Annual Report 2014

TalkTalk Telecom Group PLC

Our year at a glance

We are the UK's leading value for money provider of fixed line broadband, voice telephony, mobile and television services.

Our strategy is delivering

"We are demonstrating real growth from our investment in TV and with over 1 million customers today, this is a scale business that is growing faster than all the other UK TV operators put together."

– Dido Harding, CEO

In this report

Strategic report: Overview

Strategic report: Strategy

Strategic report: Performance

Governance

Financial statements

Other information

Chairman's statement

This has been a year of significant investment in growth for TalkTalk, as a result of which we have ended the year with nearly one million TV customers. TalkTalk Business has also had a very good year, delivering strong growth in a market where few other B2B operators are showing growth.

As a result we reported our first full year of revenue growth since demerger. We saw a substantial improvement in profitability in the second half of the year which, despite our investment in TV during the first half, allowed us to grow the dividend by the 15% we committed to in FY12. I am pleased to report therefore that for FY14 the Board has declared a final dividend of 8.00p that, in addition to our interim dividend of 4.00p, gives a total pay-out for the year of 12.00p.

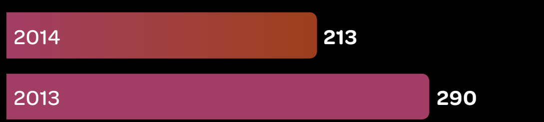
These are substantial achievements that highlight the sustainable power of leveraging our network to deliver value for money products to consumers and businesses across the UK, while also creating value for shareholders. It has been another year of significant change and challenge for our employees, and the Board and I would like to thank them for their efforts and for their continuing commitment to TalkTalk and to our customers.

Sir Charles Dunstone
Chairman

Financial highlights

Headline revenue (£m) **+3.4%**

Headline EBITDA (£m) **-27%**



Statutory earnings per share (p) **-73%**

Dividend per share (p) **+15.4%**

Our business model

Our network

Our business model is based on leveraging our extensive and cost-efficient next-generation network assets, in which we have invested c.£1bn to date, to offer consumers and businesses value for money products and services.

At the heart of our network is the state of the art unbundling equipment (DSLAMs, MSANs and Ethernet switches) that we have installed in over 3,000 BT exchanges – the largest such deployment in the UK. This allows us to take control of the copper line that connects customer premises to the exchange. The exchanges are connected via collector nodes and 10Gbps collector rings to our dark fibre core optical network – a high-speed, high-capacity all-IP national backbone that enables efficient and flexible routing of voice and data traffic.

Access to the copper infrastructure that connects UK premises to BT's nationwide exchange footprint is price regulated by Ofcom, while we lease the fibre backhaul (to connect exchanges to our core network) and dark fibre (that comprises our collector ring and core network) on very competitive terms from multiple providers.

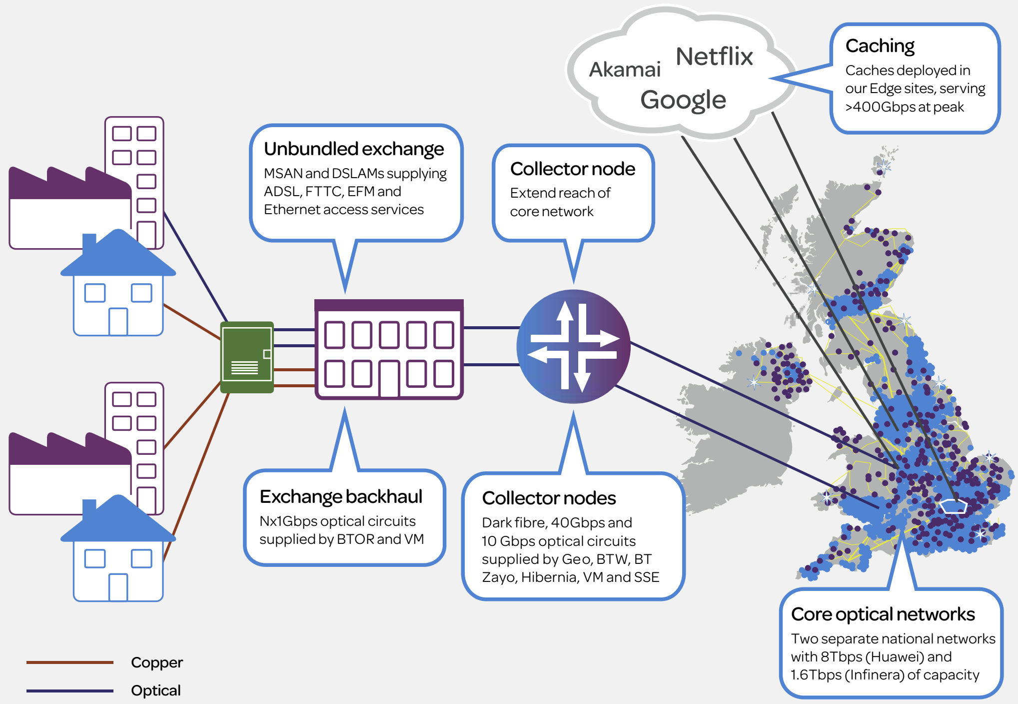
This combination of owned and leased assets confers a structural cost advantage that allows us to offer fixed line broadband and Ethernet connectivity at significantly lower retail prices than our competitors.

We have leveraged this cost advantage to build a sustainable broadband market share at the value end of the UK fixed line market and, since 2012, have begun to further leverage our network with fast growing IPTV (for consumers) and Ethernet products (for businesses). The scale and all-IP nature of our network also allows us to scale it very efficiently for growing usage. Over the next five years we plan to expand the bandwidth capacity on our network by 50–100 times at falling marginal operating costs. This will allow us to support growing customer demand for high speeds and greater data consumption, with longer term opportunities to build fibre to the premise (FTTP) and converged fixed-mobile products.

Read more about our extensive network at: www.talktalkgroup.com

Our network coverage

Over the past eight years, we have built one of the UK's largest broadband and voice customer bases, attracting those looking for significant bill savings. FY14 saw us continue to grow significantly as we successfully deliver our quad play strategy, particularly in our value for money TV proposition, built on the YouView platform.



Our network gives us a strong value for money advantage

We are able to offer our Consumer and Business customers services at significantly lower cost than our cable and incumbent competitors. This is because we operate the UK's most extensive next-generation network (NGN), which is comprised of our own advanced, highly cost-effective equipment. It also means that TalkTalk is able to be the only ISP that is committed to offering totally unlimited broadband across all its consumer packages.

Our NGN covers approximately 95% of UK homes, operating in 3,027 exchanges. 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. Our customers benefit through optimised broadband speeds and quality as well as access to our growing range of lower cost, value add products and services. For example, our all-IP Content Delivery Network which runs over our NGN puts content closer to the end user to increase the quality of experience for our TV customers.

Our customers

We are the UK's leading value for money provider of fixed line broadband, voice telephony, television and mobile services. We serve four million residential and business customers under the TalkTalk and TalkTalk Business brands.

Services to consumers

TalkTalk is strongly positioned as the leading value for money phone, broadband and TV provider for UK homes. We are differentiated by our clear and simple tariff structure, low prices, flexibility and inclusion of valuable services, such as our ground-breaking HomeSafe™, our unique network-based security service, which is available free of charge for all customers on our network and protects the whole home from viruses and inappropriate content.

In the prior year we successfully launched our TV proposition for Plus customers, which included a free YouView set top box and in FY14 we launched a lower priced TV proposition for our Essentials customers. TalkTalk is one of seven partners behind YouView including the BBC, ITV and BT. YouView is a broadband based television service with differentiated catch-up and on-demand services, and an open platform for future application driven innovation. Our TV offering has enjoyed strong growth during FY14 as it represents a powerful proposition for mass market value seekers who want flexible access to premium content without the need to enter into costly long term subscriptions. We also launched the UK's lowest priced totally unlimited broadband proposition, SimplyBroadband, which is targeted at customers who want a great value broadband product.

We grew TalkTalk Mobile during FY14. Available exclusively to TalkTalk customers, TalkTalk Mobile offers simplicity, range and some of the most competitive prices in the market for both SIM-only and handsets. As a result, our mobile offering continues to gain strong traction amongst our base.

Services to businesses

TalkTalk Business continues to drive innovation and competitive product development that leverages our NGN capability and is in fact one of the fastest growing B2B telecom businesses in the UK. We believe there is significant opportunity to use our network to grow all our Next Generation products within TalkTalk Business.

In January 2013, we began offering an Ethernet over Fibre service which delivers high-speed symmetrical services at a significantly lower price point than traditional Ethernet technologies. We also launched an 80Mbps product with generous data allowances and network prioritisation targeted at small and medium sized businesses. The year also saw us launch a very competitive Next Generation Voice service for businesses requiring high performance data and voice services, which we have made widely available to channel partners. Our partner channel continued to grow in FY14, and the migration of over 100,000 Post Office customers onto our network was a major milestone for the business.

Market overview

Household internet access continued to rise in 2013, with eight in ten households now having broadband access. The average UK household owns three different types of internet-enabled device, and 86% have at least one. This is driving significant growth in people accessing the internet from mobile-enabled devices. Significant scope for growth remains, however, amongst specific demographic groups; 20% of households remain offline, rising to nearly 50% of those aged 65–74 and two-thirds of those aged 75 and over.

On-net base (million)

On-net customers (%)

There are four key players in the broadband and TV market. BT Retail is the largest broadband service provider, followed by BSkyB. Virgin Media, the cable provider, is the third largest player followed by TalkTalk. TalkTalk is the largest unbundler.

BT Retail and Virgin Media are positioned at the premium end of the market, with significantly higher price points. They focus on speed and reliability of broadband connection. BSkyB's focus is on cross selling broadband and voice to its pay TV base, providing discounts to customers who take all three products with them. BT Retail is also now competing with BSkyB on pay TV content rights, specifically sports.

Within this context, TalkTalk is clearly positioned as the leading provider for customers seeking a best value and reliable voice, broadband and TV service. For TV in particular, we have a unique proposition for those homes who want flexible access to premium content without costly long term subscriptions. We believe this reputation for value for money puts TalkTalk in a strong position and will only improve further as we grow our TV and mobile bases.

UK telecoms regulation

The UK telecoms market is regulated by Ofcom, which sets the charges and other terms for wholesale access to infrastructure and associated services provided by BT Openreach (Openreach), where Openreach is deemed to enjoy 'Significant Market Power'. Ofcom's objective is to ensure that these wholesale products enable effective retail competition in the market, so that consumers and businesses benefit from a choice of services and retail service providers. Compliance with regulation is monitored internally by the Regulatory Compliance Committee as detailed on page 16.

The areas regulated by Ofcom that are most material for TalkTalk are:

TalkTalk relies upon a number of wholesale products from Openreach to be able to offer services to its customers. The key wholesale products we buy are LLU (the copper connections into homes), GEA (access to BT's Next Generation Access (NGA)/Fibre to the Cabinet (FTTC) network) and Ethernet (fibre links used to connect exchanges to our core network and also to connect business customers). The price and terms of these are set by Ofcom though a triennial market review process which, particularly in the case of LLU, gives us very reasonable certainty of costs going forward.

LLU Charge Control

TalkTalk appealed Ofcom's 2012 LLU Charge Control decision (as did Openreach), which resulted in a £1.12 reduction in the 2013/14 MPF rental charge.

This charge control ended on 31 March 2014. In late May 2014, Ofcom is expected to publish (for notification to the European Commission) the new charge control for the period to 31 March 2017. The current proposals are for an annual price change of between CPI -4.25% and CPI +3.00%.

Next Generation Access

Openreach provides wholesale access to its NGA infrastructure (predominantly FTTC), on an equivalent basis to all communication providers. The current Openreach wholesale product is GEA. TalkTalk uses GEA to provide its fibre broadband products. At present, neither the price of GEA nor the margin between the GEA price and BT's retail price are regulated. In late May 2014, Ofcom is expected to publish its proposals to impose margin squeeze regulations and how they will be operated.

In response to a complaint by TalkTalk, Ofcom, in May 2013, started an investigation of whether BT has breached its Competition Act obligations by margin squeezing between its wholesale price for NGA (GEA) and its retail prices. The threshold for Ofcom for opening an investigation is if there are 'reasonable grounds for suspecting (the 'Act') has been infringed'. TalkTalk expects a decision on the future approach for this investigation later in 2014.

Ethernet dispute appeal

In December 2012, Ofcom published its determination to resolve a dispute regarding Openreach's pricing for various Ethernet services in the period from April 2006 to July 2009, which required Openreach to repay TalkTalk for its overcharging. Openreach has appealed that decision to the Competition Appeal Tribunal (CAT). TalkTalk (and others) has also appealed the decision arguing that the determination was too low. Further detail is provided in notes 9 and 27 to the consolidated financial statements.

Openreach service performance

TalkTalk strives to work closely with Openreach to deliver the best service for our customers, for example, the timely delivery of connections. As part of the Wholesale Local Access Market Review due in late May 2014, Ofcom will set new regulations in order to provide more effective incentives for Openreach to provide a high quality service.

SLG dispute

Ofcom has resolved a dispute regarding whether Openreach should have paid TalkTalk compensation as a consequence of the late delivery of new MPF lines in 2012. Ofcom determined that whilst Openreach had breached its obligations, Ofcom did not as part of its determination require Openreach to pay TalkTalk any compensation.

Several other areas of current or potential legislation are significant for TalkTalk:

Appeals framework

The Government is currently considering whether to introduce changes to the framework of how Ofcom decisions can be appealed and, in particular, whether the current 'merits-based' standard should be changed.

European Commission Single Market Regulation

The EC and European Parliament is currently considering the Single Market Draft Regulation. If introduced this could have a number of impacts on the mobile and fixed telecommunications market. The most relevant area for TalkTalk is the so-called 'net neutrality' regulation.

New Communications Bill

The Government had previously stated it was its intention to introduce a new Communications Bill by the end of Parliament. Further to the review work already concluded, the Department for Culture, Media and Sport (DCMS) published a policy paper in July 2013 entitled 'Connectivity, content and consumers: Britain's digital platform for growth' setting out areas for action.

Digital Economy Act

This Act, enacted in 2010, requires ISPs to send notifications to customers and log which connections have been used for illegal file sharing. Expectations are that the earliest notifications could be sent is 2015. In parallel, TalkTalk and other ISPs are discussing with rights holders alternative approaches.

Pursuant to various court orders, TalkTalk is required to block access to certain sites that are used for illegal file sharing.

Communications Data Bill

The draft Communications Data Bill was published in 2012 and would have required communications providers to retain more communications data than they currently do so. In April 2013, the Government announced it was dropping the Communications Data Bill. In the Queen's speech in May 2013 it was stated that the Government would bring further alternative proposals to help manage the problem of matching internet protocol addresses. At this time nothing further has been published.

Voluntary measures on parental controls

Following a formal Government consultation into parental controls, in June 2013 the Prime Minister announced that the other three major ISPs would introduce whole home filtering systems – equivalent to TalkTalk's HomeSafe™ service. He also announced that from December 2012 all providers had voluntarily agreed to ask every new customer if they want to use parental controls. This requirement was extended to include all existing customers by the end of December 2014.

In December 2013, the DCMS asked Ofcom to report on progress made by providers in delivering their commitments. Its report is due to be published in mid 2014.

As a Board member of the UK Council for Child Internet Safety, TalkTalk continues to engage actively with the Government about its policy for protecting children online.

Glossary

CPI: Consumer Price Index

FTTC: Fibre to the Cabinet

GEA: Generic Ethernet Access

ISP: Internet Service Provider

LLU: Local Loop Unbundling

MPF: Full unbundling

NGA: Next Generation Access

NGN: Next Generation Network

RPI: Retail Price Index

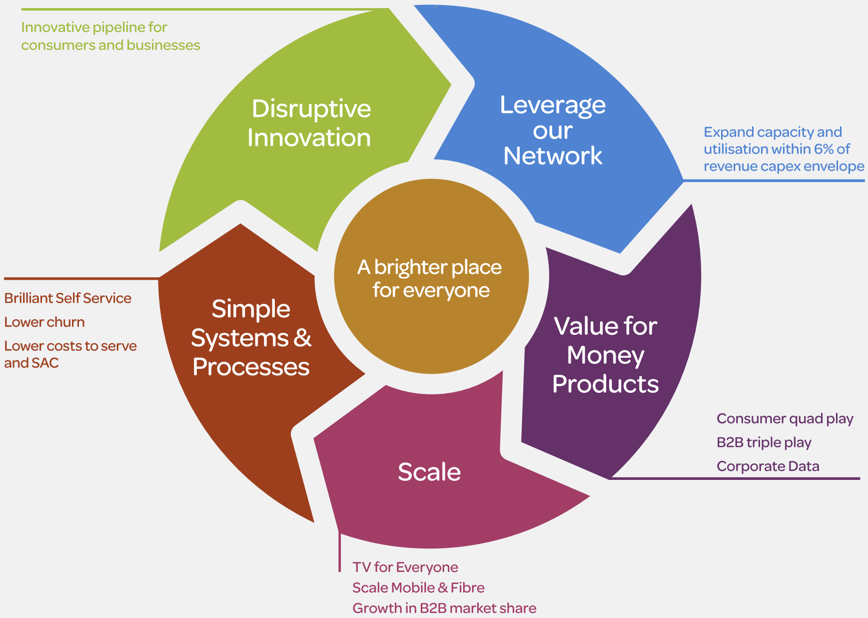
SMPF: Partial unbundling

WLR: Wholesale Line Rental

Our strategy

Our corporate strategy revolves around six interlinking elements, which combine leveraging our network to build scale in value for money products for consumers and businesses, systems and processes simplification, and disruptive innovation.

Our strategy revolves around six main principles



1 Leveraging the TalkTalk Network

TalkTalk has the UK's most extensive all-IP Next Generation Network (NGN), covering c.95% of all UK homes with advanced, proprietary equipment located in over 3,000 exchanges. By investing in next-generation switching and data transmission technology we have been able to further extend our network and cost advantage. The declining marginal cost of bandwidth allows substantial increases in capacity without compromising margins or capital expenditure limits. To accommodate expected future growth, we plan to expand network capacity by 50–100 times over the next five years, and increase resilience and flexibility, whilst reducing network downtime. This investment will be within our long term capex guideline of 6% of revenues.

2 Value for Money Products

We have an established position as the UK's leading value for money provider across phone and broadband (for consumers and businesses), TV and mobile products (for consumers). We also offer customers high speed Fibre to the Cabinet through BT's GEA product. In addition, our extensive Ethernet presence allows us to offer competitively priced data products to businesses across the UK. Our value for money positioning and growing product offer drives customer loyalty and sustainable revenue growth, and positions us to take advantage of favourable usage and socio-demographic trends, with a growing number of older and smaller households in the UK, growing data usage and growing triple play penetration.

3 Scale

Building on our large and established fixed line phone and broadband base, we are able to achieve significant scale benefits from offering our customers additional products such as pay TV, mobile, fibre and for businesses, high-speed data connectivity.

4 Simple Systems and Processes

To date since demerger, we have delivered over £100m of cost savings through integration and back-office simplification programmes. However, as a relatively young business that has grown very rapidly, we have a significant opportunity to further simplify our technology platform and customer processes. Our "Making TalkTalk Simpler" programme comprises detailed initiatives to simplify tariffs and access methods, simplify and upgrade our systems, make better use of our data and drive increasing online self-service by customers. While lowering the costs of serving and acquiring customers, we also expect Making TalkTalk Simpler to lower customer churn by improving customer service and satisfaction.

5 Disruptive Innovation

We have a strong heritage of launching innovative and disruptive products that leverage our network scale and engineering expertise to save customers money. We were the first to offer free fixed line calls between customers, the first to launch free broadband, the first to offer unlimited downloads to broadband customers, the first to launch a free TV offer and the first to offer business broadband at under £5 per month. Our long term innovation agenda includes the potential to build the first 1Gbps FTTP network in the UK and an advanced fixed-mobile proposition incorporating femtocells and an in-home 4G network.

6 A brighter place for everyone

Our employees are key enablers in delivering our strategic priorities and we have implemented structures and policies that foster and develop a uniquely agile and collaborative culture.

Chief Executive Officer's statement

"TalkTalk is all about giving customers consistently the best value for money experience in the market"

FY14 Business Review

Summary

Our results for the year clearly demonstrate that our strategy is driving revenue growth and will create sustainable shareholder value. In total we invested an incremental £112m in FY14 in growing the business, primarily through TV, and this is reflected in our full year EBITDA margin of 12.3%. Our investment in scaling the TV base had its most pronounced effect in H1 with EBITDA margins of 9.0% on revenue growth of 1.8% and total subscriber acquisition costs of £174m. As expected H2 results showed a strong rebound in profitability with EBITDA margin of 15.5% on 5.0% revenue growth and after total subscriber acquisition costs of £144m. The year also highlighted the traction we are gaining in TalkTalk Business through its focus on value for money data connectivity products. Corporate revenues grew by 5.6% year on year, accelerating significantly from 1.3% growth in H1 to 9.9% in H2. The dividend for the year of 12.0p is in line with our commitment to deliver returns to shareholders whilst also investing to grow the business.

We expect to deliver further significant progress in FY15, with Headline EBITDA margin in the range of 16.0%–17.0% and dividend growth of 15%, and are on track to deliver our medium term financial targets of 4% CAGR in revenue and 25% EBITDA margin by FY17. In addition, we see further strong growth opportunities beyond the medium term from leveraging our network capability and customer scale.

1. The fastest growing TV business in the UK

Accelerating growth in TV– 687,000 customers added, c.25% of fully unbundled base

We added 687,000 customers to our fast growing YouView TV base during the year, more than all the other UK TV operators combined. The rate of additions accelerated through the year as awareness of our proposition grew. During Q3 we launched and began gradually to scale our Essentials TV proposition, expanding the addressable market for our triple play product. Accordingly we have seen an increase in the number of new customers coming to TalkTalk, with a third of TV connections new to TalkTalk.

The Plus TV proposition has continued to prove popular, both for existing customers wishing to upgrade from their Essentials phone and broadband packages, and for new to TalkTalk customers, highlighting the willingness of customers to pay a premium for differentiated functionality (recording to the local set-top box) and bundled features (free anytime calls and seven Sky channels). We have continued to develop our content proposition through FY15, with some significant new additions to our range such as Sky on demand (Sky Movies, Sky Entertainment, Sky Sports); Picturebox (NBC Universal) – new Subscription Video on Demand (SVOD) service; and new linear channels such as JSTV and Kyknet (Thema International), Sony Entertainment TV, Sony Asia TV and Nicktoons. In addition, we reached an agreement with FilmFlex that will significantly increase our selection of TV on Demand (TVOD) titles.

At the end of the year, just over 25% of our fully unbundled customers were triple play. We expect to add a similar number of TV customers in FY15 as we did in FY14, which would take penetration to nearly 40% of our On-net base. Our primary target market remains the large base of Freeview households in the UK (c.18m) and we continue to expect that in time nearly all of our On-net customers will convert to triple play in line with increasing recognition of the convenience and value of bundling, and as we drive increased awareness of our compelling content offer.

TV customers continue to rate the service highly

A range of survey and usage data from our TV customers, including those that have been with us for over a year now, consistently point to high levels of satisfaction with our TV service. The vast majority of our TV customers (both those upgrading from phone and broadband and those who are new to TalkTalk) have previously used Freeview as their main TV service. Consequently the integrated IPTV and linear programming functionality provided by the YouView platform remains one of the most highly rated features of our service, with the YouView net promoter score at +25.

While Plus customers value the ability to record programmes for future viewing, all customers value the ability to seamlessly watch catch-up TV, without having to exit the YouView programme guide. This remains the only programme guide currently available in the UK that offers this powerful functionality. The value our customers place on this is a direct function of the volume of high quality free public service broadcast (PSB) programming in the UK. Viewing data across all platforms shows that the vast majority of TV viewing (even for pay-TV subscribers) is of live and catch-up free-to-air content.

Other features that all our customers rate highly include the ease of access to a wide range of flexible, non-subscription pay content. This is especially so for those customers who have upgraded from Freeview and are exploring paid for content options for the first time. Equally, those customers who have switched from other pay TV platforms report high levels of satisfaction with the range of content available and the affordability of being able to select and pay for only the precise content they wish to access.

Content purchasing behaviour encouraging for future revenue

Whilst most of our TV customers have little or no previous experience of paying for content on their TV sets, their purchasing behaviour to date is encouraging for future incremental revenues, with an average ARPU for pay-per-view movies and boosts combined of c.£9.00. With over 28% of our TV customers buying some form of pay content every month, the overall TV base is therefore showing an ARPU uplift of c.£2.50.

With over twelve months of data from our growing base, we are pleased to report that early purchasing behaviours have proved resilient and are consistent with our understanding of what our family-orientated, value-seeking customers want to watch. Pay-per-view movie demand has grown steadily over the last twelve months, with customers purchasing on average, just over one movie per month, generating an incremental ARPU of c.£4.00.

Content boost purchases have also remained resilient although as we had expected, Essentials customers take longer to begin their pay content journey and, initially, tend to buy fewer boosts. Nevertheless the average boost ARPU of Essentials and Plus customers at c.£11.00 is providing good incremental revenue for us.

TV customers' early-life churn significantly lower than that of broadband customers

Very few of our earliest TV customers have reached the end of their first contract term, so it remains too early to assess their out-of-contract churn behaviour.

However, the high levels of satisfaction with their service that our TV customers are reporting, and the consistency of their content purchasing behaviour, has translated into materially lower early-life churn than for their dual play counterparts. Average monthly churn on the TV base through FY14 was approximately half that seen from our dual play base.

The lower early-life churn, significantly higher net promoter score and lower surveyed propensity to churn give us a great deal of confidence that mature triple play customers will also churn at a materially lower rate than dual play customers.

2. Continuing progress in Mobile and Fibre adding incremental value

7% of On-net customers now taking mobile

We added 109,000 new customers to our Mobile base during the year, comprising 7% of our On-net base versus 4.5% of the base a year ago. Mobile customers continue to add incremental value to us through a combination of standalone economics (each Mobile customer delivers a positive net present value across the life of the contract), and reduced churn and higher net promoter scores compared to dual play customers. As discussed below, developing our mobile proposition is a key element of our innovation agenda for delivering long term growth, and we see real opportunity to drive higher levels of penetration and value creation.

5% of On-net customers taking fibre

We added 134,000 new customers to our fibre base during the year, comprising 5% of our On-net base versus 2% of the base a year ago. Bandwidth usage continues to grow rapidly: traffic on our network has almost trebled in the last three years, as customers use more devices and watch more video content online, and customers downloaded an average of 34GB of content a month during FY14 – 46% more than a year ago. However, at current prices and usage levels, demand for fibre from our customers remains modest because of the scale and capability of our existing network. With over 50% of fibre customers also taking TV from us, demand is very much driven by customers whose overall experience can be transformed by taking fibre, e.g. where distance from the exchange dictates copper speeds of less than 3Mbps.

3. TalkTalk business – one of the fastest growing B2B telecom businesses in the UK

Another year of strong performance

TalkTalk Business has delivered a strong performance, with Corporate revenues growing by 5.6% year on year and accelerating significantly through the year (H1: +1.3%, H2: +9.9%). High margin data products revenues (+37.5% year on year) have been a key driver of this performance with growth running in excess of the established decline in traditional voice revenues. Our suite of flexible and competitive Ethernet products based on our market leading national Ethernet footprint has helped us win significant new direct and partner business during the year.

Revenues from wholesale broadband connectivity products through our partner channel also showed strong growth during the year. In Q3 we completed the migration of 103,000 Post Office customers onto our base, with revenues from these customers contributing to growth across On-net, Corporate and Off-net.

With three consecutive quarters of year on year growth in Corporate revenues, TalkTalk Business is one of the fastest growing B2B telecom businesses in the UK. This is a powerful testament to the strength of TalkTalk Business's strategy, business model and competitive positioning in its chosen markets.

A focused strategy to grow revenues and profitability

TalkTalk Business's strategy is consistent with the Group strategy of leveraging our network scale and capability to build market share in value for money products, whilst simplifying its systems and processes and launching innovative new products to deliver sustained and profitable long term growth.

Our network is scaled for peak evening usage by consumers, allowing TalkTalk Business to use excess daytime capacity for business customers. This together with our Ethernet capability (over 3,000 of our exchanges are Ethernet enabled, with 95% country coverage) allows TalkTalk Business to offer a wide range of competitively priced, high-margin, all-IP data connectivity products. With data revenue growth running faster than the decline in legacy, low-margin voice revenues, TalkTalk Business is strongly placed to grow revenues and market share profitably.

A key component of this is a focused approach to growth. We see three main segments where we are able to offer our customers significantly better value for money than our competitors.

Chief Executive Officer's statement continued

3. TalkTalk business – one of the fastest growing B2B telecom businesses in the UK continued

Maintaining our strong partner relationships

Our partner channel has continued to grow through FY14. Of particular note is the successful migration of Post Office phone and broadband customers who came onto our base during Q3 as part of our five year contract with Fujitsu, the lead service integrator for the Post Office. This agreement, one of the largest of its type in our history, is testimony to the appeal of our network for partners seeking quality, flexibility and competitive terms. By working with partners we are able to leverage the low cost base of our network while not adding the significant complexity that comes with tailoring services directly for end customers.

Growing data product penetration in Enterprise

We saw strong growth in our direct business with a number of new contracts to supply wide area network solutions for medium and large businesses including Iceland Group (MPLS network covering 840 sites for a six year term); Hutchison 3G (MPLS network covering 360 sites for a three year term); the DX Group (MPLS network covering 72 sites for a five year term); Selfridges (MPLS network covering twelve sites for a three year term) and Fullers (MPLS network covering 200 sites for a three year term). As a result we ended FY14 with over 17,000 Ethernet lines connected, c.70% more than a year ago.

Growing market share in small businesses

We simplified our connectivity propositions for small businesses during the year, launching amongst other things, the UK's most competitive business phone and broadband package for just £4.00 per month (excluding line rental). In addition, we streamlined our sales and service processes for this important and growing segment and see significant opportunity to grow market share.

4. Progress in Making TalkTalk Simpler – a £40m+ cost opportunity

We have made good progress across the detailed programmes behind Making TalkTalk Simpler during FY14. We have actioned a number of initiatives across our four major workstreams (Getting Customers Current, Systems Transformation, Leveraging Data and Brilliant Self-Service). We commenced a programme to cease provision of non-core legacy access methods such as IP Stream, built a detailed roadmap for a Group-wide systems upgrade (some of which has already been implemented in TalkTalk Business), improved data standards and executive level reporting, and launched a service and billing app – MyTalkTalk – on both the iOS and Android platforms that has been adopted by 100,000 customers in just two months.

These initiatives, together with the continuing benefits of some of our legacy programmes, delivered £14.5m of savings during FY14.

Looking forward, we expect the four main programmes to drive a number of major initiatives in FY15 that will unlock further significant savings through FY16 and FY17. In terms of Getting Customers Current, we plan to sell our Off-net IP Stream base, rebrand our AOL base and significantly reduce the number of consumer and B2B tariffs. Our systems transformation will focus on a significant enhancement of our CRM systems and upgrading our billing platform. We will be leveraging our customer data to enable better targeted marketing activity. There will be significant focus on improving our online customer journeys to further encourage our customers to self-serve to both reduce cost and improve customer experience. These initiatives are expected to contribute towards further cumulative savings of over £40m by FY17.

5. SAC reduction from lower churn and falling costs per add

Reducing SAC is one of the key drivers of achieving our 25% EBITDA margin target. We will reduce SAC through reducing churn, and therefore will need to recruit fewer new customers, and through reducing costs per add (CPA). We have made good progress on both elements during FY14.

We continued to make significant progress in two of the leading indicators of churn during the second half of the year, with customer call volumes down 17.3% year on year and complaints to Ofcom down by 31% year on year. In addition, we have continued to see materially lower churn from customers taking additional products such as TV, mobile and fibre. The most important effect is seen in our triple play customers whose early-life churn is around half that of dual play customers, with TV customers also reporting higher net promoter scores and lower intention to churn. We have begun to see the impact of these effects in our reported On-net churn which, having spiked at 1.7% in Q2, subsequently fell to 1.6% in Q3 and 1.5% in Q4.

As an illustration, reducing churn to 1.2% (the top end of the 0.8%–1.2% range that mature triple play operators report) over the next three years, primarily by driving TV penetration across the base and further improving customer service, would lead to a cumulative saving of c.£30m over the period through fewer gross adds.

We have also made significant progress in reducing CPA. TV CPA fell during the year as planned, with the launch of our lower cost Essentials proposition and growing self-installation of the service. TV CPA across the second half of the year averaged c.£130 compared to c.£170 in the first half. Similarly, broadband CPA fell from c.£190 in the first half to c.£180 in the second half as we increased online recruitment activity and reduced third party commissions. We expect these trends to continue through FY15 and beyond, with volume related savings in hardware costs and increasing self-service driving a cumulative saving in excess of £70m over the next three years.

6. Longer term opportunities for delivering sustained growth

In April, we announced that we have joined forces with Sky and CityFibre to create a new company that will deliver ultra-fast broadband services in the city of York. The new joint venture company plans to build a state of the art, city-wide, pure Fibre to the Premise (FTTP) network to deliver broadband speeds of 1 gigabit (1,000Mbps) direct to tens of thousands of homes and businesses in York, offering customers better quality and value than is currently available with Fibre to the Cabinet (FTTC).

This will be the first time that a UK city has been connected with such high speeds on a city-wide basis and will give us the opportunity to fully test a new cost effective approach to building a viable pure fibre network, independent from BT Openreach's infrastructure.

Our initial investment in the joint venture, which will see us deploying to 20,000 homes, will be £5m. Subsequent investment to deploy across the remainder of the city will be of similar order of magnitude. We believe the economics of our approach to FTTP could prove highly attractive, with a combination of scale and low cost build technology delivering a significantly lower cost per home passed than for the current FTTC infrastructure.

We expect to announce the process for selecting the next two cities in due course, and are excited by the long term potential for a national roll-out.

In conjunction with our plans to build a converged fixed-mobile offer using our 4G spectrum and femtocells, such a national roll-out would allow us to offer our customers seamless, unlimited and low cost connectivity in their homes and businesses, and significant opportunities to drive growth over the longer term.

Guidance

FY15

- Customer numbers

  We expect to deliver modest growth in net adds in FY15 and a similar number of TV net additions to FY14.

- Revenue, Overheads and Pre-SAC EBITDA

  We expect FY15 revenues to grow by at least 4%, driven by modest growth in customer numbers and ARPU, and growth in TalkTalk Business revenues. We expect overheads as a percentage of revenue to fall below the level reported for FY13, driving Pre-SAC EBITDA margins ahead of those reported for FY13.

- SAC & Marketing and Headline EBITDA

  Based on current volume expectations and falling costs per add for both broadband and TV customers, we expect SAC and Marketing costs to fall year on year, driving strong growth in Headline EBITDA, with margin in the range of 16%–17%.

- Net debt

  Capex is expected to be within our guideline of 6% of revenue and working capital is expected to show outflows similar to FY14 as we see continuing strong growth in FY15 whilst also reducing costs.

  Cash exceptional items related to Making TalkTalk Simpler are expected to be £20m–£25m.

- Dividend

  While we shall continue to invest in growth in FY15, we are confident of achieving our medium term financial targets and, accordingly, expect to grow the FY15 dividend by no less than 15%.

FY15–FY17

In November 2013, we raised our FY14–FY17 revenue CAGR target from 2% to 4% and set our medium term EBITDA margin target of 25% to be achieved by FY17. We remain confident that we are on track to achieve both our revenue and margin targets.

We expect revenue growth to be supported by modest growth in total customer numbers, ARPU progress from disciplined pricing and promotional activity, and growing scale in TV, mobile, and fibre. We also expect TalkTalk Business revenues to grow at a faster rate than the Group average, driven by data products and new product innovation.

Revenue growth is a key component of our EBITDA margin target. There are two other components: SAC and overhead reduction.

We expect to reduce SAC by requiring fewer gross adds to maintain our customer base as a consequence of lower churn from growing TV, mobile and fibre penetration and better customer service, and by reducing costs per add as a result of increased levels of self-service and, over time, the falling costs of technology to provide TV.

Our Making TalkTalk Simpler programme is a key enabler of overhead reductions. This will make it simpler for our customers to engage with us, whether it is to buy products and services, to manage their bills or to resolve problems. To achieve this simplicity we will reduce the number of tariffs and access methods we use; reduce the complexity of our systems; make better use of data; and drive a self-service model. These initiatives are expected to deliver further savings in excess of £40m by FY17.

Dido Harding

Dido Harding
Chief Executive Officer
14 May 2014

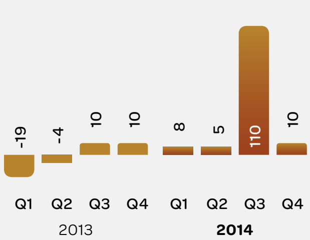
Measuring our performance

We use the following key performance indicators (KPIs) to measure our progress against our key strategic priorities.

NON-FINANCIAL METRICS

Broadband net adds ('000)

Performance

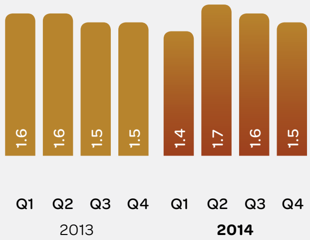


Definition
The net of new broadband customers joining TalkTalk and those leaving TalkTalk

Comment
We have delivered positive net adds growth in FY14. This is in line with our stated objective of modest base growth

On-net churn (%)

Performance

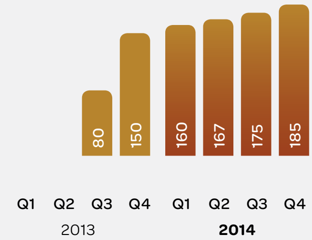


Definition
The percentage of our On-net customer base leaving TalkTalk

Comment
After a spike in Q2, churn has continued to fall back to levels seen towards the end of FY13 consistent with improving leading indicators such as reduced call volumes and complaints to Ofcom

TV net adds ('000)

Performance

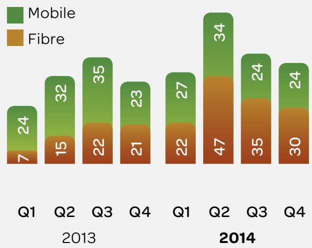


Definition
The net of new customers joining TalkTalk TV and those leaving TalkTalk TV

Comment
Demand for TV accelerated this year with the launch of our Essentials proposition. The growth reflects the investment made in FY14

Fibre and mobile net adds ('000)

Performance



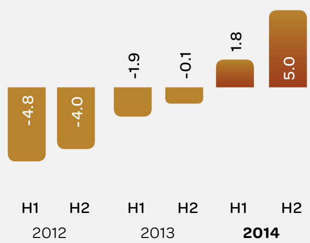
Definition
The net of new customers connecting to fibre and mobile and those disconnecting from fibre and mobile

Comment
Growth in fibre remains modest except where it can deliver transformational improvements in a customer's broadband experience

FINANCIAL METRICS

Revenue growth (%)

Performance

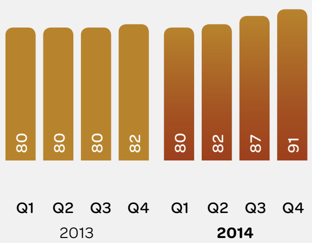


Definition
Total revenue growth on same period in the prior year

Comment
Acceleration of revenue growth in FY14 driven by the upsell of our customers onto TV, mobile and fibre along with base growth and price inflation

Corporate revenue (£m)

Performance

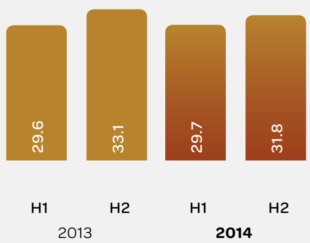


Definition
Revenue from our Corporate products including voice, data and carrier services

Comment
Acceleration in Corporate revenues due to growth in data products

Pre-SAC and Marketing EBITDA margin (%)

Performance

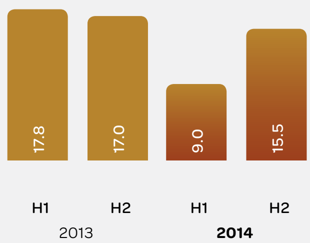


Definition
Pre-SAC and Marketing EBITDA as a percentage of revenue

Comment
Improvement in margin in H2 FY14 due to acceleration of revenue growth and reduction in opex. Temporary cost of scaling TV has led to a decline year on year

Headline EBITDA margin (%)

Performance



Definition
Headline EBITDA as a % of revenue

Comment
Investment in scaling TV has led to the reduction in EBITDA margin in FY14. Investment during the year was H1 weighted

Chief Financial Officer's statement

Overview

We delivered accelerating revenue momentum during the year as a result of investing in TV and growth in our Corporate data business.

The benefit of this investment through H2 was an acceleration in revenue growth from 1.8% in H1 to 5.0% in H2, delivering the first full year of year on year revenue growth since demerger of 3.4%.

The full year EBITDA margin of 12.3% (FY13: 17.4%) also reflects this investment in growth. The investment was weighted to the first half of the year, resulting in an H1 EBITDA margin of 9.0%. The second half of the year saw a significant improvement in margin, to 15.5%, as the benefits of investment drove an acceleration in revenue growth and as we reduced SAC and operating expenses.

The strength in revenue growth this year and the uplift in profitability in H2 underpins our confidence in achieving our medium term revenue target of 4% CAGR and medium term EBITDA margin target of 25%.

At the same time as investing to grow the business we have delivered on our dividend commitments. The proposed dividend for the full year FY14 represents growth of 15.4% year on year, in line with our commitment to grow the dividend for the year by a minimum of 15%.

Headline financial information

	2014 £m	2013 £m	Growth (decline)
On-net	**1,259**	1,170	7.6%
Off-net	**128**	178	(28.1)%
Corporate	**340**	322	5.6%
Revenue	**1,727**	1,670	3.4%
Gross margin	**958**	919	4.2%
%	**55.5%**	55.0%	
Operating expenses excluding amortisation and depreciation	**(427)**	(395)	8.1%
EBITDA pre-SAC and Marketing	**531**	524	1.3%
SAC and Marketing	**(318)**	(234)	35.9%
Headline EBITDA	**213**	290	(26.6)%
%	**12.3%**	17.4%	
Exceptional items	**(22)**	9	
Statutory EBITDA	**191**	299	(36.1)%
Depreciation and amortisation	**(112)**	(102)	9.8%
Non-operating amortisation	**(21)**	(52)	(59.6)%
Share of joint ventures	**(7)**	(4)	75.0%
Operating profit	**51**	141	(63.8)%
Finance costs	**(20)**	(19)	5.3%
Profit before tax	**31**	122	(74.6)%
Tax	**(3)**	(22)	(86.4)%
Profit after tax	**28**	100	(72.0)%

Revenue

Revenue grew 3.4% to £1,727m (FY13: £1,670m) and accelerated during the year as the benefits of our investment in growth during the first half materialised. Growth increased to 5.0% in H2 from 1.8% in H1, the fifth successive quarter of revenue growth.

On-net revenues increased 7.6% to £1,259m (FY13: £1,170m). Growth of 8.4% in the second half of the year (H1: 6.8%) was driven by take up of TV, fibre and mobile, the increase in the size of the base, and price inflation. On-net customers, those who are on our network, are able to get the greatest value from us by taking more of our products and are our most satisfied customers. The most significant driver of growth has been through take up of TV, with net adds increasing to 360,000 in H2 versus 327,000 in H1.

Corporate revenues delivered another strong year of growth, increasing 5.6% to £340m (FY13: £322m). Growth accelerated during the year, with 9.9% in the second half versus 1.3% in H1. This was driven by the accelerating growth in data product revenues, which increased from 27% year on year in the first half to 47% year on year in the second as a result of significant new corporate customer wins during the year. Overall data revenues grew 37.5% year on year. This has offset the continued decline in legacy voice revenues driven by a move from premium rate numbers, and the decrease in regulated call termination rates.

Off-net revenues continued to decline this year as expected, reducing by 28% to £128m (FY13: £178m) as a result of the continued decline in our voice only and Off-net broadband bases.

Chief Financial Officer's statement continued

Gross margin

Gross margin continued to expand during the year, increasing from 55.2% in H1 to 55.8% in H2, increasing our full year gross margin by 50 basis points to 55.5% (FY13: 55.0%) and delivering a gross profit of £958m (FY13: £919m).

This has been driven by the increased proportion of our customers on our network, the shift in our TalkTalk Business towards higher margin data products, the benefit of reduced regulatory pricing from 1 April 2013, alongside price inflation, partially offset by the impact of declining high margin Consumer voice-only revenues, and the increase in lower margin fibre, TV content and wholesale services.

Operating expenses

Operating expenses increased to £427m (FY13: £395m). The increase has been driven by the temporary operating costs of scaling TV, which principally comprised additional costs to serve that we do not expect to recur in FY15 as our new products become established. Incremental annualised benefits of £14.5m have been delivered in the year from our operating efficiencies programme, Making TalkTalk Simpler. We have continued to invest in our network capacity to provide the increased bandwidth and greater resiliency that our customers require.

SAC and Marketing

SAC and Marketing spend increased to £318m (FY13: £234m) as we invested to deliver revenue growth. The investment was H1 weighted with a total spend of £174m, reducing to £144m in H2. Spend on acquiring new TV customers of £53m was no more in H2 FY14 than in H2 FY13, despite the significantly higher volumes. Cost per add declined with the launch of Essentials TV and the move to self-install. Broadband cost per add also declined in H2 as more customers were acquired online.

EBITDA

EBITDA decreased to £213m (FY13: £290m) reflecting an EBITDA margin of 12.3% (FY13: 17.4%). Incremental investment in growth of £112m impacted the profile through the year, with a 9.0% EBITDA margin in H1 improving significantly to 15.5% in H2 as the benefits of investment drove revenue growth and overall SAC spend declined.

Exceptional items

The net exceptional charge in the year of £22m (FY13: credit £9m) comprised £20m of investment in our Making TalkTalk Simpler operating efficiency programme (FY13: £7m), where activity increased during the course of the year as we began implementations, a charge of £5m arising from a change in allowable VAT treatment in relation to prompt payment discounts during the year, offset by the receipt of a credit of £3m (FY13: £27m) from BT in settlement for the overcharging of wholesale Ethernet circuits.

Statutory EBITDA

Statutory EBITDA after exceptional items has decreased year on year by £108m to £191m (FY13: £299m), with the significant improvement from H1 of £68m to £123m in H2 driven by the improvement in Headline EBITDA, offset by an increase in our exceptional costs during the second half of the year as we increased activity on Making TalkTalk Simpler and from the change in VAT treatment relating to prompt payment discounts.

Depreciation and amortisation

Depreciation and amortisation charges increased to £112m (FY13: £102m) as a result of continued capital investment in the network and IT systems.

Amortisation of acquisition intangibles

The amortisation charged on acquisition intangibles decreased to £21m (FY13: £52m) as the AOL customer base acquired in 2006 became fully amortised in FY13.

Statutory profit before tax

Profit before tax decreased £91m year on year to £31m (FY13: £122m), reflecting the reduction in statutory EBITDA and the increase in depreciation, offset by a lower amortisation charge.

Earnings per share

	2014	2013	Growth (decline)
Headline earnings (£m)	**61**	132	(53.8)%
Basic EPS	**6.8p**	14.9p	(54.4)%
Diluted EPS	**6.6p**	14.0p	(52.9)%
Statutory earnings (£m)	**28**	100	(72.0)%
Basic EPS	**3.1p**	11.3p	(72.6)%
Diluted EPS	**3.0p**	10.6p	(71.7)%

EPS on a Headline basis is provided alongside our statutory measures to allow easier comparison year on year, due to the impact of exceptional items.

Headline EPS decreased to 6.8p (FY13: 14.9p), driven by the decrease in EBITDA as a result of investing in growth, with the profile during the year showing a significant improvement from 0.8p in H1 to 6.8p for the full year. The basic number of shares increased to 901m (FY13: 884m), driven primarily by the 23.7m shares which were issued in November 2013.

Statutory EPS decreased to 3.1p (FY13: 11.3p).

Cash flow and net debt

	2014	2013	Growth (decline)
Headline EBITDA	**213**	290	(27)%
Working capital	**(30)**	(11)	>100%
Capex	**(107)**	(104)	3%
Operating free cash flow	**76**	175	(57)%
Exceptional items – BES	**3**	27	
Exceptional items – VAT	**(5)**	–	
Exceptional items – Operating effiencies	**(21)**	(19)	11%
Acquisitions and disposals	**(8)**	(4)	100%
Dividends paid	**(99)**	(87)	14%
Interest and tax	**(17)**	(16)	6%
Net purchase of own shares	**(33)**	(35)	(6)%
Net cash flow	**(104)**	41	>100%
Opening net debt	**(393)**	(434)	(9)%
Closing net debt	**(497)**	(393)	26%

Working capital

Our working capital outflow of £30m (FY13: £11m) has been driven by the accelerated revenue growth in the second half of the year offset by an increase in current liabilities as a result of the weighting of capital investment and the Group's investment in growth.

Capital expenditure

Capital expenditure in the year of £107m (FY13: £104m) represents 6.2% of revenue (FY13: 6.2%). During the year we continued to invest in the network, rolling out to a further 303 exchanges, and increased network capacity to 1.2tb (FY13: 0.9tb), alongside investing in IT systems to support continued growth.

Exceptional items

Net spend on exceptional items of £23m (FY13: inflow of £8m) was driven by £21m of costs associated with our operating efficiencies programme, Making TalkTalk Simpler, including redundancies, site closure, consultancy and project team costs, and the £5m payment to HMRC in respect of the VAT treatment change during the year. Offsetting this was £3m received from BT in settlement for the overcharging of certain wholesale Ethernet circuits.

Acquisitions

Acquisitions in the year of £8m (FY13: £4m) represents a £5m investment in the YouView joint venture (FY13: £6m) and £3m completing the acquisition of Future Office Communications Limited.

Dividends

Our dividend policy is to return to shareholders 50% of basic Headline earnings per share in the form of ordinary dividends. As a result of the impact on Headline earnings of our investment in TV, we committed to dividend growth at a minimum of 15% for FY14.

Dividends of £99m paid in the year (FY13: £87m) comprised the final dividend for FY13 of 6.95p and the interim dividend for FY14 of 4.0p.

The Board has declared a final dividend of 8.0p which will be paid, subject to approval at the AGM on 23 July 2014 for shareholders on the register at 4 July 2014. The total declared dividend for the year was 12.0p, which provides dividend cover of 0.6 times (FY13: 1.4 times).

Share purchases

In September 2013, the second tranche of both the TalkTalk Group Value Enhancement Scheme and the Carphone Warehouse TalkTalk Group Value Enhancement Scheme (together referred to as 'VES schemes') vested. As part of this, we purchased the participant's VES shares in return for a combination of the issue of new PLC shares and cash resulting in a cash outflow of £15m (FY13: £35m).

Share repurchases totalling £24m (10 million shares) were made during the year (FY13: £nil) by the Employee Benefit Trust in order to cover anticipated future options exercises. Offsetting this, the trust received £6m on the exercise of options by employees.

Net debt

Net debt in the year increased by £104m (FY13: reduction of £41m) to £497m (FY13: £393m). Our net cash outflow of £104m (FY13: inflow of £41m) was H1 weighted as we invested for growth and paid the final dividend for FY13, driving an outflow in H1 of £80m. The H2 outflow of £24m was driven by the improvement in operating free cashflow as a result of improved EBITDA.

Taxation and treasury

	2014		2013	
	Headline	**Statutory**	Headline	Statutory
Operating profit	**94**	**51**	184	141
Finance costs	**(20)**	**(20)**	(19)	(19)
Profit before tax	**74**	**31**	165	122
Tax	**(13)**	**(3)**	(33)	(22)
Profit after tax	**61**	**28**	132	100
Headline tax rate	**18%**		20%	

Finance costs

Net finance costs of £20m (FY13: £19m) comprised the blended interest charge on debt of 3.39% (FY13: 3.58%) alongside the amortisation charge in relation to facility fees of £3m (FY13: £3m).

Net interest paid in the year increased to £17m (FY13: £16m), principally driven by higher interest payments as a result of higher average net debt.

Taxation

Our effective Headline tax rate for the year was 18% (FY13: 20%), representing a tax charge of £13m (FY13: £33m). The tax charge for the year on statutory earnings was £3m (FY13: £22m). The principal differences between the tax charge and the standard rate of corporation tax are the recognition of deferred tax assets on a further £45m tranche of acquired Tiscali losses, offset by the impact of a 3% reduction in the statutory tax rate (21% from 1 April 2014 and 20% from 1 April 2015 – previously 23%). The rate reduction has had the effect of the revaluation of our deferred tax assets downwards and has therefore resulted in a £16m charge through the income statement.

We have made no corporation tax payments during the year (FY13: £nil).

Funding

Operations are financed with committed bank facilities, retained profits and equity. During the year, we made use of overdrafts and uncommitted facilities to assist with working capital management. Subsidiaries are funded centrally, with an emphasis on efficient cash management.

Funding comprises a £560m revolving credit facility, which matures in November 2015, a £30m bilateral loan facility that matures in March 2015, and a £75m term loan that matures in November 2015. The terms of our facilities are similar and the covenants are identical. At 31 March 2014, £490m (FY13: £400m) had been drawn down under these facilities.

We are in compliance with the covenant conditions on all funding facilities at the year end. It is our policy to refinance our facilities significantly in advance of maturity dates, and we have commenced re-financing discussions ahead of the expiry of current facilities.

Chief Financial Officer's statement continued

Movement in reserves

The purchase of shares by the Employee Share Ownership Trust and the exercise of options by employees resulted in a net movement in reserves of £30m.

Policy

We are exposed to limited cross border transactional commitments and these are hedged using forward currency contracts. Interest rate risk is managed by the use of interest rate swaps. The Group aims to fix the interest cost on a proportion of its net debt over a weighted average period, as agreed from time to time. The Group Treasury function operates within the framework approved by the Board, in line with best practice, to ensure effective management of our interest and foreign exchange risk.

Capital structure

The Board reviews the capital structure of the Group on an annual basis. Net debt/EBITDA at 31 March 2014 was 2.3 times (FY13: 1.4 times), driven primarily by the Group's investment in growth and an increased dividend pay-out. The Board is confident that this will fall over the medium term and that such a reduction will make it appropriate to consider a return of excess capital to shareholders in order to maintain an efficient capital structure.

Accounting developments

The adoption of accounting standards in the year has had no material effect on the financial statements.

Going concern

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

Our business activities, together with the factors likely to affect our future development, performance and position are set out in the Business Review. Our financial position, cash and borrowing facilities are described within this Chief Financial Officer's statement. In addition, note 19 in the financial statements describes how we manage financial risk, including foreign exchange risk, interest risk and liquidity risk.

The breadth of our base, our value for money proposition, continuing improvements in operating efficiency and the largest unbundled network in the UK mean that the Directors are confident in our ability to continue to compete effectively in the UK telecoms sector.

We have £665m of committed credit facilities and as at 31 March 2014 the headroom on these facilities was £175m. Our forecasts and projections, taking in to account reasonably possible changes in trading performance, indicate that there is sufficient headroom to our facilities and that this, together with our market positioning, means that we are well placed to manage our business risks successfully and have adequate resources to continue in operational existence for the foreseeable future. The Directors have therefore adopted the going concern basis of accounting when preparing the consolidated financial statements.

Stephen Makin
Chief Financial Officer
14 May 2014

People

We have an ambitious approach to engaging with our employees. We have protected and developed our unique culture, expressed in our mission to 'Make Britain better off' and the values by which we do this, our 'Brighter Basics' – Customer, Innovate, Value, People and Community

Customer
We know our customers have a choice

Innovate
We zig when the world zags

Value
We always save our customers money

People
We can be ourselves here

Community
We know it's not just about the money

In FY14 we again saw a significant increase in employee engagement, a key contributor to our success as a business.

Leadership development

We recognise that the quality of our managers is vital to our future success and we have continued our commitment to leadership development through our ongoing programme 'Leading a Brighter Business'. A total of 550 of our managers have now completed four parts of the modular programme and are demonstrating measurable improvements in leadership capability. The programme will continue in FY15.

Employee engagement

Our engagement survey and action plan enable us to listen and respond to our employees and help us to create and sustain an environment where they are motivated, stay with us and enjoy working for TalkTalk.

Following our first survey in December 2011, we committed to specific actions that would enable higher levels of employee engagement. The annual survey was repeated in January 2014 with greater participation (92% vs 89% in FY13) and a 6% increase in the overall engagement score.

Employee performance and development

We have continued to build tools to support employee development. TalkTalkU is our online hub for all learning and development and includes extensive face-to-face and eLearning options. It has now had over 30,000 visits from our employees. Our annual performance management process has continued to provide a mechanism to drive achievement with all employees participating in a performance related variable bonus pay scheme.

Employee recognition

Recognising employees who drive our culture by actively demonstrating our Brighter Basics is extremely important to us. Our 'OntheSpot' award scheme enables senior managers to give instant recognition to employees, while our highly popular 'TalkTalk Heroes' scheme allows employees to nominate colleagues for their outstanding contribution in a wide range of areas, from charity work to customer engagement.

Employee benefits and share ownership

We offer a comprehensive range of flexible employee benefits, which we are continually improving, so employees can make choices to suit their lifestyles.

Share ownership is an important part of our culture. In September 2012, we issued every employee, who was not currently part of another share option plan, with a one-off gift of 1,000 nil priced share options through the 'All Employee Share Option Award'. This is in addition to the annual TalkTalk SAYE Scheme, in which over 50% of our employees participate.

We believe in our employees being users of, and advocates for, our products. In FY14, we continued to offer free home phone, broadband, fibre and TV, as well as half-price mobile packages.

Employee consultation – One Voice forum

One Voice is a consultation and information forum consisting of 80 nominated employee representatives, management and members of our People Services team. The forum meets regularly to discuss how the key issues we face as a business might affect our employees and to discuss relevant employee matters.

Employee communication

We communicate with all employees on a weekly basis via 'TeamTalk', a newsletter that incorporates various updates from across the business. The weekly blog from Dido Harding continues to be popular with employees, allowing for communication and feedback on topical issues in the Group.

In June 2013, we brought every UK-based employee together for a one day conference, following which 87% of attendees said that they had a better understanding of TalkTalk's strategic priorities. We have repeated this event in May 2014.

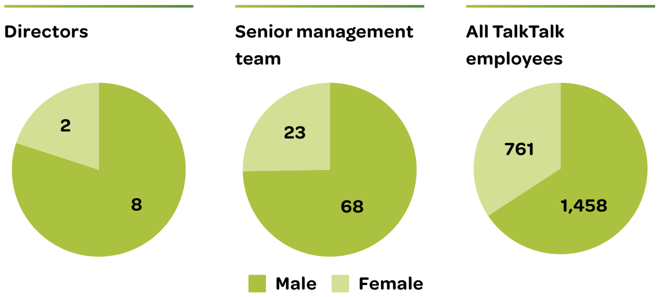
The Wire

In FY15, we will be introducing a new intranet site, which we see as a critical communication and collaboration tool for the business. It will enable colleagues to find each other easily, keep up to date on Company news and work together by sharing documents in dedicated workspaces.

Gender and diversity

We benefit enormously from our diverse workforce; our people come from different backgrounds and cultures, creating a vibrant working environment that thrives on new ideas and fresh thinking.

The importance of diversity, equality and non-discrimination is highlighted in our Equality Policy and underpinned by our values, which guide the respectful way we behave towards each other. A breakdown by gender of the number of persons who were Directors of the Company, senior managers and other employees as at 31 March 2014 is set out below.



Principal risks and uncertainties

Effective risk management is essential to the continued successful delivery of our strategy

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.

1 Competitive environment

Potential impact: Increased competition in the UK phone, broadband and TV (triple play) market may impact financial performance.

Mitigation: We regularly monitor the product offerings of our key competitors as well as the latest market and consumer trends. This ensures we identify opportunities to strengthen our competitive position by broadening and enriching the products and services we offer and by finding ways to deliver greater value for our customers. In FY14, TalkTalk has continued to build on the successful launch of its TV service as part of the YouView joint venture, having acquired a TV customer base of close to 1 million by the end of FY14. The Consumer business also has a sizeable mobile base of c.280,000 customers through its Mobile Virtual Network Operator proposition. These product offerings enable the business to compete more effectively with other triple and quad play providers in the marketplace.

2 Regulatory environment

Potential impact: Changes in BT's regulated wholesale prices can significantly impact the Group's performance.

Mitigation: We have continued to actively participate in Ofcom's consultations impacting on wholesale prices, especially the Fixed Access Market Review and Local Loop Unbundling/Wholesale Line Rental Charge Control. In particular, we have provided Ofcom with evidence, argument and expert opinion to support the case that competition, consumers' interests and the development of a mass market for super-fast broadband will be best served by reductions in wholesale prices or, in the case of fibre, a wider margin between wholesale and retail prices. In addition, the Group continues to work with Openreach to develop fibre products that incur lower set up and provisioning costs, which will allow wholesale prices to reduce further.

3 Regulatory compliance

Potential impact: Failure to operate effective processes and controls across the Group may have an adverse impact on the services we deliver to our customers, leading to churn and non-compliance with regulatory requirements. The fines that Ofcom can impose on the Group and the associated negative publicity could adversely impact our brand and reputation.

Mitigation: There has been continued focus this year on improving processes and controls and clarifying lines of accountability both in first line operations and in our second line assurance function. There has been significant progress with delivering improvements in our complaints handling processes during the period. This has resulted in a significant reduction in the overall volume of Ofcom complaints from our customers and in our market share of complaints for the sector. The Group's Regulatory Compliance Committee has continued to convene throughout the year to monitor the mitigation of operational risks, which could give rise to customer complaints and regulatory breaches. The Director of Quality & Compliance has chaired a weekly operational Compliance Committee meeting throughout the year, attended by senior executives.

4 Change management

Potential impact: We continue to review, rationalise and integrate our IT infrastructure to simplify the way in which we operate our business. This could have an adverse impact on the services we provide to our customers and on our financial performance.

Mitigation: The Executive Committee regularly monitors progress of significant change programmes and the associated risks. The Group Change Forum, comprised of senior managers, is responsible for establishing and monitoring adherence to the governance framework within which change is managed.

5 Data security

Potential impact: Failure to prevent the loss or exploitation of personally identifiable or commercially sensitive information could result in loss of competitive advantage, regulatory fines, damage to the brand and ultimately churn.

Mitigation: The Group continually reviews and seeks best practice external guidance on its data security capability and invests in and implements new solutions, both to prevent and detect security breaches. In FY14, there have been initiatives including increased hardware and removable media encryption, further enhancements to the Group's data loss prevention capability and roll-out of advanced solutions to protect customer credit card details. The Group has also adopted a 'Ten Steps to Cyber Security' programme, to increase protection against intrusion and attack; improve detection and management of breaches; and increase protection against loss of personal data. The Data Governance Council meets monthly to review progress against the risk mitigation plans aligned to the Ten Steps to Cyber Security.

6 Network stability and resilience

Potential impact: Failure to maintain sufficient and acceptable levels of network and system performance for the Group's Consumer and Business customers could lead to complaints and ultimately churn.

Mitigation: There has been significant focus during the year on ensuring optimum levels of capacity are delivered and maintained to ensure no congestion is experienced by our customers. We launched a Technical Excellence programme, which has delivered a number of significant improvements in the infrastructure's ongoing growth and management.

7 Key suppliers

Potential impact: The business has a number of critical suppliers, the performance of which could significantly affect the business's operational and financial performance.

TalkTalk relies on a number of key suppliers to provide network, equipment and services. A failure in their people, systems or processes or a failure to act in an ethically responsible manner could significantly affect TalkTalk's reputation and its ability to deliver products and services to its customers.

Mitigation: We continue to review and improve our processes and controls around supplier selection and in-life risk management. This helps to reduce the likelihood and potential impact of business interruption due to supplier failure.

8 Customer experience

Potential impact: Failure to deliver a seamless and positive end-to-end experience of TalkTalk's products and services and to deal with customers' queries and complaints effectively could damage our brand and lead to churn.

Mitigation: We are committed to continually reviewing and improving the level and quality of customer service we provide. This financial year, we have delivered a number of initiatives to i) reduce the likelihood of customers experiencing service issues, ii) improve the ability of our customers to self-help via the launch of a new Online Service Centre and associated diagnostic tools and iii) deliver better training and tools to our Customer Service teams so that queries and complaints can be handled more effectively.

9 Scaling TV

Potential impact: Now that TalkTalk has successfully established its TV proposition, the business must ensure it can continue to build scale effectively. Failure to closely monitor our customers' experience of our TV service and constantly improve service performance and the quality and value of our content offering could adversely impact our brand and reputation, leading to churn.

Mitigation: In FY14, we launched a lower priced TV proposition for our Essentials customers. As functionality grows, we continue to focus on maintaining the speed and performance of the set-top box through an extensive customer feedback programme, benchmarking tests and field research. We continually develop and renew our partnerships with over 40 content providers to ensure a broad range of family entertainment as we build scale. In addition, our YouView partnership has been extended for another five years. Finally, we continue to improve the customer experience – our self-install proposition is now our customers' preferred set-up method and we have also developed propositions and services for customers requiring wireless connectivity.

Sustainability review

Helping make Britain better off through digital inclusion, environmental sustainability and stronger communities

Our Community Brighter Basic sets out our belief that it's not just about the money. We believe that innovative digital communications can improve our society and environment and make Britain better off.

Our strategy is to help make our community a brighter place by motivating our people, our customers and supply partners, and by creating innovative products and services that empower our customers.

Child internet safety

Households and businesses are connecting ever more devices to the internet, and we want to empower our customers to protect themselves from security risks and inappropriate content. We offer HomeSafe™, which automatically protects every device on a home broadband connection, free with all our Consumer broadband packages. HomeSafe™ is built into our network and prevents users from reaching sites in categories they deem inappropriate. It is also capable of automatically blocking access to sites that are believed to harbour viruses or other security threats. HomeSafe™ was the first of its kind in the UK and has now been activated by over 1 million TalkTalk customers. In FY13, we tailored a similar service specifically for Business customers called WorkSafe. This service is free with all Business Broadband and Superpowered Fibre Business Broadband services.

As well as offering our customers the safety they deserve online, we have also trained colleagues on internet safety so they can help their local communities. We supported Safer Internet Day through our partnerships with F-Secure, the UK Council for Child Internet Safety and Mumsnet, and we hosted internet safety workshops at various UK Online Centres in London and Irlam.

In FY14, we announced that we are joining forces with other ISPs to create and fund a new multi-million pound campaign aimed at parents, to raise awareness of how to tackle issues including cyber-bullying and access to adult content online. This new joint venture, Internet Matters, will also inform parents about whole-home parental controls like HomeSafe™, helping them make the right choices for their household.

Digital inclusion

Launching the TalkTalk Digital Heroes Foundation

TalkTalk passionately believes that the internet makes Britain better off and that no one should be excluded from all the benefits that it has to offer. Since 2011,TalkTalk has been supporting and celebrating various projects, charities and individuals who are using digital technology at a very local level to make a positive social impact.

In November 2013, TalkTalk decided to take this one step further and launched the TalkTalk Digital Heroes Foundation. Through the Foundation, we aim to better support TalkTalk's community initiatives, including the annual TalkTalk Digital Heroes Awards, our annual Digital Heroes Auction as well as two annually elected hero projects. We will also engage our people in supporting the work of the Foundation through volunteering opportunities as part of our Give Something Back employee scheme.

TalkTalk Digital Heroes Awards 2013

We continue to run our flagship annual awards in partnership with charity Citizens Online and the Daily Mirror. The awards aim to reward and celebrate individuals, nominated by their communities, who use digital technology in the most socially positive way at a very local level. This year we awarded over £70,000 in grants and prizes to twelve regional winners.

The judges were our Chairman, Sir Charles Dunstone, the UK's Digital Champion, Baroness Lane Fox, and the editor of the Daily Mirror, Lloyd Embley. They crowned Scott Freeman of the Cybersmile Foundation as the national TalkTalk Digital Hero 2013 and awarded him a £10,000 prize. Scott was recognised for his outstanding work developing the Cybersmile Foundation, the UK's first dedicated cyber-bullying charity. The category of Young Digital Hero, open to anyone under 18, was won by Chelsi Jade Beale. This important and coveted prize awarded Chelsi £4,000 funding for her project, which provides computer training and support to elderly residents living in sheltered accommodation.

Ambitious about Autism

This year we continued our support for long term partner Ambitious about Autism, the national charity for children and young people with autism. They provide services, raise awareness and understanding, and campaign for change. Talk about Autism is their safe, friendly, online community where affected families can share their experiences, get support and help others to understand the condition. We raise funds for this worthy cause and its online platform through the TalkTalk Digital Heroes Auction every November, where FY14 saw a tremendous £300,000 generated (FY13: £220,000).

Apps for Good

One of our Digital Heroes Foundation hero projects chosen this year is the charity Apps for Good, which works with schools to teach young people to create mobile and social apps to solve problems that matter to them. Like us, they believe in the power of using the internet to make our communities a better place. As part of our partnership, we fund four schools around our sites to run the Apps for Good course and we sponsor an awards category in their annual awards. Over 6,000 Apps for Good students enter to compete in six categories sponsored by TalkTalk and others including Barclaycard and BlackBerry.

Code Club

Code Club, our second annual hero project, connects primary schools with volunteers who want to run a weekly after school coding club for nine and ten year olds. Code Club provides the lesson structures for the volunteers and the aim is that after two years of the course, every child will be able to build their own website or app themselves. Claire Sutcliffe, the co-founder of Code Club, was our national Digital Heroes Award winner in 2012.

TalkTalk Digital Champions

The Digital Champions programme was launched last year as part of our wider employee community scheme, Give Something Back, which gives all employees paid time off to volunteer and fundraise for good causes. Working with UK Online Centres this year, we have trained over 50 employees across the UK to become TalkTalk Digital Champions. Our Digital Champions are matched with their local UK Online Centre, so they can pass on their basic online skills to help more people get online and enjoy the benefits of the internet. Since the programme was launched we have now fulfilled over 60 volunteering opportunities in UK Online Centres across Britain.

Environmental sustainability

Greenhouse gas emissions

This section includes our mandatory reporting of greenhouse gas emissions pursuant to the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 (the 'Regulations') from activities for which the Group is responsible.

Environmental sustainability continued

Reporting year

Our reporting year is the same as our fiscal year, being 1 April to 31 March. This greenhouse gas reporting year has been established to align with our financial reporting year.

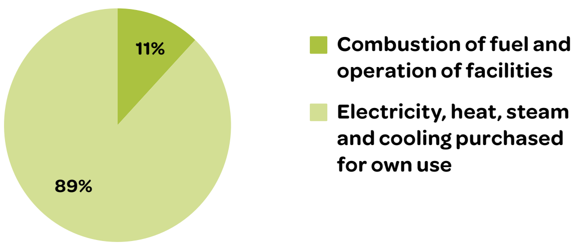
Global greenhouse gas emissions data

For the year ended 31 March 2014:

Emissions from:	Tonnes of CO_2e
Combustion of fuel and operation of facilities	**1,999**
Electricity, heat, steam and cooling purchased for own use	**15,711**
Company's chosen intensity measurement: Emissions reported above, normalised to tonnes of CO_2e per average gigabit of bandwidth* (tCO_2e/Gb)	**24**

* Average gigabit of bandwidth for the year ended 31 March 2014 is 746Gb/s.

Total CO_2e by emission type



Organisation boundary and responsibility

We report our emissions data using an operational control approach to define our organisational boundary, which meets the definitional requirements of the Regulations in respect of those emissions for which we are responsible.

We have reported on all material emission sources, which we deem ourselves to be responsible for. These sources align with our operational control and financial control boundaries. We do not have responsibility for any emission sources that are beyond the boundary of our operational control.

Methodology

We have used the main requirements of the Department for Environment Food & Rural Affairs (Defra) updated greenhouse gas reporting guidance, *Environmental Reporting Guidelines*, issued by Defra in June 2013; data gathered to fulfil our requirements under the CRC Energy Efficiency Scheme; and emission factors from the Department of Energy & Climate Change/Defra's 2013 update.

The Group's journey to improve carbon efficiency began in 2011 when our Chief Executive Officer set our objective: to reduce our CO_2 emissions intensity, in tonnes of CO_2 equivalent per gigabit (tCO2e/Gb), by 25% by April 2021, relative to FY11.

The scope of emissions captured by this objective is more wide ranging than those required to be disclosed as part of the Regulations. The scope is extended to include CO_2 emissions from all sources including those for which the Group is not directly responsible (including, for example, commercial flights).

Our internal tracking also shows that our approach is working, as despite growing the network in line with customer usage and volume, we have improved energy intensity for the third year running:

tCO_2e/Gb	**2014**	2013	2011
Energy(1), transport(2) and hotels	**91**	145	317

(1) Primarily electricity, but also some natural gas and back up generator fuel.
(2) Includes rail, air and car travel.

100% renewable electricity

All of the units of electricity consumed by our NGN, offices and UK call centres come from renewable sources.

Sustainable forestry

We display FSC and PEFC certification marks on the envelopes of our consumer direct marketing and bills, recognising our decision to source paper from certified sustainable sources. In fact, where possible, we replace printed materials with an online equivalent. This Annual Report is printed on certified 100% recycled paper.

Community investment

During the year, the Group was responsible for generating £640,800 (2013: £517,700) of income for registered charities, including £340,800 of direct cash donations (2013: £283,200). The Group did not make any political donations in the current or prior year.

We focus primarily on providing time and money via engagement with three key stakeholder groups:

Engaging with our supply partners

In November 2013, TalkTalk hosted our fourth annual fundraising auction on behalf of Ambitious about Autism. This year we re-focused as 'the TalkTalk Digital Heroes Auction': an evening to celebrate TalkTalk Digital Heroes and benefit Ambitious about Autism's exciting digital project, TalkTalk about Autism' to align with our overarching sustainability strategy. Our supply partners were invited to attend, with many donating unique lots for the auction.

Engaging with our customers

We continued three customer driven cause related fundraising initiatives established last year.

- The first was our commitment to donate to Ambitious about Autism for every call made to our UK directory enquiries number: 118 111.
- Our second initiative continued to reward customers who return to us routers that have been diagnosed as end of life. We pay for the postage, refurbish or safely recycle the equipment and then donate £1 to charity on their behalf.
- Our third initiative is a donation to the charity Cool Earth when customers added our unique Global Minutes Boost option to their phone package. Cool Earth is the only charity dedicated to protecting endangered rainforests through engagement with indigenous communities, one of the most effective ways to minimise CO_2 reaching our atmosphere.

Engaging with our colleagues

The Group's Give Something Back initiative includes Company donations for our people who raise funds for a registered charity. Hundreds of our people took part in fundraising over the year.

Other achievements in the year

We retained both our FTSE4Good Index membership and Carbon Saver Gold Standard certification

Corporate Responsibility Group

CARBON SAVER CERTIFIED

FTSE4Good

Board of Directors and advisors

Chairman:

Sir Charles Dunstone

Sir Charles is the founder of Carphone Warehouse and created TalkTalk in 2002. He was appointed Chairman of TalkTalk in 2010. Sir Charles has directed the development of TalkTalk to become one of the leading fixed line telecommunication businesses in the UK. Sir Charles is Chairman of the Prince's Trust, YouView TV Limited and Carphone Warehouse Group PLC.

Executives:

Dido Harding

Dido has been Chief Executive Officer of TalkTalk since February 2010. Prior to that, 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. Dido is a Non-Executive Director of The British Land Company PLC and is a Trustee of Go On UK.

Stephen Makin

Stephen joined the Board as Chief Financial Officer of TalkTalk in 2013. Stephen is a Chartered Management Accountant with over 15 years of experience in senior finance roles, most recently at Shop Direct where he was Chief Financial Officer. Prior to that, he was Chief Executive Officer and Chief Financial Officer of London listed Umbro PLC, until its acquisition by Nike in 2008. Stephen spent the early part of his career at Asda, where he held a series of senior finance positions.

Non-Executives:

John Gildersleeve

John joined the Board in January 2010. He is currently Chairman of The British Land Company PLC and deputy Chairman of Carphone Warehouse Group PLC. Previously he was an Executive Director of Tesco PLC.

Ian West

Ian joined the Board in February 2011. He has been involved in the TMT sector for around 25 years as a manager, director and investor. Ian held numerous roles at British Sky Broadcasting over eleven years, latterly as Managing Director of the Sky Digital subscription business. Ian is also currently an investor in a range of small and medium sized businesses and co-founded Top Up TV in 2003. Ian was a supervisory board member of Kabel Deutschland.

John Allwood

John joined the Board of TalkTalk in 2010. He has spent his entire career in media and telecoms and held a number of senior executive positions in these sectors including Chief Executive of Orange UK, between 2000 and 2004. Prior to that John spent eight years at Mirror Group PLC as Finance Director and Chief Executive. After leaving Orange he was Managing Director of Telegraph Media Group, and Chief Operating Officer and Finance Director of Mecom Group PLC. John is Non-Executive Director of Carphone Warehouse Group PLC and a Governor of Exeter University.

Brent Hoberman

Brent joined the Board of TalkTalk in January 2010. Brent co-founded lastminute.com in 1998, and was its Chief Executive Officer until it was sold in 2005. He has subsequently founded and is Chairman of mydeco and made.com, and also co-founded PROfounders and Founders Forum. Brent is a Director of easyCar.com and is a Non-Executive Director of Guardian Media Group, Time Out Group and Shazam.

Sir Howard Stringer

Sir Howard joined the Board in July 2012. Until June 2013, he was Chairman of the Board of Directors of Sony Corporation. Prior to his appointment as Chairman, Sir Howard was President and CEO of Sony Corporation. Before Sony Corporation, Sir Howard had a distinguished 30 year career as a journalist, producer and executive at CBS Inc. After seven years as President of CBS Inc, Sir Howard was Chairman and CEO of TELE–TV, the media and technology company formed by Bell Atlantic NYNEX and Pacific Telesis.

James Powell

James joined the Board in July 2012. James is Chief Technology Officer of Thomson Reuters. In his 14 years at Reuters, James held a number of senior leadership positions including CTO for Enterprise; CTO and Global Head of Product Development; Head of Technology Strategy; and CTO for the Reuters Financial division. He has also held senior leadership positions at Solace Systems, Citadel Investment Group and TIBCO Finance Technology.

Joanna Shields

Joanna joined the Board in May 2013. She is a Non-Executive Director of London Stock Exchange Group PLC and Chief Executive of Tech City UK and Business Ambassador for Digital Industries. She previously held senior executive roles at Facebook, RealNetworks, Google and Bebo.

Advisors

Company Secretary

Tim Morris

Advisors

Principal bankers:

Royal Bank of Scotland Group PLC
DNB Bank ASA
Barclays PLC
HSBC Bank PLC
Lloyds TSB Bank PLC

Corporate brokers:

Credit Suisse (Europe) Limited
1 Cabot Square, London E14 4QJ

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

Registrars:

Equiniti Limited
Aspect House, Spencer Road
Lancing, West Sussex BN99 6DA

Auditor:

Deloitte LLP
2 New Street Square
London EC4A 3BZ

Corporate governance

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 the Company has throughout the year and as at the date of this Annual Report, complied with the provisions set out in the UK Corporate Governance Code (the 'Code').

This section of the Annual Report, together with the Strategic Report, provides details of how the Company has applied the principles and complied with the provisions of the Code. In particular, this section summarises the Board's compliance with the five key principles of the Code, namely: leadership, effectiveness, remuneration, accountability and relations with shareholders.

Board balance and independence

The Board has ten members, seven of whom, excluding the Chairman, are considered independent Non-Executive Directors. These are John Gildersleeve (Deputy Chairman), Ian West (Senior Independent Director), John Allwood, Brent Hoberman, Sir Howard Stringer, James Powell and Joanna Shields.

Therefore, at least half of the Board (excluding the Chairman) are independent and, notwithstanding the changes to the Board composition during the period, this has been the situation for all of FY14.

The following changes to the Board have been announced during the year: Amy Stirling stepped down as Chief Financial Officer on 31 May 2013 and was replaced by Stephen Makin with effect from the same date. Joanna Shields was appointed as a Non-Executive Director on 16 May 2013. David Goldie stepped down on 27 September 2013. The Company did not use an external search consultant in the appointment of Non-Executive Directors during the period.

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

The Non-Executive Directors are expected to serve for an initial period of three years, albeit that either party may terminate the appointment on three months' notice with no compensation for loss of office. These initial three year periods commenced on 20 January 2010, with the following exceptions: Ian West (8 February 2011); Sir Howard Stringer (26 July 2012); James Powell (26 July 2012); and Joanna Shields (16 May 2013).

All Directors in any event stand for re-election every year.

Leadership

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), Stephen Makin (Chief Financial Officer) and other senior employees drawn from across the Group. Reserved matters include approving the Group's strategy, annual budgets and other longer term planning.

Number of meetings attended

	Board	Audit	Remuneration	Nomination
Number of meetings	6	3	7	1

Director	Board	Audit	Remuneration	Nomination
Sir Charles Dunstone, Chairman	6	–	–	–
Dido Harding	6	–	–	–
Amy Stirling(1)	–	–	–	–
Stephen Makin(1)	6	–	–	–
David Goldie(2)	2	–	–	–
John Gildersleeve	6	3	7	1
Ian West(3)	6	2	7	1
John Allwood	6	3	–	1
Brent Hoberman(4)	6	–	6	–
Sir Howard Stringer(5)	5	–	3	–
James Powell	6	3	–	–
Joanna Shields(6)	6	–	–	–

(1) Amy Stirling stepped down as a Director and was replaced by Stephen Makin on 31 May 2013.
(2) David Goldie was unable to attend one Board meeting due to a prior business commitment. David Goldie stepped down as a Director on 27 September 2013.
(3) Ian West was unable to attend one Audit Committee meeting due to a prior business commitment.
(4) Brent Hoberman was unable to attend one Remuneration Committee meeting due to a prior business commitment.
(5) Sir Howard Stringer was unable to attend one Board Meeting and four Remuneration Committee meetings due to personal reasons.
(6) Joanna Shields was appointed on 16 May 2013.

Corporate governance continued

Leadership continued

How the Board operates continued

As well as the formal meetings during the year, the Board met at other times as appropriate for approving certain announcements to shareholders.

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 keep abreast of developments in the Group.

The Chairman meets regularly with just the Non-Executive Directors 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 possible, if required, to discuss any matters with the other independent Non-Executive Directors.

The Senior Independent Director also takes responsibility for performance evaluation of the Board; succession planning for the Chairman; and chairing Non-Executive Director only meetings. In addition, he is an alternative point of contact for shareholders in the event that normal executive channels are not appropriate. Details of the Senior Independent Director's role are set out on the Group's website (www.talktalkgroup.com).

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

Effectiveness

Performance evaluation and continued development

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 against the broad criteria of overall Board effectiveness and individual contributions.

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.

In compliance with the requirements of the Code, NJMD Corporate Services Limited (NJMD) was instructed by the Company to conduct an externally facilitated performance evaluation of the Board during the year. NJMD has no connection with the Company other than a contract to conduct the evaluation and a contract with one of its Directors to provide domestic internet services. The key objectives of the evaluation, which were agreed with the Chairman and the Company Secretary in advance, were to enhance Board effectiveness and also the effectiveness of individual Directors. Overall, NJMD's review found the Board was effectively run and administered. NJMD found neither areas of major concern nor any matters which are of particular concern in relation to individual 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, 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.

Diversity

The Board understands the importance of having a diverse membership and recognises that diversity encompasses not only gender but also background and experience. The Board does not have a formal diversity policy and is generally opposed to the idea of stated quotas for females. Our equality policy applies equally to all appointments in the Company, and the Board believes that appointments should be made solely on merit, the key criterion being whether or not the appointee can add to or complement the existing range of skills and experience on the Board. Notably, the most recent Board appointment was female. This appointment was made on merit, and not on gender, the appointee being by far the strongest candidate for the position with her skill set and overall experience fitting the objective role description approved by the Board at the outset of the recruitment process.

Board Committees

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

Audit Committee

During the year, the Committee comprised the following independent Non-Executive Directors: John Allwood (Chairman), John Gildersleeve, Ian West and James Powell.

The Chairman of the Committee updates the Board, following each Committee meeting, on any significant issues that may have arisen. In addition, the Chairman of the Committee is happy to make himself available to investors on request. During the year, all requirements of the Code in respect of the Committee were met.

The Group's Chief Financial Officer as well as representatives of the Company's external auditor and other members of senior management 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.

John Allwood remains the member of the Committee with relevant and recent financial experience (as recognised by the Consultative Committee of Accountancy bodies), although all members are expected to be financially literate and have an understanding of:

- the principles of, contents of and developments in financial reporting, accounting standards and statements of recommended practice;
- key aspects of the Company's operations;
- matters that influence or distort the presentation of accounts and key financial information;

Effectiveness continued

Board Committees continued

Audit Committee continued

- the principles of, and developments in, key applicable company law and other legislation relevant to the Company;
- the role of internal and external auditing and risk management;
- the regulatory framework of the Company's business; and
- environmental and social responsibility best reporting practices.

During the year, 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;
- disclose the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed;
- confirm that the consolidated financial statements, taken as a whole, are fair, balanced and understandable, to ensure that the narrative sections of the Report are consistent with the financial statements and accurately reflect the Group's performance;
- 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, re-appointment and removal of the external auditor and to approve its remuneration and terms of engagement;
- review the Company's policy on the engagement of the external auditor to supply non-audit services;
- 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
- disclose how the Committee has assessed the effectiveness of the external audit process and provide information on the length of tenure of the current audit firm.

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.

Significant judgements

The significant issues considered by the Audit Committee in the current year were as follows:

Significant issue considered by the Committee	How the issue was addressed by the Committee
The appropriateness of preparing the Group financial statements for the half year and full year on a going concern basis	The Committee considered papers prepared by management and, taking into account the external auditor's review of these papers and its assumptions, concluded that management's recommendation to prepare accounts on a going concern basis was appropriate.
The treatment of exceptional items and their presentation within the Group's financial statements	The Committee considered management's presentation of separately disclosed items. The Committee also considered the views of our external auditor both on management's policy and its application in FY14. At each meeting the Committee reviews a paper prepared by management on actual and forecast levels of exceptional items including the nature of all the items. The disclosure for inclusion in the consolidated financial statements is reviewed and agreed by the Audit Committee.
Carrying value of goodwill and other intangibles	The judgements in relation to goodwill impairment testing relate to the assumptions applied in calculating the value in use of the operating companies being tested for impairment. The key assumptions applied in the calculation relate to the future performance expectations of the business, which are driven by the Group's calculation of its weighted average cost of capital (WACC) and its assessment of long term growth rates. The business plan used in the calculation is the five year plan, which is approved by the Group's Executive Committee and the Board. The Committee reviews and challenges management's paper on the outcome of the impairment review.
Revenue recognition	The key area of judgement in respect of recognising revenue is identifying revenue arrangements including multiple deliverables. When the Group sells a number of products within a bundled transaction, the total consideration from the arrangement is allocated to each element based on their relative fair values. The Committee reviews management's papers on proposed accounting treatment for new products. In addition, the Committee also considers the detailed reporting of the external auditor before agreeing on any potential changes to the Group's accounting policies.
Taxation	The key judgement in relation to taxation relates to the assumptions made in recognising deferred tax assets. The taxation forecasting model prepared by management is based on the five year plan, which is approved by the Group's Executive Committee and the Board. The Committee reviews and challenges management's paper, which outlines the key principles and judgements used in the calculation.

Corporate governance continued

Effectiveness continued

Board Committees continued

Audit Committee continued

Statement of Directors in respect of the Annual Report and Accounts

As required by the Code, the Directors confirm that the Annual Report and Accounts, taken as a whole, is fair balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. When arriving at this position the Board was assisted by a number of processes including:

- the Annual Report and Accounts is drafted by appropriate senior employees across all areas of the business with overall supervision being provided by the Director of Group Finance, Tax and Treasury to ensure the Report is consistent across all sections;
- a comprehensive verification process is undertaken to ensure the factual accuracy of the entire Annual Report;
- complete reviews of drafts of the Report are undertaken by the Executive Directors and other members of the Group's Executive Committee; and
- the final draft is reviewed by the Audit Committee prior to final consideration by the Board.

External audit

The Committee is responsible for the development, implementation and monitoring of the Company's policy on external audit, which assigns responsibility for monitoring the independence, objectivity and compliance by the external auditor to the Committee.

Deloitte was appointed as auditor in 2010 when the Group demerged from Carphone Warehouse Group PLC. In the year to 31 March 2014, Sharon Thorne was newly appointed as the Senior Statutory Auditor. Deloitte has confirmed its independence in a letter addressed to the Directors.

In the year to 31 March 2014, the Audit Committee adopted a formal framework to review the effectiveness of the external audit process and audit quality. An auditor assessment tool is completed annually by each member of the Audit Committee, the Chief Financial Officer and other members of senior management who are invited to attend the Audit Committee meetings. The assessment tool covers all aspects of the audit process from the audit partner's interaction with the Audit Committee through to the planning and delivery of the audit. The feedback from this process has been considered by the Audit Committee and is provided to both the auditor and to senior management. The results in the current year were reviewed at the March Audit Committee meeting and show that overall the Committee believes our external auditor is performing as expected. However, if this situation should change in the future, management will agree an action plan with the external audit partner, which the Audit Committee will keep under review.

The policy relating to the provision of non-audit services by the external auditor specifies the types of work from which the external auditor is 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 50% 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:

	2014 £m	2013 £m
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	**0.4**	0.4
Audit services provided to all Group companies	**0.5**	0.5
Taxation and other services	**0.2**	0.1
Total Group auditor's remuneration	**0.7**	0.6

In the current year, the Group incurred non-audit fees of £239,000. Fees relating to tax services of £140,000 principally comprised technical advice associated with relevant UK and international fiscal law and regulations. Other fees of £99,000 mainly represented HR consultancy advice. 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.

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.

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

Deloitte LLP has expressed its willingness to continue in office as auditor and a resolution to re-appoint Deloitte LLP will be proposed at the forthcoming AGM.

Remuneration

Remuneration Committee

During the year, the Committee comprised the following independent Non-Executive Directors: John Gildersleeve (Chairman), Brent Hoberman, Ian West and Sir Howard Stringer.

Other Directors including the Chief Executive Officer, the Company Secretary, the Group Human Resources Director and advisors attend by invitation of the Committee. A detailed description of the Committee's remit and work during the period is contained in the Directors' Remuneration Report on pages 26 to 39.

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.

Accountability

Nomination Committee

During the year, the Committee comprised the following independent Non-Executive Directors: John Gildersleeve (Chairman), John Allwood and Ian West.

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.

The Committee has overseen the appointment of Joanna Shields as a Non-Executive Director and also the appointment of Stephen Makin as Chief Financial Officer during the period.

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) and Tim Morris (Company Secretary).

Other senior executives of the Group attend by invitation of the Committee.

The purpose of the Committee is to provide the Board with visibility of how the Group remains compliant with those consumer 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 meets at least four times a year and reports to the Board accordingly. The Group also operates a weekly Compliance Committee made up of those senior executives (including the Chief Executive Officer) responsible for all key areas of compliance across the Group and is chaired by the Company Secretary. Targets set at these meetings are monitored against a weekly scorecard.

Risk management and internal control

The Company has established a risk management programme 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 programme is designed to support management's decision making and to improve the reliability of business performance.

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, counterparties and organisational change associated with major projects. 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 meeting.

The output of each assessment is a list of key strategic, financial, operational and compliance risks. Associated action plans and controls to mitigate identified risks are 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 updates on mitigation 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 Company has channels in place to enable employees to raise concerns about possible irregularities in financial reporting and other issues and for those matters to be investigaged.

The systems of internal control were in place throughout the period and up to the date of approval of the Annual Report. 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 control in operation during the year and up to the date of the approval of the Annual Report. This was approved by the Audit Committee and the Board. The Audit Committee also adopts an internal audit charter each year in accordance with International Internal Auditing Standards.

This is supported by the Business Assurance and Internal Audit function through an ongoing process for identifying, evaluating and managing the risks faced by the Group. No significant weaknesses were identified in the year.

Relations with shareholders

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 an Investor Relations Director who, amongst other matters, organises presentations for analysts and institutional investors. There is a full programme of regular meetings and dialogue with major institutional shareholders, fund managers, analysts, retail brokers and credit investors, upon which the Chairman ensures 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.

The Company's AGM provides all shareholders with the opportunity to vote on the resolutions put to shareholders. Information relating to votes cast will, following the AGM, be available on the Company's website (www.talktalkgroup.com).

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

Directors' Remuneration Report

On behalf of the Board, I am pleased to present the Directors' report on remuneration for FY14

Introduction

The structure of this Remuneration Report for the year ended 31 March 2014 has been reviewed and amended in line with the Large and Medium-sized Companies and Group (Accounts and Reports) (Amendment) Regulations 2013 ('the Regulations').

The structure of the report is therefore split into two sections:

- The **Remuneration Policy,** which sets out the Company's policy on remuneration for Executive Directors. This policy will be put forward to shareholders for a binding vote at our 2014 AGM and will be effective immediately. It is intended that the policy will apply from that date for a period of three years.
- The **Annual Report on Remuneration,** which explains how the Remuneration Policy was applied in relation to Executive Directors for the year ended 31 March 2014 and how it will be implemented for the year ending 31 March 2015.

Aligning the Remuneration Policy with Company strategy and performance

The Remuneration Committee recognises the importance of linking its Remuneration Policy and approach to business strategy and this has continued to be a focus over the past twelve months.

The Group's remuneration approach applies throughout the Company and continues to be focused on enabling it to attract, motivate and retain high quality talent and ensuring there is a transparent link between remuneration and strategy at all levels, as well as the long term performance of the Company.

Board changes during FY14

Board resignations

Amy Stirling stepped down from the Board in her role of Chief Financial Officer, effective from 31 May 2013, and left the Company after 15 years on 30 September 2013.

David Goldie stepped down from the Board in his role of Group Commercial Director, effective from 27 September 2013, and left the Company after 14 years on 30 September 2013.

Board appointments

Stephen Makin joined the Company on 15 April 2013 and was appointed to the Board as Chief Financial Officer on 31 May 2013. In line with our pay policy, the Remuneration Committee decided that base pay would initially be set at the same level as that of the former Chief Financial Officer, increasing by £25,000 from 1 October 2013.

Joanna Shields was appointed to the Board as a Non-Executive Director on 16 May 2013.

Remuneration Policy during FY14

Over the course of the past twelve months, the Remuneration Committee fully reviewed the Remuneration Policy for Executive Directors to ensure it was appropriate and fit for purpose.

The Annual Bonus scheme pay-out for Executive Directors and members of the Executive Committee this year has been determined by the Remuneration Committee to be paid at 64% of base pay.

Remuneration Policy for FY15

The Group aims to achieve its objectives of a simple and transparent approach to remuneration. The Remuneration Policy is set out on pages 27 to 32 and details of how this policy will be implemented for the financial year ahead are set out on pages 33 to 39, with the following key changes being highlighted:

- base pay award for Dido Harding effective from 1 July 2014, to reflect both her past and future contribution to the Company;
- introduction of an all-employee Share Match Plan, which was approved by shareholders at the July 2013 AGM; and
- a further award under the Value Enhancement Scheme.

John Gildersleeve
Remuneration Committee Chairman
14 May 2014

Highlights of FY14

- No changes have been made to the Remuneration Policy during the year ended 31 March 2014
- We have reviewed and amended the structure of the Directors' Remuneration Report in line with new regulations, to make it simpler and more transparent for our shareholders

Our priorities for FY15

- To review the performance metrics for both our short term and long term incentive plans to ensure they remain aligned with both shareholder interests and the strategic growth plans of the Company
- To make a further awards under the Value Enhancement Scheme (VES) for Executive Directors and a small number of senior management, aligned to delivering significant shareholder value
- To launch the Company's first Share Match Plan to further encourage all-employee share ownership

The current regulations require the Company's auditor to report to the members on the 'auditable part' of this report (marked *) and to state, in its opinion, that this part of the report has been properly prepared in accordance with the Companies Act.

Directors' Remuneration Report continued

Remuneration Policy

This section sets out the Company's policy on remuneration for Executive Directors. The Remuneration Committee intends that, subject to approval by shareholders and the binding vote, the Remuneration Policy will take immediate effect following the AGM and will apply for a period of three years

Remuneration Committee

The Remuneration Committee is responsible for making recommendations to the Board in relation to the individual remuneration packages for the Executive Directors and the Chairman. These recommendations comply with the Remuneration Policy, which is set by the Board and the terms of reference of the Committee. The Committee works with the Board to determine the balance of allocation of profits between employee incentives, shareholder dividends and reinvestment into the Group.

Remuneration approach

The aim of the Remuneration Policy is to support the Group in:

- aligning individual and business performance with the interests of shareholders through the delivery of clear and stretching targets;
- strengthening the link between employee output and the delivery of shareholder value;
- supporting the Group's overarching philosophy, to maintain its 'value player' positioning in the marketplace;
- attracting, motivating and retaining high quality talent;
- maintaining a stable, efficient cost base;
- enabling the Group's remuneration strategy to be tailored to its changing circumstances; and
- reflecting corporate governance best practice.

The Company firmly believes that remuneration should be structured in a fair and competitive way, in order to incentivise individuals to achieve the highest levels of performance, and takes a consistent approach throughout the Group.

Packages are designed to be market-competitive with fixed remuneration set at market median levels. Variable rewards, which are linked to challenging objectives based on the performance of the Group, are designed to reward exceptional performance and for the delivery of shareholder value creation.

Employee and shareholder consultation

The Remuneration Committee did not formally consult with employees of the Company on the details of the Directors' Remuneration Policy. In reaching this decision the Committee is mindful that with its strong culture of employee share ownership, with over 50% of employees holding shares in the Company, employees have the opportunity to comment and vote on all elements of this report and policy in their capacity as shareholders. Employees are also given the opportunity to share their views through regular employee surveys and the all-employee consultation body 'One Voice'.

The Remuneration Committee consults with major shareholders when setting the Remuneration Policy. If any of these shareholders are opposed to the policy, the Committee endeavours to meet with them, as appropriate, to understand and respond to any issues they may have.

Remuneration components

We define our main fixed and performance related elements of remuneration as follows:

- base pay, car allowance, benefits and pension contribution (fixed); and
- annual performance bonus (variable).

In addition, for Executive Directors, Executive Committee members and other key senior management, there are two long term incentive plans – the Discretionary Share Option Plan (DSOP) and the Value Enhancement Scheme (VES).

The VES is an alternative reward mechanism for Executive Directors and other members of the senior leadership team who will not participate in the DSOP. The Remuneration Committee intends that, generally, in any one year, participants may only receive an award under the VES and no other long term incentive plan.

The Committee reviews, at least on an annual basis, pay-out levels for Executive Directors at minimum, 'on target', 'stretch' and 'super stretch' levels of performance, in order to ensure alignment with our shareholders.

Malus and clawback

The rules of the annual performance bonus and long term incentive plans allow the Remuneration Committee to exercise its discretion in using malus or clawback provisions, should it feel that it is in the best interests of the Company and its shareholders. The Committee's policy on the exercise of its discretion is set out in this Remuneration Policy.

Executive Director shareholding requirement

To ensure that the interests of the Executive Directors are closely aligned to those of its shareholders, the Company requires Executive Directors to build over a number of years and retain a shareholding in the Company of at least 200% of their annual salary.

For the purpose of this requirement the Company requires these to be in unfettered and beneficially owned shares.

Directors' Remuneration Report continued
Remuneration Policy continued

Summary of remuneration components of Executive Directors

Component	Aim and link to strategy	Description of operation and any performance measures	Further detail on maximum opportunity and framework used to assess performance
Fixed Base pay	To attract and retain talent by ensuring base pay is competitive in the market. Set at a level which incentivises Executive Directors to implement and deliver our business strategy.	Paid monthly in cash.	Reviewed annually. Benchmarked against external market data from external specialists. Takes into account the individual's skills, experience and performance. The Remuneration Committee considers the level of the all-employee pay review when making recommendations and decisions on pay for Executive Directors. Any increase typically takes effect from 1 July annually. Under normal circumstances no Executive Director will receive an increase in excess of 10% of their base pay in any given financial year.
Fixed Core benefits	Designed to be competitive in the market.	Core benefits typically include: ○ a defined contribution pension scheme, or a cash payment in lieu of a pension contribution in certain circumstances; ○ private medical insurance for Executive Directors and their immediate family; and ○ car allowance/company car. Executive Directors are also entitled to participate on the same terms as all other employees in respect of the following benefits: ○ four times base pay life assurance; ○ income protection; and ○ annual leave.	Reviewed annually relative to the market. Pension contributions are made through salary sacrifice, with the Company making a contribution of 10% of base pay for the CEO and the CFO. If cash is paid in lieu of a pension contribution this will be subject to normal tax and NI deductions. Although the levels of Company contributions vary, all employees have the ability to join the Company's defined contribution pension scheme.
Fixed Voluntary benefits	Benefits may vary dependent on the role of the individual and the personal choices they make.	These voluntary benefits arrangements include the purchase of additional holiday and the ability to participate in all-employee share plans.	Reviewed periodically relative to the market.

Summary of remuneration components of Executive Directors continued

Component	Aim and link to strategy	Description of operation and any performance measures	Further detail on maximum opportunity and framework used to assess performance
Variable Annual performance bonus	Designed to focus Executives on the business priorities for the financial year ahead and to align the individual's remuneration with the delivery of superior business performance.	The bonus scheme is based on a 'balanced scorecard' that is comprised of financial and non-financial measures, which are reviewed annually. Such measures include Group EBITDA, operating free cash flow, customer and employee satisfaction measures and innovation. The measures and targets are set annually by the Remuneration Committee, to ensure they are appropriately stretching for the delivery of 'on target', 'stretch' and 'super stretch' performance. At least 40% of the 'balanced scorecard' will be based on financial measures.	Payment is typically made in June. The Remuneration Committee retains the ability to exercise discretion to adjust payments up or down in exceptional circumstances, where they feel this course of action is appropriate. The bonus scheme pays at the following levels: o on target awards for Executive Directors are equivalent to 60% of base pay; o stretch awards for Executive Directors are equivalent to 110% of base pay; and o super stretch (maximum) awards are equivalent to 170% of base pay.
Variable Share-based incentive plans Discretionary Share Option Plan (DSOP)	Designed to reward and retain Executives over the longer term whilst aligning an individual's interests with those of shareholders.	Discretionary awards of nil-cost options are granted over TalkTalk Telecom Group PLC shares. Level of vesting is dependent on achievement of performance targets, usually over a three year performance period from the date of grant. For awards up to 2013, the performance measures have been 50% EPS and 50% TSR. Awards vest after three years from grant. 60% of the total vested options are exercisable in the third year with the remaining 40% being eligible for exercise from the fourth year. There is no intention to award DSOP awards for those Executive Directors participating in the Value Enhancement Scheme (VES). However, this plan is included in the Remuneration Policy to give the Remuneration Committee flexibility to make an award in the case of a new hire.	Awards do not vest until the third anniversary of the date of grant and may have a deferral element. If employment ceases during the vesting period, awards will by default lapse in full, unless the Remuneration Committee exercises its discretion. The maximum level of award is a 200% base pay multiple, unless the Board determines that exceptional circumstances exist, which justify exceeding this limit, in which case options will not exceed 300% of base pay. The DSOP scheme rules were approved by shareholders in March 2010 as part of the demerger from Carphone Warehouse.

Directors' Remuneration Report continued

Remuneration Policy continued

Summary of remuneration components of Executive Directors continued

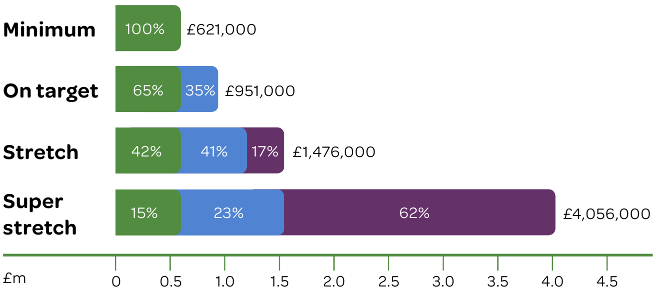
Component	Aim and link to strategy	Description of operation and any performance measures	Further detail on maximum opportunity and framework used to assess performance
Variable Share-based incentive plans Value Enhancement Scheme (VES)	Designed to reward and retain Executives over the longer term whilst aligning an individual's interests with those of shareholders and in turn delivering significant shareholder value.	The Value Enhancement Scheme (VES) is designed to enable participants to share in the incremental value of the Group in excess of an opening valuation, as determined by the Remuneration Committee and agreed with HMRC. Each award entitles the participant to purchase a fixed number of separate shares ('Participation Shares') in the subsidiary company, TalkTalk Group Limited, the holding company for the TalkTalk business. The number of TalkTalk shares issued to each participant is determined by the incremental value pool created above a 7% return to shareholders. In order to avoid the possibility that value is created by a 'rising tide' rather than management performance, the Company's total shareholder return will also be required to outperform the FTSE 250 before any vesting is possible. The vesting of awards will be subject to continued employment and the satisfaction of performance conditions and/or other specified events as determined by the Remuneration Committee. Participation Shares that are purchased by participants are acquired at market value and participants offered a loan from TalkTalk at a commercial rate of interest in order to fund such a purchase. When the awards vest the participation shares will have a value equal to the corresponding percentage they represent of the incremental value (if any) of the TalkTalk businesses at the time of vesting in excess of the applicable opening valuation and shall then be purchased by the Company for cash and/or by the issue (or transfer) of ordinary shares in the capital of the Company. Any loan made to the participants to acquire participation shares will be required to be repaid at that time. If the market value of the participation shares is less than the amount of the outstanding loan (and any accrued interest) then the participant may be required to repay a proportion of the loan, the amount of which the Remuneration Committee may use its discretion to determine. Executive Directors and Executive Committee members will be required to hold 100% of any vested shares for a period of twelve months following vesting. Other participants will be required to hold 50% of vested shares for a twelve month period. Participation shares are generally forfeited to the value of the original loan plus accrued interest in the event that a participant leaves the Company prior to the vesting date.	Awards are discretionary and are made as a 'block award' to last four years rather than an annual award. Each participant is entitled to purchase an agreed number of Participation Shares, with no participant being awarded more than 10% of the value of the pool created. 60% of the award vests after three years, with the remaining 40% of the award vesting after four years. A cap on the total value of the awards that vest at the end of the four year period applies and total awards will not result in a dilution of the issued share capital of the Company of more than 2.75%. The VES rules were approved by shareholders in March 2010 as part of the demerger from Carphone Warehouse.

Remuneration scenarios

The charts below illustrate the level of total remuneration the current Executive Directors could receive under the Remuneration Policy based on four levels of performance to ensure alignment with returns, which are received by our shareholders: at minimum, 'on target', 'stretch' and 'super stretch' levels of performance. The 'on target' level of total remuneration represents performance in line with the Company's expectations and 'super stretch' is considered to be the maximum level of total remuneration in practice, but the cap on the VES has intentionally been set at a level higher than this.

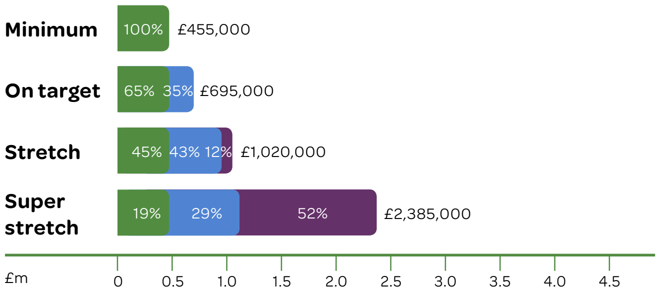
Chief Executive Officer

(D Harding)



Chief Financial Officer

(S Makin)



Share-based incentive plan (VES) | Annual performance bonus | Base pay, taxable benefits and pension

Notes
(1) Base pay is level of base pay from 1 July 2014, taxable benefits are at the level over the past year and pension is based on a 10% Company contribution/cash in lieu.
(2) Annual performance bonus is at 60% of base pay for target performance, 110% of base pay for stretch performance and 170% of base pay for super stretch performance.
(3) VES outcomes include assumed share price increases over the four year performance term.
(4) As VES is a 'block award' over a four year term rather than an annual award, we have annualised the potential pay-out over a four year period.

Other share-based remuneration

TalkTalk SAYE Scheme

The Company operates an all-employee, HMRC approved, Sharesave scheme, which all eligible employees and Executive Directors are able to participate in. All eligible employees are invited to join the scheme on an annual basis, subject to maximum participation levels, which are £500 per month from 6 April 2014, or in line with HMRC limits if these are increased. Details of current schemes can be found in the Annual Remuneration section of this report.

TalkTalk Share Match Plan (TTG Share Match)

During the course of the year, the Remuneration Committee approved the introduction of an all-employee, HMRC approved, Share Match Plan. This enables eligible employees to purchase market priced shares by entering into a partnership share agreement and holding such shares in trust for up to a five year period. The rules of the Plan allow an employee maximum contribution of £1,800 per annum, or in line with HMRC limits if these are increased. Approval for the TTG Share Match was granted by shareholders at the AGM on 24 July 2013.

The Remuneration Committee, at its discretion may award matching and/or free shares to eligible participants. Matching shares may be granted up to a maximum ratio of two matching shares for each partnership share purchased by a participant. Free shares may be awarded up to a maximum value of £3,600 tax free per annum, or in line with HMRC limits if these are increased.

It is proposed that employees will be invited to join the TTG Share Match from June 2014 onwards, with the Company providing one matching share for each partnership share purchased.

Service contracts and remuneration packages

Service contracts for Executive Directors

Under the Executive Directors' service contracts both parties are required to give twelve months' notice of termination of employment. At the Company's discretion they may terminate the contract immediately and not require the Director to work their notice and instead pay twelve months' contractual pay plus benefits. The Executive Directors' service contracts also include a twelve month non-compete period.

These contracts are available for inspection at the Company's registered office.

Recruitment policy for new hires

When hiring a new Executive Director, the Remuneration Committee will align the remuneration package with the Remuneration Policy stated above, including the maximum limits for each remuneration component. The Remuneration Committee will take all relevant factors into consideration when making a remuneration decision on a new Executive hire to ensure that these decisions are being made in the best interests of the Company and its shareholders including, but not limited to:

- quantum;
- type of remuneration being offered;
- the impact on existing remuneration arrangements for other Directors;
- the remuneration package of any exiting equivalent Director; and
- the remuneration arrangements of the candidate in their previous role.

Directors' Remuneration Report continued
Remuneration Policy continued

Service contracts and remuneration packages continued

Recruitment policy for new hires continued

In hiring a new Executive Director, the Remuneration Committee may also make a 'buy-out' award to an external candidate in compensation for any remuneration arrangements forfeited on leaving a previous employer. In making such an award, the Committee will take into consideration relevant performance conditions, vesting periods and the form in which the award was made. It is usual that any 'buy-out' awards will be made on a comparable basis. In exceptional circumstances, the Remuneration Committee may make an exceptional award under one of the Company's existing long term incentive plans in order to compensate a candidate for any remuneration arrangements forfeited on leaving a previous employer.

The Remuneration Committee would only consider making such awards where the individual has lost an award as a result of joining the Group and awards will be subject to continued employment and performance conditions, as appropriate. Following the appointment of a new Executive Director the shareholders will be informed of the details as soon as practicable.

There may be exceptional and unforeseen circumstances where the Remuneration Committee considers it appropriate to exercise discretion available under Listing Rule 9.4.2 R to grant an award to facilitate the recruitment of an Executive Director. Where a variable or performance related award is made under such circumstances, the Remuneration Committee confirms that the award will be within the limits specified in the Remuneration Policy table.

The Remuneration Committee emphasises that such discretion would only ever be used in genuinely unforeseen and exceptional events where it would be disproportionate to seek shareholder approval at a general meeting. The Remuneration Committee considers that in practice such events would arise highly infrequently, if at all, for the duration of the Remuneration Policy. Where such an event arises, the Remuneration Committee will consult with major shareholders and an explanation on how discretion has been exercised would be provided in the following year's Remuneration Report.

Relocation packages

There may be occasions when hiring a new Executive Director that a relocation package is awarded, where a candidate and/or the candidate's immediate family relocate either on a temporary or permanent basis in order to fulfil their role for the best interests of the Company and its shareholders. In such instances, the Remuneration Committee retains the right to compensate for reasonable and appropriate relocation expenses.

Expatriate packages

On appointing a new Executive Director, the Remuneration Committee may offer assistance where a candidate and/or the candidate's immediate family is asked to relocate either on a temporary or permanent basis, from an overseas location to the UK or from the UK to an overseas location. In such instances, the Remuneration Committee retains the right to compensate for reasonable and appropriate relocation expenses.

Remuneration policy for internal promotions

When an existing employee of the Company is promoted internally to the role of Executive Director, the Remuneration Committee will align the remuneration package with the Remuneration Policy stated above, including the factors it takes into account for new hires.

Any remuneration awarded prior to promotion as an Executive Director will be retained and will be subject to the previous payment terms. The shareholders will be informed of any such remuneration in the Directors' Remuneration Report following promotion.

Exit payments

The Company operates the following policy in respect of exit payments:

- Executive Directors have a twelve month notice period from the Company and they in turn are asked to give the Company twelve months' notice.
- Exit payments in relation to the service contract are limited to no more than one year's contractual pay plus other benefits, and any contractual notice pay, unless determined otherwise by the Board in exceptional circumstances, or unless otherwise dictated by law.
- The Remuneration Committee may use its discretion to determine appropriate bonus amounts and the vesting of any share-based award, taking into consideration the individual circumstances under which an Executive Director is leaving the Company.

The default position is for annual bonus amounts and the vesting of share-based awards for 'good leavers' to be pro-rated for time served from the start date of the scheme to the individual's exit date and will be subject to the applicable rules of the scheme. The Remuneration Committee will have sole discretion to determine the 'good leaver' status of an Executive Director. The Committee will determine on a case by case basis whether any vesting of a share-based award is appropriate.

Fees for Non-Executive Directors

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 37.

The fees for Non-Executive Directors are set out on page 37 of this report. These fees are reviewed (but not necessarily increased) on an annual basis, taking into account the responsibilities of the role and their participation in the various governance committees of the Company.

Non-Executive Directors are not entitled to participate in any annual or long term incentive plans, or any pension arrangements.

External appointments

The Board supports Executive Directors holding Non-Executive Directorships of other companies and believes that any 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 on page 38. The Board has also agreed that the Directors may retain their fees from such appointments.

Directors' Remuneration Report continued
Annual Report on Remuneration

The following sections set out how the Company's Remuneration Policy was implemented in the year ended 31 March 2014 and how it will be implemented for the year ending 31 March 2015

Single figure of remuneration*

To aid shareholders' understanding and in line with the new Regulations, in the table below we provide a single figure of remuneration for each Executive Director. The information for Non-Executive Directors is included in the table on page 37.

Year ended 31 March 2014

Executive Director	Base pay(1) £000	Taxable benefits(2) £000	Pension(3) £000	Bonuses(4) £000	LTIP(5) £000	SAYE gain(6) £000	2014 total £000
D Harding	500	16	50	320	5,955	1	6,842
A Stirling(7)	63	2	3	–	–	–	68
D Goldie(8)	100	8	20	–	–	–	128
S Makin(9)	373	15	37	239	–	1	665
Aggregate emoluments	1,036	41	110	559	5,955	2	7,703

(1) Value of base pay received in the year.
(2) Value of benefits received by the Director in the year.
The components of taxable benefits are as follows:
- car allowance – cash amount received in the year; and
- private medical insurance – cost to the Company in the year for the Executive Director and their family.

(3) Value of pension contribution or cash in lieu made by the Company in the year.
(4) Value of annual bonus payable in respect of the year and based on performance for the financial year.
(5) Value of VES and DSOP awards which vested during the year and any dividend payments due on these vestings.
(6) Under the 2013 SAYE scheme both D Harding and S Makin were granted 4,687 options on 14 June 2013 at an option price of £1.92.
(7) The figures in this table are for the period A Stirling was a Director to 31 May 2013. The base pay, taxable benefits and pension received for her employment not as a Director up to 30 September 2013 amounted to £134,000 and LTIP amounted to £3,411,994.
(8) The figures in this table are for the period D Goldie was a Director to 27 September 2013. The LTIP received whilst in employment after that date amounted to £3,411,994.
(9) S Makin's base pay was £375,000 from his start date to 30 September 2013. It was increased to £400,000 effective 1 October 2013.

Year ended 31 March 2013

Executive Director	Base pay(1) £000	Taxable benefits(2) £000	Pension(3) £000	Bonuses(4) £000	LTIP(5) £000	SAYE gain(6) £000	2013 total £000
D Harding	500	16	51	334	4,716	–	5,617
A Stirling	375	9	19	250	2,774	–	3,427
D Goldie	200	15	40	133	2,774	–	3,162
Aggregate emoluments	1,075	40	110	717	10,264	–	12,206

(1) Value of base pay received in the year.
(2) Value of benefits received by the Director in the year.
The components of taxable benefits are as follows:
- car allowance – cash amount received in the year; and
- private medical insurance – cost to the Company in the year for the Executive Director and their family.

(3) Value of pension contribution or cash in lieu made by the Company in the year.
(4) Value of annual bonus payable in respect of the year and based on performance for the financial year.
(5) Value of VES and DSOP awards which vested during the year and any dividend payments due on these vestings.
(6) No SAYE options were granted to Executive Directors as part of the 2012 SAYE.

Base pay

Year ended 31 March 2014

During the course of the year ended 31 March 2014, remuneration for Executive Directors was reviewed in line with market trends, peer group benchmarking and current internal practices. Peer group analysis was conducted by Towers Watson, using a group of 21 companies in the FTSE, with comparable revenue and market capitalisation. No base pay increases were made to Executive Directors in the year, except for Stephen Makin who received a base pay increase to £400,000 effective 1 October 2013, in line with his employment offer. Dido Harding has received no base pay increase since joining the Company in 2010.

For the year ended 31 March 2014, average base pay increases for all other employees was 3%.

Year ending 31 March 2015

Following the Committee's review of Executive remuneration during the year ended 31 March 2014, it was decided to increase the base pay of the CEO to £550,000 effective from 1 July 2014. This increase will be the first since her appointment in 2010, therefore on an annualised basis represents an increase of approximately 2.5% per annum, and is in line with the Group's policy to set base pay at market median. In determining this increase the Committee also took into consideration the contribution the CEO has made to the business. In particular, the significant strength in leadership, which has resulted in the growth of the market capitalisation of the Company from £900m to around £2.8bn since her appointment in February 2010.

For the year ending 31 March 2015, average base pay increases for all other employees will be 3%. This is applied as a 2.5% all employee increase with a further 0.5% for performance and market related increases on a discretionary basis.

Directors' Remuneration Report continued
Annual Report on Remuneration continued

Pension contributions*

Year ended 31 March 2014
During the course of the year, Executive Directors received Company pension contributions in line with the Remuneration Policy. There were no Directors who were members of a defined benefit pension scheme during the year.

Dido Harding received a 10% of base pay employer contribution to her pension and made a contribution of 5% of her base pay up to 1 March 2014 when she left the pension scheme. For the year ended 31 March 2014, this 10% of base pay was paid partly to the pension arrangement with the balance being paid as cash in lieu.

Stephen Makin received a 10% of base pay contribution into his private pension plan.

David Goldie received a cash equivalent of 20% of base pay in lieu of pension payments.

The pension schemes provided for other employees of the Group are included in note 4 to the consolidated financial statements.

Year ending 31 March 2015
In the year ending 31 March 2015, pension contributions from the Company for Dido Harding and Stephen Makin will continue to be capped at 10% of base pay, in line with the Remuneration Policy.

Dido Harding's pension contribution will be paid as a cash payment in lieu.

Annual performance bonus

Year ended 31 March 2014
For the year ended 31 March 2014, the annual performance bonus was based on a 'balanced scorecard' blend of financial and non-financial measures as set out in the table below.

Executives had an incentive opportunity in the range of 0% to 170% of base pay. Performance for the year achieved 106% of the target bonus potential resulting in a bonus payment of 64% of base pay.

Performance against each of the measures is set out below:

Measure	Weighting	Achievement
Headline Group EBITDA	20%	Missed
Operating free cash flow	10%	Missed
On-net ARPU	10%	Super stretch
TalkTalk Business revenue	10%	Stretch
Net Promoter Score	10%	Between minimum and target
On-net churn	20%	Missed
TV launch and customer experience	10%	Super stretch
Employee engagement	5%	Stretch
Innovation	5%	Super stretch

When determining bonus payments, the Remuneration Committee takes into account performance against the measures above, overall business performance and individual performance of Executive Directors.

Significant investment in the year in our rapidly growing TV business has resulted in some financial measures being confirmed at below minimum. Strong performance against the remainder of the scorecard has resulted in bonus being paid out to Executive Directors at just above target levels.

The Remuneration Committee has judged that the targets are commercially sensitive and remain so even on a retrospective basis as they could give competitors insight into TalkTalk's business planning process.

The Remuneration Committee is satisfied that this bonus has provided an excellent link between reward and operating performance and the creation of further shareholder value.

Year ending 31 March 2015
During the course of the year, a review of the annual bonus scheme was conducted to ensure that the performance measures in the balanced scorecard continue to be aligned to Company strategy. The performance measures and their weightings for the year ending 31 March 2015 are set out below:

Performance measure	Weighting
Headline Group EBITDA	15%
Operating free cash flow	10%
Consumer revenue	10%
TalkTalk Business revenue	10%
Net Promoter Score	10%
Churn	25%
TV launch and customer experience	10%
Innovation	10 %

The Board has determined that the disclosure of performance targets continue to be deemed commercially sensitive and are therefore not disclosed in this report. These targets are determined within the context of a longer term business plan and the disclosure of these targets could give information to TalkTalk competitors to the detriment of business performance.

The Committee will disclose performance against all these measures in next year's Directors' Remuneration Report.

There is no change to the annual bonus policy for Executive Directors which is set out in the Remuneration Policy table, with the exception of new performance measures and weightings shown above.

Share-based incentive plans*

Year ended 31 March 2014

The single figure of remuneration includes 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:

The TalkTalk Group Value Enhancement Scheme

As stated in the Remuneration Policy , the Value Enhancement Scheme (VES) was 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 and agreed with HMRC, with the initial valuation being on 1 April 2009.

As performance conditions are satisfied and the award vests, the Participation Shares are purchased by TalkTalk through the issue of TalkTalk Telecom Group PLC shares or satisfied by shares held by the Group ESOT. Participation Shares, which are purchased by participants are acquired at market value and participants are offered a loan from TalkTalk at a commercial rate of interest in order to fund such a purchase.

60% of the scheme vested in 2012, with the remaining 40% vesting in 2013.

The Remuneration Committee determined that the performance condition of a 5% TSR hurdle, once 7% has been returned to shareholders, had been achieved and therefore the scheme vested, resulting in a pool shared amongst TalkTalk participants of £42m. The calculations, which determined the value of this pool have been independently audited.

Vesting of the remaining 40% of the VES resulted in the Directors receiving the following share holdings:

Director	2014 % share of pool	2014 Number of shares
D Harding(1)	10	1,881,567
A Stirling(2)	6	1,210,356
D Goldie(2)	6	1,210,356
	22	4,302,279

(1) All shares must be held for a minimum of twelve months from receipt.
(2) No holding restriction due to the fact that employment ceased on 30 September 2013.

The remaining percentage of allocated shares in the VES pool is held by other senior management of the Group.

Interest on outstanding loans was charged at 4% during the year (2013: 4%) and interest bearing loans, which the Directors had in relation to the VES were repaid in full when the remaining 40% of the scheme vested.

There was no clawback in respect of this scheme during the year ended 31 March 2014 and no Non-Executive Directors participated in this scheme. In addition, no further VES awards were made in the year ended 31 March 2014.

TalkTalk Discretionary Shares

The TalkTalk Discretionary Share Option Plan (DSOP) is designed to provide a long term incentive plan for certain employees of the TalkTalk Group. It is the intention of the Committee that, generally in any one year, participants may only receive an award under one such scheme.

Awards under the DSOP granted during the year or where performance periods ended during the year are set out below.

2010 grant

The DSOP awarded in 2010 was approved by HMRC and the exercise of the options is subject to continuing employment and performance conditions, which are set out below.

These awards were made at the time of demerger from the Carphone Warehouse Group, in order to incentivise senior Directors and other members of the management population to develop and grow the new stand-alone business. Therefore, the Board awarded all participants a multiple of 200% base pay, which vested on achievement of a 5% TSR hurdle being reached. A further 100% base pay award also vested providing that the share price of the Company was calculated as at least £2.40 in the five day period leading up the vesting date. 50% of the options granted under this award vested on 28 March 2013, but were exercisable following the announcement of the preliminary results on 16 May 2013. The remaining 50% vested on 12 November 2013.

Other than the CEO, no Executive or Non-Executive Directors participated in this scheme.

There was no clawback in respect of this scheme during the year ending 31 March 2014.

2013 grant

A further DSOP was granted in June 2013 (DSOP 2013), under the DSOP rules approved by shareholders in 2010 and is an unapproved scheme. The exercise of these options is subject to continuing employment and two performance conditions, which are set out in the table below:

Level of performance	Vesting level	EPS CAGR	TSR CAGR
Minimum	25%	50%	50%
Target	40%	50%	50%
Stretch	70%	50%	50%
Super stretch	100%	50%	50%

Awards are triggered within a range from 18% to 26% for compound annual growth of EPS and from 5% to 14.7% for compound annual growth of TSR. If the minimum performance requirement is met, a total of 25% of the award will vest, rising to 40% for target, 70% for stretch and 100% for super stretch performance.

Awards under this scheme vest in May 2016. The awards held by Executive Directors are detailed in the table on the following page.

There was no clawback in respect of this scheme during the year ended 31 March 2014 and no Non-Executive Directors participated in this scheme.

The performance conditions for the DSOP 2012 were also based on an equal split of achieving a compound TSR and a compound EPS measure over the performance period. Awards being triggered within a range from 10% to 19% for compound annual growth of both these measures.

Directors' Remuneration Report continued

Annual Report on Remuneration continued

Share-based incentive plans continued

Year ended 31 March 2014

Scheme interests awarded in the year

Director	Number of shares allocated
D Harding	452,489
S Makin	339,367
	791,856

Total DSOP under option at year ended 31 March 2014

Director	Scheme type	Type of award	Performance conditions apply(4)	Average share price used for grant	Face value of award(1)	Minimum level of award	Vesting date
D Harding	DSOP 2012	Nil priced unapproved	Yes	£1.22	£1,250,000	25%	May 2015(2)
	DSOP 2013	Nil priced unapproved	Yes	£2.21	£1,000,000	25%	June 2016(3)
S Makin	DSOP 2013	Nil priced unapproved	Yes	£2.21	£750,000	25%	June 2016(3)
					£3,000,000		

(1) Face value is calculated as the number of options awarded multiplied by the average share price over the five day period prior to grant.
(2) 60% exercisable from May 2015 and remaining 40% exercisable twelve months thereafter.
(3) 60% exercisable from June 2016 and remaining 40% exercisable twelve months thereafter.
(4) Performance conditions are set out on page 35.

Year ending 31 March 2015

The TalkTalk Group Value Enhancement Scheme (VES)

The Company proposes to make a further VES award under the rules of the VES, already approved by shareholders, as a one-off award to Executive Directors and a limited number of members of the senior leadership team.

The Board strongly believes that due to the evolving and dynamic nature of the Company and its growth aspirations, a further award under the VES will continue to closely align the senior team to shareholders' interests and to further incentivise the Executive team to create significant value for shareholders for the next phase of development of the business.

The level of award granted to each individual during the year ending 31 March 2015 will be determined by the Remuneration Committee. The awards will recognise the individual's performance, including exceptional performance, but no individual Executive Director shall be awarded more than 10% of the VES pool. In addition, the total value of the VES awards will be subject to the cap set out in the Remuneration Policy.

It is expected that all Executive Directors will participate in the VES rather than the DSOP in the year ending 31 March 2015.

TalkTalk discretionary shares

The Remuneration Committee intends to make an award in 2014 under the DSOP rules approved by shareholders in 2010 to members of the senior management group.

The exercise of any options awarded under this scheme will be dependent on continued employment and the achievement of performance conditions, which have not currently been determined and will be published in next year's Directors' Remuneration Report.

Awards under this scheme will vest in 2017.

All-Employee Share Plans*

All-Employee Share Option Award

The All-Employee Share Option Award was granted in September 2012 and vested in September 2013, under the DSOP rules approved by shareholders in 2010. A shareholder resolution approved at the 2013 AGM permitted a waiver of the three year vesting period. The award was designed to reward all employees not currently part of another share option plan to foster all-employee share ownership. Each qualifying employee was awarded 1,000 nil priced share options. No awards were made to Executive Directors, Non-Executive Directors or senior managers. The exercise of the options was subject to continuing employment on the vesting date in September 2013 and there were no performance conditions in relation to this grant. These options lapsed on resignation of an employee.

On vesting of the scheme, a total of two million shares were awarded to the Company's employee population.

TalkTalk SAYE Scheme

The TalkTalk SAYE Scheme is a Save-As-You-Earn share option scheme and is approved by HMRC. The SAYE Scheme is administrated by a duly authorised committee of the Board. All UK Executive Directors and employees of TalkTalk and participating companies within the Group are 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 a SAYE contract and agree to make monthly contributions between £5 and £250 (increasing to £500 per month from 1 April 2014) for a specified period of three or five years.

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

All-Employee Share Plans continued

TalkTalk SAYE Scheme continued

Details of the share options for Executive Directors under the TalkTalk SAYE Scheme, which were exercised from 1 July 2013 are shown below. Any unexercised options expired on 1 January 2014. Amy Stirling also exercised 8,897 options on the same date, but was no longer a Director of the Company on the date of exercise.

Exercises

	Shares under option	Option price	Scheme maturity date
D Harding	8,897	£1.02	1 July 2013
D Goldie	8,897	£1.02	1 July 2013

No Non-Executive Directors participated in this scheme.

Further details of the features and operations of the SAYE can be found in note 5 to the consolidated financial statements.

All-employee Share Match Plan (TTG Share Match)

During the course of the year, the Remuneration Committee approved the introduction of an all-employee, HMRC approved, Share Match Plan. This enables eligible employees to purchase market priced shares by entering into a partnership share agreement and holding such shares in trust for up to a five year period. Approval for the TTG Share Match was granted by shareholders at the AGM on 24 July 2013.

No awards were made under this scheme during the period.

The Remuneration Committee notes that the TTG Share Match is due to launch to all employees in June 2014.

Additional information

Shareholding requirements

Executive Directors are required to build and retain a minimum shareholding in the Company, equivalent to 200% of base pay. Current shareholdings are set out below for Executive Directors:

Director	Holding requirement as a % of base pay	Actual holding	Requirement satisfied	Actual share ownership as a % of base pay(2)
D Harding	200%	4,253,390	Yes	2,725%
S Makin(1)	200%	20,000	No	17%

(1) Appointed to the Board on 31 May 2013.
(2) Share price on 31 March 2014 used for calculation.

Whilst there are no shareholding requirements for Non-Executive Directors, this is encouraged within the Company.

Director	Ordinary shares of 0.1p 31 March 2014	31 March 2013	Date of contract
C Dunstone	**294,059,396**	294,059,396	20 January 2010
J Gildersleeve	**245,138**	245,138	20 January 2010
I West	**346,023**	346,023	8 February 2011
J Allwood	**10,000**	10,000	20 January 2010
B Hoberman	**12,882**	12,882	20 January 2010
H Stringer	**10,000**	–	26 July 2012
J Powell	**1,000**	–	26 July 2012
J Shields	**–**	–	16 May 2013

Fees for Non-Executive Directors

Remuneration for Non-Executive Directors is set by the Board, taking account of the commitments and responsibilities of the role and their participation in the various governance committees of the Company.

The fees for Non-Executive Directors and their appointment dates are set out in the tables below. Non-Executive Directors are not eligible to participate in annual bonus, LTIP and pension arrangements.

Non-Executive Director	Fees £000	Taxable benefits £000	2014 total £000	Fees £000	Taxable benefits £000	2013 total £000
C Dunstone	360	1	**361**	360	1	361
J Gildersleeve	85	–	**85**	85	–	85
I West	78	–	**78**	73	–	73
J Allwood	68	–	**68**	60	–	60
B Hoberman	50	–	**50**	50	–	50
H Stringer	50	–	**50**	34	–	34
J Powell	50	–	**50**	34	–	34
J Shields(1)	39	–	**39**	–	–	–
Aggregate emoluments	780	1	**781**	696	1	697

(1) Appointed to the Board on 16 May 2013.

There were no changes to fee levels for Non-Executive Directors in the year and no increases are proposed in the year ending 31 March 2015, except where there are changes in the membership of the various committees of the Board.

Payments to past Directors

There were no payments made to past Directors in the year ended 31 March 2014 not disclosed elsewhere in the report.

Payments for loss of office

There were no payments made to Executive Directors past or present in the year ended 31 March 2014, in compensation for loss of office.

The 2012 DSOP award of 614,754 options made to Amy Stirling lapsed on 30 November 2013.

Non-Executive Directors' letters of appointment

The Committees that Non-Executive Directors serve on and dates of appointment are set out below.

Non-Executive Director	Committee membership	Date first appointed to the Board	Effective date of current letter of appointment
C Dunstone	–	20 January 2010	16 January 2013
J Gildersleeve	Audit, Remuneration, Nomination, Compliance	20 January 2010	16 January 2013
J Allwood	Audit, Nomination	20 January 2010	20 January 2013
B Hoberman	Remuneration	20 January 2010	20 January 2013
I West	Audit, Remuneration, Nomination	8 February 2011	16 May 2013
H Stringer	Remuneration	26 July 2012	26 July 2012
J Powell	Audit	26 July 2012	26 July 2012
J Shields(1)	–	16 May 2013	16 May 2013

(1) Appointed to the Board on 16 May 2013.

Directors' Remuneration Report continued
Annual Report on Remuneration continued

Additional information continued

Fees for external appointments

Director	Organisation	2014 £000
D Harding	British Land PLC, The Jockey Club	71
D Goldie	Energy Assets Group PLC, Node4 Holdings Ltd, WHP Holdings Ltd	9

Charles Dunstone is also Chairman of Carphone Warehouse Group PLC, which the Company believes is a significant other commitment for him.

Advice and services provided to the Remuneration Committee
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. The Committee may discuss any matter affecting the Chairman without the Chairman being present.

Over the course of the year ended 31 March 2014, the Remuneration Committee appointed and was advised on matters relating to executive remuneration by Towers Watson. The Remuneration Committee deems the advisors to be independent from the Company and the advice they received during the year to be appropriate and objective.

Towers Watson is a signatory to the Remuneration Consultants' Group Code of Conduct in relation to executive remuneration consulting in the UK.

Towers Watson has also been appointed by the Group HR Director to advise the Company on other matters in relation to employee remuneration, such as variable pay plans and organisational pay band development over the course of the year.

The fees paid for services are set out below:

Company	Nature of service	2014 £000
Towers Watson[1]	Remuneration benchmarking and long term incentive design	76

(1) Appointed on 28 November 2013.

Relative importance of spend on pay
The difference in actual expenditure between FY13 and FY14 on remuneration for all employees in comparison to distributions to shareholders by way of dividends is set out in the graphs below:

Dividend paid (£m) **+£12m**

Total employee pay (£m) **–£8m**

Comparing pay to performance
The following tables and chart show a comparison of total pay for the CEO since the listing of the Company on 29 March 2010, with the remuneration of all other employees and with TSR.

The Regulations require a comparison with TSR performance over a five year period, but due to the Company's listing in 2010, it is only possible to report for a four year period in this year's report.

	Single figure of remuneration[1]	Bonus as a % of maximum available	Shares vesting as a % of maximum[2]
2011 £000	767	19.9%	–
2012 £000	967	40.0%	–
2013 £000	5,617	39.2%	–
2014 £000	6,842	37.6%	–

(1) The increase in the single figure number in 2013 represents the vesting of the first LTIP award since the listing of the Company.
(2) It is not possible to show this value as the VES does not have a maximum % of shares. However, for information the 2010 DSOP award vested at 100% of the maximum.

The table below shows the percentage change in remuneration between 2013 and 2014 for the CEO and all other employees of the Group.

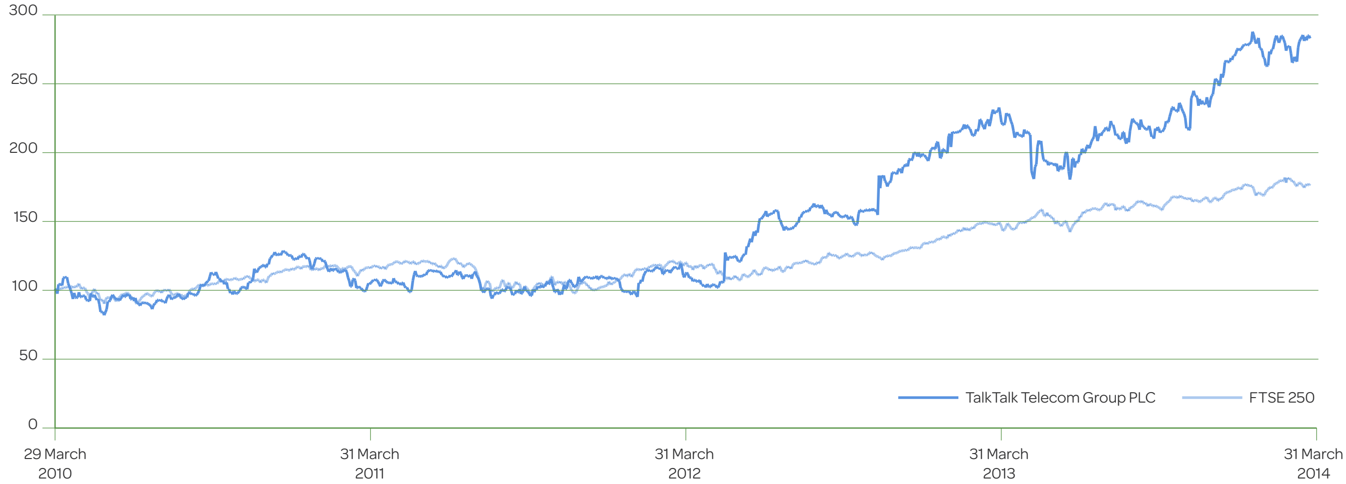
	Base pay % change	Taxable benefits % change	Annual bonus % change
CEO	–	–	(4)%
Employees	3%	1%	2%

Additional information continued

TSR 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 on 29 March 2010.

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



This Remuneration Report has been prepared in accordance with the Large and Medium-sized Companies and Group (Accounts and Reports) (Amendment) Regulations 2013 ('Regulations') issued under the Companies Act, the UK Corporate Governance Code, The GC100 and Investor Group Directors' Remuneration Reporting Guidance and the Executive Remuneration Principles published by the Association of British Insurers in November 2013. 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 and the Regulations. As required by the Regulations, resolutions to approve the Remuneration Policy Section and the overall Directors' Remuneration Report will be proposed at the 2014 AGM. Voting regarding the 2013 Directors' Remuneration Report was as follows:

Votes for	Discretionary votes	Votes against	Votes withheld	Total votes
753,604,571	83,850	21,497,951	156,019	775,342,391
97%	–	3%	–	100%

John Gildersleeve
Remuneration Committee Chairman
14 May 2014

Directors' Report

Suppliers payment policy

It is the Company's policy to develop and maintain key commercial relationships with its suppliers, one aspect of which is payment timing, to obtain mutually agreed payment terms. The Company has commercially agreed longer credit terms with one of its larger corporate suppliers. Excluding this supplier, the underlying average credit period taken on trade payables was 32 days (2013: 39 days). Including this supplier, the average credit period taken was 42 days (2013: 48 days).

Contracts with controlling shareholders

There are no material contracts with controlling shareholders, except as disclosed in the Directors' Remuneration Report on pages 26 to 39. No Director is entitled to any compensation for loss of office on a takeover or change of control of the Company. Details of employee share schemes are set out in note 5 to the financial statements. Shares held by the Group ESOT abstain from voting.

Share capital

The rights and obligations relating to the Company's shares are set out in the Articles of Association. The Articles of Association can be requested from the Company Secretary at the Company's registered office.

There are no restrictions on the transfer of ordinary shares in the capital of the Company other than those which may be imposed by law from time to time. In accordance with the Disclosure and Transparency Rules, certain employees are required to seek approval to deal in the Company's shares. The Company is not aware of any agreements between shareholders that may result in restrictions on the transfers of securities and/or voting rights.

There is a general right of the Company to purchase its own shares, as set out at Article 16 of the Company's Articles of Association. In addition, at the AGM in 2013, the Directors were granted the right to acquire 93,124,407 shares. This right expires on the date of the 2014 AGM or 24 October 2014 (whichever is the sooner).

The Articles of Association may be changed by special resolution.

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

Appointment of Directors

The rules relating to the appointment and/or removal of Directors are contained in Section O of the Company's Articles of Association. The powers of the Directors are set out in the Company's Articles of Association.

Property, plant and equipment

Movements in property, plant and equipment are set out in note 12 to the financial statements.

Dividends

The Company may, by resolution in a general meeting, declare dividends in accordance with the respective rights of the members, but no dividend can exceed the amount recommended by the Board.

Significant shareholdings

At 14 May 2014, the Company had been notified of the following interests in the Company's shares:

Name	Number of shares	Percentage of share capital
Charles Dunstone	294,059,396	30.79%
David Ross	116,160,528	12.16%
Capital Research and Management Company	61,162,000	6.40%
Jupiter Asset Management	37,379,821	3.91%
Group ESOT	34,130,266	3.57%
Fidelity Worldwide Investment (UK) Ltd.	30,634,947	3.21%
Alken Asset Management LLP	30,564,840	3.20%

The total interests of the Directors are detailed in the Directors' Remuneration Report on pages 26 to 39.

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 Chief Financial Officer's statement on page 14.

Directors' indemnities

Directors' liability insurance is provided for Directors.

Equal opportunities

We celebrate diversity and have an equality policy, which ensures that everyone is provided with the same opportunities for employment, career development, training and promotion. 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.

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 is 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 is aware of the information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

By order of the Board

TalkTalk Telecom Group PLC
11 Evesham Street
London W11 4AR

TS Morris
Company Secretary
14 May 2014

Directors' responsibilities statement

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 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.

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

- select suitable accounting policies and then apply them consistently;
- make judgements 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.

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;
- the Strategic 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; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

By order of the Board

D Harding
Chief Executive Officer
14 May 2014

S Makin
Chief Financial Officer
14 May 2014

Independent auditor's report

to the members of TalkTalk Telecom Group PLC

Opinion on financial statements of TalkTalk Telecom Group PLC	In our opinion: ○ the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2014 and of the Group's profit for the year then ended; ○ the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; ○ the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and ○ the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. The financial statements comprise the Group income statement, the Group statement of comprehensive income, the Group statement of changes in equity, the Group and Parent Company balance sheets, the Group cash flow statement, the Parent Company reconciliation of movements in shareholders' funds and the related notes 1 to 28. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).
Separate opinion in relation to IFRSs as issued by the IASB	As explained in note 1 to the Group financial statements, in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, the Group has also applied IFRSs as issued by the International Accounting Standards Board (IASB). In our opinion the Group financial statements comply with IFRSs as issued by the IASB.
Going concern	As required by the Listing Rules we have reviewed the Directors' statement contained within the Chief Financial Officer's Statement that the Group is a going concern. We confirm that: ○ we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and ○ we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.
Our assessment of risks of material misstatement	The assessed risks of material misstatement described opposite are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Risk	How the scope of our audit responded to the risk
Revenue recognition Revenue recognition surrounding: ○ the completeness over revenue due to the high volume of low value data. The majority of the Group's revenue is generated from the output of billing systems; and ○ the accuracy and completeness of revenue recognised on transactions which are outside the normal billing process, which by their nature carry a higher level of management judgement.	We tested the operating effectiveness of key IT and business controls over the customer billing systems. Our tests assessed the operating effectiveness of controls put in place to ensure all services supplied to customers are input into and processed through the billing systems. This enabled us to obtain controls assurance over billing systems accounting for over 95% of total Group revenue. We subsequently applied a combination of substantive analytical review procedures and tests of detail to obtain assurance over the validity and completeness of the reported output of these systems. We performed substantive testing on a sample of non-systematic adjustments which are outside of the normal billing process and therefore carry higher levels of management judgement. These included revenue deferrals and the write back of historical credits applied to customer accounts to the income statement.
Disclosure of exceptional items and the presentation of adjusted measures in the financial statements The disclosure of exceptional items and their presentation on the face of the income statement represents an audit risk given the level of management judgement involved. Areas of particular audit focus in the current year are exceptional costs recognised in relation to dual running costs, internal labour costs and the "Red Routers" programme – all of which we deem to carry a higher level of judgement. The nature of these costs have been defined in note 9 to the accounts.	In addition to understanding the composition of exceptional items and agreeing a sample of items to supporting documentation, we have challenged management's rationale for the presentation of items within the income statement as exceptional, particularly around the areas of higher judgement, such as dual-running, to ensure the costs recognised as exceptional meet the criteria of the accounting policy for such items defined by the Group within note 9. This includes assessing the incremental nature of the costs, the extent to which the costs are non-recurring, whether they are specific to individual projects and considering whether they should be classified as part of underlying operations. Our work has also included a review, on a sample basis, of items included within the income statement to identify income and expenses which were exceptional by nature but not separately identified.
Carrying value of goodwill and intangible assets Management is required to undertake an annual impairment review, which incorporates judgements based on assumptions of future cash flows, including assumptions around revenue growth, margins and forecast cash flows, the selection of appropriate discount rates and the assessment of the Group's cash generating units.	We challenged management's assumptions used in the impairment model for goodwill and intangible assets, including specifically the determination of cash generating units, the forecast cash flow projections for each cash generating unit and the discount rates. In making this critical assessment of the cash flow projections we assessed historical forecasting accuracy and compared forecast profit margins to historical margins and benchmarked the discount rate and growth rates employed to available market data. We critically assessed management's position as to whether or not a reasonably possible change to key operating assumptions could result in an impairment. In doing so we considered the sensitivity of the asset valuations to these assumptions, in particular changes to the long term growth rate assumed and the growth of the TV and Fibre customer bases. We also considered the appropriateness of the related disclosures set out in note 11 to the accounts.
Treatment and presentation of deferred tax assets The accounting treatment and presentation of the measurement of deferred tax assets relating to losses of Video Networks Limited acquired with Tiscali which have been disclosed within note 7. The recognition of these deferred tax assets are judgemental as a result of their nature and reliance on management forecasts.	We have reviewed correspondence with HMRC supporting the availability of these losses and have challenged management's forecasts of future taxable profits to determine the appropriate quantum of Video Network losses to recognise as a deferred tax asset.

The Audit Committee's consideration of these risks is set out on page 23.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Independent auditor's report continued

to the members of TalkTalk Telecom Group PLC

Our application of materiality	We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work. We determined planning materiality for the Group to be £6m (2013: £8.2m). In determining materiality, we made allowance for the impact of the subscriber acquisition costs related to TV customers which has reduced current year profits. Our materiality was therefore set by blending revenue and profit metrics to take this matter in to account. On the basis of our risk assessment, together with our assessment of the Group's overall control environment, our judgement is that performance materiality for the Group should be 70% of planning materiality, namely £4.2m. Our objective in adopting this approach is to ensure that total detected and undetected audit differences do not exceed our planning materiality for the financial statements as whole. We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £120,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.
An overview of the scope of our audit	Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our Group audit scope primarily on the TalkTalk Consumer and TalkTalk Business operating units, each of these was subject to a full audit and represent 95% of the Group's total assets and revenues. Specific focused audit work was performed over Group functions, including those covering treasury and taxation. Our audit work at each division was executed at levels of materiality which were lower than Group materiality. At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit.
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 Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
Matters on which we are required to report by exception	
Adequacy of explanations received and accounting records	Under the Companies Act 2006 we are required to report to you if, in our opinion: ○ we have not received all the information and explanations we require for our audit; or ○ 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 are not in agreement with the accounting records and returns. We have nothing to report in respect of these matters.
Directors' remuneration	Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.
Corporate Governance Statement	Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.
Our duty to read other information in the Annual Report	Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is: ○ materially inconsistent with the information in the audited financial statements; or ○ apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or ○ otherwise misleading. In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of Directors and auditor	As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the 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 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. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team, strategically focused second partner reviews and independent partner reviews. 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.
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 and 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Sharon Thorne FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
14 May 2014

Group income statement
For the year ended 31 March

	Notes	2014 Before amortisation of acquisition intangibles and exceptional items £m	2014 Amortisation of acquisition intangibles and exceptional items* £m	2014 After amortisation of acquisition intangibles and exceptional items £m	2013 Before amortisation of acquisition intangibles and exceptional items £m	2013 Amortisation of acquisition intangibles and exceptional items* £m	2013 After amortisation of acquisition intangibles and exceptional items £m
Revenue	2	1,727	(5)	1,722	1,670	–	1,670
Cost of sales		(769)	–	(769)	(751)	–	(751)
Gross profit		958	(5)	953	919	–	919
Operating expenses excluding amortisation and depreciation		(745)	(17)	(762)	(629)	9	(620)
Headline EBITDA		213	(22)	191	290	9	299
Depreciation	3, 12	(77)	–	(77)	(76)	–	(76)
Amortisation	3, 11	(35)	(21)	(56)	(26)	(52)	(78)
Share of results of joint venture	14	(7)	–	(7)	(4)	–	(4)
Operating profit	3	94	(43)	51	184	(43)	141
Finance costs	6	(20)	–	(20)	(19)	–	(19)
Profit before taxation		74	(43)	31	165	(43)	122
Taxation	7	(13)	10	(3)	(33)	11	(22)
Profit for the year		61	(33)	28	132	(32)	100
Attributable to the equity holders of the Parent Company		61	(33)	28	132	(32)	100
Earnings per share							
Headline/Statutory							
Basic (pence)	10	6.8		3.1	14.9		11.3
Diluted (pence)	10	6.6		3.0	14.0		10.6

* 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 Group income statement. All amounts relate to continuing operations.

Group statement of comprehensive income

For the year ended 31 March

	Notes	2014 £m	2013 £m
Profit for the year*		28	100
Other comprehensive income for the year			
Items that may be reclassified subsequently to the income statement:			
Derivative financial instruments*	19	3	(2)
Currency translation differences		–	1
Total comprehensive income for the year		**31**	**99**
Attributable to the equity holders of the Parent Company		**31**	**99**

* Recognised within retained earnings and other reserves.

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

Group statement of changes in equity

For the year ended 31 March

	Notes	Share capital £m	Share premium £m	Translation reserve £m	Demerger reserve £m	Retained earnings and other reserves £m	Total £m
At 1 April 2013		**1**	**618**	**(64)**	**(513)**	**400**	**442**
Total comprehensive income for the year		–	–	–	–	31	31
Issue of own shares*	22	–	66	–	–	(78)	(12)
Taxation of items recognised directly in reserves		–	–	–	–	2	2
Purchase of own shares		–	–	–	–	(24)	(24)
Settlement of Group ESOT		–	–	–	–	6	6
Adjustment arising from change in non-controlling interest		–	–	–	–	(3)	(3)
Share-based payments reserve credit	5	–	–	–	–	4	4
Equity dividends	8	–	–	–	–	(99)	(99)
At 31 March 2014		**1**	**684**	**(64)**	**(513)**	**239**	**347**

	Notes	Share capital £m	Share premium £m	Translation reserve £m	Demerger reserve £m	Retained earnings and other reserves £m	Total £m
At 1 April 2012		1	586	(65)	(513)	435	444
Total comprehensive income for the year		–	–	1	–	98	99
Issue of own shares**	22	–	32	–	–	(63)	(31)
Taxation of items recognised directly in reserves		–	–	–	–	11	11
Share-based payments reserve credit	5	–	–	–	–	6	6
Equity dividends	8	–	–	–	–	(87)	(87)
At 31 March 2013		1	618	(64)	(513)	400	442

* On 16 September 2013, the Group's Remuneration Committee determined that the relevant performance conditions of the VES schemes (including the 5% TSR requirement) had been satisfied, meaning the VES participants were entitled to exercise the remaining 40% of their options as set out in note 5. The settlement of the schemes resulted in the recognition of share premium of £66m and a £78m movement in retained earnings and other reserves.

** On 17 September 2012, the Group's Remuneration Committee determined that the relevant performance conditions of the VES schemes (including the 5% TSR requirement) had been satisfied, meaning the VES participants were entitled to exercise 60% of their options as set out in note 5. The settlement of the schemes resulted in the recognition of share premium of £32m and a £63m movement in retained earnings and other reserves.

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

Group balance sheet

As at 31 March

	Notes	2014 £m	2013 £m
Non-current assets			
Goodwill	11	**479**	479
Other intangible assets	11	**141**	154
Property, plant and equipment	12	**305**	295
Investment in joint venture	14	**7**	9
Deferred tax assets	7	**107**	109
		1,039	1,046
Current assets			
Cash and cash equivalents	18	**–**	7
Inventories	15	**24**	23
Trade and other receivables	16	**260**	226
		284	256
Total assets		**1,323**	1,302
Current liabilities			
Bank overdraft	18	**(7)**	–
Trade and other payables	17	**(456)**	(431)
Loans and other borrowings	18	**(30)**	(25)
Corporation tax liabilities		**(14)**	(16)
Provisions	20	**(2)**	(5)
		(509)	(477)
Non-current liabilities			
Loans and other borrowings	18	**(460)**	(375)
Provisions	20	**(7)**	(8)
		(467)	(383)
Total liabilities		**(976)**	(860)
Net assets		**347**	442
Equity			
Share capital	21, 22	**1**	1
Share premium	22	**684**	618
Translation reserve	22	**(64)**	(64)
Demerger reserve	22	**(513)**	(513)
Retained earnings and other reserves	22	**239**	400
Total equity		**347**	442

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

These financial statements were approved by the Board on 14 May 2014. They were signed on its behalf by:

D Harding
Chief Executive Officer
14 May 2014

S Makin
Chief Financial Officer
14 May 2014

Group cash flow statement

For the year ended 31 March

	Notes	2014 £m	2013 £m
Operating activities			
Operating profit		51	141
Adjustments for non-cash items:			
Share-based payments	5	4	6
Depreciation	3, 12	77	76
Amortisation	3, 11	56	78
Share of losses of joint venture	14	7	4
Profit on disposal of subsidiaries	13	–	(1)
Operating cash flows before movements in working capital		195	304
Increase in trade and other receivables		(36)	(37)
Increase in inventory		(1)	(20)
Increase in trade and other payables		7	46
Decrease in provisions		(5)	(6)
Cash generated by operations		160	287
Income taxes paid		–	–
Net cash flows generated from operating activities		160	287
Investing activities			
Acquisition of subsidiaries and joint ventures, net of cash acquired	13, 14	(8)	(6)
Disposal of subsidiaries and customer bases	13	–	2
Acquisition of intangible assets		(42)	(34)
Acquisition of property, plant and equipment		(65)	(70)
Cash flows used in investing activities		(115)	(108)
Financing activities			
Settlement of Group ESOT shares		6	–
Net purchase of own shares		(39)	(35)
Drawdown (repayment) of borrowings	23	90	(35)
Interest paid		(17)	(16)
Dividends paid	8	(99)	(87)
Cash flows used in financing activities		(59)	(173)
Net (decrease) increase in cash and cash equivalents		(14)	6
Cash and cash equivalents at the start of the year		7	1
Cash and cash equivalents at the end of the year		(7)	7
Cash and cash equivalents for the purpose of this statement comprise:			
Cash and cash equivalents	18	–	7
Bank overdrafts	18	(7)	–
		(7)	7

The accompanying notes are an integral part of this Group 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 England and Wales under the Companies Act 2006.

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 (EU) 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 elected to prepare its Parent Company financial statements in accordance with UK GAAP.

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.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company, entities controlled by the Company (its subsidiaries) and entities which are joint ventures accounted for using the equity method 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 and the results of joint ventures to bring accounting policies in line with those used by the Group.

Going concern

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 14 within the Chief Financial Officer's statement.

Accounting policies

The Group's principal accounting policies, which relate to the financial statements as a whole, are set out below. Where an accounting policy is specific to one note, the policy is described in the note to which it relates. This section also shows new EU endorsed accounting standards, amendments and interpretations, whether these are effective in the current or later years. In both cases it is explained how they are expected to impact the performance of the Group.

Revenue

Revenue is stated net of VAT and other sales related taxes and represents the gross inflow of economic benefit generated from the provision of fixed line, TV and mobile 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;
- usage including voice and TV content 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; and
- data service solutions and other service contracts are recognised as the Group fulfils its performance obligations.

Revenue is measured at fair value of the consideration received or receivable. When the Group sells a number of products within a bundled transaction, the total consideration from the arrangement is allocated to each element based on their relative fair values. The amount of revenue the Group recognises for delivered elements is limited to the cash received.

Subscriber acquisition costs

Subscriber acquisition costs include both third party costs of recruiting and retaining new customers as well as device costs. These are expensed as incurred.

Notes to the consolidated financial statements continued

1. Accounting policies and basis of preparation continued

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 through other comprehensive income in respect of cash flow hedges.

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

	Average		Closing	
	2014	2013	2014	2013
Euro	1.19	1.23	1.21	1.19
United States Dollar	1.60	1.58	1.67	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.

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.

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.

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 rate 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 and bank deposits consists of cash in hand.

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.

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.

1. Accounting policies and basis of preparation continued

Financial instruments continued

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 provides 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, exercised, or no longer qualifies for hedge accounting, or the Company chooses to end the hedging relationship.

Cash flow hedges

The Group uses derivative instruments (primarily interest rate swaps) to manage its interest rate risk. The Group designates these as cash flow hedges. The effective portion of changes in the fair value of these instruments is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Measurement

The financial instruments included on the Group's balance sheet are measured at fair value or amortised cost. The measurement of this fair value can in some cases be subjective and can depend on the inputs used in the calculations. The different valuation methods are called 'hierarchies' and are described below:

- Level 1: Fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Fair values measured using inputs, other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly; and
- Level 3: Fair values measured using inputs for the asset or liability that are not based on observable market data.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to exercise judgement in applying the Group's accounting policies. 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.

The areas involving the most sensitive estimates and assumptions that are significant to the financial statements are set out in more detail in the related notes:

- tax (note 7);
- exceptional items (note 9);
- impairment of goodwill (note 11);
- capitalisation and useful economic lives of assets (notes 11 and 12);
- impairment of assets (notes 11 and 12); and
- trade receivables (note 16).

Application of significant new or amended EU endorsed accounting standards

Amendments to IAS 1 'Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income' and IFRS 13 'Fair Value Measurement' became effective in the current reporting period. These new and revised standards and interpretations have no material impact on the Group.

In addition, the Group has elected to early adopt IAS 36 (revised) 'Impairment of Assets' (IAS 36), which is endorsed by the EU, but not effective until periods beginning on or after 1 January 2014. The amendments to IAS 36 enhance the disclosure requirements arising when recoverable amounts have been determined on the basis of fair value less costs of disposal. They also limit the requirement to disclose the recoverable amount of an asset or CGU to periods in which an impairment loss has been recognised or reverses.

We have chosen to adopt the amendments early, as allowed by the standard, with effect from 1 April 2013.

Notes to the consolidated financial statements continued

1. Accounting policies and basis of preparation continued

Future accounting developments

At the date of authorisation of these financial statements the following significant standards and interpretations that 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):

- IFRS 9 'Financial Instruments'
- IFRS 10, IFRS 12 and IAS 27 (amended) 'Investment Entities'
- IAS 32 (amended) 'Offsetting Financial Assets and Financial Liabilities'
- IAS 39 (amended) 'Novation of Derivatives and Continuation of Hedge Accounting'
- IFRIC 21 'Levies'

The Directors do not expect that the adoption of these standards will have a material impact on the financial statements of the Group in future periods, except as follows:

- IFRS 9 will impact the:
  - measurement and disclosure of financial instruments; and
  - disclosure of interest the Group has in other entities.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

2. Segmental reporting

Accounting policy

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.

	2014 £m	2013 £m
Headline revenue	**1,727**	1,670
Headline EBITDA	**213**	290
Depreciation	**(77)**	(76)
Amortisation of operating intangibles	**(35)**	(26)
Share of results of joint ventures	**(7)**	(4)
Headline profit before interest and taxation (note 9)	**94**	184
Amortisation of acquisition intangibles	**(21)**	(52)
Exceptional items	**(22)**	9
Operating profit	**51**	141

The Group's revenue is split by On-net, Off-net and Corporate products as this information is provided to the Group's chief operating decision maker. On-net and Off-net comprise Consumer and Business customers that receive similar services.

	2014 £m	2013 £m
On-net	**1,259**	1,170
Off-net	**128**	178
Corporate	**340**	322
	1,727	1,670

The Group has no material overseas operations; as a result a split of revenue and total assets by geographical location has not been disclosed.

3. Operating profit before interest and taxation

Group profit before interest and taxation is stated after charging (crediting):

	2014 £m	2013 £m
Depreciation of property, plant and equipment	77	76
Amortisation of acquisition intangibles	21	52
Amortisation of other operating intangible fixed assets	35	26
Profit on disposal of subsidiaries and customer bases	–	(1)
Impairment of Shared Band Limited	–	1
Impairment loss recognised on trade receivables	52	33
Staff costs	125	133
Cost of inventories recognised in expenses	123	67
Rentals under operating leases	91	79
Auditor's remuneration*	1	1

* A breakdown of auditor's remuneration is disclosed within the Governance section on page 24.

4. Employee costs

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

	2014 Number	2013 Number
Administration	1,516	1,517
Sales and customer management	792	998
	2,308	2,515

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

	2014 £m	2013 £m
Wages and salaries	104	110
Social security costs	13	14
Other pension costs	4	3
	121	127
Share-based payments (note 5)	4	6
	125	133

The Group provides various defined contribution pension schemes for the benefit of a significant number of its employees. These are charged to the income statement as they become payable in accordance with the rules of the schemes.

Compensation earned by key management personnel is analysed below. The key management personnel comprised the TalkTalk Group Executive Board and Board of Directors.

	2014 £m	Restated 2013 £m
Salaries and fees	3.9	4.0
Performance bonuses	1.8	1.9
Benefits	0.2	0.1
Pension costs	0.2	0.2
Share-based payments*	0.7	0.9
	6.8	7.1

* The prior year share-based payments charge has been restated from £2.2m to £0.9m. This is to reflect the fact that the charge disclosed in the 2013 Annual Report showed the total charge across the life of the scheme for these employees rather than just the FY13 charge.

Notes to the consolidated financial statements continued

5. Share-based payments

Accounting policy

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 dividend discount or Binomial model for share-based payments with internal, non-market performance criteria (for example, EPS targets) and a Black Scholes or Monte Carlo model for those with external, 'market' 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 scheme is cancelled, any remaining part of the fair value of the scheme is expensed immediately. If a scheme is forfeited, no further expense is recognised and any charges previously recognised are reversed.

Charges arise on loans that are provided to employees to fund the purchase of shares in the Group as part of long term incentive plans. 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. Charges are also recognised on loans 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.

In accordance with IFRS 2 'Share-based Payment' no cost has been recognised in respect of the options granted before November 2002.

Group share schemes

The Group's share schemes are the Discretionary Share Option Plan (DSOP) and Save-As-You-Earn scheme (SAYE).

In addition, the Group has a number of legacy CPW schemes.

In order to aid the user of the accounts, the dilutive effect on EPS of each of the Group schemes and legacy CPW schemes has been presented. This has been calculated using an average share price for the financial year of £2.67 (2013: £1.98).

For the CPW legacy schemes, there is no IFRS 2 charge in the current year (2013: £1m). The disclosures are limited to the dilutive effect on EPS and the number of options outstanding at the end of the year.

In September 2013, the remaining 40% of the TTG VES and the CPW TTG VES vested. Further information is set out in section (vi) of this note.

5. Share-based payments continued

Summary of share schemes

Year ended 31 March 2014	IFRS 2 charge £m	Dilutive effect millions	Options outstanding at end of the year millions
TalkTalk Telecom Group PLC schemes			
All Employee Share Option Award – 2012	2	1	–
DSOP – 2013 grant	1	3	6
DSOP – 2012 grant	1	5	10
DSOP – 2010 grant	–	4	2
SAYE	–	2	4
Total TalkTalk Telecom Group PLC schemes	4	15	22
Legacy Carphone Warehouse schemes			
TTG VES and CPW TTG VES	–	14	–
Other employee share option schemes	–	1	1
Total legacy Carphone Warehouse schemes	–	15	1
Total	4	30	23

Year ended 31 March 2013	IFRS 2 charge £m	Dilutive effect millions	Options outstanding at end of the year millions
TalkTalk Telecom Group PLC schemes			
All Employee Share Option Award – 2012	2	1	2
DSOP – 2012 grant	1	5	12
DSOP – 2010 grant	1	7	17
SAYE	1	3	6
Total TalkTalk Telecom Group PLC schemes	5	16	37
Legacy Carphone Warehouse schemes			
TTG VES and CPW TTG VES	1	38	–
Other employee share option schemes	–	2	1
Total legacy Carphone Warehouse schemes	1	40	1
Total	6	56	38

TalkTalk Telecom Group PLC schemes

(i) All Employee Share Option Award – 2012

The All Employee Share Option Award – 2012 was granted in September 2012, under the DSOP rules, approved by shareholders in 2010. The award of 1,000 nil priced share options per qualifying employee was designed to reward all employees who were not part of another share option plan and to foster all-employee share ownership. The exercise of options was subject to continuing employment at the vesting date in September 2013 and there are no performance conditions in relation to this award. These options lapse on resignation of an employee. On 12 September 2013, two million options vested and were exercised by qualifying employees.

Notes to the consolidated financial statements continued

5. Share-based payments continued

TalkTalk Telecom Group PLC schemes continued

(ii) DSOP – 2013 grant

In June 2013, the Group granted six million nil priced share option awards subject to absolute TSR and EPS performance targets. During December 2013 and January 2014, the Group granted a further 141,000 options under the DSOP – 2013 grant to a number of new senior employees. The options are measured over a performance period to 31 March 2016 and will vest on the publication of the Group's 2016 Annual Report. A total of 60% of the vested options are exercisable from the vesting date, with the remaining 40% of options being exercisable twelve months later. Options are forfeited if an employee leaves the Group before the options vest. Awards are triggered within a range from 5% to 26% for compound annual growth of TSR and EPS. If the minimum performance requirement is met a total of 25% of the award will vest, rising to 40% for target, 70% for stretch and 100% for super stretch.

DSOP – 2013 grant	2014 Number million	2014 WAEP £
Outstanding at the beginning of the year	–	–
Granted during the year	6	–
Forfeited during the year	–	–
Outstanding at the end of the year	6	–
Exercisable at the end of the year	–	–

Valuation method	Monte Carlo
Share price (pence)	228
Exercise price (pence)	nil
Expected volatility	30.00%
Expected exercise (60%/40%)	3.0/4.0 years
Risk free rate (three years/four years)	0.50%/0.80%
Expected dividend yield	4.45%
Fair value of options granted (£m)	3.0

The weighted average remaining contractual life of the DSOP – 2013 grant is 9.2 years. The TalkTalk DSOP is designed to provide a long term incentive plan for senior employees of the Group.

(iii) DSOP – 2012 grant

Nil priced share option awards made under the DSOP 2012 grant are subject to absolute TSR and EPS performance targets with a cap and collar to address volatility in the market, as detailed in the Directors' Remuneration Report. The options are measured over a performance period to 31 March 2015 and will vest on the publication of the Group's 2015 Annual Report. A total of 60% of the vested options are exercisable from the vesting date, with the remaining 40% of options being exercisable twelve months later. Options are forfeited if an employee leaves the Group before the options vest. Awards are triggered within a range from 10% to 19% for compound annual growth of TSR and EPS. If the minimum performance requirement is met a total of 25% of the award will vest, rising to 40% for target, 70% for stretch and 100% for super stretch.

DSOP – 2012 grant	2014 Number million	2014 WAEP £	2013 Number million	2013 WAEP £
Outstanding at the beginning of the year	12	–	11	–
Granted during the year	–	–	1	–
Forfeited during the year	(2)	–	–	–
Outstanding at the end of the year	10	–	12	–
Exercisable at the end of the year	–	–	–	–

The weighted average remaining contractual life of the DSOP – 2012 grant is 7.9 years (2013: 8.9 years).

5. Share-based payments continued

TalkTalk Telecom Group PLC schemes continued

(iv) DSOP – 2010 grant

Awards made under the DSOP – 2010 grant are subject to TSR performance targets and were measured over a performance period to 28 March 2013. Options were forfeited if an employee left the Group before the options vested. On 28 March 2013, all options vested but they were not exercisable until after the preliminary announcement on 16 May 2013. The original date of vesting of 29 March 2013 was brought forward to 28 March 2013 due to a bank holiday. During the year ended 31 March 2014, 15 million options were exercised.

	2014		2013	
DSOP – 2010 grant	Number million	WAEP £	Number million	WAEP £
Outstanding at the beginning of the year	17	1.24	20	1.24
Exercised during the year	(15)	1.23	–	–
Forfeited during the year	–	–	(3)	1.27
Outstanding at the end of the year	2	1.27	17	1.24
Exercisable at the end of the year	2	–	–	–

The weighted average remaining contractual life of the DSOP – 2010 grant is 6.0 years (2013: 7.0 years). Of the DSOP – 2010 grant, 472,000 options were nil priced, of which 236,000 vested on 1 September 2012 and a further 236,000 vested on 1 September 2013. All 472,000 of these options were exercised in the year ended 31 March 2014.

(v) SAYE

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. Options may be exercised at the end of the three or five year period at an exercise price determined at the invitation date. The scheme is available for a period each year for employees to join.

Exercise prices for the schemes are set out below:

2013 grant	192p per share
2012 grant	123p per share
2011 grant	119p per share
2010 grant	102p per share

	2014		2013	
	Number million	WAEP £	Number million	WAEP £
Outstanding at the beginning of the year	6	1.08	6	1.05
Granted during the year	2	1.92	1	1.23
Exercised during the year	(3)	1.03	–	–
Forfeited during the year	(1)	1.42	(1)	1.11
Outstanding at the end of the year	4	1.52	6	1.08
Exercisable at the end of the year	–	–	–	–

	SAYE – 2013 grant
Valuation method	Black Scholes
Share price (pence)	223
Exercise price (pence)	192
Expected volatility	26.56%
Expected exercise (years)	3.8
Risk free rate	1.18%
Expected dividend yield	4.66%
Fair value of options granted (£m)	0.8

The weighted average remaining contractual life of SAYE options is 2.3 years (2013: 1.6 years).

Notes to the consolidated financial statements continued

5. Share-based payments continued

TalkTalk Telecom Group PLC schemes continued

(vi) TTG VES and CPW 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 CPW TTG VES enables participants to share in 2.24% of any increase in the value of the Group over an opening valuation representing invested capital at 1 April 2009, adjusted for the change in the Group's opening share price since 1 April 2009. In line with the TTG VES, the invested capital is adjusted for changes in invested capital since 1 April 2009 and the incremental value is measured after a minimum annual rate of return of 7%. For the vesting in September 2013, this is capped at the September 2012 amount. The rules of both schemes have been approved by shareholders.

The Group's opening share price for this purpose represents an allocation of the share price of CPW at that rate, based on the market capitalisation of the Group and Carphone Warehouse Group PLC in the five 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 the A and C shares if performance conditions are met, to provide to participants the share of value described above.

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.

On 16 September 2013, the Group's Remuneration Committee determined that the relevant performance conditions of these VES schemes (including the 5% TSR requirement) had been satisfied meaning the VES participants were entitled to exercise the remaining 40% of their VES options. On 19 November 2013, the participants' options were acquired by the Company for new ordinary shares in the Company and cash, resulting in a cash outflow of £15m. The net issue of 23.7 million shares in the Company was at a price of £2.78 per share, being the average closing price of the Company's shares over the five working days from 12 to 18 November 2013. The settlement of the schemes resulted in a net movement in reserves of £12m being the recognition of share premium of £66m and a £78m debit in retained earnings and other reserves. The £78m debit to reserves represents a total cash outflow of £15m and the value of new PLC shares issued of £66m net of the repayment of the associated VES loans, interest and a reduction in the Group's liability to settle the schemes.

6. Finance costs and investment revenue

Finance costs are analysed as follows:

	2014 £m	2013 £m
Interest on bank loans and overdrafts	16	14
Facility fees and similar charges	4	4
Unwinding of discount on provisions	–	1
	20	19

During the year ended 31 March 2012, the Group refinanced its revolving credit facility and paid £7m in respect of facility fees. This is being amortised over the expected life of the loan and is included within facility fees and similar charges above.

7. Taxation

Accounting policy

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.

Critical judgements in applying the Group's accounting policy

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.

7. Taxation continued

Tax – income statement

The tax charge comprises:

	2014 £m	2013 £m
Current tax:		
UK corporation tax	(2)	–
Adjustments in respect of prior years:		
UK corporation tax	–	–
Total current tax credit	(2)	–
Deferred tax:		
Origination and reversal of timing differences	(7)	18
Effect of change in tax rate	16	5
Adjustments in respect of prior years – deferred tax recognised	(4)	(1)
Total deferred tax	5	22
Total tax charge	3	22

The tax charge on Headline earnings for the year ended 31 March 2014 is £13m (2013: £33m), representing an effective tax rate on pre-tax profits of 18% (2013: 20%). The tax charge on Statutory earnings for the year ended 31 March 2014 is £3m (2013: £22m). The reconciliation between the Headline and Statutory tax charge is shown in note 9.

The principal differences between the tax charge and the amount calculated by applying the standard rate of UK corporation tax of 23% (2013: 24%) to the profit before tax are as follows:

	2014 £m	2013 £m
Profit before tax	31	122
Tax at 23% (2013: 24%)	7	29
Items attracting no tax relief or liability	(1)	1
Effect of change in tax rate	16	5
Adjustments in respect of prior years	(4)	(1)
Movement in unrecognised tax losses during the year	(15)	(12)
Total tax charge through income statement	3	22

Tax – retained earnings and other reserves

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

	2014 £m	2013 £m
Total tax charge through income statement	3	22
Deferred tax credit recognised directly in retained earnings and other reserves	(2)	(11)
Total tax charge through retained earnings and other reserves	1	11

The deferred tax credit recognised directly in retained earnings and other reserves for the years ended 31 March 2014 and 31 March 2013 relates to share-based payments.

Notes to the consolidated financial statements continued

7. Taxation continued

Tax – balance sheet

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

	Share-based payments £m	Timing differences on capitalised costs £m	Tax losses £m	Timing differences on acquisition intangibles £m	Other timing differences £m	Total £m
At 1 April 2013	12	62	40	(6)	1	109
(Charge) credit to the income statement	(7)	(1)	(1)	5	–	(4)
Credit to reserves	2	–	–	–	–	2
At 31 March 2014	7	61	39	(1)	1	107

	Share-based payments £m	Timing differences on capitalised costs £m	Tax losses £m	Timing differences on acquisition intangibles £m	Other timing differences £m	Total £m
At 1 April 2012	1	71	56	(11)	3	120
(Charge) credit to the income statement	–	(9)	(16)	5	(2)	(22)
Credit to reserves	11	–	–	–	–	11
At 31 March 2013	12	62	40	(6)	1	109

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. On 2 July 2013, a reduction in the UK statutory rate of corporation tax was substantively enacted, bringing the tax rate down from 23% to 21% with effect from 1 April 2014 and from 21% to 20% with effect from 1 April 2015. Accordingly, the tax assets and liabilities recognised at 31 March 2014 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.

The asset also reflects the annual recognition of a further tranche of the tax losses acquired with Tiscali UK Limited, including Video Networks Limited, based on the Group's rolling forecast. This is in line with the Group's agreement with HMRC in 2012.

At 31 March 2014, the Group had unused tax losses of £702m (2013: £759m) available for offset against future taxable profits. A deferred tax asset of £39m (2013: £40m) has been recognised in respect of £197m (2013: £172m) of such losses, based on expectations of recovery in the foreseeable future.

No deferred tax asset has been recognised in respect of the remaining £505m (2013: £587m) 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

Accounting policy

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.

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

	2014 £m	2013 £m
Ordinary dividends		
Final dividend for the year ended 31 March 2012 of 6.40p per ordinary share	–	56
Interim dividend for the year ended 31 March 2013 of 3.45p per ordinary share	–	31
Final dividend for the year ended 31 March 2013 of 6.95p per ordinary share	62	–
Interim dividend for the year ended 31 March 2014 of 4.00p per ordinary share	37	–
Total ordinary dividends	99	87

The proposed final dividend for the year ended 31 March 2014 of 8.00p per ordinary share on approximately 921 million ordinary shares (£74m) was approved by the Board on 14 May 2014 and has not been included as a liability as at 31 March 2014.

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

Accounting policy

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.

Critical judgements in applying the Group's accounting policy

The classification of items as exceptional is subjective in nature and therefore, judgement is required to determine whether the item is in line with the accounting policy criteria outlined above. Determining whether an item is exceptional is a matter of qualitative assessment, making it distinct from the Group's other critical accounting judgements where the basis for judgement surrounds estimation.

Year ended 31 March 2014	EBITDA £m	Profit before interest and tax £m	Profit before tax £m	Profit for the year £m
Headline results	213	94	74	61
Exceptional items – Operating expenses (a)	(20)	(20)	(20)	(15)
Exceptional items – Operating expenses (c)	3	3	3	2
Exceptional items – Revenue (d)	(5)	(5)	(5)	(4)
Amortisation of acquisition intangibles (e)	–	(21)	(21)	(16)
Statutory results	191	51	31	28

Year ended 31 March 2013	EBITDA £m	Profit before interest and tax £m	Profit before tax £m	Profit for the year £m
Headline results	290	184	165	132
Exceptional items – Operating expenses (a)	(7)	(7)	(7)	(5)
Exceptional items – Operating expenses (b)	(11)	(11)	(11)	(8)
Exceptional items – Operating expenses (c)	27	27	27	21
Amortisation of acquisition intangibles (e)	–	(52)	(52)	(40)
Statutory results	299	141	122	100

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

a) Operating efficiencies – Phase III (Making TalkTalk Simpler)

During the year ended 31 March 2014, the Group has continued a review of its operating structure to look for further opportunities to drive process and efficiency improvements over the medium term.

The initiatives that form part of the Group's Making TalkTalk Simpler programme, which were implemented in the year ended 31 March 2014, were continued restructuring of the systems and processes in TalkTalk Business to remove duplication and better align the sales and service model for future growth; a review and consolidation of the outsourcing partners and rebalancing of the Group's on-shore footprint; and a proactive initiative to replace routers to align the estate across the Group. This has resulted in redundancy, dual running, property, system, project management and router replacement costs. The total charge incurred in the year ended 31 March 2014 was £20m (2013: £7m).

A total taxation credit of £5m has been recognised in the year ended 31 March 2014 (2013: £2m).

b) Operating efficiencies – Phase II (Consumer contact centre rationalisation)

On 24 April 2012, the Group announced the second stage of its contact centre rationalisation. This resulted in consolidating and outsourcing operations in Preston and Northampton. Costs were incurred in respect of redundancy, dual running and consultancy. The total charge incurred in the year ended 31 March 2014 was £nil (2013: £11m).

A total taxation credit of £nil has been recognised in the year ended 31 March 2014 (2013: £3m).

c) Wholesale Ethernet services overcharges

In December 2012, Ofcom determined that BT had overcharged the Group for certain wholesale Ethernet services. Accordingly, BT was required to make repayments to the Group for these overcharges. A total of £3m has been recognised in the year ended 31 March 2014 (2013: £27m).

A total taxation charge of £1m has been recognised in the year ended 31 March 2014 (2013: £6m).

d) Revenue – HMRC VAT ruling

In September 2013, a change to a previously agreed VAT treatment in relation to prompt payment discounts was enforced by HMRC with immediate effect. The incremental VAT relating to this change in treatment has been paid by the Group; however, the Group has sought external legal advice on the HMRC decision and has subsequently appealed the decision to the VAT Tribunal. Due to both the unexpected nature, pending appeal and short timeframe given to comply, a total of £5m has been recognised in exceptional items in the year ended 31 March 2014 (2013: £nil).

The tax credit was £1m in the year ended 31 March 2014 (2013: £nil).

e) Amortisation of acquisition intangibles

An amortisation charge in respect of acquisition intangibles of £21m was incurred in the year ended 31 March 2014 (2013: £52m).

The tax credit was £5m in the year ended 31 March 2014 (2013: £12m).

Notes to the consolidated financial statements continued

10. Earnings per share

Earnings per share is shown on a Headline and Statutory basis to assist in the understanding of the performance of the Group.

	2014 £m	2013 £m
Headline earnings (note 9)	**61**	132
Statutory earnings	**28**	100
Weighted average number of shares (millions):		
Shares in issue	**938**	924
Less weighted average holdings by Group ESOT	**(37)**	(40)
For basic EPS	**901**	884
Dilutive effect of share options	**30**	56
For diluted EPS	**931**	940

	2014 Pence	2013 Pence
Basic earnings per share		
Headline	**6.8**	14.9
Statutory	**3.1**	11.3

	2014 Pence	2013 Pence
Diluted earnings per share		
Headline	**6.6**	14.0
Statutory	**3.0**	10.6

There are no share options considered anti-dilutive in the year ended 31 March 2014 (2013: nil).

11. Goodwill and other intangible assets

(a) Goodwill

Accounting policy

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.

Critical judgements in applying the Group's accounting policy

The Group has two CGUs – Consumer and TalkTalk Business. 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 acquisition. 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 that those shared costs support.

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.

11. Goodwill and other intangible assets continued

(a) Goodwill continued

Impairment of 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; this review is performed at a CGU level.

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 approved five year plan and extrapolated out to 20 years based on the UK's long term growth rate. This is discounted by the CGU's weighted average cost of capital pre-tax 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 CGU 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.

	2014 £m	2013 £m
Opening cost and net book value	479	480
Disposal (note 13)	–	(1)
Closing cost and net book value	479	479

The goodwill acquired in business combinations is allocated at acquisition to the CGUs that are expected to benefit from that business combination. The allocation of goodwill across the CGUs is as follows:

	2014 £m	2013 £m
Consumer	337	337
TalkTalk Business	142	142
	479	479

Impairment review

The key assumptions used in the Group's goodwill impairment review are as follows:

- Long term growth rates
  Long term revenue growth rates applied are based on the growth rate for the UK per the Organisation for Economic Co-operation and Development (OECD). The rate applied in the current year was 1.7% (2013: 1.1%).
- 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 8.4% (2013: 8.1%). The assumptions used in the calculation of the CGUs' 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 future required support of 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 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.

(b) Other intangible assets

Accounting policy

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 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.

Notes to the consolidated financial statements continued

11. Goodwill and other intangible assets continued

(b) Other intangible assets continued

Critical judgements in applying the Group's accounting policy

Impairment

At the acquisition date, acquisition intangibles are allocated to each of the CGUs expected to benefit from the synergies of the combination. 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.

Determining whether the carrying amount of operating and acquisition intangibles have any indication of impairment 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.

Useful economic lives

The assessment of the useful economic lives of these operating and acquisition intangibles requires judgement. 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.

Impairment of assets

The Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss at each reporting date. 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.

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.

Other intangible assets are analysed as follows:

	Operating intangibles £m	Acquisition intangibles £m	Total other intangibles £m
Opening balance at 1 April 2013	127	27	154
Additions	43	–	43
Amortisation	(35)	(21)	(56)
Closing balance at 31 March 2014	135	6	141
Cost (gross carrying amount)	303	98	401
Accumulated amortisation	(168)	(92)	(260)
Closing balance at 31 March 2014	135	6	141

	Operating intangibles £m	Acquisition intangibles £m	Total other intangibles £m
Opening balance at 1 April 2012	123	79	202
Additions	30	–	30
Amortisation	(26)	(52)	(78)
Closing balance at 31 March 2013	127	27	154
Cost (gross carrying amount)	260	326	586
Accumulated amortisation	(133)	(299)	(432)
Closing balance at 31 March 2013	127	27	154

Operating intangibles

Operating intangibles includes internally generated assets of net book value £39m (2013: £31m), which are amortised over a period of up to eight years. This includes additions of £15m (2013: £10m) and an amortisation charge of £7m (2013: £5m) in the year ended 31 March 2014.

Included within operating intangibles is the following asset, which is material to the Group:

- TRIO, the customer billing system, which has a net book value of £76m (2013: £86m). TRIO is amortised over a period of up to eight years depending on the release date of the relevant component. The weighted average remaining useful economic life of the components of TRIO is four years (2013: five years).

11. Goodwill and other intangible assets continued

(b) Other intangible assets continued

Acquisition intangibles

Acquisition intangibles are removed from cost in the analysis in the year after they are fully amortised.

All acquisition intangibles relate to customer bases.

The customer bases relate primarily to 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.

At 31 March 2014, the Tiscali customer base is material to the Group with a net book value of £5m (2013: £23m) and a remaining useful economic life of three months (2013: 15 months).

12. Property, plant and equipment

Accounting policy

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

Critical judgements in applying the Group's accounting policy

The assessment of the useful economic lives of these assets requires judgement. Depreciation 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 calculate present values (note 11).

Impairment of assets

Property, plant and equipment

The Group reviews the carrying amounts of its fixed assets to determine whether there is any indication that those assets have suffered an impairment loss at each reporting date. The Group uses the same methodology as set out in note 11 for operating and acquisition intangibles.

	Leasehold improvements £m	Network equipment and computer hardware £m	Fixtures and fittings £m	Total £m
Opening balance at 1 April 2013	5	290	–	295
Additions	–	87	–	87
Depreciation	–	(77)	–	(77)
Closing balance at 31 March 2014	5	300	–	305
Cost (gross carrying amount)	6	671	6	683
Accumulated depreciation and impairment charges	(1)	(371)	(6)	(378)
Closing balance at 31 March 2014	5	300	–	305

	Leasehold improvements £m	Network equipment and computer hardware £m	Fixtures and fittings £m	Total £m
Opening balance at 1 April 2012	6	286	–	292
Additions	–	79	–	79
Depreciation	(1)	(75)	–	(76)
Closing balance at 31 March 2013	5	290	–	295
Cost (gross carrying amount)	6	584	6	596
Accumulated depreciation and impairment charges	(1)	(294)	(6)	(301)
Closing balance at 31 March 2013	5	290	–	295

Notes to the consolidated financial statements continued

13. Non-current asset investments

Accounting policy

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 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.

Non-current asset investments at 31 March 2014 related to a 7.3% (2013: 8.4%) interest in Shared Band Limited, a telecommunications technology provider. During the prior year the Group impaired its investment to £nil.

(a) Principal investments

The Parent Company 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 that 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	England and Wales	Telecommunications
TalkTalk Telecom Limited	England and Wales	Telecommunications
CPW Network Services Limited	England and Wales	Telecommunications

* Directly held by the Company.

(b) Acquisitions and disposals

(i) Acquisitions

On 14 May 2013, the Group acquired the remaining 75% of the issued share capital of Future Office Communications Limited (FOC) (note 22).

There were no acquisitions in the prior year.

(ii) Disposals

There were no disposals in the year.

In the prior year, the Group disposed of its investment in Southern Communications Networks Limited for cash consideration of £2m. Associated goodwill of £1m was written off, resulting in a £1m profit on disposal. There was no associated acquisition intangible in respect of this business.

14. Interest in joint venture

Accounting policy

Interests in joint ventures are accounted for using the equity method. The Group 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 Group balance sheet, the Group's interest in joint ventures are shown as a non-current asset, representing the Group's investment in the share capital of the joint ventures, as adjusted for post-acquisition changes in the Group's share of the net assets or liabilities less provision for any impairment.

In addition to the carrying amount of the investment, the Group's interest in joint ventures includes, where applicable, any long term interests in the venture that, in substance, form part of the Group's net investment in the joint venture. An item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension of the Group's interest in that joint venture.

Any loans advanced to a joint venture that, in substance, do not form part of the Group's net investment are shown separately in the balance sheet, as a receivable to the Group. Losses recognised using the equity method in excess of the Group's investment in ordinary shares are applied to the other components of the Group's interest in the joint venture in the reverse order of their seniority (i.e. priority in liquidation).

The Group holds 14.3% of the ordinary share capital of YouView TV Limited, a joint venture with The British Broadcasting Corporation, ITV Broadcasting Limited, British Telecom PLC, Channel Four Television Corporation, Arqiva Limited and Channel 5 Broadcasting Limited. The joint venture was set up in order to develop a free-to-air internet-connected TV service to UK homes. The table below sets out the net additions in the year.

	2014 £m	2013 £m
Opening balance at 1 April	9	7
Additions	5	6
Share of results	(7)	(4)
Closing balance at 31 March	7	9

The Group has reviewed the carrying value of YouView and has concluded that there is no indication of impairment.

14. Interest in joint venture continued

Accounting policy continued

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

Group share of results of joint ventures	2014 £m	2013 £m
Expenses	(7)	(4)
Loss before taxation	(7)	(4)
Taxation	–	–
Loss after taxation	(7)	(4)

Group share of net assets of joint ventures	2014 £m	2013 £m
Non-current assets	7	9
Net assets	7	9

During the year, the Group paid the remaining commitment outstanding of £5m on the initial agreement with YouView TV Limited. During March 2014, the Group signed heads of terms with the other existing shareholders of YouView TV Limited committing the Group to pay approximately £2m up to 30 June 2014. It is anticipated that a long term agreement for a further five year term to 31 March 2019 will be signed by 30 June 2014.

During the year ended 31 March 2014, the Group, alongside British Sky Broadcasting Limited, British Telecom PLC and Virgin Media Limited established an equal membership joint venture, Internet Matters Limited. It is a not-for-profit company, incorporated as a company limited by guarantee. It has been set up as an industry-led body to promote and educate parents about internet safety for children. The Group is committed to pay £2m over the period to 31 March 2017.

15. Inventories

Accounting policy

Inventories are stated at the lower of cost and net realisable value, valued on a FIFO basis, and consists primarily of set top boxes, handsets and routers. Net realisable value is based on estimated selling price, less costs expected to be incurred. A provision is made for obsolete items where appropriate.

	2014 £m	2013 £m
Goods for resale	24	23

16. Trade and other receivables

Critical judgements in applying the Group's accounting policy

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.

Trade and other receivables comprise:

	2014 £m	2013 £m
Current – trade and other receivables		
Trade receivables – gross	169	156
Less provision for impairment	(34)	(33)
Trade receivables – net	135	123
Other receivables	63	41
Prepayments and accrued income	62	62
Trade and other receivables	**260**	**226**

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

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, was 30 days (2013: 28 days).

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

	2014 £m	2013 £m
UK Sterling	146	123
Other	23	33
	169	156

Notes to the consolidated financial statements continued

16. Trade and other receivables continued

Critical judgements in applying the Group's accounting policy continued

The ageing of gross trade receivables is as follows:

	2014 £m	Restated 2013* £m
Not yet due	74	71
0 to 2 months	14	20
2 to 4 months	17	15
Over 4 months	64	50
	169	156

* The prior year amounts have been restated to correct ageing profile.

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

	2014 £m	2013 £m
Not yet due	(2)	(3)
0 to 2 months	(2)	(3)
2 to 4 months	(4)	(7)
Over 4 months	(26)	(20)
	(34)	(33)

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

	2014 £m	2013 £m
Opening balance	(33)	(29)
Charged to the income statement	(52)	(33)
Receivables written off as irrecoverable	51	29
	(34)	(33)

Trade receivables of £63m (2013: £55m) were past due, but not impaired. These balances primarily relate to Consumer 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:

	2014 £m	Restated 2013* £m
0 to 2 months	12	17
2 to 4 months	13	8
Over 4 months	38	30
	63	55

* The prior year amounts have been restated to correct ageing profile.

17. Trade and other payables

	2014 £m	2013 £m
Trade payables	208	210
Other taxes and social security costs	15	10
Other payables	17	21
Accruals and deferred income	216	190
	456	431

The Group has commercially agreed longer credit terms with certain suppliers. Excluding these suppliers, the underlying average credit period taken on trade payables was 32 days (2013: 39 days). Including these suppliers, the average credit period taken was 42 days (2013: 48 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:

	2014 £m	2013 £m
Cash at bank and in hand	–	7

The effective interest rate on bank deposits and money market funds was 0.7% (2013: 0.7%).

(b) Loans and other borrowings comprise:

	2014 £m	2013 £m
Current		
Bank overdrafts	7	–
Term loan	30	25
	37	25

	Maturity	2014 £m	2013 £m
Non-current			
Term loan	2015	75	50
Bilateral loan	2015	–	30
£560m revolving credit facility	2015	385	295
		460	375

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.

£75m term loan
The Group has a committed term loan of £75m (2013: £75m), which matures in November 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.

£560m revolving credit facility (RCF) and £30m bilateral agreement
The Group has a £560m RCF, which matures in November 2015. The interest rate payable in respect of drawings under this facility is at a margin over LIBOR 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. In addition to the RCF, the Group also has £30m of bilateral agreements which mature in March 2015.

The Group's facilities total £665m. The Group was in compliance with its covenants throughout the current and prior year.

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	2014 £m	2013 £m
Undrawn available committed facilities	2015	175	265

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

	2014 £m	2013 £m
Less than 1 year	37	25
1 to 2 years	460	80
2 to 3 years	–	295
	497	400

Securities and guarantees
Committed borrowings are guaranteed by Group companies, which make up 75% EBITDA and 75% of gross assets, excluding internal transactions.

Notes to the consolidated financial statements continued

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 in note 18, are as follows:

	2014 £m	2013 £m
Current assets		
Cash and cash equivalents	–	7
Trade and other receivables	260	226
Non-current assets		
Non-current investments and investment in joint venture	7	9
Current liabilities		
Bank overdrafts	(7)	–
Trade and other payables*	(456)	(428)
Derivative financial instruments**	–	(3)
	(196)	(189)

* Deferred income has been included within the financial liabilities above so as to give completeness over the Group's contractual commitments on future cash outflows.
** Derivative financial instruments are included with other payables in note 17.

(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 and interest rate 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.

The Group has cash flow hedges in place that swap the interest rate risk on the revolving credit facility (RCF) from floating to fixed. These hedges have been fully effective from inception. The fair value measurement is classified as Level 2, derived from other observable market data; this means that their fair value is based upon the mark to market valuation at the balance sheet date. Fair value measurement at Level 2 gives consideration to interest rates, yield curves and foreign exchange rates at commonly quoted intervals for relevant currencies. The Group has also assessed the credit risk within its financial instruments. The fair value of these instruments at 31 March 2014 is £nil (2013: £3m). A gain of £3m (2013: loss of £2m) has been recognised in other comprehensive income in the year ended 31 March 2014. As the hedges were fully effective there has been no income statement impact.

(b) Embedded derivatives

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

19. Financial risk management and derivative financial instruments continued

(c) Foreign exchange risk

The Group uses spot and forward foreign exchange trading to hedge transactional exposures, which arise mainly through cost of sales and operating expenses, and are primarily denominated in Euro and US Dollar. At 31 March 2014, the fair value of outstanding currency contracts was £7m (2013: £17m).

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). There was no material impact of a 10% movement in the UK Sterling/Euro exchange rate on either the income statement or other equity. The effect of foreign exchange derivatives on borrowings at the year end was as follows:

	UK Sterling £m	Euro £m	Other £m	Total £m
2014				
Borrowings before derivatives	**497**	**–**	**–**	**497**
Derivatives	**(7)**	**10**	**(3)**	**–**
	490	**10**	**(3)**	**497**

	UK Sterling £m	Euro £m	Other £m	Total £m
2013				
Borrowings before derivatives	400	–	–	400
Derivatives	(17)	19	(2)	–
	383	19	(2)	400

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 and foreign currency trading balances.

(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. As detailed in section (a), the Group has cash flow hedges in place to mitigate its interest rate risk on its borrowings.

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.

	2014 £m	2013 £m
1% movement in the UK Sterling interest rate		
Income statement movement	**3**	2
Other equity movement	**–**	–

Notes to the consolidated financial statements continued

19. Financial risk management and derivative financial instruments continued

(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 2015 and November 2015; 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 £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	More than 5 years £m	Total £m
2014							
Loans and other borrowings	(37)	(460)	–	–	–	–	(497)
Derivative financial instruments – payable	(7)	–	–	–	–	–	(7)
Derivative financial instruments – receivable	7	–	–	–	–	–	7
Trade and other payables	(456)	–	–	–	–	–	(456)
	(493)	(460)	–	–	–	–	(953)

	Less than 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	More than 5 years £m	Total £m
2013							
Loans and other borrowings	(25)	(80)	(295)	–	–	–	(400)
Derivative financial instruments – payable	(17)	–	–	–	–	–	(17)
Derivative financial instruments – receivable	17	–	–	–	–	–	17
Trade and other payables	(431)	–	–	–	–	–	(431)
	(456)	(80)	(295)	–	–	–	(831)

(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 Consumer and TalkTalk Business fixed line customers, and provision is made for any receivables that are considered to be irrecoverable.

19. Financial risk management and derivative financial instruments continued

(g) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. Further detail is provided in the Chief Financial Officer's statement on page 14.

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 2014 is 143% (2013: 89%) driven primarily by the Company's continued investment in TV combined with an increased dividend pay-out. The Board is confident that the gearing ratio will return to its target gearing ratio of 75% to 100% in the medium term.

The gearing ratio at the year end is as follows:

	2014 £m	2013 £m
Debt	(490)	(400)
Cash and cash equivalents	–	7
Bank overdraft	(7)	–
Net debt	(497)	(393)
Equity	347	442
Net debt to equity ratio	143%	89%

20. Provisions

Accounting policy

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 expected to be utilised over the next twelve months.

One Company integration
These provisions relate principally to reorganisation 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 expected to be utilised over the next twelve 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. Onerous property contracts are expected to be utilised over the next seven years. Dilapidation provisions are expected to be utilised as and when properties are exited.

Notes to the consolidated financial statements continued

20. Provisions continued

Accounting policy continued

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.

The below tables analyse the Group's provisions:

	2014 £m	2013 £m
Current	2	5
Non-current	7	8
	9	13

	Operating efficiencies £m	One Company integration £m	Property £m	Contract and other £m	Total £m
2014					
Opening balance	2	2	9	–	13
Charged to income statement	2	–	1	–	3
Utilised in the year	(3)	(1)	(3)	–	(7)
	1	1	7	–	9

	Operating efficiencies £m	One Company integration £m	Property £m	Contract and other £m	Total £m
2013					
Opening balance	1	2	9	6	18
Charged to income statement	2	–	1	–	3
Utilised in the year	(1)	(1)	(1)	(6)	(9)
Unwinding of discount	–	1	–	–	1
	2	2	9	–	13

21. Share capital

	2014 million	2013 million	2014 £m	2013 £m
Allotted, called-up and fully paid				
Ordinary shares of 0.1p each	955	931	1	1

On 20 November 2013, the Company issued a further 23,722,791 ordinary shares of 0.1 pence each to settle the VES schemes (note 5).

22. Reserves

	Notes	Share capital £m	Share premium £m	Translation reserve £m	Demerger reserve £m	Retained earnings and other reserves £m	Total £m
At 1 April 2013		**1**	**618**	**(64)**	**(513)**	**400**	**442**
Total comprehensive income for the year		–	–	–	–	31	31
Issues of own shares*		–	66	–	–	(78)	(12)
Taxation of items recognised directly in reserves		–	–	–	–	2	2
Purchase of own shares		–	–	–	–	(24)	(24)
Settlement of Group ESOT		–	–	–	–	6	6
Adjustment arising from change in non-controlling interest***		–	–	–	–	(3)	(3)
Share-based payments reserve credit	5	–	–	–	–	4	4
Equity dividends	8	–	–	–	–	(99)	(99)
At 31 March 2014		**1**	**684**	**(64)**	**(513)**	**239**	**347**

	Notes	Share capital £m	Share premium £m	Translation reserve £m	Demerger reserve £m	Retained earnings and other reserves £m	Total £m
At 1 April 2012		1	586	(65)	(513)	435	444
Total comprehensive income for the year		–	–	1	–	98	99
Issues of own shares**		–	32	–	–	(63)	(31)
Taxation of items recognised directly in reserves		–	–	–	–	11	11
Share-based payments reserve credit	5	–	–	–	–	6	6
Equity dividends	8	–	–	–	–	(87)	(87)
At 31 March 2013		1	618	(64)	(513)	400	442

* On 16 September 2013, the Group's Remuneration Committee determined that the relevant performance conditions of the VES schemes (including the 5% TSR requirement) had been satisfied, meaning the VES participants were entitled to exercise the remaining 40% of their options as set out in note 5. The settlement of the schemes resulted in the recognition of share premium of £66m and a £78m movement in retained earnings and other reserves.

** On 17 September 2012, the Group's Remuneration Committee determined that the relevant performance conditions of the VES schemes (including the 5% TSR requirement) had been satisfied, meaning the VES participants were entitled to exercise 60% of their options as set out in note 5. The settlement of the schemes resulted in the recognition of share premium of £32m and a £63m movement in retained earnings and other reserves.

*** On 14 May 2013, the Group acquired the remaining 75% of the issued share capital of FOC. The Group already held 25% of FOC and had control of the business. The cash consideration paid for the acquisition of £3m has been recognised as a transaction with non-controlling interest.

Group ESOT

The Group ESOT held 34 million shares at 31 March 2014 (2013: 39 million) in the Company for the benefit of employees and former CPW 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 £109m (2013: £107m).

Demerger reserve

The demerger reserve primarily reflects the profits or losses arising on the transfer of investments and net assets of CPW on demerger.

Translation reserve

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. Exchange differences arising on the translation of opening net assets and results of overseas operations are recognised in the translation and hedging reserve. All other exchange differences are included in the income statement.

Notes to the consolidated financial statements continued

23. Analysis of changes in net debt

	Opening £m	Net cash flow £m	Closing £m
2014			
Cash and cash equivalents	7	(7)	–
Bank overdrafts	–	(7)	(7)
	7	(14)	(7)
Current loans and other borrowings	(25)	(5)	(30)
Non-current loans and other borrowings	(375)	(85)	(460)
	(400)	(90)	(490)
Total net debt	(393)	(104)	(497)

	Opening £m	Net cash flow £m	Closing £m
2013			
Cash and cash equivalents	2	5	7
Bank overdrafts	(1)	1	–
	1	6	7
Current loans and other borrowings	(25)	–	(25)
Non-current loans and other borrowings	(410)	35	(375)
	(435)	35	(400)
Total net debt	(434)	41	(393)
Loans to related parties	2	(2)	–
Total net debt including loans to related parties	(432)	39	(393)

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:

	2014 £m	2013 £m
Less than 1 year	39	37
2 to 5 years	61	69
Greater than 5 years	55	68
	155	174

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:

	2014 £m	2013 £m
Expenditure contracted but not provided for in the financial statements	23	21

26. Related party transactions

The Group's related party transactions are made on terms equivalent to those that prevail in arm's length transactions.

During the current and prior year, the Group did not have any disclosable related party transactions.

The remuneration of the Directors, who are some of the key management personnel of the Group, is set out in the Directors' Remuneration Report on pages 26 to 39. The remuneration of all key management personnel is disclosed in note 4.

27. Contingent liabilities

In the year ended 31 March 2014, the Group received £4m (2013: £29m) relating to an Ofcom determination that BT had overcharged for certain wholesale Ethernet services. The full amount of £33m has been paid to the Group at 31 March 2014. BT has appealed Ofcom's determination in the Competition Appeal Tribunal (CAT). However, the Group and other parties have also appealed the decision arguing that the original Ofcom determination was too low.

In September 2013, a change to a previously agreed VAT treatment in relation to prompt payment discounts was enforced by HMRC with immediate effect. In December 2013, following discussions with HMRC, the Group amended the arrangements and has accounted for the associated VAT benefit in the Group's VAT return for the three month period ended 31 March 2014. As at 14 May 2014, no decision has been reached by HMRC on the appropriateness of the new arrangements. In the March 2014 UK Government Budget, a change in the VAT legislation with respect to prompt payment discounts was announced. The change took effect on 1 May 2014.

28. Events after the balance sheet date

On 15 April 2014, the Group together with Sky announced they have joined forces with CityFibre to create a new company that will deliver ultra-fast broadband services in the city of York. The Group's investment in the company will be accounted for as a joint arrangement in accordance with IFRS 11 'Joint Arrangements'.

As part of the agreement, the Group has committed to spend £5m over three years and will recognise through the income statement, on an annual basis, its share of profit or loss generated by the joint arrangement.

Company balance sheet

As at 31 March

	Notes	2014 £m	2013 £m
Fixed assets			
Fixed asset investments	4	1,173	1,082
		1,173	1,082
Current assets			
Debtors: amounts due within one year	5	270	303
		270	303
Total assets		1,443	1,385
Current liabilities			
Creditors: amounts due within one year	6	(49)	(81)
Loans	7	(30)	(25)
		(79)	(106)
Non-current liabilities			
Loans	7	(460)	(375)
		(460)	(375)
Total liabilities		(539)	(481)
Net assets		904	904
Equity			
Share capital	8, 9	1	1
Share premium	9	684	618
Retained earnings and other reserves	9	219	285
Equity shareholders' funds		904	904

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

These financial statements were approved by the Board of Directors on 14 May 2014. They were signed on its behalf by:

Dido Harding

D Harding
Chief Executive Officer
14 May 2014

S Makin
Chief Financial Officer
14 May 2014

Company reconciliation of movement in shareholders' funds

For the year ended 31 March

	Notes	2014 £m	2013 £m
Profit for the period	2	28	12
Equity dividends	3	(99)	(87)
Retained loss for the period		(71)	(75)
Issue of own shares*		66	32
Share-based payments reserve credit		4	6
Share-based payments reserve debit*		(2)	(3)
Currency translation and cash flow hedges		3	(2)
Net movement in shareholders' funds		–	(42)
Opening shareholders' funds		904	946
Closing shareholders' funds		904	904

* These amounts arose as a result of settlement of the Group's VES schemes. Further detail is set out in note 9.

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 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 14 within the Chief Financial Officer's statement.

Accounting policies

The Company's principal accounting policies, which relate to the financial statements as a whole, are set out below. Where an accounting policy is specific to one note, the policy is described in the note to which it relates.

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. 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 a corresponding credit to reserves. Where the Company recharges the cost of share-based payments to its subsidiary undertaking the investment is reduced accordingly.

Further details are provided in note 5 to the consolidated financial statements.

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:

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.

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 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 consolidated financial statements.

2. Profit for the year

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 year. The Company reported a profit of £28m for the year ended 31 March 2014 (2013: £12m).

The auditor's remuneration for audit and other services is disclosed in the Corporate Governance Report on page 24.

Detailed disclosures of the Directors' remuneration and share-based payments are given in the audited section of the Directors' Remuneration Report on pages 26 to 39 and should be regarded as an integral part of this note.

In the current and prior year, the Directors' remuneration was borne by another Group company and not recharged.

The Company has no employees other than Directors.

3. Dividends

Accounting policy

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

	2014 £m	2013 £m
Final dividend for the year ended 31 March 2012 of 6.40p per ordinary share	–	56
Interim dividend for the year ended 31 March 2013 of 3.45p per ordinary share	–	31
Final dividend for the year ended 31 March 2013 of 6.95p per ordinary share	62	–
Interim dividend for the year ended 31 March 2014 of 4.00p per ordinary share	37	–
Total ordinary dividends	99	87

The proposed final dividend for the year ended 31 March 2014 of 8.00p per ordinary share on approximately 921 million ordinary shares (£74m) was approved by the Board on 14 May 2014 and has not been included as a liability as at 31 March 2014.

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

4. Fixed asset investments

Accounting policy

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.

	2014 £m	2013 £m
Subsidiaries	1,153	1,067
Joint venture	20	15
	1,173	1,082

	2014 £m	2013 £m
Opening net book value	1,082	1,004
Additions	91	78
Closing net book value	1,173	1,082

Joint ventures

The Company holds 14.3% of the ordinary share capital of YouView TV Limited, a joint venture with The British Broadcasting Corporation, ITV Broadcasting Limited, British Telecom PLC, Channel Four Television Corporation, Arqiva Limited and Channel 5 Broadcasting Limited. Further details relating to the joint venture are disclosed within note 14 to the consolidated financial statements.

Principal Group investments

The Company's significant investments in subsidiary undertakings are set out within note 13 to the consolidated financial statements.

Additions

The additions in the year comprise:

- £83m relating to the settlement of the VES schemes (note 9);
- £3m relating to share-based payment schemes issued by the Company; and
- £5m relating to the YouView joint venture.

Notes to the Company financial statements continued

5. Debtors: amounts due within one year

	2014 £m	2013 £m
Amounts owed by Group undertakings	**262**	299
Other debtors	**8**	4
	270	303

Interest on intercompany funding is calculated at the Bank of England base rate plus 2%; 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 within 30 to 60 days.

6. Creditors: amounts due within one year

	2014 £m	2013 £m
Amounts owed to Group undertakings	**48**	78
Other creditors	**1**	3
	49	81

Interest on intercompany funding is calculated at the Bank of England base rate plus 2%; 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 within 30 to 60 days.

7. Loans

	2014 £m	2013 £m
Current		
Loans	**30**	25
Non-current		
Loans	**460**	375
	490	400

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

	2014 million	2013 million	2014 £m	2013 £m
Allotted, called-up and fully paid				
Ordinary shares of 0.1p each	**955**	931	**1**	1

On 20 November 2013, the Company issued a further 23,722,791 ordinary shares of 0.1 pence each to settle the VES schemes (note 9).

9. Reserves

	Share capital £m	Share premium £m	Profit and loss and other reserves £m	Total £m
At 1 April 2013	1	618	285	904
Profit for the period	–	–	28	28
Issue of own shares*	–	66	–	66
Share-based payment credit	–	–	4	4
Share-based payment debit*	–	–	(2)	(2)
Currency translations and cash flow hedges	–	–	3	3
Equity dividends	–	–	(99)	(99)
At 31 March 2014	1	684	219	904

	Share capital £m	Share premium £m	Profit and loss and other reserves £m	Total £m
At 1 April 2012	1	586	359	946
Profit for the period	–	–	12	12
Issue of own shares**	–	32	–	32
Share-based payment credit	–	–	6	6
Share-based payment debit**	–	–	(3)	(3)
Currency translations and cash flow hedges	–	–	(2)	(2)
Equity dividends	–	–	(87)	(87)
At 31 March 2013	1	618	285	904

* On 16 September 2013, the Group's Remuneration Committee determined that the relevant performance conditions of the VES schemes (including the 5% TSR requirement) had been satisfied, meaning the VES participants were entitled to exercise the remaining 40% of their options as set out in note 5 to the consolidated financial statements. The settlement of the scheme resulted in a net increase of £83m in investments (note 4), the recognition of share premium of £66m and a decrease in the net cost of share based payments previously recognised in reserves of £2m.

** On 17 September 2012, the Group's Remuneration Committee determined that the relevant performance conditions of the VES schemes (including the 5% TSR requirement) had been satisfied, meaning the VES participants were entitled to exercise 60% of their options as set out in note 5 to the consolidated financial statements. The settlement of the scheme resulted in a net increase of £68m in investments (note 4), the recognition of share premium of £32m and a decrease in the net cost of share-based payments previously recognised in reserves of £3m.

10. Audit exemption note

The Company is entitled to exemption from audit for its subsidiaries under Section 479A of the Companies Act 2006 for the year ended 31 March 2014.

The Directors have applied this exemption for the following subsidiaries:

Company name	Company number
Executel Ltd	05227052
Greystone Telecom Ltd	04066365
Green Dot Property Management Limited	05705868
Tiscali UK Limited	03408171

The Directors acknowledge their responsibility for complying with the requirements of the Companies Act 2006 with respect to accounting records and the preparation of accounts.

Five year record (unaudited)

	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Headline results					
Revenue	**1,727**	1,670	1,687	1,765	1,686
Net profit for the year	**61**	132	159	122	106
Net assets employed					
Non-current assets	**1,039**	1,046	1,102	1,137	1,204
Net current liabilities excluding provisions	**(223)**	(216)	(230)	(281)	(275)
Provisions	**(9)**	(13)	(18)	(46)	(47)
Non-current liabilities excluding provisions	**(460)**	(375)	(410)	(395)	(490)
Net assets employed	**347**	442	444	415	392
Headline earnings per share					
Basic	**6.8**	14.9	18.0	13.5	11.8
Diluted	**6.6**	14.0	17.2	12.8	11.2
Statutory earnings per share					
Basic	**3.1**	11.3	15.6	3.9	(0.3)
Diluted	**3.0**	10.6	14.9	3.7	(0.3)

Headline earnings represent the Group's income statement stated before the amortisation of acquisition intangibles and exceptional items.

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 year ended 31 March 2010 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 analogue modems, providing for simultaneous delivery of voice, video and data
ARPU	Average Revenue Per User on a monthly basis
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
Companies Act	Companies Act 2006
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
DSLAM	Digital Subscriber Line Access Multiplexer
EBIT	Earnings Before Interest and Taxation
EBITDA	Earnings Before Interest Taxation Depreciation and Amortisation
EFM	Ethernet in the First Mile
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 computers
FRC	Financial Reporting Council
Gbps	Gigabits per second
GPS	Global Positioning System
The Group	The Company, its subsidiaries and entities which are joint ventures
Group ESOT	TalkTalk Telecoms Holdings Employee Share Option Trust
Headline information	Headline information represents the Group's 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
MSAN	Multi-Service Access Nodes
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
On-net	The Group's unbundled network
Operating free cash flow	Cash generated from operations before exceptional items, interest, taxation, dividend payments and investments
Operating profit	Profit before finance costs and taxation
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
Triple play	A customer that takes voice, broadband and TV services from the Group
UK Corporate Governance Code	UK Corporate Governance Code published by the FRC in May 2011
Unbundling	Process by which BT makes available its local network to third party broadband service providers
VoIP	Voice over Internet Protocol
WAEP	Weighted Average Exercise Price
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

Financial calendar

AGM	23 July 2014
Ex-dividend date	2 July 2014
Record date	4 July 2014
Dividend payment date	1 August 2014

TalkTalk Telecom Group PLC

Registered in England and Wales No. 7105891
11 Evesham Street, London W11 4AR

About this report

This report was printed in the UK by CPI Colour, a CarbonNeutral® printing company. The report was printed using vegetable-based inks and produced on one site, avoiding the need for transportation between processes.

The material used in this report is Amadeus 100 Offset, which comprises 100% post-consumer waste. The paper mill and printer are certified to the environmental standard, ISO 14001. Both are also Forest Stewardship Council (FSC) chain-of-custody certified.

FSC
www.fsc.org
RECYCLED
Paper made from recycled material
FSC® C016486

FTSE4Good

consultancy, design and production by
designportfolio
design-portfolio.co.uk @WeAre_DP