance in its first year as a standalone entity generating material growth in profitability (Headline EBIT up 27%) and cash generation (operating free cash flow up 31%). Our customer base has remained broadly flat during the year as we have focused the business on unbundling, taking the percentage of customers on our network from 74% to 86% and growing ARPU on our broadband base 6% from £23.6 in Q4 2010 to £25.0 in Q4 2011. Substantially completing the integration program has delivered significant margin improvement in the second half of the year and we exit the year with the full benefit of £55m integration synergies included in our EBITDA run rate. As this increase in profitability flows through to operating free cash flow we continue to deliver on our commitment to cash growth.

All figures presented within the Business review are presented on a Headline basis as this is the way in which management reviews the business. Our Statutory results are presented in the Finance review.

Customer base and ARPU

	2011	2010	Growth (decline)
Broadband (k)	**4,199**	4,197	2
Non-broadband (k)	**678**	999	(319)
On-net base (k)	**3,607**	3,110	497
Of which:			
MPF base (k)	**2,751**	2,211	540
SMPF base (k)	**856**	899	(43)
Off-net base (k)	**592**	1,087	(495)
ARPU	**Q4 2011**	Q4 2010	
Broadband	**£25.0**	£23.6	5.9%
Non-broadband	**£17.7**	£21.8	(18.8)%

Broadband customer base and ARPU

The on-net customer base grew 16% to 3.607 million as 86% of our new customers are fully unbundled and we have migrated customers from IPStream and data stream during the course of the year. This was offset by a decline in the off-net customer base.

Higher customer churn during the year was mainly concentrated among off-net and SMPF customers who were subject to significant disturbance through the migration process and have a higher broadband price than our fully unbundled customers. The 540k increase in the number of fully unbundled customers was broadly offset by the 43k decline in the partially unbundled base and 495k decline in the off-net base, with the total broadband base ending flat year on year at 4.2 million.

TalkTalk continued to acquire new broadband and voice customers during the year. Our higher value "Plus" product sold well, accounting for 14% of the total base at the year end, compared to less than 5% at the start of the year. The proportion of fully unbundled broadband and voice customers increased from 53% of the total broadband base at the start of the year, to 66% at the year end. This improved customer mix was one of the main drivers of the 6% growth in broadband ARPU from £23.6 in Q4 2010 to £25.0 in Q4 2011.

The unbundled estate increased by 265 exchanges, to 2,007 at the year end covering 86% of households. The network expansion was completed ahead of plan, which enabled us to accelerate the customer migration schedule. The migration of customers onto our own network therefore slowed substantially in the fourth quarter. As the next wave of new unbundled exchanges start to come on stream early in the current year the pace of migrations will accelerate again.

Non-broadband customer base and ARPU

The non-broadband base consists primarily of voice only customers, and declined to 678k at the year end, from 999k at the end of the previous year as customers continue to take both phone and broadband services. Non-broadband ARPU also declined from £21.8 at the start of the year to £17.7 at the year end due to the reduction in fixed line usage.

Headline financial statements information

£m	2011	2010	Growth (decline)
Broadband	**1,247**	1,086	14.8%
Non-broadband	**189**	273	(30.8)%
Corporate	**329**	327	0.6%
Total revenue	**1,765**	1,686	4.7%
EBITDA	**276**	221	24.9%
EBITDA margin	**15.6%**	13.1%	
Depreciation and amortisation*	**(84)**	(70)	
EBIT	**192**	151	27.2%

*Includes share of results of Joint Venture.

Revenue

Our revenue is principally derived from the provision of voice and broadband services. A customer is treated as a broadband customer where they receive broadband and, where relevant, voice and mobile services. A customer is classified as non-broadband where they do not take broadband and receive voice only or narrowband services. Our revenue is a function of the mix of services received by the customer and the size of the relevant customer base. ARPU is an indicator of the average value of the services we supply to each customer.

Corporate revenue represents revenue generated by TalkTalk Business in the provision of voice and data services to corporate customers and resellers.

Revenue increased by 4.7% to £1,765m (2010 : £1,686m) reflecting growth in our broadband revenue together with the full year effect of the Tiscali acquisition. Non-broadband revenue fell during the year as expected. Excluding the effect of the disposal of our fixed line businesses in Ireland and Belgium at the beginning of the year, our underlying revenue grew by 5.7%.

Revenue from our broadband business increased 14.8% year on year to £1,247m (2010 : £1,086m) reflecting the increasing ARPU throughout the year and higher customer base in the first half of the year.

As we continue to upsell our non-broadband customer base to take both phone and broadband services, the revenue from this base reduced to £189m (2010 : £273m). We disposed of our Belgium and Ireland fixed line voice businesses at the beginning of the year accounting for £16m of the revenue reduction.

Revenue from our corporate services was broadly flat at £329m (2010 : £327m) as reduction in fixed line usage in our voice products has been offset by growth in both data services and carrier services and the full year effect of Tiscali.

Headline profit

Headline EBITDA grew by 24.9% to £276m (2010 : £221m) and EBITDA margin improved to 15.6%, from 13.1% last year. This reflected the margin enhancement from the integration program, the full year effect of Tiscali performance and the growth in our broadband business.

The integration program has been substantially completed and has delivered overall synergy benefits of £40m in the year, including the benefit of access migrations and savings from the elimination of backhaul and other network duplication and consolidation of systems and processes.

Our Headline EBIT increased by 27.2% to £192m (2010 : £151m) resulting from the improvement in EBITDA offset by an increase in depreciation and amortisation resulting from our continued investment in exchange roll out and billing systems.

Operating free cash flow and net debt

£m	2011	2010	Growth
Headline EBITDA	**276**	221	24.9%
Working capital	**(10)**	(2)	
Capex	**(110)**	(100)	
Operating free cash flow	**156**	119	31.1%
Net debt	**(438)**	(508)	

The Group grew operating free cash flow in the year to £156m (2010 : £119m) an increase of 31.1% on the prior year reflecting the significant improvement in EBITDA in the year. We have continued to control our investment in capital expenditure in line with our guidance to focus on delivering our unbundling strategy and unified billing system. As a result of our cash generation net debt reduced by £70m to £438m (2010 : £508m).

Outlook

TalkTalk is the UK's leading value for money broadband and voice provider and we are well positioned in the tougher environment that both consumers and businesses are now facing. Household and business budgets remain under pressure, and our clear, consistent, value for money approach will continue to appeal strongly to customers seeking the best value offers for what is now an essential service.

TalkTalk has grown rapidly and achieved substantial scale, and we are confident that we can execute our strategy successfully and continue to deliver strong, sustainable profit and cash flow growth. To reflect this, from the start of the 2012 financial year onwards the Board intends to pay out 50% of Headline earnings per share as regular dividends.

2012 financial guidance

- **Revenue: broadly flat**
  Broadband revenue growth is expected to be offset by a continuing decline in non-broadband revenues, with TalkTalk Business revenue expected to be broadly flat.

  We expect to add 200k – 250k on-net broadband customers during the year and to see a similar level of off-net customer loss. Momentum is expected to build through the year as churn comes down, and we expect to exit the year with positive broadband customer net additions, leaving the base broadly flat over the year, with further unbundling improving the customer mix and driving higher ARPU.
- **EBITDA margin: 17.0% – 18.0%**
  The EBITDA margin will benefit from customer mix, a full year of Tiscali integration synergies (adding an incremental £15m to the £40m of synergies benefits captured in 2011), and over half of the £25m operating efficiencies generated by the restructuring program, offset by additional investment in customer growth.

  The increase in our EBITDA margin is expected to be weighted towards the second half of the year, mainly reflecting the phasing of the restructuring program.
- **Earnings per share: 15.5 – 16.5p**
- **Capex: 6% of total revenue**
  Capital expenditure is expected to be broadly flat year on year, equivalent to approximately 6% of total revenue, as we continue to invest in our LLU roll out and in the network and systems capabilities needed to scale new products and services.
- **Operating free cash flow: 10% – 11% of total revenue**
- **Exceptional cash spend £25m – £30m**

Finance review

Reconciliation of Headline to Statutory information

Income statement

£m	2011	2010	Growth
Revenue	**1,765**	1,686	4.7%
Gross margin	**888**	848	4.7%
Operating expenses excluding amortisation and depreciation	**(612)**	(627)	
Headline EBITDA	**276**	221	24.9%
Exceptional items – One Company(2)	**(36)**	(47)	
Exceptional items – Operating efficiency(2)	**(12)**	–	
EBITDA	**228**	174	31.0%
Depreciation and amortisation			
Operating(1)	**(84)**	(70)	
Exceptional(2)	**(7)**	(5)	
Non operating amortisation(2)	**(62)**	(83)	
Operating profit	**75**	16	>100%
Finance costs	**(18)**	(5)	
Profit before taxation	**57**	11	>100%
Taxation	**(22)**	(14)	
Profit (loss) for the year	**35**	(3)	>100%

(1) Includes share of results of Joint Ventures.
(2) Excluded from Headline results.

Revenue
Revenue increased by 4.7% to £1,765m (2010 : £1,686m) reflecting growth in our broadband revenue together with the full year effect of the Tiscali acquisition. Non-broadband revenue fell during the year as expected. Excluding the effect of the disposal of our fixed line businesses in Ireland and Belgium at the beginning of the year, our underlying revenue grew by 5.7%.

Gross margin
Gross margin for the year was £888m (2010 : £848m) which represents a flat year on year margin of 50.3% (2010 : 50.3%). The decline in non-broadband and usage together with the impact of regulatory price increases was offset by the improved contribution from product mix, the benefits of our One Company access migrations and the margin accretive effect of Tiscali.

Operating expenses
Our operating expenses in the year improved by £15m from £627m in the prior year to £612m. This reflects the benefits of our integration program primarily on our network and IT costs and a focus on effective cost control within management overheads offset by the full year effect of Tiscali.

Exceptional items
Investment in our One Company integration program was £43m for the year comprising £36m of operating expense and £7m of asset write downs, this included network integration costs principally in relation to the decommissioning of the legacy Tiscali network and consolidation and replacement to create a higher capacity network, certain costs relating to the migration of TalkTalk, AOL and Tiscali customers onto our core billing system and the integration project teams responsible for delivery.

As a result of acquisitions in prior years, the number of legal entities in the Group's structure has been increasing. As part of the integration program, an entity rationalisation program was undertaken to achieve a more dividend efficient and cost effective structure. This has included the liquidation of a number of both UK and overseas entities which, in the current year, has resulted in the recycling of £4m of Translation reserves to the income statement as an exceptional credit. Following our restructure program and the disposal of our Belgian and Irish businesses at the beginning of the year, we have no overseas trading entities.

On 26 January 2011 a restructure of the Group was announced to improve the operating efficiency of the Company and to generate annualised cost savings of approximately £25m. The consultation with employees was completed ahead of the year end and, as a result, a charge has been recognised in the income statement in relation to the provision of redundancy and associated costs totalling £12m.

EBITDA
EBITDA after exceptional items has grown by 31.0% to £228m (2010 : £174m). Exceptional costs within EBITDA are comparable on a year on year basis at £48m (2010 : £47m) and are discussed above. The improvement in EBITDA principally reflects the benefits of the integration program together with an additional quarter of Tiscali and growth in broadband revenues.

Amortisation of acquisition intangibles
The amortisation charge in respect of acquisition intangibles amounted to £62m (2010 : £83m). The reduction reflects the full amortisation of certain AOL acquisition intangibles in the prior year partially offset by the full year effect of the Tiscali acquisition.

Profit before taxation
Statutory profit before taxation grew over five fold to £57m (2010 : £11m). This reflected the significant increase in Headline earnings, decrease in non operating amortisation partially offset by the increase in finance costs resulting from the debt structure post demerger.

Earnings per share

	2011	2010	Growth
Headline earnings (£m)	**122**	106	15.1%
Basic EPS	**13.5p**	11.8p	14.4%
Diluted EPS	**12.8p**	11.2p	14.3%
Headline earnings on a 'proforma standalone' basis (£m)	**122**	98	24.5%
Basic EPS	**13.5p**	10.9p	23.9%
Diluted EPS	**12.8p**	10.3p	24.3%
Statutory earnings (£m)	**35**	(3)	
Basic EPS	**3.9p**	(0.3)p	
Diluted EPS	**3.7p**	(0.3)p	

In order to provide a meaningful comparison and to remove the distortion of exceptional items, earnings per share is provided on a Headline basis as well as a Statutory basis. A full reconciliation of Headline to Statutory results can be found in note nine to the financial statements.

In addition, due to the significant change in debt structure post demerger, EPS is also shown on a 'proforma standalone' basis. The standalone basis assumes a similar year on year debt structure and adjusts the prior year interest charge accordingly. This has the effect of increasing interest by £11m which, tax effected, reduces earnings by £8m.

Headline earnings per share on a standalone basis grew by 23.9% to 13.5p (2010 : 10.9p). Statutory EPS was 3.9p (2010 : (0.3)p) reflecting the Group's Statutory profit for the year. Basic EPS was calculated based on a weighted average number of shares of 907 million (2010 : 898 million). Dilution of 45 million shares (2010 : 50 million) has been applied for the purposes of calculating diluted EPS resulting from employee share option plans, the details of which can be found in note five to the financial statements.

Basic EPS

+24%

pence

Cash flow and net debt

£m	2011	2010	Growth
Headline EBITDA	**276**	221	24.9%
Working capital	**(10)**	(2)	
Capex	**(110)**	(100)	
Operating free cash flow	**156**	119	31.1%
Exceptional items – One Company	**(43)**	(20)	
Exceptional items – demerger	**(16)**	–	
Acquisitions and disposals(1)	**7**	(239)	
Dividends paid	**(15)**	(251)	
Interest and taxation	**(19)**	(5)	
Cash flow relating to demerger	**–**	(54)	
Net cash flow	**70**	(450)	
Opening net debt(2)	**(508)**	(58)	
Closing net debt(2)	**(438)**	(508)	

(1) Includes sundry items of £2m, including foreign exchange on-net debt.
(2) Including loans to related parties, net debt was £436m (2010 : £505m).

Capital expenditure
Capital expenditure in the year was £110m (2010 : £100m), representing 6.2% of revenue (2010 : 5.9%). During the year we grew our network by unbundling a further 265 exchanges and building out partial unbundling into our entire estate to allow us to migrate the Tiscali broadband only customers onto our own network. We expanded our internal billing capability to be able to manage all residential customers on one core billing system during the year and migrated substantially all of our customers, with the Pipex customer base planned for migration during the 2012 financial year.

Working capital
The working capital outflow of £10m (2010 : £2m) was primarily due to the integration of the Tiscali business including the alignment of certain Tiscali creditors and initial unwind of fair value provisions.

Exceptional and demerger costs
Exceptional cash spend associated with the One Company integration program totalling £43m was incurred in the year together with spend of £16m on demerger costs.

Acquisitions and disposals
Total cash inflow in relation to acquisitions was £5m comprising a £14m adjustment for the Tiscali acquisition offset by small strategic business to business acquisitions and a payment of £5m in relation to our investment in the YouView joint venture. The sale of our Irish and Belgian fixed line operations resulted in the receipt of proceeds of £4m in the year.

Finance review
continued

Acquisitions and disposals (continued)
The final purchase price agreement of Tiscali of £14m in relation to working capital and customer numbers together with the finalisation of the deferred consideration for the acquisition of UK Telco of £1m occurred in the year. As both acquisitions were made prior to 1 April 2010, the provisions of IFRS3 (2004) apply and, as a result, an adjustment has been made which has reduced goodwill by £15m. This is disclosed in note 29 to the financial statements and the prior year balance sheet has been restated accordingly.

Dividends
Our current policy is to increase the dividend payment broadly in line with growth in our Headline earnings per share.

Dividends paid in the year of £15m comprised the interim dividend of 1.7p per share which was paid on 17 December 2010.

The Board has declared a final dividend of 3.9p per share which will be paid, subject to shareholder approval, on 5 August 2011 for Shareholders on the register at 8 July 2011. The total declared dividend for the year was 5.6 pence, which provides dividend cover of 2.4 times.

To reflect the cash generation profile of the Group, our dividend policy from the 2012 financial year will be to return to our Shareholders 50% of our basic Headline earnings per share in the form of ordinary dividends.

Net debt
Net cash inflow was £70m (2010 : net cash outflow of £450m). Net debt including loans to related parties was £436m (2010 : £505m). Excluding loans to related parties net debt was £438m (2010 : £508m).

Taxation and treasury

	2011		2010	
£m	Headline	Statutory	Headline	Statutory
Operating profit	**192**	**75**	151	16
Interest	**(18)**	**(18)**	(4)	(5)
Profit before taxation	**174**	**57**	147	11
Taxation	**(52)**	**(22)**	(41)	(14)
Profit (loss) for the year	**122**	**35**	106	(3)
Headline tax rate	**30%**		28%	

Interest
Net interest costs charged to the income statement were £18m (2010 : £5m) reflecting the capital structure of the Group post demerger. The blended interest rate charge on the debt was 3.07%. Net interest paid in the year increased to £17m (2010 : £3m) broadly in line with the charge in the income statement.

Taxation
The effective Headline tax rate for the year was 30% (2010 : 28%) representing a tax charge of £52m (2010 : £41m) on Headline profit before tax of £174m (2010 : £147m). Although the Group had minimal disallowable expenses in the year, the rate is slightly ahead of the Statutory corporation tax rate as the tax charge reflects the impact of the reduction in corporation tax rates enacted in the year on our deferred tax assets.

The reduction in corporation tax rate from 28% to 26% created a charge through the income statement of £9m resulting from the downward revaluation of deferred tax assets. This has been partly offset by a prior year adjustment of £5m relating to the recognition of additional tax losses and capital allowances.

The tax charge for the year on Statutory earnings for the year was £22m (2010 : £14m). The principal differences between the tax charge and the standard rate of corporation tax are the impact of the reduction in corporation tax rate and a small element of disallowable exceptional spend offset by the £5m prior year adjustment.

There have been tax payments in the year of £2m (2010 : £2m) which relate to the final corporation tax assessment of our AOL Luxembourg entity prior to its liquidation.

Statutory profit before tax

>100%

Funding
The Group's operations are financed by committed bank facilities, retained profits and equity. During the year the Group was able to make use of overdrafts and some uncommitted facilities to assist with working capital management. Funding of our subsidiaries is arranged centrally with an emphasis on efficient cash management. All funding in the Group is provided on an arms length basis. The Group's committed bank facilities comprise a £550m revolving credit facility used for working capital purposes and a term loan of £100m. The revolving credit facility matures in March 2013 whilst the term loan matures in March 2015. The terms of both the facilities are similar and the covenants are identical. The Group was in compliance with the covenant conditions on both facilities at the year end. As at 31 March 2011, £395m had been drawn down on these combined facilities. It is the Group's policy to refinance its facilities significantly in advance of maturity dates.

Policy
The Group is exposed to limited cross border transactional commitments but where significant, these are hedged at inception using forward currency contracts. The Group Treasury function operates within the framework approved by the Board, in line with best practice, to ensure effective management of the Group's interest and foreign exchange risk.

Capital structure
The Board reviews the capital structure of the Group on an annual basis and, as discussed in note 19 to the financial statements, considers that the medium-term target gearing for the Group is 75% to 100%.

In the first year as a standalone company, significant progress has been made towards this target with gearing as at 31 March 2011 of 106%.

Accounting developments
The Group has early adopted IAS 24 (2009) 'Related party disclosures' in the preparation of these financial statements. The standard simplifies the definition of a related party, with a shared person or entity no longer automatically implying the existence of a related party relationship. The impact of the adoption of this standard is that following the demerger of the Group, Best Buy Europe and Carphone Warehouse Group plc are no longer considered to be related parties. Note 28 to the financial statements discloses our related party relationships.

The adoption of other standards in the year, as disclosed in note 1 to the financial statements, has had no material effect in the current financial year.

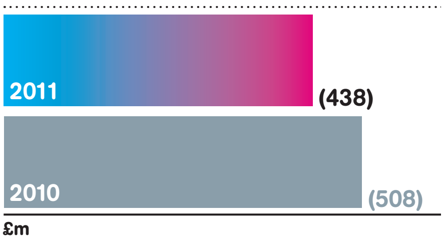
Going concern
The Directors have acknowledged the guidance 'Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009', published by the Financial Reporting Council in October 2009.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive Officer's statement on pages 7 to 9 and Business review on pages 14 to 15. The financial position of the Group, its cash flows and borrowing facilities are described within this Finance review. In addition, note 19 in the financial statements describes how the Group manages financial risk including foreign exchange risk, interest rate risk, credit and liquidity risk.

Whilst the current economic climate remains uncertain, the breadth of our customer base, our value for money proposition, improved operating efficiency and the largest unbundled network in the UK together with our development of a competitive quad play offering means that the Directors are confident of the Group's ability to continue to compete effectively in the UK telecommunications sector.

The Group has £650m of committed credit facilities and as at 31 March 2011 the headroom on these facilities was £255m. The Group's forecasts and projections, taking into account reasonably possible changes in trading performance, indicate that there is sufficient headroom on our facilities and that this, together with our market positioning, means that the Group is well placed to manage its business risks successfully and has adequate resources to continue in operational existence for the foreseeable future. The Directors have therefore adopted the going concern basis of accounting in preparing the financial statements.

Net debt



Principal risks and uncertainties

In common with other organisations, we are affected by a number of risks, not all of which are in our control. Some risks, such as UK macroeconomic factors, are likely to affect the performance of UK businesses generally, while others are particular to our operations. This section sets out the material risks to the Group and how we seek to mitigate them in the day to day running of our business.

Risk area	Potential impact	Mitigation
1 Competitive environment	Increased competition in the UK broadband market may impact financial performance.	We regularly monitor the product offerings of key competitors in the market. This results in an ongoing review of the customer proposition and the overall value of our products.
2 Regulatory environment	Changes in regulated prices can significantly impact the Group's performance.	We actively participate in the pricing discussions had by Ofcom, including the use of independent experts to provide assistance and evidence as required.
3 Network reliability	Failure to provide a reliable service causes customer churn.	We focus continually on improving network resilience and performance, and continue to invest to ensure we keep pace with customers growing demands.
4 Change management	We are undertaking a significant change to our organisational structure at the start of the 2012 financial year. Disruption to business operations and back office functions may impact financial performance.	We have a Group Change Forum comprised of senior managers which is responsible for centrally monitoring group wide change. Teams are established to run the component projects of the overall change, with clear plans in place for each area. Regular progress reports are provided to ensure key dates are met.
5 Fibre access technology	Demand for fibre access could grow significantly before a wholesale product with acceptable economics is available for the Group to market to customers.	The Group is working with Openreach to develop fibre products which incur lower set up and provisioning costs. There is close liaison with Ofcom to ensure there is regulatory support for development of fibre products suitable for mass market adoption.

Risk area	Potential impact	Mitigation
6 Data integrity and security	Loss of customer data could lead to data protection breaches causing damage to our reputation and fines.	The Group continually reviews its data security and implements new solutions as they become available.
7 Ofcom	During the year we have had a notification from Ofcom of contravention of General Condition 11 under section 94 of The Communication Act 2003. Ofcom may issue a penalty to the Group under this Act.	The Executive team continues to work closely with Ofcom to demonstrate that the Group is taking appropriate action to remedy the issues which led to the notification from Ofcom of the contravention of General Condition 11 under section 94 of the Communications Act. In addition, the Group has established a Compliance Committee chaired by the Senior Independent Director, John Gildersleeve. This Committee monitors the level of and reason for customer complaints and ensures appropriate remedial action is taken.
8 Television	Provision of television services could become a more important driver of competitive advantage in the broadband market.	The Group is part of the YouView joint venture, along with the BBC and other parties, which is developing a television service which includes internet based catch up and video on demand services.
9 End to end process and controls	Failure to operate effective processes across the Group may lead to customer churn, and non-compliance with regulatory requirements.	A Group wide project was started during the year, Project Sunshine, to document, review and improve the end to end processes in the Group. This project is key to driving joined up processes across the Group and improving our customers' experience. The Group's Compliance Committee regularly monitors the level and reason for customer complaints.

For more information visit:
www.talktalkgroup.com

Corporate and social responsibility review

Leading the way on digital inclusion, employee engagement and sustainability.

TalkTalk plays a pivotal role in helping over 4.8 million consumer and business customers to connect, communicate and thrive in the digital age. We've always been active in the communities in which we operate and this year we've given our activities more structure and clearer targets so we can more easily track and share our achievements. Our Corporate Responsibility program is built around three themes where we believe we can make the biggest difference – digital inclusion, the environment and employee engagement.

1. Digital inclusion

The internet connects and entertains, educates and informs – it even saves us money. Yet nine million people in the UK have never been online, and over four million of those are socially excluded due to age, unemployment or income. And this group will become increasingly isolated as more public and private services move online. That's why we support and run a number of initiatives to help communities to bridge the digital divide.

- **Race Online 2012**
  Led by the UK's Digital Champion, Martha Lane Fox, Race Online calls on people to inspire, encourage and support the UK's digitally excluded to take their first steps online. Benefits to the UK are forecast to total £22 billion, while households can save £560 per year[1]. TalkTalk was one of the founding partners and has pledged to contribute by getting 100,000 more people online by the start of the London 2012 Olympics, through education, training and awards programs.
- **TalkTalk digital champions**
  Our employees share their internet know how in their local communities. Our start up kits give them ideas to take to anyone they think would benefit from being online – from their grandparents to local charities. Uptake has been impressive, with nearly 200 staff signing up in the first week in April 2011 alone.
- **TalkTalk brighter futures**
  We aim to get 1,000 more families in Brent online during the 2011 calendar year by working with the Local Education Authority to deliver E-Safety training alongside free and discounted broadband and telephone packages. In the North West, we offer free connections and hardware via schools in Salford and we're the lead partner in **Go ON Liverpool**, the campaign to help socially and digitally excluded adults and children in the city.

2. Environment

We will continually improve our environmental performance by using sustainable resources, promoting efficiencies and innovation throughout our business and products and encouraging our suppliers to do the same. Our energy use per Gb of bandwidth use has fallen over a three year period leading to our achievement of the Carbon Saver Standard.

Our target is to further reduce our carbon footprint by 25% by 2021 (based on Gb use of broadband services) and to inspire our employees and customers to lead a greener life and help us to reduce our environmental impact on the world we share.

We will reduce our carbon footprint and waste, by focusing on:

- Energy
- Building materials
- Appliances
- Water
- Ventilations
- Travel
- Refuse

This year we have been included in the FTSE4Good Index, the leading global responsible investment index, and won several awards. We have also received a BREEAM[2] "Excellent" accreditation for our West London headquarters.

3. Employee engagement

Employees

Our people are central to the success of TalkTalk and we have embarked on a program to make the business "A Brighter Place for Everyone". We want our people to feel included, respected and most importantly enjoy their jobs and be passionate about the great culture we share within our work environment. We want to recognise our people for doing great work and helping to drive our business forward.

Brighter Basics

Our Brighter Basics are a set of values and benefits that capture our personality and unique identity as a Company. They define our aspirations as a way of every day life at work and reach out into our personal lives and our communities. Brighter Basics are described on page 9.

Digital hero awards

These annual awards reward outstanding individuals who use digital technology to bring about positive social change. In 2010, entrants from the 12 UK regions received over 140,000 public votes between them. The 12 regional winners were invited to the House of Lords where they received bursaries to fund both new and existing projects.

Liverpool family concerts
We support the world-renowned Royal Liverpool Philharmonic Orchestra through our sponsorship of their Family Series. Employee Champions at our Warrington, Irlam and Preston sites made sure that over 1,200 of our staff and customers enjoyed free concerts at Philharmonic Hall.

Engagement
Our Pulse engagement surveys are a regular way of information gathering on the views of our people across a variety of topics. Employee engagement, the extent to which employees are psychologically and emotionally attached to their work, positively influences customer satisfaction and productivity. Our last survey results registered an engagement score of 74%.

Managers receive engagement data with feedback regarding their teams. This information includes a summary with key items highlighted in order to enable them to work with their teams to improve engagement.

Communication
Keeping our people informed of developments and the Company's progress, whilst enabling them to engage in two way communication, has been a strong feature this year at TalkTalk. 'Dido's Blog' has become a weekly personalised account of the Chief Executive Officer's experiences, with key messages to the TalkTalk community. Employees are free to post their comments on the blog anonymously should they prefer not to include their details. This is reinforced by 'Team Talk', a weekly set of messages designed to enable managers to share information with their teams in a consistent manner.

Our 'All Hands' events bring the Chief Executive Officer, senior management and every single person in the Company, including our outsource service providers at call centres in South Africa, India and the Philippines, together twice a year to get to hear and participate in key messages around the Company's half year and full year performance and results.

Employee forum
We have a National Employee Forum and five Local Employee Forums that provide an important basis for communication and consultation on business change matters. Meetings are held at least quarterly and deal with site based issues raised through our employee representatives and the local management team right through to national matters across the UK and Ireland. These forums are integral to disseminating information and gathering feedback on matters such as legislative changes, employment levels and people development.

Involvement and recognition
Annual recognition schemes continue across the Group; such as "TalkTalk Heroes" in our business to business area. Recognising teams and individual performance is an important feature of our culture by acknowledging those who have gone the extra mile for the customer or their colleagues. Recognition has included our ability to invite X-Factor acts to our sites to perform for our staff and to enable our people to apply for free tickets to attend X-Factor shows through participation in competitions. The opportunity to be part of Britain's biggest TV show is a very popular initiative at TalkTalk.

Employee benefits
We were able to extend our comprehensive range of benefits during the year to include Save-As-You-Earn schemes in the UK and Ireland, enabling employees to participate in the performance of the Company.

During the year we were delighted to be able to offer our employees in the UK free broadband and an equivalent benefit for our people in Ireland.

We believe that we can make a big difference in our communities by inspiring our 3,900 employees to get involved. New projects for the calendar year 2011 include **Give Something Back**, the opportunity for staff to take a paid day of leave to take part in volunteering or fundraising activities in their local community.

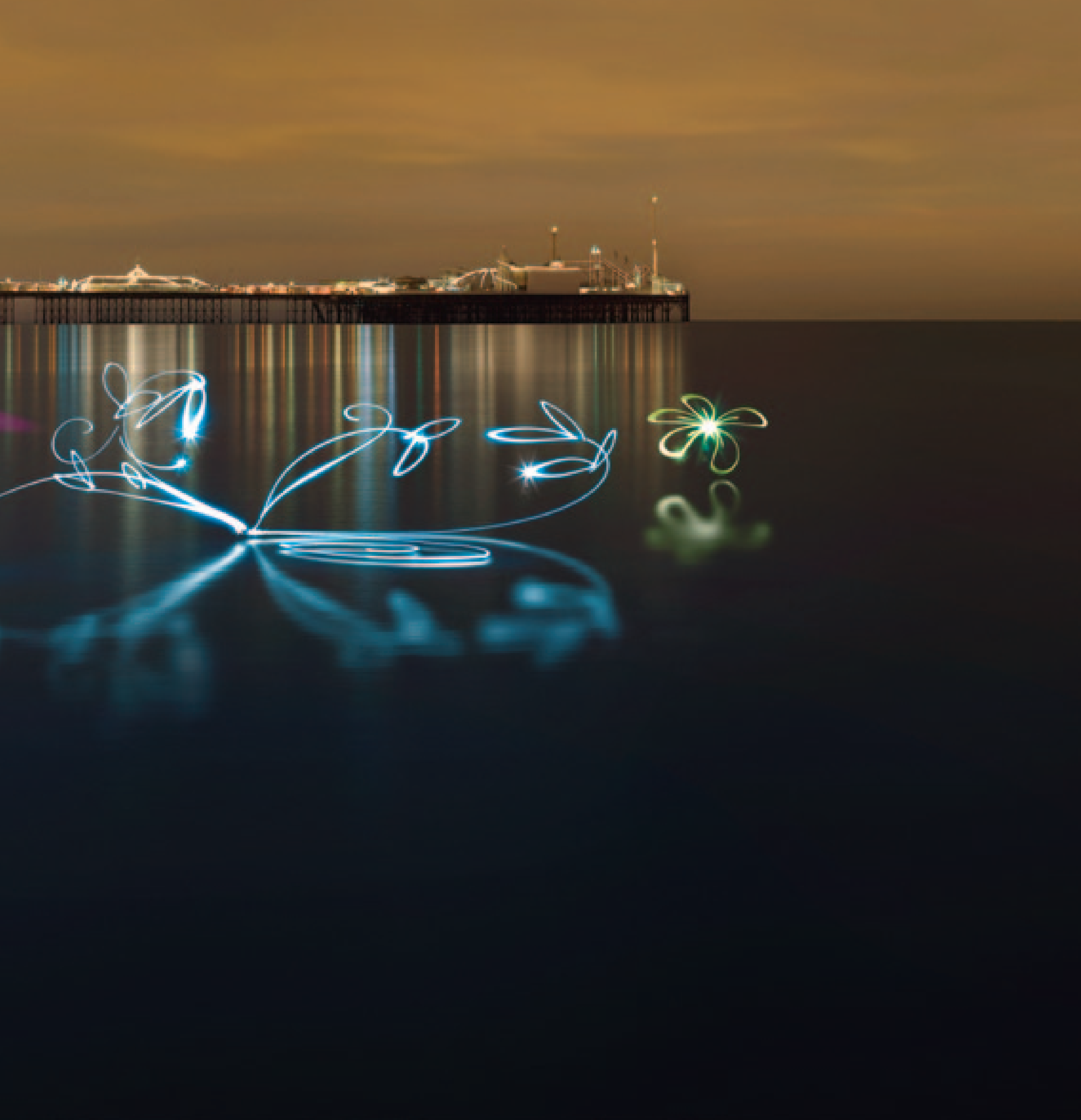
Our employees continue to work with our Company charity, **Ambitious About Autism**, and its incredible work to support young people with autism. Autism is a lifelong condition that affects communication, social understanding and behaviour in 1 in 100 people. TalkTalk sponsors talkaboutautism.org.uk where professionals and parents are encouraged to talk more about autism and share knowledge and experiences to achieve the best educational outcomes for autistic children. In 2011 we celebrated a remarkable milestone; raising a total of £1m over the eight years we've partnered Ambitious About Autism and their TreeHouse School.

Through these and other initiatives, we aim to use our position to engage, empower and support the communities around us.

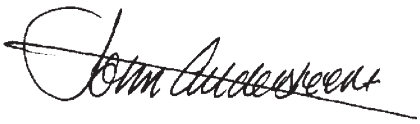
(1) 'The Economic Case for Digital Inclusion' October 2009, PWC.
(2) The most widely used environmental assessment method for buildings.

For more information visit:
www.talktalkgroup.com

Directors' Report: Governance



Board and advisors



John Gildersleeve
Senior Independent Non-Executive Director

Introduction

The Board is committed to the highest standards of corporate governance and in accordance with the Listing Rules of the UK Listing Authority the Board confirms that except to the extent stated below, the Company has throughout the year and as at the date of this annual report, complied with the provisions set out in Section 1 of the Combined Code on Corporate Governance published by the UK Financial Reporting Council ('FRC') in June 2008 ('Code').

This section of the annual report together with the Directors' report and Directors' remuneration report provide details of how the Company has applied the principles and complied with the provisions of the Code.

UK Corporate Governance Code

On 28 May 2010 the FRC published a new UK Corporate Governance Code ('New Code') to replace the Code. The New Code applies to reporting periods beginning on or after 29 June 2010. It will therefore apply to the Company for the 2012 financial year and not the financial year covered by this report.

The Board has however initially reviewed the New Code and has decided to voluntarily adopt the following principles ahead of the implementation of the New Code. First, all Directors will stand for reappointment annually at the Company's Annual General Meeting ('AGM') starting from the 2011 meeting. Second, the performance of the Board will be externally facilitated at least every three years, with the first review to be carried out no later than during the 2014 financial year.

Board balance and independence

The Board has nine members, four of which, excluding the Chairman and Deputy Chairman, are considered independent Non-Executive Directors. These are John Gildersleeve, our Senior Independent Director, John Allwood, Brent Hoberman and Ian West. Jessica Burley was also an independent Non-Executive Director during the period until she stood down on 16 November 2010. Ian West was appointed a Non-Executive Director on 8 February 2011. Roger Taylor, the Deputy Chairman, is not considered independent given he was previously Chief Financial Officer of The Carphone Warehouse Group PLC from the which the Company was demerged in March 2010.

The Chairman and Executive Directors have service contracts that can be terminated by either the Company or the Director on 12 months notice.

The Non-Executive Directors have three year periods of appointment. All the independent Directors have a three month notice period with no compensation for loss of office. Roger Taylor has a six month notice period.

Points of non-compliance with the code

This is the first annual report of the Company since the demerger and, as stated in the Company's prospectus issued as part of the demerger as published on the Company's website (www.talktalkgroup.com), Charles Dunstone, Chairman, was not independent on his appointment due to the fact that he was previously Chief Executive Officer of CPW and also has a significant shareholding in the Company. The Board believes that the appointment of Charles as Chairman benefited the Group given that Charles was both the founder of CPW, in which the Company was created, and his knowledge of the market place is important to its future development. Major Shareholders were also consulted prior to his appointment.

At least half of the Board excluding the Chairman are independent and this has been the situation for all of the financial year except for between 16 November 2010 and 8 February 2011 following the resignation of Jessica Burley and prior to the appointment of Ian West. During this short period, the Board believed that there was sufficient independence on the Board still to enable the other independent Non-Executive Directors to influence appropriately and challenge any Board decisions.

How the Board operates

The Board has reserved certain matters, and delegated others to the Group's Executive committee, which comprises Dido Harding (Chief Executive Officer), Amy Stirling (Chief Financial Officer), David Goldie (Group Commercial Director) and other senior employees drawn from across the Group. Reserved matters include approving the Group's strategy, annual budgets and other longer term planning.

The Board had six formal meetings during the year as well as other meetings as were appropriate for approving certain announcements to Shareholders. All Directors attended each of the meetings during the period, save for Roger Taylor (absent from the meeting on 30 September 2010 due to a prior arranged meeting), David Goldie (absent from the meeting on 27 July 2010 due to annual leave), Jessica Burley (who attended all meetings until her resignation on 16 November 2010) and Ian West (who attended the sole remaining meeting following his appointment on 8 February 2011).

It is important to the Board that Non-Executive Directors have the ability to influence and challenge appropriately. To this end all Non-Executive Directors are given a thorough induction to the Group and take priority in Board discussions. All Directors receive papers in advance of meetings. They also receive regular reports and members of the Group's Executive team are invited to present at Board meetings so that the Non-Executive Directors form a good knowledge of how the Group operates.

The Chairman meets regularly with just the Non-Executive Directors, usually in the evening prior to every other Board meeting. This ensures that any concerns can be raised and discussed outside of formal Board meetings. The Senior Independent Director also attends these sessions where it is also possible, if required, to discuss any matters with the other independent Non-Executive Directors.

As stated below, the Board has also delegated certain matters to a number of Board Committees.

It is important to the Group that all Directors understand external views of the Group. To this end regular reports are provided to the Board by the Group's Investor Relations Director, covering broker reports and the output of meetings with significant Shareholders.

Performance evaluation and continued development

The Board has not been subject to a formal external evaluation during the course of the year as it is the Board's first year of operation since the demerger of the Group.

Each Board member has been subject to an internal performance review during the year, where the balance of skills, knowledge and experience of each Director was reviewed. This was undertaken by each member of the Board completing detailed questionnaires. The results of these were analysed by the Chairman, Senior Independent Director and the Board as a whole.

As part of the performance review the ability of each Director, in particular the Non-Executive Directors, to demonstrate the required time commitment to the role was assessed.

As a result of this performance evaluation the Chairman confirms that each of the Directors seeking re-election at the AGM continues to be effective and has demonstrated the appropriate commitment to the role.

The Senior Independent Director also met with the other Non-Executive Directors to assess the Chairman's effectiveness taking into account the views of Executive Directors.

The Company Secretary ensures that the Board is made aware of new laws, regulations and other information appropriate to the Group to ensure that all Directors continually update their skills and knowledge and familiarity of the Group in order to fulfil their roles. Additionally each Director has access to the advice and services of the Company Secretary and also has the ability to take independent external advice if required.

Corporate governance

Chairman:

Charles Dunstone (46)

Skills and experience: Charles founded the Carphone Warehouse, and created TalkTalk in 2002. Since that date he has directed the development of TalkTalk to become one of the leading fixed line telecommunication businesses in the UK.

External appointments: Charles is Chairman of the Prince's Trust, Chairman of Carphone Warehouse Group plc and a Non-Executive Director of both The Daily Mail and General Trust PLC and Independent Media Distribution PLC.

Executives:

Dido Harding (43)

Skills and experience: Dido joined TalkTalk in February 2010. Prior to that date Dido was Sainsbury's convenience director, having been appointed to Sainsbury's operating board in March 2008. Dido joined Sainsbury's from Tesco PLC where she held a variety of senior roles.

External appointments: Dido is a Non-Executive Director of The British Land Company PLC.

Amy Stirling (41)

Skills and experience: Amy has been the Chief Financial Officer of TalkTalk since 2006, having been with the Carphone Warehouse since 2000. Amy has played a key role in the management and integration of the significant businesses acquired by TalkTalk over the past six years.

External appointments: Amy has no external director appointments.

David Goldie (47)

Skills and experience: David joined TalkTalk when the Opal business was acquired by Carphone Warehouse in 2002. David has over 25 year's experience in the telecommunications industry and has been instrumental in the establishment and growth of the Group.

External appointments: David holds a Non-Executive role at The Fulwood Academy and is also a Board member of the Northwest Regional Development Agency.

Non-Executives:

Roger Taylor (46)

Skills and experience: Roger was Chief Financial Officer of Carphone Warehouse from January 2000, and played a key role in the creation and growth of its group including TalkTalk.

External appointments: Roger is also Chief Executive Officer of Carphone Warehouse Group plc.

John Gildersleeve (66)

Skills and experience: John was an Executive Director of Tesco PLC, and joined the Board of Carphone Warehouse in June 2000 before becoming Chairman in July 2005.

External appointments: John is a Non-Executive Director of Carphone Warehouse Group plc and The British Land Company PLC.

Ian West (47)

Skills and experience: Ian has been involved in the telecoms and media sector for over 20 years. He was at BSkyB for 11 years and held various roles including managing director of the subscription business and also managed the introduction of Sky Digital.Since he left in 2000 he co-founded Top Up TV in 2003.

External appointments: Ian is a supervisory board member of Kabel Deutschland.

John Allwood (59)

Skills and experience: John was the Chief Operating Officer and latterly Group Finance Director of Mecom Group plc, and prior to this he was managing director of Telegraph Media Group Ltd, Chief Executive of Orange UK and of Mirror Group plc.

External appointments: John is a member of Exeter University Council and a Non-Executive Director of Carphone Warehouse Group plc.

Brent Hoberman (42)

Skills and experience: Brent co-founded lastminute.com in 1998, and was their Chief Executive Officer until it was sold in 2005. Brent has subsequently founded and is Chairman of mydeco and made.com.

External appointments: Brent is Governor of the University of the Arts College, London, and a Non-Executive Director of Guardian Media Group and TimeOut Group. Brent also co-founded PROfounders Capital which is an early stage digital venture fund.

Company Secretary

Tim Morris

Advisors

Corporate Brokers:
Credit Suisse (Europe) Ltd,
1 Cabot Square, London, E14 4QJ

Barclays Capital
5, The North Colonnade,
Canary Wharf, London E14 4BB

Registrar:
Equiniti Limited,
Aspect House, Spencer House,
Lancing, West Sussex, BN99 6GU

Principal Bankers:
Barclays PLC
HSBC Bank plc
ING Bank NV
Royal Bank of Scotland Group PLC

Auditor:
Deloitte LLP,
2 New Street Square,
London, EC4A 3BZ

Board Committees

The Board has established four Committees: Audit, Remuneration, Nomination and Compliance; the first three as required by the Code, the fourth to ensure the compliance of the Group within the regulatory environment in which it operates.

Audit Committee

The Committee currently comprises the following independent Non-Executive Directors: John Allwood (Chairman), John Gildersleeve and Ian West. Jessica Burley was also a member during the financial year up until her resignation on 16 November 2010. John Allwood is the member with the recent and relevant financial experience (see Directors' biographies). Roger Taylor is also a member but for the reason stated above is not considered independent. All of the Committee members have extensive commercial experience. The Committee met formally three times during the year. All members attended each meeting, although only one meeting took place after the appointment of Ian West. There were no Committee meetings between the date of Jessica Burley's resignation and Ian West's appointment.

The Chairman of the Committee updates the Board on any significant issues that may have arisen at the Board meeting following each Committee meeting. During the year, all requirements of the Code in respect of the Committee were met. The work undertaken by the Committee is described within the following sections of this Report. The Group's Chief Financial Officer and other senior management attend the Committee meetings by invitation of the Committee. Representatives of the Company's external auditor and other senior executives from Finance, Tax and Treasury, Legal and Business Assurance also attend these meetings by invitation of the Committee. The external and internal auditors have direct access to the Committee during formal meetings and time is set aside for them to have private discussion with the Committee, in the absence of management attendees.

During the period, the formal calendar of items considered at each Audit Committee meeting within each annual cycle embraced the Code requirements to:

- Monitor the integrity of the financial statements of the Company, and any formal announcements relating to the Company's financial performance, including reviewing significant financial reporting judgements contained in them;
- Review the Company's internal financial controls and its internal control and risk management systems and to make recommendations to the Board;
- Review the Company's arrangements by which employees may raise concerns in confidence;
- Monitor and review the effectiveness of the Company's internal audit function;
- Make recommendations to the Board in relation to the appointment, reappointment and removal of the external auditor and to approve their remunerations and terms of engagement;
- Review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements; and
- Review the Company's policy on the engagement of the external auditor to supply non audit services. In this context the Committee's remit requires it to report to the Board identifying any matters in respect of which it considers that action or improvement is needed and to make recommendations as to the steps to be taken.

In light of the assessments and review undertaken, the Committee recommended to the Board that Deloitte LLP be retained as auditor of the Company. This recommendation was endorsed by the Board.

The policy relating to the provision of non audit services by the external auditor specifies the types of work from which the external auditor's are excluded; for which the external auditor can be engaged without referral to the Committee; and for which a case by case decision is required. In order to safeguard the auditor's objectivity and independence, the ratio of non audit fees to audit fees is monitored by the Committee. Any work proposed in excess of fifty percent of the audit fee is referred to the Committee. Amounts below this are discussed with the Chairman of the Committee.

A statement of fees paid or accrued for services from the external auditor during the period is set out below:

£m	2011	2010
Fees payable to the Company's auditor for the audit of the Company's annual accounts	0.1	0.1
Audit of the Group and its subsidiaries pursuant to legislation	0.7	0.6
Audit services provided to all Group companies	**0.8**	0.7
Reporting in respect of capital market transactions	–	1.8
Other assurance services	**–**	1.8
Taxation services	0.1	0.4
Other services	0.1	0.2
All other services	**0.2**	0.6
Total Group auditor's remuneration	**1.0**	3.1

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Corporate governance
continued

Certain non audit services are pre-approved by the Committee depending upon the nature and size of the service. Tax services principally comprise technical advice associated with relevant UK and international fiscal laws and regulations and, in particular, assessment of the potential implications of proposed corporate transactions or restructuring. Other services principally represent advice provided and project management support received for the set up of the Group's finance shared service function. Having undertaken a review of the non audit related work, the Committee has satisfied itself that the services undertaken during the year did not prejudice the external auditor's independence.

At each of its meetings the Committee reviewed and considered reports on Risk and Business Assurance on the status of the Group's risk management systems, findings from the internal audit function concerning internal controls, and reports on the status of any weaknesses in internal controls identified by the internal or external auditor.

The Chairman of the Committee updates the Board following each Committee meeting.

The Committee's terms of reference, which are available on request from the Company Secretary and are published on the Group's website (www.talktalkgroup.com), comply with the Code.

Remuneration Committee
The Committee currently comprises the following independent Non-Executive Directors: John Gildersleeve (Chairman), Brent Hoberman and Ian West. Roger Taylor is also a member of the Committee but for the reasons stated in this report he is not considered independent. Jessica Burley was also a member during the financial year up until her resignation on 16 November 2010, after which John Allwood took her place on an interim basis prior to the appointment of Ian West.

The Committee met formally three times during the period and each member attended every meeting (save for Roger Taylor, who did not attend the meeting on 27 January 2011 because of a prior engagement). Other Directors including the Chief Executive Officer, the Company Secretary, the Group Director of Human Resources, and advisors attended by invitation of the Committee. A detailed description of the Committee's remit and work during the period is contained in the Remuneration Report on pages 32 to 38.

The Chairman of the Committee updates the Board following each Committee meeting.

The Committee's terms of reference, which are available on request from the Company Secretary and are published on the Group's website (www.talktalkgroup.com), comply with the Code.

Nomination Committee
During the year the Committee comprised the following Non-Executive Directors: John Gildersleeve (Chairman), Roger Taylor and Ian West. Jessica Burley was also a member during the financial year up until her resignation in November 2010, after which John Allwood took her place on an interim basis. The Committee met once during the year in January 2011 and each member attended that meeting.

The Committee is responsible for succession planning at Board level, overseeing the selection and appointment of Directors, regularly reviewing the structure, size and composition of the Board and making its recommendations to the Board. It assists in evaluating the commitments of individual Directors and the balance of skills, knowledge and experience on the Board. In this regard, it proposed the appointment of Ian West following the resignation of Jessica Burley.

The Chairman of the Committee updates the Board following each Committee meeting.

The Committee's terms of reference, which are available on request from the Company Secretary and are published on the Group's website (www.talktalkgroup.com), comply with the Code.

Regulatory Compliance Committee
The members of this Committee are John Gildersleeve (Chairman), Dido Harding (Chief Executive Officer), David Goldie (Group Commercial Director), Tim Morris, (Company Secretary) and other senior executives of the Group. There were four formal meetings of the Committee during the year.

The purpose of the Committee is to provide the Board with visibility of how the Group remains compliant with those regulations affecting its businesses from time to time. Its members therefore include those senior executives who are operationally responsible for implementing permanent changes necessary to ensure the Group remains compliant. Such members are accountable to the Committee and the Board for the successful delivery of such changes.

This Committee now meets ahead of each formal Board meeting and other meetings are scheduled at other times depending on those regulatory matters currently affecting the Group.

Risk management and internal control
The Company has established a risk management program that assists management throughout the Company to identify, assess and mitigate business, financial, operational and compliance risks. The Board views management of risk as integral to good business practice. The program is designed to support management's decision making and to improve the reliability of business performance.

The risk management program is supported by the Business Assurance and Internal Audit functions.

To ensure that all parts of the Group have a good understanding of risk, members of this team have conducted risk workshops and reviews within each of the main functions in the past year, culminating in an assessment of key business risks by the Executive Directors and key management. These risk assessments have been wide ranging, covering risks arising from the regulatory environment, strategy, counter parties and organisational change associated both with major projects and acquisitions. The risk management process operates throughout the Group, being applied equally to the main business units and corporate functions. A risk report and update is provided at each Board and Audit Committee meeting.

The output of each assessment is a list of key strategic, financial, operational and compliance risks. Associated action plans and controls to mitigate them are also put in place where this is possible and to the extent considered appropriate by the Board taking account of costs and benefits. Changes in the status of the key risks and changes to the risk matrix are reported regularly at each Board Meeting.

The Directors have overall responsibility for the Group's system of internal controls and for reviewing their effectiveness. The Board delegates to Executive management the responsibility for designing, operating and monitoring these systems. The systems are based on a process of identifying, evaluating and managing key risks and include the risk management processes set out above.

The systems of internal control were in place throughout the year and up to the date of approval of the annual report and financial statements. The effectiveness of these systems is periodically reviewed by the Audit Committee in accordance with the revised guidance in the Turnbull Report. These systems are also refined as necessary to meet changes in the Group's business and associated risks. The systems of internal control are designed to manage rather than eliminate the risk of failure to achieve business objectives. They can only provide reasonable and not absolute assurance against material errors, losses, fraud or breaches of law and regulations.

The Board has conducted an annual review of the effectiveness of the systems of risk management and internal controls in operation during the year and up to the date of the approval of the annual report and financial statements and this was approved by the Audit Committee and the Board.

This is supported by an ongoing process for identifying, evaluating and managing the risks faced by the Group, by the Business Assurance and Internal Audit functions.

Auditor

Deloitte LLP were appointed on incorporation and have expressed their willingness to continue in office as the auditor and a resolution to re-appoint them will be proposed at the forthcoming AGM.

Communication with investors

The Board believes it is important to explain business developments and financial results to the Company's Shareholders and to understand any shareholder concerns. The principal communication media used to impart information to Shareholders are news releases (including results announcements) and Company publications. In all such communications, care is taken to ensure that no price sensitive information is released.

The Chief Executive Officer and Chief Financial Officer have lead responsibility for investor relations. They are supported by a dedicated Investor Relations Director who, amongst other matters, organises presentations for analysts and institutional investors. There is a full program of regular dialogue with major institutional Shareholders, fund managers, analysts, retail brokers and credit investors, upon which the Chairman ensures that the Board receives regular updates at Board meetings. The Board also receives periodic reports on investors' views of the performance of the Company. All the Non-Executive Directors and, in particular, the Chairman and Senior Independent Director, are available to meet with major Shareholders, if such meetings are required. The Company plans also to communicate with Shareholders through the AGM, at which the Chairman will give an account of the progress of the business over the last year, and a review of current issues, and provides the opportunity for Shareholders to ask questions.

Further financial and business information is available on the Group's website, (www.talktalkgroup.com).

For more information visit:
www.talktalkgroup.com

Directors' remuneration report

Introduction

This Remuneration Report has been prepared in accordance with the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008 ('Regulations') issued under the Companies Act 2006 ('Act') and the Combined Code on Corporate Governance published by the UK FRC in June 2008. The constitution and operation of the Remuneration Committee are in compliance with the Code.

In framing its remuneration policy the Committee has given full consideration to the matters set out in Schedule A of the Code. As required by the Regulations, a resolution to approve this report will be proposed at the AGM to be held on 28 July 2011. The Regulations require the Company's auditor to report to the members on the 'auditable part' of this Report (marked *) and to state, in their opinion, that this part of the Report has been properly prepared in accordance with the Act.

Remuneration committee

The remuneration policy is set by the Board and is described below. The Remuneration Committee, within the framework of this policy, determines individual remuneration packages for the Executive Directors and the Chairman. The terms of reference of the Committee are available on the Group's website (www.talktalkgroup.com) or on request from the Company Secretary.

Remuneration for Non-Executive Directors is determined by the Board, taking into account the commitments and responsibilities of the role.

The Committee currently comprises the following independent Non-Executive Directors: John Gildersleeve (Chairman), Brent Hoberman and Ian West. Jessica Burley was also a member during the financial year up until her resignation in November 2010. Roger Taylor is also a member of the Committee but for the reasons set out in the Corporate Governance section of this annual report he is not considered independent.

Except when matters concerning their own positions are being considered the Chief Executive Officer and the Group Human Resources Director are normally invited to attend the meetings of the Remuneration Committee to assist the Committee. The Committee may discuss any matter affecting the Chairman without the Chairman being present.

The Committee has access to independent advice where it considers it appropriate. External advice was used in relation to share schemes.

Remuneration policy

During the year ended 31 March 2011 the Board undertook a review of Group remuneration to ensure that the overall remuneration practices achieved the strategic aims of the Group. This took account of the following:

- Market conditions;
- The demerger from The Carphone Warehouse Group PLC and the listing of TalkTalk Telecom Group PLC on the London Stock Exchange;
- The need to ensure that remuneration policy was in line with the risk profile of the Group set by the Board and was consistent with an overall policy to encourage long-term sustainable performance and the 'value player' positioning of the Group in its marketplace;
- The need to help reinforce the Group's strategy for growth;
- The requirement to provide a strong link between individual and business performance and ensuring alignment between employees and the delivery of value to Shareholders;
- The requirement to have clear and stretching targets;
- The need for the Remuneration policy to be tailored to the Group's circumstances;
- The requirement for the Group to recruit, retain and motivate talent;
- Cost-effectiveness; and
- Reflect corporate governance best practice.

The review concluded that rewards need to be designed to attract and retain individuals of high quality who have the requisite skills and who are incentivised to achieve high levels of performance. This requires packages to be market-competitive and capable of rewarding exceptional performance. The approach is to set fixed remuneration at market median levels and to offer variable rewards, linked to the performance of the Group, which can provide significant overall levels of remuneration for exceptional performance and shareholder value creation.

In order to closely align the interests of the Executive Directors and Shareholders, the Company requires Executive Directors to build and retain a shareholding in the Company of at least 200% of their annual salary. The Company may, in calculating this percentage, take into account Executive Directors' participation shares issued under the TalkTalk Group Value Enhancement Scheme, a summary of which is set out later in this report.

Components of remuneration

The main fixed and performance related elements of remuneration that can be awarded to Executive Directors are as follows:

- Basic salary, benefits and pension contribution (fixed);
- Annual performance bonus (variable); and
- Share options and performance shares (variable).

Salaries and benefits

Salaries and benefits were set in the context of the demerger from The Carphone Warehouse Group PLC and the listing of TalkTalk on the London Stock Exchange in March 2010. It is the policy of the Board to review salaries annually.

Annual performance bonus

Cash bonuses are governed by performance conditions set by the Remuneration Committee. Maximum variable awards are paid only for exceptional performance. The maximum bonus that can be paid is 200 per cent of basic salary. The bonus scheme for the year ended 31 March 2011 was based on a 'balanced scorecard' that was a blend of financial measures (for example, Group Headline EBITDA, operating free cash flow, revenue), strategic projects (for example, the Tiscali integration program, customer migrations), customer and employee satisfaction measures and innovation.

The Remuneration Committee is satisfied that the bonus structure provides an excellent link between reward and improved performance of the Group and in the creation of further shareholder value.

Share-based incentive plans

Aggregate emoluments shown do not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by the Directors. Details of the options for the Directors who served during the year are as follows:

TalkTalk Group Value Enhancement Scheme

The TalkTalk Group Value Enhancement Scheme ('TTG VES') is designed to enable participants to share in the incremental value of the Group in the excess of an opening valuation, as determined by the Remuneration Committee, with the first opening valuation being at the start of the financial year ended 31 March 2010. Each award will entitle a participant either to purchase a fixed number of separate shares or be granted nil priced or par value options ('options') to acquire a separate class of shares in each case in the subsidiary company, TalkTalk Group Limited, the holding company for the TalkTalk business ('Participation Shares').

When the performance conditions have been satisfied and the award vests the Participation Shares may be purchased by TalkTalk by the issue of TalkTalk Shares or the options may be exercised and the resulting Participation Shares may be purchased by TalkTalk by the issue of TalkTalk Shares. Any Participation Shares that are initially purchased by the participants will be acquired at market value and such participant will be offered a loan from TalkTalk at a commercial rate of interest in order to fund such a purchase.

Discretionary Share Option Plan

The Discretionary Share Option Plan ('DSOP') is designed to provide a medium-term incentive plan for certain employees of TalkTalk who will not participate in the TTG VES. Other grants may be made in special circumstances at the discretion of the Committee. It is the intention of the Remuneration Committee that, generally in any one year, participants may only receive an award under one of such schemes. The exercise of the options is subject to continuing employment and performance conditions as set out in note five to the financial statements. No employee will be granted options over 200 per cent of base salary, unless the Board determines that exceptional circumstances exist which justify exceeding this limit, in which case options shall not exceed 300 per cent of base salary.

SAYE Schemes

The SAYE Scheme in the UK is a Save-As-You-Earn share option scheme and is approved by HMRC. The SAYE Schemes are administrated by the Board or a duly authorised committee of the Board. All UK Executive Directors and employees of TalkTalk and participating companies within the Group will be eligible to participate in the SAYE Scheme as long as they have been employed for a qualifying period. To participate in the SAYE Scheme, an eligible employee must enter into an SAYE contract and agree to make monthly contributions between £5 and £250 for a specified period, three or five years. A bonus is payable after expiration of the period.

Options granted to acquire TalkTalk shares under the SAYE Scheme will have an option price determined by the Board which will be not less than the higher of 80 per cent of the middle market quotation price or their nominal value.

A similar scheme has been put in place for TalkTalk employees in Ireland.

Further details of the features and operations of the TTG VES, DSOP and SAYE can be found in note five to the financial statements.

Directors' remuneration report continued

Aggregate remuneration*

The total amount of Director's[1] remuneration and other benefits (excluding pension contributions) were as follows:

Director	Basic £000	Taxable benefits £000	Bonuses £000	2011 Total £000	2010 Total £000
Executive					
D Harding(4)	500	17	199	716	249
A Stirling(3)	375	9	149	533	152
D Goldie(3)	325	15	130	470	133
Non-Executive					
C Dunstone(3,5)	360	2	–	362	4
R Taylor(3,6)	75	–	–	75	15
J Gildersleeve(3)	73	–	–	73	14
J Allwood(3)	60	–	–	60	12
J Burley(1,3)	40	–	–	40	12
B Hoberman(3)	50	–	–	50	10
I West(2)	8	–	–	8	–
Aggregate emoluments	1,866	43	478	2,387	601

Notes:
(1) Resigned 16 November 2010
(2) Appointed 8 February 2011
(3) Appointed 20 January 2010
(4) Appointed 20 January 2010 and remunerated as a Director from 24 February 2010
(5) Basic salary for the prior year relates to the period from 29 March 2010 to 31 March 2010. Remuneration from 20 January 2010 to 28 March 2010 was borne by CPW and recharged as part of the CPW costs set out in note 2 to the financial statements.
(6) CPW had a medium-term incentive plan for Roger Taylor which rewarded increases in the market capitalisation of this Group between June 2009 and December 2010. This incentive plan has been measured using the combined share price of the Group and Carphone Warehouse Group plc and the maximum payout of £1.0m was made during the period. This amount was accrued as part of the demerger and is not included in the above.

Total remuneration for 2010 above relates only to that paid to Directors for their role as Directors of the Company. Charles Dunstone, Roger Taylor and John Gildersleeve were Directors of CPW for which they respectively received total remuneration of £1,733,781, £1,167,426 and £395,652 for the period to 28 March 2010. These Directors were then remunerated by the Company from 29 March 2010.

Amy Stirling and David Goldie were employees but not Directors of CPW. Amy and David were remunerated by the Company for their roles as Directors of the Company from 20 January 2010.

John Allwood was not a Director of CPW and was remunerated by the Company from 28 January 2010, when he was appointed as a Director of the Company.

Pension contributions*

The schedule below sets out payments by the Group to defined contribution money purchase pension schemes on behalf of Directors. A fixed proportion of salary is paid by the Company together with either a fixed proportion by the Director or no contribution by the Director and both amounts are invested on behalf of the Director. Pension benefits are then funded by the total investment. Levels are reviewed annually against published market data. None of the Directors was a member of a defined benefit pension scheme during the year. Pension entitlements are based on basic salary only.

Director	2011 £000	2010 £000
D Harding	51	–
A Stirling	19	11
D Goldie	65	4
Total	135	15

External appointments

The Board supports Executive Directors holding Non-Executive Directorships of other companies and believes that such appointments are part of the continuing development of the Executive Directors from which the Company will ultimately benefit. The Board has reviewed all such appointments and those appointments that the Board believes require disclosure pursuant to the Code are set out below. The Board has also agreed that the Directors may retain their fees from such appointments.

Currently, Dido Harding is a Non-Executive Director of The British Land Company PLC for which the annual fee is £64,600. David Goldie is also a Board Member of the Northwest Regional Development Agency for which he received a fee of £8,666 during the year.

Charles Dunstone is also Chairman of Carphone Warehouse Group plc which the Board believes is a significant other commitment for him.

Fees for Non-Executive Directors

The fees for each of the Non-Executive Directors are determined by the Board after considering external market research. The Chairman's fee is £360,000. The Deputy Chairman's fee is £60,000. Non-Executive Directors receive a basic fee of £45,000 plus additional fees of £15,000 for Chairing the Audit Committee, £10,000 for Chairing the Remuneration Committee and £5,000 for Chairing the Nomination Committee. A fee of £5,000 is paid for membership of the Audit Committee, £5,000 for membership of the Remuneration Committee and £5,000 for membership of the Nomination Committee. The Senior Independent Director receives an additional fee of £7,500. The Non-Executive Directors do not take part in discussions on their remuneration. Each of the Non-Executive Directors has a letter of appointment substantially in the form suggested by the Code, and each has a three month notice period with no compensation for loss of office. The Company has no age limit for Directors. The dates of each contract are set out on page 38.

Directors' interest in shares and dates of service contracts*

Details of Directors' interests in options to buy shares in the Company are as follows:

1) TalkTalk Group schemes

a. Value Enhancement Scheme

As set out in note five to the financial statements, prior to the demerger two value enhancement schemes were introduced to provide long-term incentives to senior management. These were called the TalkTalk Group Value Enhancement Scheme ('TTG VES') and the Carphone Warehouse TalkTalk Group Value Enhancement Scheme ('CPW TTG VES').

The Directors had the following percentage share in the TTG VES pool at 31 March 2011:

Director	2011 % Share	2010 % Share
D Harding	**10**	10
A Stirling	**6**	6
D Goldie	**6**	6

The remaining percentage of allocated shares in the TTG VES pool is held by other senior management of the Group. Based on the weighted average share price for the year, and as disclosed in note five to the financial statements, the dilutive effect of the potential number of shares in the VES pool at 31 March 2011 was 22 million (2010 : 28 million).

The Directors had the following interest bearing loans outstanding to the Group in relation to the TTG VES at 31 March 2011:

Director	2011 £000	2010 £000
D Harding	**480**	461
A Stirling	**295**	284
D Goldie	**295**	284
	1,070	1,029

Interest on outstanding loans was charged at 4% during the year (2010 : 4.75%).

The Directors had the following percentage share in the CPW TTG VES at 31 March 2011:

Director	2011 % Share	2010 % Share
R Taylor	**53.5**	53.5

The remaining percentage share in the CPW TTG VES pool is held by other senior management of Carphone Warehouse Group plc.

b. Discretionary Share Option Plan

Details of Executive Directors' conditional right to receive nil priced options in the Company are shown in the following table:

Director	At 31 March 2010 or date of appointment	Granted during the year	Exercised during the year	Lapsed during the year	At 31 March 2011	Exercise price per share £	Exercisable from	Expiry date
D Harding	–	236,220	–	–	**236,220**	–	01/09/2012	04/12/2020
	–	236,220	–	–	**236,220**	–	01/09/2013	04/12/2020
Total for D Harding	–	472,440	–	–	**472,440**			

For awards made in September 2010 the performance conditions are based on achieving a compound Total Shareholder Return ("TSR") of five per cent over the performance period. Full details of the scheme are disclosed in note five to the financial statements.

Directors' remuneration report
continued

2) CPW legacy schemes

a. Share gift

The Directors had the following interest bearing loans outstanding to the Group in relation to the settlement of the tax liability arising as a result of a share gift given in December 2008 by CPW:

Director	2011 £000	2010 £000
A Stirling	**144**	144
D Goldie	**144**	144
	288	288

b. CSOP

Director	At 31 March 2010 or date of appointment	Granted during the year	Exercised during the year	Lapsed during the year	At 31 March 2011	Exercise price per share £	Exercisable from	Expiry date
Total for A Stirling	106,668	–	–	–	**106,668**	0.52	06/06/2006	06/06/2013
R Taylor	200,000	–	(200,000)(1)	–	**–**	0.87	19/05/2002	19/05/2010
	200,000	–	(200,000)(1)	–	**–**	1.16	19/05/2002	19/05/2010
	240,000	–	(240,000)(2)	–	**–**	0.73	21/05/2004	21/05/2011
	444,444	–	–	–	**444,444**	0.52	06/06/2006	06/06/2013
	250,000	–	–	–	**250,000**	0.48	11/06/2005	11/06/2012
Total for R Taylor	1,334,444	–	(640,000)	–	**694,444**			

(1) The market price at date of exercise was 127p
(2) The market price at date of exercise was 137p

The market price per share was 134p as at 31 March 2011 (2010 : 127p), and the range during the year was 170p to 107p.

c. Performance shares

Details of Executive Directors' conditional right to receive nil priced options in the Company are shown in the following table:

Director	At 31 March 2010 or date of appointment	Granted during the year	Exercised during the year	Lapsed during the year	At 31 March 2011	Exercise price per share £	Exercisable from	Expiry date
A Stirling	52,734	–	–	–	**52,734**	–	28/07/2007	28/07/2014(1)
	52,734	–	–	–	**52,734**	–	28/07/2008	28/07/2014(1)
	145,588	–	–	(145,588)	**–**	–	04/06/2010	04/12/2016(2)
	145,588	–	–	(145,588)	**–**	–	04/06/2011	04/12/2016(2)
Total for A Stirling	396,644	–	–	(291,176)	**105,468**			
D Goldie	200,000	–	–	–	**200,000**	–	28/07/2008	28/07/2015
	379,136	–	–	(379,136)	**–**	–	04/06/2010	04/12/2016(2)
	379,136	–	–	(379,136)	**–**	–	04/06/2011	04/12/2016(2)
Total for D Goldie	958,272	–	–	(758,272)	**200,000**			
R Taylor	482,537	–	–	(482,537)	**–**	–	04/06/2010	04/12/2016(2)
	482,538	–	–	(482,538)	**–**	–	04/06/2011	04/12/2016(2)
	213,856	–	–	–	**213,856**	–	11/06/2005	11/06/2012
	675,000	–	–	–	**675,000**	–	28/07/2007	28/07/2014
	675,000	–	–	–	**675,000**	–	28/07/2008	28/07/2015
Total for R Taylor	2,528,931	–	–	(965,075)	**1,563,856**			

(1) For awards made in July 2004 the performance conditions set out in previous CPW annual reports have been satisfied.
(2) For awards made in December 2006 the performance conditions set out in previous CPW annual reports were not satisfied and the shares lapsed in June 2010.

Directors' remuneration report
continued

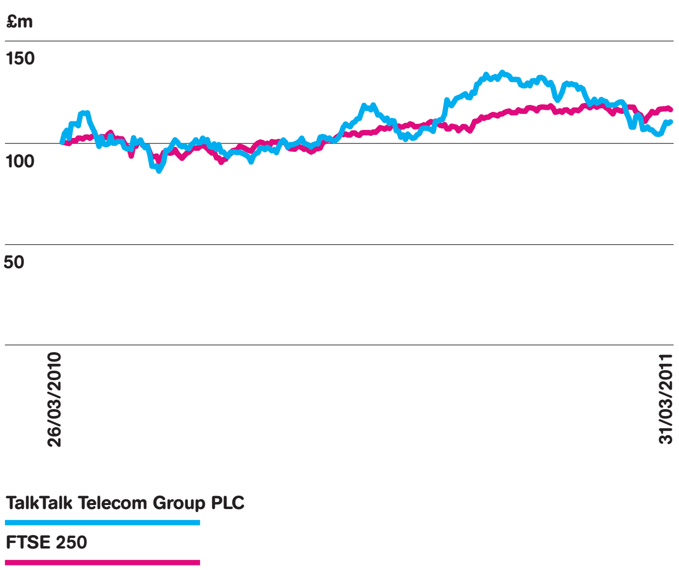
Directors' interests in shares and dates of service contracts

	Ordinary shares of 0.1p		
Director	**31 March 2011**	31 March 2010	Date of contract
C Dunstone	**295,209,396**	296,144,535	20 January 2010
D Harding	**–**	–	20 January 2010
A Stirling	**536,687**	536,687	20 January 2010
D Goldie	**945,460**	945,460	20 January 2010
R Taylor	**1,083,698**	978,678	20 January 2010
J Gildersleeve	**246,000**	246,000	20 January 2010
J Allwood	**–**	–	20 January 2010
B Hoberman	**–**	–	20 January 2010
I West	**164,323**	–	8 February 2011

Performance graph
The graph below shows the Group's performance compared to the TSR performance of the FTSE 250 from the date of the Group's listing, 29 March 2010.

The FTSE 250 was selected as it is a broad market index of which the Group is a member.

Performance



This report was approved by the Board on 18 May 2011.

Other statutory information

Employment of disabled people

The Company has an equal opportunities policy which ensures that disabled persons are provided with the same opportunities for employment, career development, training and promotion along with all other employees. As part of this policy, applications for employment by disabled persons are fully considered, bearing in mind the abilities of the applicant concerned. In the event of employees becoming disabled during employment a thorough process is followed and support provided (including income support insurance) to try to secure their employment.

Supplier payment policy

It is the Company's policy to develop and maintain key business relationships with its suppliers to obtain mutually accepted payment terms. The average credit period taken on trade payables was 24 days (2010 : 25 days).

Donations

The Company made £240,455 (2010 : £229,915) of charitable donations and no political donations in either year.

Contracts with controlling Shareholders

There are no material contracts with controlling Shareholders, except as disclosed in the Directors' remuneration report on pages 32 to 38.

Share capital

Details in the movements in issued share capital during the year are provided in notes 21 and 22 in the financial statements.

Property, plant and equipment

Movements in property, plant and equipment are set out in note 12 to the financial statements. In the opinion of the Directors the current open market value of the Group's interests in freehold land and buildings is not materially different from its book value at 31 March 2011. It is expected that any capital gains would be covered by capital losses.

Significant shareholdings

At 18 May 2011 the Company had been notified of the following interests in the Company's shares:

Name	Number of shares	Percentage of share capital
David Peter John Ross	117,160,528	12.82%
Capital Research and Management Company	50,596,100	5.54%
FMR LLC	45,592,488	4.98%
FIL Limited	45,331,791	4.95%
Government of Singapore Investment Corporation Pte Ltd	36,398,095	3.98%

The total interests of the Directors are detailed in the Directors' remuneration report on pages 32 to 38.

Going concern

On the basis of current financial projections and facilities available, the Directors are satisfied that the Group has adequate resources to continue in operation for the foreseeable future and consequently the financial statements continue to be prepared on the going concern basis, as discussed in the Finance review on page 16.

Directors' indemnities

Other than director's liability insurance no other indemnity has been provided to Directors.

Audit information

Each of the persons who is a Director at the date of approval of this annual report confirms that:

- So far as the Director is aware, there is no relevant audit information of which the company's auditor are unaware; and
- The Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor are aware of the information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

By order of the Board

TalkTalk Telecom Group PLC
11 Evesham Street
London W11 4AR

Tim Morris
Company Secretary
18 May 2011

Financial statements

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into the Directors' Report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

D Harding
Chief Executive Officer
18 May 2011

A Stirling
Chief Financial Officer
18 May 2011

Independent auditor's report to the members of TalkTalk Telecom Group PLC

We have audited the Group financial statements of TalkTalk Telecom Group PLC for the year ended 31 March 2011 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of changes in equity, the Consolidated balance sheet, the Consolidated cash flow statement and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 March 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, contained within the financial statements, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to Shareholders by the Board on Directors' remuneration.

Other matter

We have reported separately on the Company financial statements of TalkTalk Telecom Group PLC for the period ended 31 March 2011 and on the information in the Directors' Remuneration Report that is described as having been audited.

John Murphy (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
18 May 2011

Consolidated income statement

For the year ended 31 March 2011

	Notes	Before amortisation of acquisition intangibles and exceptional items 2011 £m	Amortisation of acquisition intangibles and exceptional items* 2011 £m	After amortisation of acquisition intangibles and exceptional items 2011 £m	Before amortisation of acquisition intangibles and exceptional items 2010 £m	Amortisation of acquisition intangibles and exceptional items* 2010 £m	After amortisation of acquisition intangibles and exceptional items 2010 £m
Revenue	2	**1,765**	**–**	**1,765**	1,686	–	1,686
Cost of sales		**(877)**	**–**	**(877)**	(838)	–	(838)
Gross profit		**888**	**–**	**888**	848	–	848
Operating expenses excluding amortisation and depreciation	3	**(612)**	**(48)**	**(660)**	(627)	(47)	(674)
EBITDA		**276**	**(48)**	**228**	221	(47)	174
Depreciation	3, 12	**(57)**	**(3)**	**(60)**	(46)	(1)	(47)
Amortisation	3, 11	**(26)**	**(66)**	**(92)**	(24)	(87)	(111)
Share of results of joint venture	14	**(1)**	**–**	**(1)**	–	–	–
Operating profit		**192**	**(117)**	**75**	151	(135)	16
Finance costs	6	**(18)**	**–**	**(18)**	(10)	(1)	(11)
Investment revenue	6	**–**	**–**	**–**	6	–	6
Profit before taxation		**174**	**(117)**	**57**	147	(136)	11
Taxation	7	**(52)**	**30**	**(22)**	(41)	27	(14)
Profit (loss) for the year		**122**	**(87)**	**35**	106	(109)	(3)
Attributable to the equity holders of the Parent Company		**122**	**(87)**	**35**	106	(109)	(3)
Earnings per share							
Basic (pence)	10	**13.5**		**3.9**	11.8		(0.3)
Diluted (pence)	10	**12.8**		**3.7**	11.2		(0.3)

* A reconciliation of Headline information to Statutory information is provided in note 9 to the financial statements.

The accompanying notes are an integral part of this Consolidated income statement. All amounts relate to continuing operations.

Consolidated statement of comprehensive income

For the year ended 31 March 2011

	Notes	2011 £m	2010 £m
Profit (loss) for the year[1]		**35**	(3)
Exchange differences on translation of foreign operations[1]		**1**	–
Cash flow hedges and currency translation[2]		**(1)**	(1)
Taxation of items relating to components of other comprehensive income[1]	7	**2**	(1)
Total comprehensive income (expense) for the year		**37**	(5)
Attributable to the equity holders of the Parent Company		**37**	(5)

(1) recognised within retained earnings and other reserves
(2) recognised within the Translation reserve

The accompanying notes are an integral part of this Consolidated statement of comprehensive income.

Consolidated statement of changes in equity

For the year ended 31 March 2011

	Notes	Share capital £m	Share premium £m	Translation reserve £m	Demerger reserve £m	Retained earnings and other reserves £m	Total £m
At 1 April 2010		1	586	(60)	(513)	378	392
Total comprehensive income for the year		–	–	(1)	–	38	37
Recycling of translation reserve		–	–	(4)	–	–	(4)
Settlement of Group ESOT shares		–	–	–	–	1	1
Net cost of share-based payments	5	–	–	–	–	4	4
Equity dividends	8	–	–	–	–	(15)	(15)
At 31 March 2011		1	586	(65)	(513)	406	415

	Notes	Share capital £m	Share premium £m	Translation reserve £m	Demerger reserve £m	Retained earnings and other reserves £m	Total £m
At 1 April 2009		–	–	(59)	529	232	702
Total comprehensive income for the year		–	–	(1)	–	(4)	(5)
Issue of share capital	21, 22	1	986	–	(987)	–	–
Capital reduction	22	–	(400)	–	–	400	–
Net cost of share-based payments	5	–	–	–	–	4	4
Share-based payments reserve debit	5	–	–	–	–	(3)	(3)
Equity dividends	8	–	–	–	–	(251)	(251)
Movements in demerger reserve	22	–	–	–	(55)	–	(55)
At 31 March 2010		1	586	(60)	(513)	378	392

The accompanying notes are an integral part of this Consolidated statement of changes in equity.

In March 2010 the share premium relating to the ordinary shares was reduced by £400m by way of a court-approved capital reduction (note 22). This had the effect of creating distributable reserves which may be released at the discretion (and upon the resolution) of the Board.

During the year ended 31 March 2010 equity dividends of £251m were paid by TalkTalk Telecom Holdings Limited, including £69m of dividends paid to its Shareholders and an intercompany dividend of £182m paid as part of the demerger (note 8).

Consolidated balance sheet

For the year ended 31 March 2011

	Notes	2011 £m	2010 *As restated £m
Non-current assets			
Goodwill	11	**471**	470
Other intangible assets	11	**255**	316
Property, plant and equipment	12	**290**	262
Non-current asset investments	13	**1**	1
Investment in joint venture	14	**4**	–
Deferred tax asset	7	**116**	155
		1,137	1,204
Current assets			
Cash and cash equivalents	18	**1**	1
Inventories	15	**3**	2
Trade and other receivables	16	**155**	180
Loans to related parties	16	**2**	3
		161	186
Total assets		**1,298**	1,390
Current liabilities			
Trade and other payables	17	**(376)**	(400)
Corporation tax liabilities		**(22)**	(42)
Loans and other borrowings	18	**(44)**	(19)
Provisions	20	**(32)**	(29)
		(474)	(490)
Non-current liabilities			
Loans and other borrowings	18	**(395)**	(490)
Provisions	20	**(14)**	(18)
		(409)	(508)
Total liabilities		**(883)**	(998)
Net assets		**415**	392
Equity			
Share capital	21, 22	**1**	1
Share premium	22	**586**	586
Translation reserve	22	**(65)**	(60)
Demerger reserve	22	**(513)**	(513)
Retained earnings and other reserves	22	**406**	378
Funds attributable to equity shareholders		**415**	392

* The prior year balance sheet has been restated to reflect the finalisation of the Tiscali UK and UK Telco acquisition purchase prices (note 29).

The accompanying notes are an integral part of this Consolidated balance sheet.

These financial statements were approved by the Board on 18 May 2011. They were signed on its behalf by:

D Harding
Chief Executive Officer
18 May 2011

A Stirling
Chief Financial Officer
18 May 2011

Consolidated cash flow statement

For the year ended 31 March 2011

	Notes	2011 £m	2010 £m
Operating activities			
Operating profit		**75**	16
Adjustments for non-cash items:			
Share-based payments	5	**4**	4
Depreciation	3, 12	**60**	47
Amortisation	3, 11	**92**	111
Share of losses of joint venture	14	**1**	–
Recycling of translation reserve	9	**(4)**	–
Fair value gain on step acquisition	13	**(1)**	–
Operating cash flows before movements in working capital		**227**	178
Decrease in trade and other receivables		**11**	35
Increase in inventory		**(1)**	(1)
(Decrease) increase in trade and other payables		**(28)**	2
Decrease in provisions		**(4)**	(13)
Cash generated by operations		**205**	201
Income taxes paid		**(2)**	(2)
Net cash flows generated from operating activities		**203**	199
Investing activities			
Interest received	6	**–**	6
Acquisition of subsidiaries and joint venture, net of cash acquired	13, 14	**5**	(240)
Disposal of subsidiaries, net of cash disposed	13	**4**	–
Acquisition of intangible assets		**(27)**	(35)
Acquisition of property, plant and equipment		**(83)**	(67)
Disposal of property, plant and equipment		**–**	1
Cash flows used in investing activities		**(101)**	(335)
Financing activities			
Settlement of Group ESOT shares	22	**1**	–
Repayment of borrowings	23	**(72)**	(425)
Drawdown of borrowings	23	**–**	500
Interest paid		**(17)**	(9)
Cash flows relating to movements in demerger reserves		**–**	(54)
Net decrease in loans to related parties	23	**1**	394
Dividends paid	8	**(15)**	(251)
Cash flows (used) from financing activities		**(102)**	155
Net increase in cash and cash equivalents		**–**	19
Cash and cash equivalents at the start of the year		**(8)**	(27)
Cash and cash equivalents at the end of the year		**(8)**	(8)
Cash and cash equivalents for the purpose of this statement comprise:			
Cash and cash equivalents	18	**1**	1
Bank overdrafts*	18	**(9)**	(9)
		(8)	(8)

* Bank overdrafts are disclosed within Loans and other borrowings less than one year.

The accompanying notes are an integral part of this Consolidated cash flow statement.

Notes to the consolidated financial statements

1. Accounting policies and basis of preparation

Basis of preparation
TalkTalk Telecom Group PLC is incorporated in the United Kingdom.

The Consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted for use in the European Union and as applied in accordance with the provisions of the Companies Act 2006. These financial statements therefore comply with Article 4 of the European Union International Accounting Standard regulation. The Company has applied United Kingdom Generally Accepted Accounting Practice ('GAAP') in the preparation of its individual financial statements, which are contained on pages 86 to 93.

The financial statements have been prepared on the going concern basis. Details of the considerations undertaken by the Directors in reaching this conclusion are set out on page 19 within the Finance review.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments and investments. The financial statements are presented in Sterling, rounded to the nearest million, because that is the currency of the principal economic environment in which the Group operates.

The Group's principal accounting policies are set out below.

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company, entities controlled by the Company (its subsidiaries) and entities jointly-controlled by the Company (its joint ventures) made up to 31 March each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or sold during the year are included from or to the date on which control passed to or was relinquished by the Group. Intercompany transactions and balances between subsidiaries are eliminated on consolidation.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring accounting policies used into line with those used by the Group.

Shares in the Company held by the Group ESOT are shown as a reduction in Shareholders' funds. Other assets and liabilities held by the trust are consolidated with the assets and liabilities of the Group.

Comparative information – presentation of the Group's Results for the year ended 31 March 2010

On 26 March 2010 CPW demerged into Carphone Warehouse Group plc and the Group. The Company and the Carphone Warehouse Group plc were separately listed on the London Stock Exchange.

The prior year consolidated financial statements of the Group have been prepared with the objective of presenting the results, net assets and cash flows of the Group in the form that arose on completion of the demerger, as if it had been a standalone business during the year ended 31 March 2010.

The financial statements have been prepared by aggregating the Statutory accounts of the companies and assets that have been transferred to the Group on demerger. Any assets and liabilities held within the consolidation of CPW that related to the Group were also reflected in the consolidated financial statements, as though they formed part of the Group. The principles of IAS 27 'Consolidated and Separate financial statements' and SIC 12 'Consolidation – Special Purpose Entities' have been applied in determining the companies and assets to be combined.

As a part of the demerger, certain companies and assets were transferred out of the Group. These companies and assets have been treated as though they were never part of the Group. Such transfers were made at market value as determined by management for cash consideration during March 2010. At 31 March 2010, the full value at which transfers were made are reflected in the balance sheet and any profits or losses arising on the transfers are reflected in the demerger reserve as these are effectively treated as a capital contribution from CPW.

Adjustments reflected in the demerger reserve, which have implications for cash and cash equivalents, have been disclosed in the cash flow statement as cash flows relating to movements in demerger reserve.

Dividends to or from other entities in CPW have been eliminated with the corresponding entry recorded in equity. Such dividends would not have been applicable had the operations been independent during the current and preceding year and are not representative of the future position of the Group. Such payments are recorded in cash flows relating to movements in demerger reserve.

CPW issued equity settled share-based payments to certain employees of its subsidiaries and of Best Buy Europe. The related expense arising in relation to these employees has been allocated to the Group based on the businesses that benefited from the incentives.

Taxation has been allocated in the income statement of the Group to reflect as far as possible the underlying tax position of the business. Any Group relief provided between companies in CPW is therefore treated as having been charged, even if such charges were not made.

As the Company did not exist during the year ended 31 March 2010 in the form that arose on Demerger, the average actual shares in issue during this year do not provide a meaningful basis for calculating EPS. EPS was, therefore, calculated based on the number of CPW shares in issue until the demerger date, the number of the Group's shares in issue after that date, and the shareholding of the Group ESOT during this financial year.

Notes to the consolidated financial statements
continued

1. Accounting policies and basis of preparation (continued)

Diluted EPS has been calculated based on options held over CPW shares during the year ended 31 March 2010 and the Group's proportion of the CPW share price.

Changes in accounting policy
In the current year, the following new and revised Standards and Interpretations have been adopted. Unless otherwise stated, the adoption of these standards and interpretations has had no significant impact on these financial statements:

- IFRS 1 (Revised) 'First-time Adoption of International Financial Reporting Standards';
- IFRS 2 (amended) 'Group Cash-settled Share-based Payment Transactions': the amendment clarifies the accounting for share-based payment transactions between Group entities;
- IFRS 3 (2008) 'Business Combinations'; the impact of the changes are set out below;
- IAS 24 (2009) 'Related party disclosures': the impact of the changes are set out below;
- IAS 27 (2008) 'Consolidated and Separate financial statements': the impact of the changes are set out below;
- IAS 28 (Revised) 'Investments in Associates': the impact of the changes are set out below;
- IFRIC 17 'Distribution of Non-cash Assets to Owners': the Interpretation provides guidance on when an entity should recognise a non-cash dividend payable, how to measure the dividend payable and how to account for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable when the payable is settled; and
- Improvements to IFRS (April 2009): the impact of the changes are set out below.

The following amendments were made as part of Improvements to IFRS (2009):

- Amendment to IFRS 2 'Share-based Payment': IFRS 2 has been amended, following the issue of IFRS 3 (2008), to confirm that the contribution of a business on formation of a joint venture and common control transactions are not within the scope of IFRS 2.
- Amendment to IAS 17 'Leases': IAS 17 has been amended such that it may be possible to classify a lease of land as a finance lease if it meets the criteria for that classification under IAS 17.
- Amendment to IAS 39 'Financial Instruments Recognition and Measurement': IAS 39 has been amended to state that options contracts between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date are not excluded from the scope of the standard.

The adoption of IFRS 1, IFRS 2, IAS 28, IFRIC 17 and Improvement to IFRS (April 2009) have had no material impact on the Group.

IFRS 3 (2008) 'Business Combinations', IAS 27 (2008) 'Consolidated and Separate financial statements' and IAS 28 (2008) 'Investments in Associates'
The most significant changes to the Group's previous accounting policies relate to business combinations. These are: acquisition related costs are included in operating expenses as they are incurred rather than capitalised; any changes to the cost of an acquisition, including contingent consideration, resulting from an event after the date of acquisition are recognised in profit or loss rather than as an adjustment to goodwill; and where a step acquisition occurs the Group will remeasure its previously held equity interest at acquisition date fair value and recognise the resulting gain or loss, if any, in the income statement or other comprehensive income.

The adoption of IFRS 3 (2008) and the subsequent changes to the accounting policies have resulted in the Group recognising a gain of £1m within its income statement in respect of the fair value of the equity interest previously held for the year ended 31 March 2011.

Any adjustments to contingent consideration of acquisitions made prior to 1 April 2010 which result in an adjustment to goodwill continue to be accounted for under IFRS 3 (2004) and IAS 27 (2005).

IAS 24 (2009) 'Related party disclosures'
The Group has early adopted IAS 24 (2009) 'Related party disclosures', which was endorsed by the EU in July 2010 and, as such, can be adopted for the year ended 31 March 2011. The impact of the standard is that it simplifies the definition of a related party, with shared person or entity (director, shareholder or otherwise) no longer automatically implying the existence of a related party relationship. Under the revised standard this only occurs where the person or entity can exert significant influence over both entities. The impact is that following the demerger of the Group and the adoption of IAS 24 (2009), Best Buy Europe and Carphone Warehouse Group plc are no longer considered related parties of the Group.

Foreign currency translation and transactions
Material transactions in foreign currencies are hedged using forward purchases or sales of the relevant currencies and are recognised in the financial statements at the exchange rates thus obtained. Unhedged transactions are recorded at the exchange rate on the date of the transaction. Hedge accounting as defined by IAS 39 'Financial Instruments: Recognition and Measurement' has been applied in the current and preceding financial year by marking to market the relevant financial instruments at the balance sheet date and recognising the gain or loss in equity in respect of cash flow hedges, and through the income statement in respect of fair value hedges.

The results of overseas operations are translated at the average foreign exchange rates for the year, and their balance sheets are translated at the rates prevailing at the balance sheet date. Goodwill is held in the currency of the operations to which it relates. Exchange differences arising on the translation of opening net assets, goodwill and results of overseas operations are recognised in equity. All other exchange differences are included in the income statement.

The principal exchange rates against UK Sterling used in these financial statements are as follows:

	Average		Closing	
	2011	2010	**2011**	2010
Euro	**1.17**	1.13	**1.13**	1.12
United States Dollar	**1.56**	1.59	**1.60**	1.52

Where a foreign operation is sold, the gain or loss on disposal recognised in the income statement is determined after taking into account the cumulative currency translation differences that are attributable to the operation.

Revenue
Revenue is stated net of VAT and other sales related taxes, and comprises revenue generated from the provision of fixed line telecommunications services. All such revenue is recognised as the services are provided:

- Line rental is recognised in the period to which it relates;
- Voice and broadband subscriptions are recognised in the period to which they relate;
- Voice usage is recognised in the period in which the customer takes the service;
- Promotional discounts are amortised on a straight-line basis over the minimum contract period subject to an adjustment for in contract churn;
- Connection charges are recognised in the period in which the connection is made; and
- Data service solutions and other service contracts are recognised as the Group fulfils its performance obligations.

Share-based payments
The Group issues equity settled share-based payments to certain employees. Equity settled share-based payments are measured at fair value at the date of grant, and expensed over the vesting period, based on an estimate of the number of shares that will eventually vest.

Fair value is measured by use of a Binomial model for share-based payments with internal performance criteria (for example, EPS targets) and a Black Scholes or Monte Carlo model for those with external performance criteria (for example, TSR targets).

For schemes with non-market performance criteria, the number of options expected to vest is recalculated at each balance sheet date, based on expectations of performance against target and of leavers prior to vesting.

The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in reserves.

For schemes with market performance criteria, the number of options expected to vest is adjusted only for expectations of leavers prior to vesting. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in reserves.

If a share-based payment scheme is cancelled, any remaining part of the fair value of the scheme is expensed through the income statement. If a share-based payment scheme is forfeited, no further expense is recognised and any charges previously recognised through the income statement are reversed.

Share-based payment charges are also recognised on loans that are provided to employees to settle personal tax liabilities, to the extent to which the loans are not, in certain circumstances, repayable; the cost of such loans is expensed on grant.

Charges also arise on loans that are provided to employees to fund the purchase of shares in the Group as part of long-term incentives plans (LTIP), to the extent to which the loans are not, in certain circumstances, repayable; the cost of such loans is expensed over the course of the relevant incentive plans.

Where loans are granted for the purchase of shares under a LTIP, interest is charged on these loans.

In accordance with IFRS 2 ‘Share-based payment’ no cost has been recognised in respect of the options granted before 7 November 2002.

Subscriber acquisition costs
Subscriber acquisition costs, being third party costs of recruiting and retaining new customers, are expensed as incurred.

Pensions
Contributions to defined contribution schemes are charged to the income statement as they become payable in accordance with the rules of the schemes.

Dividends
Dividend income is recognised when payment has been received. Final dividend distributions are recognised as a liability in the financial statements in the year in which they are approved by the relevant Shareholders. Interim dividends are recognised in the year in which they are paid.

Special dividends relating to the demerger transaction have been recognised as a liability in the financial statements in the year in which they were approved by the relevant Shareholders.

Leases
Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Lease incentives and rent-free periods are amortised through the income statement over the period of the lease.

Notes to the consolidated financial statements
continued

1. Accounting policies and basis of preparation (continued)

Gains or losses from sale and leaseback transactions are deferred over the life of the new lease to the extent that the rentals are considered to be above or below market rentals. The remaining gain or loss is recognised within operating expenses in the year in which the sale is completed.

Taxation
Current tax, including UK corporation tax and overseas tax, is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is provided on temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base.

Deferred tax liabilities represent tax payable in future periods in respect of taxable temporary differences. Deferred tax assets represent tax recoverable in future periods in respect of deductible temporary differences, and the carry-forward of unused tax losses and credits. Deferred tax is determined using the tax rates that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Current and deferred tax is recognised in the income statement except where it relates to an item recognised directly in reserves, in which case it is recognised directly in reserves.

Deferred tax assets and liabilities are offset where there is a legal right to do so in the relevant jurisdictions.

Intangible assets

Goodwill
Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing the excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is recognised initially as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

On disposal of a subsidiary undertaking, the relevant goodwill is included in the calculation of the profit or loss on disposal.

Operating intangibles
Operating intangibles include internal infrastructure and design costs incurred in the development of software for internal use. Internally generated software is recognised as an intangible asset only if it can be separately identified, it is probable that the asset will generate future economic benefits, and the development cost can be measured reliably. Where these conditions are not met, development expenditure is recognised as an expense in the year in which it is incurred. Operating intangibles are amortised on a straight-line basis over their estimated useful economic lives of up to eight years.

Acquisition intangibles
Acquired intangible assets such as customer bases, customer revenue share agreements, brands and other intangible assets acquired through a business combination are capitalised separately from goodwill and amortised over their expected useful lives of up to six years on a straight-line basis. The value attributed to such assets is based on the future economic benefit that is expected to be derived from them, calculated as the present value of future cash flows after a deduction for contributory assets.

At the acquisition date, acquisition intangibles are allocated to each of the CGU expected to benefit from the synergies of the combination. Details of impairment testing are provided within the Impairment of assets section below.

Property, plant and equipment
Property, plant and equipment are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life from the date it is brought into use, as follows:

Short leasehold costs
10% or the lease term if less than ten years

Network equipment and computer hardware
12.5 – 50% per annum

Fixtures and fittings
20 – 25% per annum

Impairment of assets

Goodwill
Goodwill is not subject to amortisation but is tested for impairment annually or whenever there is an indication that the asset may be impaired.

For the purpose of impairment testing, at the acquisition date, goodwill is allocated to each of the CGUs expected to benefit from the synergies of the combination. The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired, this review is performed at a CGU level.

The Group has two CGUs – Residential and Corporate. The Group's shared costs and assets relating mainly to infrastructure and central overheads are allocated across the two CGUs based on the relative future cash flows. Impairment is determined by assessing the future cash flows of the CGU to which the goodwill relates. The future cash flows of the Group are taken from the Board or Management approved three year plan and extrapolated out for the following 17 years based on the UK's long-term growth rate. This is discounted by the CGU's weighted average cost of capital to give the net present value of that CGU. Where the net present value of future cash flows is less than the carrying value of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the segment pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss is recognised in the income statement and is not subsequently reversed.

Sensitivity analysis is performed using reasonably possible changes in the key assumptions.

Property, plant and equipment and other intangible assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. Where an indicator of impairment exists, the Group makes a formal estimate of the asset's recoverable amount and the extent of any impairment loss. An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than the carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount.

Investments

Investments, other than subsidiaries, are initially recognised at cost, being the fair value of the consideration given plus any transaction costs associated with the acquisition.

Investments are categorised as available-for-sale and are then recorded at fair value. Changes in fair value, together with any related taxation, are taken directly to equity, and recycled to the income statement when the investment is sold or determined to be impaired.

Interests in joint ventures

Interests in joint ventures are accounted for using the equity method. The Consolidated income statement includes the Group's share of the post-tax profits or losses of the joint ventures based on their financial statements for the year. In the Consolidated balance sheet, the Group's interest in joint ventures are shown as a non-current asset in the balance sheet, representing the Group's investment in the share capital of the joint ventures, as adjusted by post-acquisition changes in the Group's share of the net assets or liabilities less provision for any impairment.

When a joint venture has net liabilities, any loans advanced to the venture are included in the Group's equity accounted investment in it. When a venture has net assets, any loans advanced to it are shown separately in the balance sheet, as a receivable to the Group.

Inventories

Inventories are stated at the lower of cost and net realisable value and principally represents modems and routers. Net realisable value is based on estimated selling price, less costs expected to be incurred on disposal. A provision is made for obsolete items where appropriate.

Provisions

Provisions are recognised when a legal or constructive obligation exists as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are discounted where the time value of money is considered to be material.

Provisions are categorised as follows:

Operating efficiencies

Operating efficiencies provisions relate principally to redundancy costs and are only recognised where plans are demonstrably committed and where appropriate communication to those affected has been undertaken at the balance sheet date. These provisions are typically expected to be utilised over the 12 months following announcement of the reorganisation.

One Company integration

These provisions relate principally to redundancy costs and are only recognised where plans are demonstrably committed and where appropriate communication to those affected has been undertaken at the balance sheet date, and onerous contract costs where a decision has been made to exit a contract as part of the One Company reorganisation. These provisions are typically expected to be utilised over 12 to 24 months.

Property

Property provisions relate to dilapidations and similar property costs, and costs associated with onerous property contracts. All such provisions are assessed by reference to the terms and conditions of the contract and market conditions at the balance sheet date. Property provisions are expected to be utilised over the next nine years.

Contract and other

Contract and other provisions relate to onerous contracts and contracts with unfavourable terms arising on the acquisition of businesses and anticipated costs of unresolved legal disputes. All such provisions are assessed by reference to the best available information at the balance sheet date. Contract and other provisions are expected to be utilised over the next 24 months.

Notes to the consolidated financial statements
continued

1. Accounting policies and basis of preparation (continued)

Financial instruments
Financial assets and financial liabilities, in respect of financial instruments, are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade and other receivables
Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Cash and cash equivalents
Cash and cash equivalents includes cash-in-hand and deposits held at call with banks.

Trade payables
Trade payables are other financial liabilities initially measured at fair value and subsequently measured at amortised cost.

Financial liabilities and equity instruments
Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities and includes no obligation to deliver cash or other financial assets. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

- Loans and other borrowings

Loans and other borrowings represent committed and uncommitted bank loans, bank overdrafts, and loans from related parties. These are initially measured at fair value (which is equal to cost at inception), and are subsequently measured at amortised cost, using the effective interest rate method, except where they are identified as a hedged item in a fair value hedge. Any difference between the proceeds net of transaction costs and the settlement or redemption of borrowings is recognised over the term of the borrowing.

Bank fees and legal costs associated with the securing of external financing are capitalised and amortised over the term of the relevant facility. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

- Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issuance costs

Shares in the Company held by the Group ESOT are shown as a reduction in Shareholders' funds. Other assets and liabilities held by the trust are consolidated with the assets of the Group.

Derivative financial instruments and hedge accounting
The Group's activities expose it to the financial risks of changes in foreign exchange rates and interest rates. The use of financial derivatives is governed by the framework approved by the Board, which provide written principles on the use of financial derivatives consistent with the Group's risk management strategy. Changes in values of all derivatives of a financing nature are included within investment income and financing costs in the income statement. The Group does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are initially measured at fair value on the contract date and are subsequently remeasured to fair value at each reporting date.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting, or the Company chooses to end the hedging relationship.

Fair value hedges
The Group uses derivative instruments (primarily interest rate swaps) to manage its interest rate risk. The Group designates these as fair value hedges with changes in fair value of the hedging instrument recognised in the income statement for the year together with the changes in the fair value of the hedged item to the extent the hedge is effective.

Headline results and exceptional items
Headline results are stated before the amortisation of acquisition intangibles and exceptional items. Exceptional items are those that are considered to be one-off, non-recurring in nature and so material that the Directors believe that they require separate disclosure to avoid distortion of underlying performance and should be separately presented on the face of the income statement. Further details of the exceptional items are provided in note 9.

Critical judgements in applying the Group's accounting policies
In the process of applying the Group's accounting policies management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements. Estimates and assumptions used in the preparation of the financial statements are continually reviewed and revised as necessary. Whilst every effort is made to ensure that such estimates and assumptions are reasonable, by their nature they are uncertain, and as such changes in estimates and assumptions may have a material impact.

Goodwill

Determining whether goodwill is impaired requires estimation of the value in use of the CGUs to which the goodwill has been allocated. The value in use calculation involves estimation of both the future cash flows of the CGUs and the selection of appropriate discount rates, to use to calculate present values (note 11). The carrying value of goodwill is £471m (2010 : £470m, as restated) at the balance sheet date.

Intangible assets and property, plant and equipment

The assessment of the useful economic lives of these assets requires judgement. Depreciation and amortisation is charged to the income statement based on the useful economic life selected. This assessment requires estimation of the period over which the Group will benefit from the assets.

Determining whether the carrying amount of these assets has any indication of impairment also requires judgement. If an indication of impairment is identified, further judgement is required to assess whether the carrying amount can be supported by the value in use of the CGU that the asset is allocated to. The value in use calculation involves estimation of both the future cash flows of the CGUs and the selection of appropriate discount rates, to use to calculate present values (note 11).

Trade and other receivables

Judgement is required in order to evaluate the likelihood of collection of customer debt after revenue has been recognised and hence the value of the bad and doubtful debt. These provisions are based on historical trends in the percentage of debts which are not recovered.

Deferred taxation

The extent to which tax losses can be utilised depends on the extent to which taxable profits are generated in the relevant jurisdictions for the foreseeable future, and on the tax legislation then in force, and as such the value of associated deferred tax assets is uncertain.

Provisions

The Group's reorganisation and other provisions are based on the best information available to management at the balance sheet date. However, the future costs assumed are inevitably only estimates, which may differ from those ultimately incurred.

Future accounting developments

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IAS 32 (amended) 'Classification of Rights Issues'
- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments'
- IFRIC 14 (amended) 'Prepayments of a Minimum Funding Requirement'
- Improvements to IFRSs (May 2010)

The Directors do not expect that the adoption of the other standards listed above will have a material impact on the financial statements of the Group in future periods.

Notes to the consolidated financial statements
continued

2. Segmental reporting

IFRS 8 'Operating Segments' requires the segmental information presented in the financial statements to be that used by the chief operating decision maker to evaluate the performance of the business and decide how to allocate resources. The Group has identified the Board as its chief operating decision maker. The Board considers the results of the business as a whole when assessing the performance of the business and making decisions about the allocation of resources. Accordingly the Group has one operating segment.

During the previous financial year the Group incurred costs in respect of CPW ('CPW costs'). These costs are not reflective of the ongoing costs of the Group and have been disclosed separately, the costs of the demerger (note 9) are shown within CPW costs.

	Operations	CPW costs	Total
Year ended 31 March 2011	**£m**	**£m**	**£m**
Revenue	**1,765**	**–**	**1,765**
Headline EBITDA	**276**	**–**	**276**
Depreciation	**(57)**	**–**	**(57)**
Amortisation of operating intangibles	**(26)**	**–**	**(26)**
Share of results of joint venture	**(1)**	**–**	**(1)**
Headline profit before interest and taxation	**192**	**–**	**192**
Amortisation of acquisition intangibles and exceptional amortisation*	**(66)**	**–**	**(66)**
Exceptional items – Operating expenses (note 9)	**(48)**	**–**	**(48)**
Exceptional items – Depreciation (note 9)	**(3)**	**–**	**(3)**
Operating profit	**75**	**–**	**75**

	Operations	CPW costs	Total
Year ended 31 March 2010	£m	£m	£m
Revenue	1,686	–	1,686
Headline EBITDA	230	(9)	221
Depreciation	(46)	–	(46)
Amortisation of operating intangibles	(24)	–	(24)
Headline profit before interest and taxation	160	(9)	151
Amortisation of acquisition intangibles and exceptional amortisation*	(87)	–	(87)
Exceptional items – Operating expenses (note 9)	(29)	(18)	(47)
Exceptional items – Depreciation (note 9)	(1)	–	(1)
Operating profit	43	(27)	16

* Comprises £62m of amortisation on acquisition intangibles (2010 : £83m) and £4m of exceptional amortisation (2010 : £4m) (note 9).

The Group's revenue is split by broadband, non-broadband and corporate products. Broadband and non-broadband comprise residential customers and business customers that receive similar products.

	2011 £m	2010 £m
Broadband	**1,247**	1,086
Non-broadband	**189**	273
Corporate	**329**	327
	1,765	1,686

The Group has no material overseas operations, as a result a split of revenue and total assets by geographical location has not been disclosed. The Group entered into an agreement to sell its operations in Belgium and Ireland on 31 March 2010 and 19 April 2010 respectively. These operations contributed revenue of £16m in the year ended 31 March 2010 to the non-broadband channel.

3. Profit before interest and taxation

Group profit before interest and taxation is stated after charging:

	2011 £m	2010 £m
Depreciation of property, plant and equipment	**57**	46
Amortisation of acquisition intangibles	**62**	83
Amortisation of operating intangible fixed assets	**26**	24
Impairment of property, plant and equipment	**3**	1
Impairment of operating intangible fixed assets	**4**	4
Impairment loss recognised on trade receivables	**33**	25
Share-based payments	**4**	4
Staff costs, excluding share-based payments	**154**	164
Cost of inventories recognised in expenses	**19**	20
Rentals under operating leases – property	**9**	6
Rentals under operating leases – other	**57**	40

4. Employee costs

The average number of employees (including Executive Directors) was:

	2011 Number	2010 Number
Administration	**1,988**	2,346
Sales and customer management	**2,089**	2,226
	4,077	4,572

The aggregate remuneration recognised in respect of these employees in the income statement comprised:

	2011 £m	2010 £m
Wages and salaries	**135**	145
Social security costs	**16**	16
Other pension costs (note 26)	**3**	3
	154	164
Share-based payments (note 5)	**4**	4
	158	168

Compensation earned by Key Management is analysed below. The Key Management Personnel comprised the TalkTalk Group Executive Board and Board of Directors in the current year and the TalkTalk Group Executive Board and an allocation of the CPW Directors in the prior year.

	2011 £m	2010 £m
Salaries and fees	**3.4**	2.0
Performance bonuses	**2.4**	2.5
Benefits	**0.1**	0.1
Pension costs	**0.2**	0.2
Share-based payments	**2.3**	1.5
	8.4	6.3

Notes to the consolidated financial statements
continued

5. Share-based payments

The Group issues equity settled share-based payments to certain employees through the schemes set out in the analysis below.

The Group's share schemes are the Discretionary Share Option Plan ('DSOP'), Value Enhancement Scheme ('VES') and Save-As-You-Earn scheme ('SAYE'). These schemes are disclosed within section (a) of this note to the accounts.

In addition, the Group has a number of legacy Carphone Warehouse Group schemes which are disclosed within section (b) of this note to the accounts.

The Group recognised a charge of £4m in the year ended 31 March 2011 (2010 : £4m) in respect of equity settled share-based payments. In the prior year a charge of £3m was taken directly to reserves in respect of the CPW TTG VES as part of the demerger accounting.

In order to aid the user of the accounts, the dilutive effect of each of the TalkTalk Group schemes and legacy schemes has been presented. This has been calculated using an average share price for the financial year of £1.38 (2010 : £1.27).

(a) TalkTalk Telecom Group PLC schemes

During the year the Group introduced the following two schemes:

(i) The DSOP. The scheme uses share options to provide long-term incentives to senior management. Awards made under the DSOP are subject to TSR performance targets and are measured over an initial performance period to 29 March 2013, and a subsequent performance period to 29 March 2014. Options are forfeited if an employee leaves the Group before the options vest.

(ii) The SAYE share option scheme. The scheme permits the granting of options to employees linked to a bank SAYE contract for a term of three or five years. Contributions from UK employees range from £5 to £250 and Ireland employees range from €12 to €500 per month. Options may be exercised at the end of the three or five year period at an exercise price of £1.02 per share.

	DSOP		SAYE	
	2011 Number million	**2011 WAEP £**	**2011 Number million**	**2011 WAEP £**
Outstanding at the beginning of the year	–	–	–	–
Granted during the year	29	1.25	8	1.02
Forfeited during the year	(5)	1.27	(1)	1.02
Outstanding at the end of the year	24	1.24	7	1.02
Exercisable at the end of the year	–	–	–	–

	DSOP	SAYE
Weighted average remaining contractual life (years)	9.0	3.1
Dilutive effect (millions)	0.5	0.6
Valuation method	Monte Carlo	Black Scholes
Share price (pence)	132	124
Exercise price (pence)	127	102
Expected volatility	37.4%	42.4%
Expected exercise (years)*	6.5	3.7
Risk free rate*	3.4%	1.9%
Expected dividend yield	3.8%	3.7%
Fair value of options granted (£m)	9m	3m

* The difference in the schemes reflects the timing of expected exercise date.

No options were exercisable either during the year or at the year end. Of the DSOP options granted 472,000 were nil priced.

TTG VES

The TTG VES enables participants to share in up to 7% of any increase in the value of the Group over an opening valuation representing invested capital at 1 April 2009, adjusted as relevant for changes in invested capital since that date. The incremental value is measured after a minimum annual rate of return of 7% on this invested capital. The Group advanced loans to participants to enable them to purchase A shares in TalkTalk Group Limited, the holding company of the Group's operating business. The Group has an obligation to acquire these shares if performance conditions are met, to provide to participants the share of value described above. These performance conditions are measured over an initial performance period to September 2012, at which point participants have a put option over 60% of their shares, and a subsequent performance period to September 2013, at which point participants have a put option over the remainder of their shares. If the performance criteria are not met, the A shares will have no value.

The TTG VES has a potentially dilutive effect of 22 million shares (2010 : 28 million shares), which has been included in the diluted EPS calculation.

The fair value of the schemes, which has performance targets based on the growth of the market capitalisation of the Group, was estimated at the date of grant using a Monte Carlo model to initially value the A shares and then a Black Scholes model to calculate the option value. The model combines the valuation price of a share at the date of grant with the probability of meeting performance criteria, based on the expected value of the Group at the date of grant discounted for the lack of marketability of the shares.

The following assumptions were used in the Monte Carlo model for the A shares awarded in the year:

- volatility of 22%;
- a risk free rate ranging from 0.5% to 2.7%; and
- a dividend yield of between 0% and 5% in each of the three years to September 2013.

The following assumptions were used in the Black Scholes model for the A shares awarded in the year:

- equity volatility of 149.9% and 139.0% for September 2012 and September 2013 options respectively;
- a risk free rate of 1.9% and 2.3% for September 2012 and September 2013 options respectively; and
- a dividend yield of nil.

(b) Legacy Carphone Warehouse schemes

CPW TTG VES

The CPW TTG VES enables participants to share in up to 2.24% of any increase in the value of the Group over an opening valuation representing invested capital at 1 April 2009, adjusted as relevant for changes in invested capital since that date. The incremental value is measured after a minimum annual rate of return of 7% on this invested capital. The value of the CPW TTG VES pool is adjusted on vesting for any change in the value of the Group's share price from the date on which the shares were issued. The Group's opening share price for this purpose represents an allocation of the share price of CPW at that date, based on the market capitalisations of the Group and Carphone Warehouse Group plc in the 5 days following demerger. CPW advanced loans to participants to enable them to purchase C shares in TalkTalk Group Limited, the holding company of the Group's operating businesses. The Group has an obligation to acquire these shares if certain performance conditions are met, to provide to participants the share of value described above. These performance conditions are measured over an initial performance period to September 2012, at which point participants have a put option over 60% of their shares, and a subsequent performance period to September 2013, at which point participants have a put option over the remainder of their shares. If the performance criteria are not met, the C shares will have no value.

The CPW TTG VES has a potentially dilutive effect of 11 million shares (2010 : 10 million shares), which has been included in the diluted EPS calculations.

The fair value of the CPW TTG VES C shares was calculated using the same assumptions as for the TTG VES A shares, see above.

The below table summarise the other legacy CPW schemes. The prior year WAEP used throughout this analysis is that of the share-based payments as adjusted to reflect the relative value of the Group within CPW at demerger. The prior year WAEP is therefore not necessarily representative of the WAEP that might apply on an ongoing basis.

Notes to the consolidated financial statements
continued

5. Share-based payments (continued)

Performance share plan[1]

	2011 Number million	2011 WAEP £	2010 Number million	2010 WAEP £
Outstanding at the beginning of the year	**13**	**–**	22	–
Forfeited during the year	**(8)**	**–**	(2)	–
Exercised during the year	**(1)**	**–**	(7)	–
Outstanding at the end of the year	**4**	**–**	13	–
Exercisable at the end of the year	**4**	**–**	6	–
Weighted average contract life (years)	**4.4**		6.6	
Options exercised in the year weighted average market price (£)	**1.36**		1.11	
Dilutive effect (millions)	**5.6**		5.9	

ESOS[2]

	2011 Number million	2011 WAEP £	2010 Number million	2010 WAEP £
Outstanding at the beginning of the year	**5**	**0.78**	8	0.60
Exercised during the year	**(2)**	**1.05**	(3)	0.55
Outstanding at the end of the year	**3**	**0.53**	5	0.66
Exercisable at the end of the year	**3**	**0.53**	5	0.66
Weighted average contract life (years)	**1.6**		1.7	
Options exercised in the year weighted average market price (£)	**1.35**		1.13	
Dilutive effect (millions)	**2.4**		2.1	

Other employee share option schemes[3]

	2011 Number million	2011 WAEP £	2010 Number million	2010 WAEP £
Outstanding at the beginning of the year	7	0.51	9	0.63
Forfeited during the year	–	–	(2)	–
Exercised during the year	(4)	0.51	–	–
Outstanding at the end of the year	3	0.51	7	0.51
Exercisable at the end of the year	3	0.51	–	–
Weighted average contract life (years)	7.7		8.7	
Options exercised in the year weighted average market price (£)	1.28		1.10	
Dilutive effect (millions)	3.5		4.3	
Total dilutive effect of legacy schemes	11.5		12.3	

(1) For awards made in July 2004 these performance conditions have been met and the options vested. For awards made in the years ended 31 March 2007 and 31 March 2008 the performance conditions were not met and lapsed during the year.
(2) The ESOS options have already vested. If the options remain unexercised after a period of ten years from the date of grant, the options expire. The options analysis includes 2 million (2010 : 3 million) options that were granted before 7 November 2002. In accordance with IFRS2 'Share-based payment', no cost has been recognised in respect of these options.
(3) These awards are subject to initial performance conditions, principally in relation to earnings and cash generation, over a period to March 2010. These options have all vested.

Share gift

In December 2008, 3.6 million shares were gifted by Carphone Warehouse's Employee Benefit Trust to certain senior employees of the Carphone Warehouse Group. The shares were restricted until 30 June 2010, when all performance criteria were achieved.

Notes to the consolidated financial statements
continued

6. Finance costs and investment revenue

Finance costs are analysed as follows:

	2011 £m	2010 £m
Interest on bank loans and overdrafts	**13**	7
Facility fees and similar charges	**3**	1
Unwinding of discount on provisions	**2**	2
Demerger fees (note 9)	**–**	1
	18	11

Investment revenue is analysed as follows:

	2011 £m	2010 £m
Interest on loans to related parties	**–**	5
Other interest receivable	**–**	1
	–	6

Loans to Carphone Warehouse Group plc were settled as part of the demerger (note 28).

7. Taxation

The tax charge comprises:

	2011 £m	2010 £m
Current tax:		
UK Corporation tax	**–**	13
Overseas tax	**–**	1
	–	14
Adjustments in respect of prior years:		
UK Corporation tax	**(18)**	(2)
Total current tax	**(18)**	12
Deferred tax:		
Origination and reversal of timing differences	**18**	5
Effect of change in tax rate	**9**	–
Adjustments in respect of prior years – reclassification from current tax	**18**	–
Adjustments in respect of prior years – deferred tax recognised	**(5)**	(3)
Total deferred tax	**40**	2
Total tax charge	**22**	14

The tax charge on Headline earnings for the year ended 31 March 2011 is £52m (2010 : £41m) representing an effective tax rate on pre-tax profits of 30% (2010 : 28%). The tax charge on Statutory earnings for the year ended 31 March 2011 is £22m (2010 : £14m). The reconciliation between the Headline and Statutory tax charge is shown in note 9.

There has been a reclassification of £18m (2010 : nil) in the year from current tax to deferred tax to better reflect expected utilisation of losses.

The principal differences between the tax charge and the amount calculated by applying the standard rate of UK corporation tax of 28% (2010 : 28%) to the profit before tax are as follows:

	2011 £m	2010 £m
Profit before tax	**57**	11
Tax at 28% (2010 : 28%)	**16**	3
Items attracting no tax relief or liability	**2**	16
Effect of change in tax rate	**9**	–
Adjustments in respect of prior years	**(5)**	(5)
Total tax charge through income statement	**22**	14

Tax on items recognised directly in retained earnings and other reserves are as follows:

	2011 £m	2010 £m
Deferred tax (credit) charge	**(2)**	1
Total tax charge through retained earnings and other reserves	**20**	15

The movement for both the year ended 31 March 2011 and 31 March 2010 relates to share-based payments.

The deferred tax assets recognised by the Group and movements thereon during the year are as follows:

	Share-based payments	Timing differences on capitalised costs	Tax losses	Timing differences on acquisition intangibles	Other timing differences	Total
	£m	£m	£m	£m	£m	£m
At 1 April 2010	2	85	85	(19)	2	155
(Charge) credit to the income statement	(1)	(9)	(40)	8	2	(40)
Credit to reserves	2	–	–	–	–	2
Acquisition of subsidiaries	–	–	–	(1)	–	(1)
At 31 March 2011	**3**	**76**	**45**	**(12)**	**4**	**116**

	Share-based payments	Timing differences on capitalised costs	Tax losses	Timing differences on acquisition intangibles	Other timing differences	Total
	£m	£m	£m	£m	£m	£m
At 1 April 2009	2	29	74	3	–	108
Credit (charge) to the income statement	1	14	(24)	5	2	(2)
Charge to reserves	(1)	–	–	–	–	(1)
Acquisition of subsidiaries	–	42	35	(27)	–	50
At 31 March 2010	2	85	85	(19)	2	155

No deferred tax assets and liabilities have been offset in either year, except where there is a legal right to do so in the relevant jurisdictions.

During the year two reductions in the UK Statutory rate of Corporation tax were enacted bringing the rate down from 28% to 26%. Accordingly the tax assets and liabilities recognised at 31 March 2011 take account of these changes. This has resulted in a tax charge to the Income statement as the value of the Group's tax assets has been reduced.

Notes to the consolidated financial statements
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7. Taxation (continued)

At 31 March 2011, the Group had unused tax losses of £1,016m (2010 : £957m) available for offset against future taxable profits. A deferred tax asset of £45m (2010 : £85m) has been recognised in respect of £173m (2010 : £304m) of such losses, based on expectations of recovery in the foreseeable future.

No deferred tax asset has been recognised in respect of the remaining £843m (2010 : £653m) as there is insufficient evidence that there will be suitable taxable profits against which these losses can be recovered. All losses may be carried forward indefinitely.

8. Dividends

The following dividends were paid by the Group to its Shareholders:

	2011 £m	2010 £m
Ordinary dividends		
Interim dividend for the year ended 31 March 2011 of 1.70p per ordinary share	15	–
Final dividend for the year ended 31 March 2009 of 3.00p per ordinary share	–	27
Interim dividend for the year ended 31 March 2010 of 1.45p per ordinary share	–	13
Total ordinary dividends	15	40
Special dividends relating to the demerger		
Special interim dividend for the year ended 31 March 2010 of 3.20p per ordinary share	–	29
Demerger dividend for the year ended 31 March 2010 of 19.88p per ordinary share	–	182
Total special dividends	–	211
Total dividends paid	15	251

The final dividend for the year ended 31 March 2011 is 3.90p per ordinary share on approximately 909 million shares (£35m), which was approved by the Board on 18 May 2011 and has not been included as a liability as at 31 March 2011.

In the prior year the ordinary dividends were paid by CPW to its Shareholders.

The special interim dividends of £29m were paid by CPW to its Shareholders. The demerger dividends of £182m were paid by CPW to Carphone Warehouse Group plc as part of the demerger transaction.

The Group ESOT has waived its rights to receive dividends in the current and prior year and this is reflected in the analysis above.

9. Reconciliation of Headline information to Statutory information

	EBITDA	Profit before interest and tax	Profit before tax	Profit for the year
Year ended 31 March 2011	£m	£m	£m	£m
Headline results	276	192	174	122
Exceptional items – Operating expenses (a)	(12)	(12)	(12)	(9)
Exceptional items – Operating expenses (b)	(36)	(36)	(36)	(28)
Exceptional items – Depreciation (b)	–	(3)	(3)	(2)
Exceptional items – Amortisation (b)	–	(4)	(4)	(3)
Amortisation of acquisition intangibles (d)	–	(62)	(62)	(45)
Statutory results	228	75	57	35

Year ended 31 March 2010	EBITDA £m	Profit before interest and tax £m	Profit before tax £m	Profit for the year £m
Headline results	221	151	147	106
Exceptional items – Operating expenses (b)	(29)	(29)	(29)	(24)
Exceptional items – Operating expenses (c)	(18)	(18)	(18)	(17)
Exceptional items – Depreciation (b)	–	(1)	(1)	(1)
Exceptional items – Amortisation (b)	–	(4)	(4)	(3)
Amortisation of acquisition intangibles (d)	–	(83)	(83)	(63)
Exceptional items – Interest (c)	–	–	(1)	(1)
Statutory results	174	16	11	(3)

Headline information is provided because the Directors consider that it provides assistance in understanding underlying performance.

(a) Operating efficiencies

On 26 January 2011, a major restructure of the Group was announced to integrate technology and IT capabilities and consolidate back office functions. The reorganisation will principally result in a reduction in headcount. Operating reorganisation costs of £12m were incurred during the year ended 31 March 2011, principally comprising redundancies and consulting costs.

A total taxation credit of £3m has been recognised in respect of these costs.

(b) One Company integration

The One Company integration was implemented during the prior year following the acquisition of Tiscali UK on 3 July 2009. The Group revisited its overall operating structure in order to both integrate the Tiscali business and deliver efficiencies in existing operations. The program generated significant synergies, through the elimination of duplicated costs and migration of customers onto the Group's unbundled network.

The program included network integration costs related to the termination of contracts, and the write down of associated assets principally, of backhaul circuits. This comprised both those acquired with the Tiscali business and those previously contracted for by the Group prior to its acquisition of Tiscali. These contracts were terminated as it was necessary to replace the previous backhaul solutions in order to provide one combined backhaul solution for the Group and to create a higher capacity network.

Operating reorganisation costs of £40m were incurred during the year ended 31 March 2011, principally comprising redundancies and site closures, an integration project team and consulting costs (2010 : £29m). Costs of £7m were incurred in respect of redundant software and fixed asset write downs (2010 : £5m).

A total taxation credit of £10m has been recognised in respect of these costs (2010 : £6m).

A credit of £4m has been recognised in respect of recycling of Translation reserves in relation to legal entities which have been liquidated. No taxation has been recognised in respect of this credit.

(c) Demerger and other separation costs

During the year ended 31 March 2010, the Carphone Warehouse demerged the Company and it was separately listed on the London Stock Exchange. The separation required substantial costs to be incurred, both for managing the process internally, for meeting the external requirements for a company to list and for separating from IT activities managed by CPW. Operating costs of £18m and banking fees of £1m were incurred. A taxation credit of £1m was recognised in respect of these costs.

(d) Amortisation of acquisition intangibles

A tax credit at 28% has been recognised in all periods in respect of the amortisation of acquisition intangibles, net of any adjustments in respect of prior periods, this was £17m for the year ended 31 March 2011 (2010 : £20m).

Notes to the consolidated financial statements
continued

10. Earnings per share

Basic and diluted earnings per ordinary share have been calculated in accordance with IAS 33 'Earnings per share'. EPS is shown on both a Headline and Statutory basis to assist in the understanding of the underlying performance of the Group.

	2011 £m	2010 £m
Headline earnings (note 9)	**122**	106
Statutory earnings	**35**	(3)
Weighted average number of shares (millions):		
Shares in issue	**914**	914
Less weighted average holdings by Group ESOT	**(7)**	(16)
For basic EPS	**907**	898
Dilutive effect of share options	**45**	50
For diluted EPS	**952**	948

	2011 pence	2010 pence
Basic earnings (loss) per share		
Headline	**13.5**	11.8
Statutory	**3.9**	(0.3)

	2011 pence	2010 pence
Diluted earnings (loss) per share		
Headline	**12.8**	11.2
Statutory	**3.7**	(0.3)

In the prior year the Group did not exist in the form that arose on demerger, the average actual shares in issue during the prior year do not provide a meaningful basis for calculating EPS. The prior year EPS has therefore been calculated based on the number of CPW shares in issue until demerger, the number of the Company's shares in issue from that date, and the shareholding of the Group ESOT during the prior year.

Diluted EPS has been calculated based on options held over CPW shares during these years and the Group's proportion of the CPW share price over that period.

The number of shares that could be issued but that are not considered to be dilutive at 31 March 2011 is 27 million (2010 : 7 million).

11. Goodwill and other intangible assets

(a) Goodwill

	2011 £m	2010 *As restated £m
Opening net book value	**470**	304
Acquisition of subsidiaries (note 13)	**3**	166
Disposals (note 13)	**(2)**	–
Closing net book value	**471**	470

The goodwill acquired in business combinations is allocated at acquisition to the CGUs that are expected to benefit from that business combination. The Group has two CGUs – Residential and Corporate. The Group's shared costs and assets relating mainly to infrastructure and central overheads are allocated across the two CGUs based on relative size of the value in use of the CGU. The allocation of goodwill across the CGUs is as follows:

	2011 £m	2010 *As restated £m
Residential	**337**	338
Corporate	**134**	132
	471	470

* The prior year balance sheet has been restated to reflect the finalisation of the Tiscali UK and UK Telco acquisition purchase prices (note 29).

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. This review is performed at a CGU level.

The recoverable amounts of the CGUs are determined from value in use calculations. The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the Board or Management for the next three years and extrapolates cash flows out for the following 17 years. The key assumptions used are as follows:

- **Long-term growth rates**
  Long-term revenue growth rates applied are based on the growth rate for the UK per the OECD. The rate applied in the current year was 1.8% (2010 : 1.8%).
- **Discount rate**
  The underlying discount rate for each CGU is based on the UK ten-year gilt rate adjusted for an equity risk premium and the systematic risk of the CGU. The average pre-tax rate for both CGUs used to discount the forecast cash flows is 9.1% (2010 : 8.8%). The assumptions used in the calculation of the CGU's discount rate are benchmarked to externally available data. The same discount rate has been applied to both CGUs due to the similarity of risk factors and geographical location.
- **Capital expenditure**
  Forecast capital expenditure is based on senior management expectations of required future investment in the network and current run rate of expenditure.
- **Customer factors**
  The key assumptions for the forecast cash flows of each of the CGUs are based on expected customer growth rates, ARPU, direct costs including acquisition costs and change in product mix. The value assigned to each of these assumptions has been determined based on the extrapolation of historical trends in the Group and external information on expected trends of future market developments.

Sensitivity to changes in assumptions
Sensitivity analysis has been performed for each key assumption and the Directors have not identified any reasonably possible material changes in the key assumptions that would cause the carrying value of goodwill to exceed the recoverable amount.

Notes to the consolidated financial statements
continued

11. Goodwill and other intangible assets (continued)

(b) Other intangible assets

Other intangible assets are analysed as follows:

	Operating intangibles £m	Acquisition intangibles £m	Total other intangibles £m
Opening balance at 1 April 2010	126	190	316
Additions	28	3	31
Amortisation	(26)	(62)	(88)
Impairment charges	(4)	–	(4)
Closing balance at 31 March 2011	**124**	**131**	**255**
Cost (gross carrying amount)	207	328	535
Accumulated amortisation	(83)	(197)	(280)
Closing balance at 31 March 2011	**124**	**131**	**255**

	Operating intangibles £m	Acquisition intangibles £m	Total other intangibles £m
Opening balance at 1 April 2009	114	176	290
Additions	35	–	35
Acquisition of subsidiaries	5	97	102
Amortisation	(24)	(83)	(107)
Impairment charges	(4)	–	(4)
Closing balance at 31 March 2010	126	190	316
Cost (gross carrying amount)	179	333	512
Accumulated amortisation	(53)	(143)	(196)
Closing balance at 31 March 2010	126	190	316

Operating intangibles includes internally generated assets of net book value £5m (2010 : £6m), which are amortised over a period of up to five years.

Included within Operating intangibles are the following assets which are material to the Group:

- TRIO, the customer billing system, which has a net book value of £91m (2010 : £86m). TRIO is amortised over a period of up to eight years depending on the release date of relevant component. The weighted average remaining useful economic life of the components of TRIO is six years.

Acquisition intangibles are removed from cost in the analysis above once fully amortised.

Acquisition intangibles are analysed as follows:

	Customer bases	Customer revenue share agreements	Other	Total
	£m	£m	£m	£m
Opening balance at 1 April 2010	188	–	2	190
Acquisition of subsidiaries	3	–	–	3
Amortisation	(60)	–	(2)	(62)
Closing balance at 31 March 2011	**131**	**–**	**–**	**131**
Cost (gross carrying amount)	328	–	–	328
Accumulated amortisation	(197)	–	–	(197)
Closing balance at 31 March 2011	**131**	**–**	**–**	**131**

	Customer bases	Customer revenue share agreements	Other	Total
	£m	£m	£m	£m
Opening balance at 1 April 2009	164	9	3	176
Acquisition of subsidiaries	92	–	5	97
Amortisation	(68)	(9)	(6)	(83)
Closing balance at 31 March 2010	188	–	2	190
Cost (gross carrying amount)	328	–	5	333
Accumulated amortisation	(140)	–	(3)	(143)
Closing balance at 31 March 2010	188	–	2	190

Customer bases relate primarily to the AOL UK internet access business which was acquired in December 2006 and the Tiscali UK internet access business which was acquired in July 2009. The valuation of customer bases is derived from the discounted future cash flows expected from them, after a deduction for contributory assets.

Customer revenue share agreements arose on the acquisition of AOL's UK internet access business, and represent rights, subject to performance criteria, to a share of transactional revenues generated by AOL access customers and customers on AOL sites. The valuation of these rights was again derived from the discounted future cash flows expected from the agreement, after a deduction for contributory assets.

Other acquisition intangibles primarily represents licences to continue to use the AOL and Tiscali brands, valued using the relief from royalty method.

Included within Acquisition intangibles are the following assets which are material to the Group and their remaining useful economic life at 31 March 2011:

- AOL broadband customer base which has a net book value of £69m (2010 : £107m) and a remaining useful economic life of 22 months (2010 : 34 months); and
- Tiscali customer base which has a net book value of £59m (2010 : £77m) and a remaining useful economic life of 39 months (2010 : 51 months).

Acquisition intangibles are removed from cost in the analysis above once fully amortised.

Notes to the consolidated financial statements
continued

12. Property, plant and equipment

	Leasehold improvements	Network equipment and computer hardware	Fixtures and fittings	Total
	£m	**£m**	**£m**	**£m**
Opening balance at 1 April 2010	7	254	1	262
Additions	–	87	1	88
Depreciation	(1)	(55)	(1)	(57)
Impairment charges	–	(3)	–	(3)
Closing balance at 31 March 2011	**6**	**283**	**1**	**290**
Cost (gross carrying amount)	6	442	6	454
Accumulated depreciation and impairment charges	–	(159)	(5)	(164)
Closing balance at 31 March 2011	**6**	**283**	**1**	**290**

	Leasehold improvements	Network equipment and computer hardware	Fixtures and fittings	Total
	£m	£m	£m	£m
Opening balance at 1 April 2009	3	215	1	219
Additions	5	61	1	67
Acquisition of subsidiaries	–	24	–	24
Disposals	–	(1)	–	(1)
Depreciation	(1)	(45)	(1)	(47)
Closing balance at 31 March 2010	7	254	1	262
Cost (gross carrying amount)	8	394	2	404
Accumulated depreciation and impairment charges	(1)	(140)	(1)	(142)
Closing balance at 31 March 2010	7	254	1	262

13. Non-current asset investments

	£m
Cost and net book value at 1 April 2009, 31 March 2010 and 31 March 2011	**1**

Non-current asset investments at 31 March 2011 and at 31 March 2010 relate to a 11.3% interest in Shared Band Limited, a telecommunications technology provider. The Group holds a strategic, non-controlling interest. These shares are not held for trading and accordingly are classified as available for sale. The fair value of the shares is based on cost less any provision for impairment, as the shares are not listed on an exchange, and therefore a market price cannot be reliably measured.

(a) Principal Group investments

The Group has investments in the following subsidiary undertakings, which principally affected the profits or losses or net assets of the Group. To avoid a statement of excessive length, details of investments which are not significant have been omitted. All holdings are in equity share capital and give the Group an effective holding of 100% on consolidation.

Name	Country of incorporation or registration	Nature of business
TalkTalk Group Limited	England and Wales	Holding company
TalkTalk Telecom Holdings Limited*	England and Wales	Holding company
TalkTalk Communications Limited (formerly Opal Telecommunications Limited)	England and Wales	Telecommunications
Onetel Telecommunications Limited	England and Wales	Telecommunications
TalkTalk Telecom Limited	England and Wales	Telecommunications
TalkTalk Direct Limited	England and Wales	Telecommunications
TalkTalk UK Communication Services Limited	England and Wales	Telecommunications
GIS Telecoms Limited	England and Wales	Telecommunications
CPW Network Services Limited	England and Wales	Telecommunications
Tiscali UK Limited	England and Wales	Telecommunications

* Directly held by the Company.

As part of the One Company integration, the Group's subsidiaries have been reduced from 67 to 39 in the year. These 28 subsidiaries were either liquidated, merged or sold. This includes nine overseas entities.

(b) Acquisitions and disposals

(i) Tiscali UK
On 3 July 2009, the Group acquired the entire issued share capital of Tiscali UK for a gross cash consideration of £238m, comprising £236m of cash consideration and £2m of fees. On 2 August 2010 a net adjustment in respect of working capital and customer numbers was agreed between the Group and Tiscali S.p.A. This resulted in an adjustment to goodwill of £14m. The carrying value of goodwill in the prior year has been restated to £162m in line with the requirements of IAS 1 'Presentation of financial statements' (see note 29). There have been no subsequent changes to the fair value adjustments disclosed in the Non-Statutory financial statements for the year ended 31 March 2010.

There were net cash inflows of £14m in the year ended 31 March 2011 in respect of the settlement of the adjustment to the consideration. Net cash outflows in the year ended 31 March 2010 comprised gross cash consideration of £238m offset by £3m of cash acquired.

(ii) Other acquisitions
The Group acquired Opal 2CCH Limited (formerly '2 Circles Communications Holdings Limited') and Southern Communications Limited for cash consideration net of cash acquired of £2m and deferred consideration of £2m, which resulted in acquisition intangibles of £2m and goodwill of £3m. The impact of these acquisitions on the results of the Group for the year ended 31 March 2011 had the businesses been acquired on 31 March 2010, is immaterial. The Group has recognised a gain of £1m within its income statement in respect of the increase in fair value of the equity interest held in Opal 2CCH Limited at the acquisition date. The goodwill of £3m was recognised relating to the future opportunities arising from the nature of the businesses and fit with the Group's existing operations.

The Group paid cash consideration of £1m in respect of V Networks Limited deferred consideration and dealer buyouts which resulted in goodwill and acquisition intangibles of £1m.

In the year ended 31 March 2010, the Group acquired UK Telco Limited for cash consideration of £5m and deferred consideration of £1m (as restated), which resulted in acquisition intangibles of £2m and goodwill of £4m (as restated). The £1m deferred consideration was paid in the year ended 31 March 2011. The impact of this acquisition on the results of the Group for the year ended 31 March 2010, and had the business been acquired on 31 March 2009, were immaterial. The goodwill of £4m was recognised relating to the future opportunities arising from the nature of UK Telco (GB) Limited's business and fit with the Group's existing operations.

(iii) Disposals
On 19 April 2010 the Group entered into an agreement to sell its operations in Ireland for a consideration of £4m. The profit on sale of the business has been offset by the impairment of goodwill recognised on the acquisition of Tele2 Ireland in 2006 of £2m and closure costs for the business of £2m, resulting in nil profit or loss on disposal.

Notes to the consolidated financial statements
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14. Interest in joint venture

On 10 September 2010 the Group entered into a joint venture agreement with The British Broadcasting Corporation, ITV Broadcasting Limited, British Telecom PLC, Channel Four Television Corporation, Arqiva Limited and Channel 5 Broadcasting Limited to form YouView TV Limited (formerly Canvas Pro Tem Limited). The Group holds 14.3% of the ordinary share capital of YouView TV Limited. The joint venture has been set up in order to develop a new free-to-air internet-connected TV service to UK homes in 2012. The table below sets out the net additions in the year.

	Net assets £m
Opening balance at 1 April 2010	–
Initial recognition of investment	–
Additions	5
Share of results	(1)
Closing balance at 31 March 2011	**4**

The Group's share of the results, assets and liabilities of its joint venture are as follows:

Group share of results of joint venture	2011 £m	2010 £m
Revenue	**–**	–
Expenses	**(1)**	–
Loss before taxation	**(1)**	–
Taxation	**–**	–
Loss after taxation	**(1)**	–

Group share of net assets of joint venture	2011 £m	2010 £m
Non-current assets	**3**	–
Cash and overdrafts (net)	**2**	–
Other liabilities	**(1)**	–
Net assets	**4**	–

At 31 March 2011 the Group had committed to pay £14m to YouView TV Limited payable over the three year period to 31 March 2014.

15. Inventories

	2011 £m	2010 £m
Goods for resale	**3**	2

The difference between the balance sheet value of inventory and its replacement cost is considered by the Directors not to be material.

16. Trade and other receivables

Trade and other receivables comprise:

	2011 £m	2010 *As restated £m
Current – trade and other receivables		
Trade receivables – gross	**109**	160
Less provision for impairment	**(31)**	(37)
Trade receivables – net	**78**	123
Other receivables	**44**	31
Prepayments and accrued income	**33**	26
Trade and other receivables	**155**	180
Loans to related parties	**2**	3
	157	183

* The prior year balance sheet has been restated to reflect the finalisation of the Tiscali UK acquisition purchase price (note 29).

The Directors estimate that the carrying amount of trade receivables approximates to their fair value.

Loans to related parties at 31 March 2011 comprise a loan to Future Office Communications Limited (2010 : Opal 2CCH Limited and Ecocall Limited), an associated company of the Group.

The average credit period taken on trade receivables, calculated by reference to the amount owed at the year end as a proportion of total revenue in the year, adjusted to take account of the timing of acquisitions, was 19 days (2010 : 29 days).

The Group's trade receivables are denominated in the following currencies:

	2011 £m	2010 £m
UK Sterling	**102**	150
Other	**7**	10
	109	160

The ageing of gross trade receivables is as follows:

	2011 £m	2010 £m
Not yet due	**59**	102
0 to 2 months	**20**	22
2 to 4 months	**10**	8
Over 4 months	**20**	28
	109	160

The ageing of the provision for impairment of trade receivables is as follows:

	2011 £m	2010 £m
Not yet due	**(3)**	(2)
0 to 2 months	**(5)**	(7)
2 to 4 months	**(6)**	(6)
Over 4 months	**(17)**	(22)
	(31)	(37)

Notes to the consolidated financial statements
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16. Trade and other receivables (continued)

Movements in the provisions for impairment of trade receivables are as follows:

	2011 £m	2010 £m
Opening balance	**(37)**	(19)
Charged to the income statement	**(33)**	(25)
Receivables written off as irrecoverable	**39**	23
Acquisition of subsidiaries	**–**	(16)
	(31)	(37)

Trade receivables of £22m (2010 : £23m) were past due but not impaired. These balances primarily relate to Residential and Corporate fixed line customers. The Group has made provisions based on historical rates of recoverability and all unprovided amounts are considered to be recoverable. The ageing analysis of these trade receivables is as follows:

	2011 £m	2010 £m
Not yet due	**–**	–
0 to 2 months	**15**	15
2 to 4 months	**4**	2
Over 4 months	**3**	6
	22	23

17. Trade and other payables

	2011 £m	2010 *As restated £m
Trade payables	**112**	115
Other taxes and social security costs	**33**	26
Other payables	**34**	23
Accruals and deferred income	**197**	236
	376	400

* The prior year balance sheet has been restated to reflect the finalisation of the UK Telco acquisition purchase price (note 29).

The average credit period taken on trade payables, calculated by reference to the amounts owed at the balance sheet date as a proportion of the amounts invoiced by suppliers in the year, adjusted to take account of the timing of acquisitions, was 24 days (2010 : 25 days).

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

18. Cash and cash equivalents, loans and other borrowings

(a) Cash and cash equivalents are as follows:

	2011 £m	2010 £m
Cash at bank and in hand	**1**	1

The effective interest rate on bank deposits and money market funds was 0.6% (2010 : 0.4%).

b) Loans and other borrowings comprise:

	2011 £m	2010 £m
Current		
Bank overdrafts	**9**	9
Other uncommitted bank loans	**35**	10
	44	19

	Maturity	2011 £m	2010 £m
Non-current			
£100m term loan	2015	**100**	100
£550m revolving credit facility	2013	**295**	390
		395	490

Details of the current and non-current borrowing facilities of the Group for the year are set out below.

Bank overdrafts:
Overdraft facilities are used to assist in short-term cash management; these uncommitted facilities bear interest at a margin over the Bank of England base rate.

£100m term loan:
The Group has a committed Term Loan of £100m, which matures in March 2015. The interest rate payable in respect of drawings under this facility is at a margin over LIBOR for the relevant currency and for the appropriate period. The actual margin applicable to any drawing depends on the ratio of net debt to EBITDA calculated in respect of the most recent accounting period. Covenants included in this facility restrict the ratio of net debt to EBITDA and require minimum levels of interest cover and fixed charges (interest and operating lease expenditure) cover. The Group was in compliance with these covenants at the end of the current and prior year. During the year the final maturity date on the loan was extended from 2013 to 2015.

£550m revolving credit facility (“RCF”):
The Group has a committed RCF of £550m, which matures in March 2013. The interest rate payable in respect of drawings under this facility is at a margin over LIBOR for the relevant currency and for the appropriate period. The actual margin applicable to any drawing depends on the ratio of net debt to EBITDA calculated in respect of the most recent accounting period. Utilisation and non-utilisation fees are payable under this facility. Covenants included in this facility restrict the ratio of net debt to EBITDA and require minimum levels of interest cover and fixed charges (interest and operating lease expenditure) cover. The Group was in compliance with these covenants at the end of the year.

Notes to the consolidated financial statements
continued

18. Cash and cash equivalents, loans and other borrowings (continued)

Borrowing facilities
The Group had undrawn committed borrowing facilities at the end of the year, in respect of which all conditions precedent had been met, as follows:

	Maturity	**2011 £m**	2010 £m
Undrawn available committed facilities	2013	**255**	160

The book value and fair value of the Group's loans and other borrowings, all of which are in Sterling, are as follows:

	2011 £m	2010 £m
Less than 1 year	**44**	19
1 to 2 years	**295**	–
2 to 3 years	**–**	490
3 to 4 years	**100**	–
	439	509

Securities and guarantees
None of the borrowings are secured over Group assets. Although some guarantees are given by Group companies, these guarantees are to cover commercial obligations and, as such, create no additional credit risk.

19. Financial risk management and derivative financial instruments

The book value and fair value of the Group's financial assets, liabilities and derivative financial instruments, excluding the Group's loans and other borrowings shown above, are as follows:

	Book and fair value	
	2011 £m	2010 *As restated £m
Cash and cash equivalents	**1**	1
Trade and other receivables	**155**	180
Non-current investments and investment in joint venture	**5**	1
Trade and other payables	**(376)**	(400)
Loans to related parties	**2**	3

* The prior year balance sheet has been restated to reflect the finalisation of the Tiscali UK and UK Telco acquisition purchase price (note 29).

(a) Financial instruments

The Group's activities exposed it to a variety of financial risks including market risk (such as currency risk and interest rate risk), credit risk and liquidity risk. The Group Treasury function used certain financial instruments to mitigate potential adverse effects on the Group's financial performance from these risks. These financial instruments primarily consisted of bank loans, interest rate swaps and foreign exchange swaps. Other products, such as currency options, can also be used depending on the risks to be covered but have not been used in the current or preceding financial year. The Group does not trade or speculate in any financial instruments.

(b) Embedded derivatives

No contracts with embedded derivatives have been identified and accordingly no such derivatives have been accounted for separately.

(c) Foreign exchange risk

The Group uses forward currency contracts to hedge transactional exposures, which arise mainly through cost of sales and operating expenses, and are primarily denominated in Euro and US dollar. The Group also uses short-term currency swaps for liquidity management. At 31 March 2011, the sterling value of outstanding currency contracts was £23m (2010 : £49m).

Borrowings and foreign exchange contracts are sensitive to movements in foreign exchange rates; this sensitivity can be analysed in comparison to year end rates (adjusted for funding to related parties and assuming all other variables remain constant) as follows:

	2011 £m	2010 £m
10% movement in the UK Sterling/Euro exchange rate		
Income statement movement	**2**	–
Other equity movement	**–**	–

The effect of foreign exchange derivatives on borrowings at the year end was as follows:

	UK Sterling **£m**	Euro **£m**	Other **£m**	Total **£m**
2011				
Borrowings before derivatives	**439**	**–**	**–**	**439**
Derivative	**(23)**	**23**	**–**	**–**
	416	**23**	**–**	**439**

During the year the Group used derivatives for management of foreign currency cash balances held by overseas subsidiaries which were inherited from CPW on demerger.

	UK Sterling £m	Euro £m	Other £m	Total £m
2010				
Borrowings before derivatives	509	–	–	509
Derivative	(41)	38	3	–
	468	38	3	509

(d) Interest rate risk

The Group's interest rate risk arises primarily from cash, cash equivalents and borrowings, all of which are at floating rates of interest and thus expose the Group to cash flow interest rate risk. These floating rates are linked to LIBOR and other interest rate bases as appropriate to the instrument and currency. Future cash flows arising from these financial instruments depend on interest rates and periods for each loan or rollover.

Notes to the consolidated financial statements
continued

19. Financial risk management and derivative financial instruments (continued)

Cash and borrowings, as well as some foreign exchange products, are sensitive to movements in interest rates and such movements have been analysed in the table below by calculating the effect on the income statement and equity of one percentage point movement in the interest rate for the currencies in which most Group cash and borrowings are denominated. Funding to related parties has been offset against gross borrowings in calculating these sensitivities. This annualised analysis has been prepared on the assumption that the year end positions prevail throughout the year, and therefore may not be representative of fluctuations in levels of borrowings.

	2011 £m	2010 £m
1% movement in the UK Sterling interest rate		
Income statement movement	**5**	5
Other equity movement	**–**	–

(e) Liquidity risk

The Group manages its exposure to liquidity risk by regularly reviewing the long and short-term cash flow projections for the business against facilities and other resources available to it. Headroom is assessed based on historical experience as well as by assessing current business risks, including foreign exchange movements. Existing facilities do not expire until March 2013; it is Group policy to refinance debt maturities significantly ahead of maturity dates.

The table below analyses the Group's financial liabilities into relevant maturity groupings. The amounts disclosed in the table are the contractual undiscounted cash flows assuming year end interest rates remain constant and that borrowings are paid in full in the year of maturity.

	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
2011							
Loans and other borrowings	**(54)**	**(305)**	**(3)**	**(103)**	**–**	**–**	**(465)**
Derivative financial instruments – payable	**(23)**	**–**	**–**	**–**	**–**	**–**	**(23)**
Derivative financial instruments – receivable	**23**	**–**	**–**	**–**	**–**	**–**	**23**
Trade and other payables	**(376)**	**–**	**–**	**–**	**–**	**–**	**(376)**

	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total
*As restated	£m	£m	£m	£m	£m	£m	£m
2010							
Loans and other borrowings	(33)	(14)	(504)	–	–	–	(551)
Derivative financial instruments – payable	(49)	–	–	–	–	–	(49)
Derivative financial instruments – receivable	49	–	–	–	–	–	49
Trade and other payables	(400)	–	–	–	–	–	(400)

* The prior year balance sheet has been restated to reflect the finalisation of the UK Telco acquisition purchase price (note 29).

(f) Credit risk

The Group's exposure to credit risk is regularly monitored. Debt, investments, foreign exchange and derivative transactions are all spread amongst a number of banks all of which have short or long-term credit ratings appropriate to the Group's exposures. Trade receivables primarily comprise balances due from Residential and Corporate fixed line customers, and provision is made for any receivables that are considered to be irrecoverable.

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(g) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 18, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 21 to 22.

The Group's Board reviews the capital structure on an annual basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. The Group has a medium-term target gearing ratio of 75% to 100% determined as a proportion of net debt to equity. The gearing ratio at 31 March 2011 of 106% (2010 : 130%) was marginally above the higher end of the target range demonstrating progress towards our medium-term target.

The gearing ratio at the year end is as follows:

	2011 £m	2010 £m
Debt	(439)	(509)
Cash and cash equivalents	1	1
Net debt	(438)	(508)
Equity	415	392
Net debt to equity ratio	106%	130%

20. Provisions

	2011 £m	2010 £m
Operating efficiencies	12	–
One Company integration	10	14
Property	9	9
Contract and other	15	24
	46	47

	2011 £m	2010 £m
Current	32	29
Non-current	14	18
	46	47

Notes to the consolidated financial statements
continued

20. Provisions (continued)

	Operating efficiencies	One Company integration	Property	Contract and other	Total
	£m	£m	£m	£m	£m
2011					
Opening balance	**–**	**14**	**9**	**24**	**47**
Charged to income statement	**12**	**6**	**1**	**–**	**19**
Utilised in the year	**–**	**(10)**	**(2)**	**(10)**	**(22)**
Unwinding of discount	**–**	**–**	**1**	**1**	**2**
	12	**10**	**9**	**15**	**46**

	Operating efficiencies	One Company integration	Property	Contract and other	Total
	£m	£m	£m	£m	£m
2010					
Opening balance	–	6	–	2	8
Charged to income statement	–	11	–	–	11
Acquisition of subsidiaries	–	–	10	41	51
Utilised in the year	–	(3)	(2)	(19)	(24)
Released in the year	–	–	–	(1)	(1)
Unwinding of discount	–	–	1	1	2
	–	14	9	24	47

Provisions are categorised as follows:

(a) Operating efficiencies

Operating efficiencies provisions relate principally to redundancy costs (note 9) and are only recognised where plans are demonstrably committed and where appropriate communication to those affected has been undertaken at the balance sheet date. These provisions are typically expected to be utilised over the 12 months following announcement of the reorganisation.

(b) One Company integration

One Company provisions relate principally to redundancy costs (note 9) and are only recognised where plans are demonstrably committed and where appropriate communication to those affected has been undertaken at the balance sheet date and onerous contract costs, where a decision has been made to exit a contract as part of the One Company reorganisation. These provisions are typically expected to be utilised over the 12 to 24 months.

(c) Property

Property provisions relate to dilapidations and similar property costs, and costs associated with onerous property contracts. All such provisions are assessed by reference to the terms and conditions of the contract and market conditions at the balance sheet date. Property provisions are expected to be utilised over the next nine years.

(d) Contract and other

Contract and other provisions relate to onerous contracts and contracts with unfavourable terms arising on the acquisition of businesses and anticipated costs of unresolved legal disputes. All such provisions are assessed by reference to the best available information at the balance sheet date. Contract and other provisions are expected to be utilised over the next 24 months.

21. Share capital

	2011 million	2010 million	2011 £m	2010 £m
Allotted, called-up and fully paid:				
Ordinary shares of 0.1 pence each	**914**	914	**1**	1

In addition redeemable preference shares of £50,000 were issued as part of the demerger transaction and were redeemed in the year.

22. Reserves

	Share capital	Share premium	Translation reserve	Demerger reserve	Retained earnings and other reserves	Total
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
At 1 April 2010	1	586	(60)	(513)	378	392
Net profit for the year	–	–	–	–	35	35
Exchange differences on translation of foreign operations	–	–	–	–	1	1
Recycling of translation reserve	–	–	(4)	–	–	(4)
Currency translation and cash flow hedges	–	–	(1)	–	–	(1)
Tax on items recognised directly in reserves (note 7)	–	–	–	–	2	2
Settlement of Group ESOT shares	–	–	–	–	1	1
Share-based payments reserve credit (note 5)	–	–	–	–	4	4
Equity dividends	–	–	–	–	(15)	(15)
At 31 March 2011	**1**	**586**	**(65)**	**(513)**	**406**	**415**

	Share capital	Share premium	Translation reserve	Demerger reserve	Retained earnings and other reserves	Total
	£m	£m	£m	£m	£m	£m
At 1 April 2009	–	–	(59)	529	232	702
Net loss for the year	–	–	–	–	(3)	(3)
Currency translation and cash flow hedges	–	–	(1)	–	–	(1)
Tax on items recognised directly in reserves (note 7)	–	–	–	–	(1)	(1)
Issue of share capital	1	986	–	(987)	–	–
Capital reduction	–	(400)	–	–	400	–
Share-based payments reserve credit (note 5)	–	–	–	–	4	4
Share-based payments reserve debit (note 5)	–	–	–	–	(3)	(3)
Equity dividends	–	–	–	–	(251)	(251)
Movement in demerger reserves	–	–	–	(55)	–	(55)
At 31 March 2010	1	586	(60)	(513)	378	392

As explained in note 1, the demerger reserve primarily reflects the profits or losses arising on the transfer of investments and net assets of CPW on demerger.

The ultimate Parent Company of the Group, TalkTalk Telecom Group PLC, was incorporated on 15 December 2009. As discussed in note 1, TalkTalk Telecom Group PLC became the ultimate Parent Company of the Group during the prior year and these financial statements have been prepared as if this structure had been in place throughout the prior year.

On 29 March 2010 the Group became a separately listed entity on the London Stock Exchange, under a court approved scheme of arrangement under part 26 of the Companies Act. Under this scheme the former Parent Company of the Group, CPW was delisted and a new Parent Company incorporated holding A and B shares in CPW. This new Parent Company, TalkTalk Telecom Group PLC, paid a dividend of £182m to Carphone Warehouse Group plc, as part of the scheme of arrangement, representing the book value of the businesses that formed Carphone Warehouse Group plc.

Notes to the consolidated financial statements
continued

22. Reserves (continued)

Both the share capital and share premium in the new company arose as a result of the issuance of new shares in the Group to ordinary Shareholders of CPW. As these shares were issued for nil consideration, both the share capital of £1m and share premium of £986m have been treated as arising from the demerger reserve.

On 29 March 2010 the share premium relating to the ordinary shares was reduced by £400m by way of a court-approved capital reduction. This had the effect of creating distributable reserves which may be released at the discretion (and upon the resolution) of the Board.

The £55m movement in the demerger reserve during the year ended 31 March 2010 arose as a result of the restructuring of CPW. As explained in the prospectus such movements have principally arisen from the allocation of operating expenses and profits arising in companies that form part of the TalkTalk Group after the demerger that related to the business of Carphone Warehouse Group plc, including the impact in 2009 of the Best Buy Europe Joint Venture Transaction, and dividends within CPW.

During the year ended 31 March 2010 equity dividends of £251m were paid. Of this total, £27m represented the ordinary final dividend of CPW for the financial year ended 31 March 2009, £13m represented the ordinary interim dividend of CPW for the financial year ended 31 March 2010, and £29m represented a special interim dividend paid by CPW to its Shareholders prior to demerger. The demerger dividend of £182m was paid by CPW to Carphone Warehouse Group plc as part of the demerger transaction, and represented the book value of assets transferred to Carphone Warehouse Group plc from CPW.

Net purchase of own shares
The TalkTalk Telecom Holdings ESOT held 5 million shares at 31 March 2011 (2010 : 10 million) in the Company for the benefit of CPW former employees. The Group ESOT has waived its rights to receive dividends and none of its shares have been allocated to specific schemes. At the year end the shares had a market value of £7m (2010 : £13m).

23. Analysis of changes in net debt

	Opening	Net cash flow	Exchange movements	Closing
	£m	£m	£m	£m
2011				
Cash and cash equivalents	1	–	–	1
Bank overdrafts	(9)	–	–	(9)
	(8)	–	–	(8)
Current loans and other borrowings	(10)	(25)	–	(35)
Non-current loans and other borrowings	(490)	97	(2)	(395)
	(500)	72	(2)	(430)
Total net debt	(508)	72	(2)	(438)
Loans to related parties	3	(1)	–	2
Total net debt including loans to related parties	(505)	71	(2)	(436)

	Opening	Net cash flow	Exchange movements	Closing
	£m	£m	£m	£m
2010				
Cash and cash equivalents	6	(5)	–	1
Bank overdrafts	(33)	24	–	(9)
	(27)	19	–	(8)
Current loans and other borrowings	–	(10)	–	(10)
Non-current loans and other borrowings	(425)	(65)	–	(490)
	(425)	(75)	–	(500)
Total net debt	(452)	(56)	–	(508)
Loans to related parties	397	(394)	–	3
Total net debt including loans to related parties	(55)	(450)	–	(505)

During the prior year, the Group repaid funding of £425m and drew down £500m on new facilities.

24. Commitments under operating leases

The Group leases network infrastructure and offices under non-cancellable operating leases. The leases have varying terms, purchase options, escalation clauses and renewal rights. There were no leases which were individually significant to the Group.

The Group had outstanding commitments for future minimum payments due as follows:

	2011 £m	2010 £m
Less than 1 year	**38**	34
2 to 5 years	**83**	95
Greater than 5 years	**56**	48
	177	177

25. Capital commitments

The Group had entered into the following amount of contractual commitments for the acquisition of property, plant and equipment at the year end:

	2011 £m	2010 £m
Expenditure contracted, but not provided for in the financial statements	**14**	29

26. Pension arrangements

The Group provides various defined contribution pension schemes for the benefit of a significant number of its employees, the cost of which for the year ended 31 March 2011 was £3m (2010 : £3m).

Notes to the consolidated financial statements
continued

27. Contingent liabilities

As at the 31 March 2011 the Group is awaiting a decision from Ofcom as to what, if any, action it will take as result of its investigation of the Group in respect of General Condition 11 concerning certain bills the Group has issued to customers after they ceased to receive service from the Group. No provision has been made in these financial statements as at it is uncertain both as to whether or not Ofcom will impose any financial penalty and the amount of such penalty.

28. Related party transactions

During the year, the Group had the following disclosable transactions:

	Best Buy Europe £m	Carphone Warehouse Group plc £m	Other related parties £m
2011			
Loans owed to the Group	–	–	2
2010			
Revenue for services provided	15	–	–
Expenses for services received	(24)	(2)	–
Net interest income	–	5	–
Loans owed to the Group	–	–	3
Other amounts owed to the Group	8	–	–
Amounts owed by the Group	(18)	(1)	–

Following the demerger of the Group from CPW and the adoption of IAS 24 (Revised), Best Buy Europe and Carphone Warehouse Group plc are no longer considered related parties (see note 1).

Other related parties comprises loans to Future Office Communications Limited (2010 : Opal 2CCH Limited and Ecocall Limited), associated undertakings of the Group.

Revenue for services provided during the prior year principally relates to telecommunication services. Expenses for services received relate primarily to IT services and commissions on product sales. All products and services were provided at market rates.

The remuneration of the Directors, who are key management personnel of the Group, is set out in the Directors' remuneration report on pages 32 to 38.

29. Restatement of comparative information

During the year the following adjustments were agreed in respect of acquisitions:

- A net adjustment in respect of working capital and customer numbers was agreed between the Group and Tiscali S.p.A. for the acquisition of Tiscali UK. This resulted in an adjustment to goodwill of £14m. The carrying value of goodwill of Tiscali UK in the prior year has been restated to £162m in line with the requirements of IAS 1 'Presentation of financial statements'.
- The deferred consideration on UK Telco Limited was finalised and settled. This has resulted in an adjustment to goodwill of £1m. The carrying value of goodwill of UK Telco in the prior year has been restated to £4m in line with the requirements of IAS 1 'Presentation of financial statements'.

The comparative information has been restated to reflect the impact of this settlement, this only impacted the balance sheet. A restated balance sheet for the year ended 31 March 2009 has not been presented as the above restatement did not impact that year.

Balance sheet at 31 March 2010

	As previously reported	Restatement of Tiscali goodwill	Restatement of UK Telco deferred consideration	As restated
	£m	£m	£m	£m
Non-current assets				
Goodwill	485	(14)	(1)	470
Other intangible assets	316	–	–	316
Property, plant and equipment	262	–	–	262
Non-current asset investments	1	–	–	1
Deferred tax assets	155	–	–	155
	1,219	**(14)**	**(1)**	**1,204**
Current assets				
Cash and cash equivalents	1	–	–	1
Inventories	2	–	–	2
Trade and other receivables	166	14	–	180
Loans to related parties	3	–	–	3
	172	**14**	**–**	**186**
Total assets	**1,391**	**–**	**(1)**	**1,390**
Current liabilities				
Trade and other payables	(401)	–	1	(400)
Corporation tax liabilities	(42)	–	–	(42)
Loans and other borrowings	(19)	–	–	(19)
Provisions	(29)	–	–	(29)
	(491)	**–**	**1**	**(490)**
Non-current liabilities				
Loans and other borrowings	(490)	–	–	(490)
Provisions	(18)	–	–	(18)
	(508)	**–**	**–**	**(508)**
Total liabilities	**(999)**	**–**	**1**	**(998)**
Net assets	**392**	**–**	**–**	**392**
Equity				
Share capital	1	–	–	1
Share premium	586	–	–	586
Translation reserve	(60)	–	–	(60)
Demerger reserve	(513)	–	–	(513)
Retained earnings and other reserves	378	–	–	378
Funds attributable to equity Shareholders	**392**	**–**	**–**	**392**

Independent Auditor's report to the Directors of TalkTalk Telecom Group PLC

We have audited the Parent Company financial statements of TalkTalk Telecom Group PLC for the period ended 31 March 2011 which comprise the Company balance sheet, the Company reconciliation of movements in Shareholders' funds and the related notes 1 to 9. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2011;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the Parent Company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matters

We have reported separately on the Group financial statements of TalkTalk Telecom Group PLC for the year.

John Murphy (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
18 May 2011

Company balance sheet

As at 31 March 2011

	Notes	2011 £m
Fixed assets		
Non-current asset investments	4	**996**
		996
Current assets		
Debtors: amounts due within one year	5	**487**
		487
Total assets		**1,483**
Current liabilities		
Creditors: amounts due within one year	6	**(122)**
		(122)
Non-current liabilities		
Loans	7	**(395)**
		(395)
Total liabilities		**(517)**
Net assets		**966**
Equity		
Share capital	8, 9	**1**
Share premium	9	**586**
Retained earnings and other reserves	9	**379**
Equity Shareholders' funds		**966**

The accompanying notes are an integral part of this company balance sheet.

These financial statements were approved by the Board on 18 May 2011. They were signed on its behalf by:

D Harding
Chief Executive Officer
18 May 2011

A Stirling
Chief Financial Officer
18 May 2011

Company reconciliation of movement in Shareholders' funds

	2011 £m
Loss for the period	(10)
Equity dividends	(15)
Retained loss for the period	(25)
Issue of share capital	987
Net cost of share-based payment	4
Net movement of Shareholders' funds	966
Opening Shareholders' funds	–
Closing Shareholders' funds	**966**

Notes to the company financial statements

1. Accounting policies

Basis of preparation
The separate financial statements of the Company are presented as required by the Companies Act 2006. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards and law. The Company was incorporated on 15 December 2009, this is the first set of Statutory accounts that have been prepared, accordingly these have been prepared for the period from 15 December 2009 to 31 March 2011.

The financial statements have been prepared on the going concern basis. Details of the considerations undertaken by the Directors in reaching this conclusion are set out on page 19 within the Finance review.

The principal accounting policies are summarised below. They have all been applied consistently throughout the period.

Investments
Fixed asset investments in subsidiaries and joint ventures are recorded at cost, being the fair value of consideration, acquisition charges associated with the investment and capital contributions by way of share-based payments, less any provision for impairment.

Financial liabilities and equity instruments
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Loans and other borrowings
Loans and other borrowings represent committed and uncommitted bank loans, and bank overdrafts.

These are initially measured at fair value (which is equal to cost at inception), and are subsequently measured at amortised cost, using the effective interest rate method, except where they are identified as a hedged item in a fair value hedge. Any difference between the proceeds net of transaction costs and the settlement or redemption of borrowings is recognised over the term of the borrowing.

Bank fees and legal costs associated with the securing of external financing are capitalised and amortised over the term of the relevant facility. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Equity instruments
Equity instruments issued by the Company are recorded at the proceeds received, net of direct issuance costs.

Share-based payments
The Company issues equity settled share-based payments to certain employees. Equity settled share-based payments are measured at fair value at the date of grant, and expensed over the vesting period, based on an estimate of the number of shares that will eventually vest.

Fair value is measured by use of a Binomial model for share-based payments with internal performance criteria (such as EPS targets) and a Monte Carlo model for those with external performance criteria (such as TSR targets).

For schemes with non-market performance criteria, the number of options expected to vest is recalculated at each balance sheet date, based on expectations of performance against target and of leavers prior to vesting. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in reserves.

For schemes with market performance criteria, the number of options expected to vest is adjusted only for expectations of leavers prior to vesting. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in reserves.

Share-based payments issued by the Company to its subsidiary undertakings are treated as additions to investments based on the fair value of the grant, spread over the relevant vesting period, with corresponding credit to reserves. Where the Company recharges the cost of share-based payments to its subsidiary undertaking the investment is reduced accordingly.

Taxation
Current tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date, with the following exception:

Notes to the company financial statements
continued

1. Accounting policies (continued)

Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a non-discounted basis with the tax rates that are expected to apply in the periods in which the timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The taxation liabilities of certain Group companies are reduced wholly or in part by the surrender of losses by fellow Group companies.

Dividends
Dividends receivable from the Company's subsidiaries and joint venture investments are recognised only when they are approved by Shareholders.

Final dividend distributions to the Company's Shareholders are recognised as a liability in the financial statements in the period in which they are approved by the Company's Shareholders. Interim dividends are recognised in the period in which they are paid.

Directors
The Directors' remuneration was borne by another Group company and not recharged.

Detailed disclosures of the Directors' remuneration and share based payments are given in the audited section of the Directors' remuneration report on pages 32 to 38 and should be regarded as an integral part of this note.

Employees
The Company has no employees.

Exemptions
The Company has taken advantage of the exemption under FRS 8 'Related Party Disclosures' not to provide details of related party transactions with other Group companies, as the Company financial statements are presented together with the consolidated Group financial statements.

The Company has applied the exemption under FRS 29 'Financial Instruments: Disclosures' so as not to disclose details of financial instruments held by the Company. Full disclosure of the Group's financial instruments recognised under FRS 29 (IFRS 7) 'Financial Instruments: Disclosures' and IAS 39 'Financial Instruments: Recognition and Measurement' is provided in note 19 to the Group's annual report and accounts.

2. Loss for the period

As permitted by section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the period. The Company reported a loss of £10m for the period ended 31 March 2011.

The auditor's remuneration for audit and other services is disclosed in the Corporate governance report on page 29.

3. Dividends

	2011 £m
Interim dividend for the period ended 31 March 2011 of 1.70p per ordinary share	15
Total ordinary dividends	**15**
Final dividend for period ended 31 March 2011 of 3.90p per ordinary share	**35**

The final dividend for the period ended 31 March 2011 was approved by the Board on 18 May 2011 and has not been included as a liability as at 31 March 2011.

The expected cost of this dividend reflects the fact that the Group ESOT has agreed to waive its rights to receive dividends.

4. Non-current asset investments

	2011 £m
Subsidiaries	991
Joint venture	5
	996

	2011 £m
Cost and net book value	
Opening balance at 15 December 2009	–
Additions	996
At 31 March 2011	**996**

On 26 March 2010 the Company became the owner of the entire issued share capital of CPW, that owns the entire issued share capital of TalkTalk Group Limited, the holding company of the Group's fixed line telecommunications companies in the UK. The investment was received by the Company as consideration for shares issued to the former Shareholders of CPW as part of the demerger transaction.

Joint venture
On 10 September 2010 the Group entered into a joint venture agreement with The British Broadcasting Corporation, ITV Broadcasting Limited, British Telecom PLC, Channel Four Television Corporation, Arqiva Limited and Channel 5 Broadcasting Limited to form YouView TV Limited (formerly Canvas Pro Tem Limited). The joint venture has been established in order to develop a new free-to-air internet-connected TV service to UK homes in 2012. Further detail relating to the joint venture are disclosed within note 14 to the consolidated financial statements.

Principal Group investments
The Company has investments in the following subsidiary undertakings. To avoid a statement of excessive length, details of investments which are not significant have been omitted. All holdings are in equity share capital.

Name	Country of incorporation or registration	Percentage ownership	Nature of business
TalkTalk Telecom Holdings Limited*	England and Wales	100%	Holding company
TalkTalk Group Limited	England and Wales	100%	Holding company
Onetel Telecommunications Limited	England and Wales	100%	Telecommunications
TalkTalk Communications Limited (formerly Opal Telecom Limited)	England and Wales	100%	Telecommunications
TalkTalk Telecom Limited	England and Wales	100%	Telecommunications
TalkTalk Direct Limited	England and Wales	100%	Telecommunications
TalkTalk UK Communication Services Limited	England and Wales	100%	Telecommunications
GIS Telecoms Limited	England and Wales	100%	Telecommunications
CPW Network Services Limited	England and Wales	100%	Telecommunications
Tiscali UK Limited	England and Wales	100%	Telecommunications

* Directly held

Notes to the company financial statements
continued

5. Debtors: amounts due within one year

	2011 £m
Amounts owed by Group undertakings	**485**
Other debtors	**2**
	487

Interest on intercompany funding is calculated at the Bank of England base rate plus 3.75%; intercompany deposits receive interest at the Bank of England base rate with no margin. Interest is either paid or capitalised monthly as appropriate. Where they exist, currency balances are calculated at similar rates.

Interest is not charged on balances arising between Group companies as a result of intercompany trading; such balances are settled regularly in line with agreed terms of trade, usually through the Group's netting system, within 30 to 60 days.

6. Creditors: amounts due within one year

	2011 £m
Amounts owed to Group undertakings	**122**
	122

Interest on intercompany funding is calculated at the Bank of England base rate plus 3.75%; intercompany deposits receive interest at the Bank of England base rate with no margin. Interest is either paid or capitalised monthly as appropriate. Where they exist, currency balances are calculated at similar rates.

Interest is not charged on balances arising between Group companies as a result of intercompany trading; such balances are settled regularly in line with agreed terms of trade, usually through the Group's netting system, within 30 to 60 days.

7. Loans

	2011 £m
Loans	**395**
	395

The details of the loans are disclosed within note 18 to the consolidated financial statements and should be regarded as an integral part of these financial statements.

8. Share capital

	2011 million	2011 £m
Called-up, allotted and fully paid:		
Ordinary shares of 0.1 pence each	**914**	**1**

9. Reserves

	Share capital	Share premium	Profit and loss and other reserves	Total
	£m	£m	£m	£m
Opening balance at 15 December 2009	–	–	–	–
Issue of share capital	**1**	**986**	–	**987**
Capital reduction	–	**(400)**	**400**	–
Loss for the period	–	–	**(10)**	**(10)**
Net cost of share-based payments	–	–	**4**	**4**
Equity dividends			**(15)**	**(15)**
	1	**586**	**379**	**966**

The Company was incorporated on 15 December 2009 and on 29 March 2010 the Group became a separately listed entity on the London Stock Exchange, under a court approved scheme of arrangement under part 26 of the Companies Act. Both the share capital and share premium in the Company arose as a result of the issuance of new shares in the Group to ordinary Shareholders of CPW. As these shares were issued for nil consideration, both the share capital of £1m and share premium of £986m have been treated as arising from the demerger reserve. Further detail is included in notes 1 and 22 to the consolidated financial statements which should be considered an integral part of these financial statements.

On 29 March 2010 the share premium relating to the ordinary shares was reduced by £400m by way of a court approved capital reduction. This had the effect of creating distributable reserves which are available at the discretion of the Board for dividend payments as required.

Other information

Five year record (unaudited)

	2011 £m	2010 *As restated £m	2009 Unaudited £m	2008 Unaudited £m	2007 Unaudited £m
Headline results					
Revenue	**1,765**	1,686	1,385	1,424	1,116
Net profit for the year	**122**	106	95	12	(12)
Net assets employed					
Non-current assets	**1,137**	1,204	1,319	928	857
Net current assets (liabilities) before provisions	**(281)**	(275)	(184)	(235)	(122)
Provisions	**(46)**	(47)	(8)	(10)	(18)
Non-current liabilities	**(395)**	(490)	(425)	(895)	(862)
Net assets employed	**415**	392	702	(212)	(145)
Headline earnings per share					
Basic	**13.5**	11.8	10.7	1.3	(1.4)
Diluted	**12.8**	11.2	10.4	1.3	(1.3)

* The balance sheet at 31 March 2011 has been restated to reflect the finalisation of the Tiscali UK and UK Telco acquisition purchase price (note 29).

On 26 March 2010 CPW demerged into Carphone Warehouse Group plc and the Group. The Company and Carphone Warehouse Group plc were separately listed on the London Stock Exchange.

The consolidated financial information of the Group for the years ended 31 March 2010, 31 March 2009, 31 March 2008 and 31 March 2007 have been prepared with the objective of presenting the results, net assets and cash flows of the Group in the form that arose on completion of the demerger, as if it had been a standalone business during those periods.

Glossary

ADSL	Asymmetric Digital Subscriber Line technology enables data transmission over existing copper wiring at data rates several hundred times faster than analog modems, providing for simultaneous delivery of voice, video and data
ARPU	Average Revenue Per User
Best Buy Europe	Joint venture between Carphone Warehouse Group plc and Best Buy Co. Inc.
CAGR	Compound Annual Growth Rate
CGU	Cash Generating Unit
Churn	A measure of the number of subscribers moving into or out of a product or service over a specific period of time
The Company	TalkTalk Telecom Group PLC
CPS	Carrier Pre-Select is the automated process under which voice customers can be switched from BT and other suppliers with no requirement to change telephone numbers, or to dial prefixes or to install dialler boxes
CPW	The Carphone Warehouse Group PLC, its subsidiary companies, joint ventures and investments
CRM	Customer Relationship Management
Demerger	The demerger of the The Carphone Warehouse Group PLC into TalkTalk Telecom Group PLC and Carphone Warehouse Group plc effective on 26 March 2010
DWDM	Dense Wave Division Multiplexing
EBIT	Earnings Before Interest and Taxation
EBITDA	Earnings Before Interest Taxation Depreciation and Amortisation
EPS	Earnings Per Share
Ethernet	Ethernet is a protocol that controls data transmission over a communications network often referred to as a family of frame-based computer
Free cash flow	Cash generated from operations before exceptional items, interest, taxation, dividend payments and investments
Gb	Gigabytes per second
GPS	Global Positioning System
Group ESOT	TalkTalk Telecoms Holdings Employee Share Option Trust
Headline information	Headline information represents the Group's Consolidated income statement, stated before the amortisation of acquisition intangibles and exceptional items that are considered to be one-off, non-recurring in nature and so material that the Directors believe that they require separate disclosure to avoid distortion of underlying performance and should be separately presented on the face of the income statement
HD	High Definition
IP	Internet Protocol is the packet data protocol used for routing and carriage of messages across the internet and similar networks. IP performs the addressing function and contains some control information to allow packets to be routed through networks
ISP	Internet Service Provider
LLU	Local Loop Unbundling
Mbit/s/Mbps	Unit of data transfer rate equal to 1,000,000 bits per second
MPF	Metallic Path Facility provides both broadband and telephony services to customers from TalkTalk Group exchange infrastructure
MVNO	Mobile Virtual Network Operator
Narrowband	Telecommunication service that carries voice information in a narrowband of frequencies
Net Debt	Borrowings net of cash held on deposit at financial institutions
NGN	Next Generation Network
Quad play	A customer that takes voice, broadband, TV and MVNO services from the Group
RCF	Revolving Credit Facility
SMPF or partial unbundling	Shared Metallic Path Facility provides broadband services to customers from TalkTalk Group exchange infrastructure
SME	Small and Medium sized Enterprises
TDM	Time Division Multiplexing and a digital data transmission method that takes signals from multiple sources, divides them into pieces which are then placed periodically into time slots, transmits them down a single path and reassembles the time slots back into multiple signals at the remote end of the transmission
Unbundling	Process by which BT makes available its local network to third party broadband service providers
VoIP	Voice over Internet Protocol
wi-fi	Trademark of the Wi-Fi Alliance often used as a general term for wireless networking technology that uses radio waves to provide wireless high speed internet and network connections

Shareholder information

Financial calendar

AGM	28 July 2011
Ex-dividend date	25 May 2011
Record date	27 May 2011
Dividend payment date	5 August 2011

Our website

Visit **www.talktalkgroup.com/investors** to find out more information on our latest financial results, reports, share price, financial calendar and shareholder services.

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