2019

TalkTalk Telecom Group PLC
Annual Report

TalkTalk
For Everyone

TalkTalk
For Everyone

TalkTalk is the UK's leading value for money connectivity provider.

Our purpose is to deliver **simple, affordable, reliable and fair connectivity** for everyone.

Stay up to date at
talktalkgroup.com

Highlights

Financial highlights

- Total Headline[3] revenue (ex-Carrier and Off-net) up 2.2% to £1,544m (FY18: £1,511m[2]); Headline On-net revenue up 3.9% to £1,263m (FY18: £1,216m[2])
- Statutory revenue of £1,632m (FY18: £1,653m[2]), a 1.3% decline
- Headline EBITDA[3] of £237m (FY18: £203m[2]) (including FibreNation costs)
- YoY Headline EBITDA growth of 16.7% driven by a larger average base, increased Fibre penetration and a materially lower cost base
- Statutory operating profit of £47m (FY18: £44m loss[2]); Statutory loss before taxation of £5m (FY18: £100m loss[2]), after £42m of non-Headline costs associated with reorganising and simplifying the business
- Net debt of £781m (including finance leases of £39m) broadly flat year on year (FY18: £776m[2] including finance leases of £31m)
- Final dividend of 1.50p (FY18: 1.50p); total 2019 dividend of 2.50p (2018: 4.00p)

Operational highlights

- Accelerated Fibre uptake with 490k net adds in the year (FY18: 348k) and a record 152k in Q4 (Q4 FY18: 98k)
- Ongoing low level of churn at 1.20% (FY18: 1.22%)
- Customer base growth of 150k (FY18: 192k), taking the closing base to 4,289k[1]. Q4 net adds of 2k (Q4 FY18: 109k) representing the ninth consecutive quarter of base growth in a competitive market
- Group On-net ARPU stabilising at £24.98 (FY18: £25.06[2]), with year on year (YoY) Consumer ARPU growth
- Good progress on cost reductions, including the move of our HQ to Salford, creating one main campus and a more efficient operating model
- Continued momentum in FibreNation rollout, with York build nearing completion and investment partner process well underway

Looking forward

- Remain confident in FY20 EBITDA growth, with Headline EBITDA (including FibreNation costs) in line with market expectations[4]
- Outlook underpinned by accelerated Fibre growth, coupled with modest base growth, benefiting ARPU, lower Fibre wholesale costs due to commercial discounts, ongoing cost to serve reductions as we transition to a self-service model and significant cost savings from the move of our HQ to Salford (£25m–£30m annualised, with £16m–£20m in FY20), offset in part by continued Voice usage decline

05 For more information see the
Chief Executive Officer's review

(1) All customer KPIs relate to the On-net base. The closing Off-net base represented less than 1% of the total broadband base (FY19: 29k; FY18: 43k).

(2) See note 1 for further details on the restatement of comparative information due to the retrospective application of IFRS 15 and IFRS 9.

(3) See note 1 for an explanation of alternative performance measures (APMs) and non-Headline items. See note 9 for a reconciliation of Headline information to Statutory information.

(4) FY20 Headline EBITDA consensus: £266m (excluding FibreNation costs) and £263m (including FibreNation costs), based on a range of estimates between £247m and £282m, Source: Internally compiled TalkTalk consensus published on corporate website.

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At a glance

TalkTalk is the UK's leading value for money connectivity provider. We believe that simple, affordable, reliable and fair connectivity should be available to everyone.

Since entering the market in the early 2000s, we have a proud history as an innovative challenger brand. Today, we provide landline, broadband, TV and mobile services to over four million customers. We operate Britain's biggest unbundled broadband network, covering 96% of the population, supplying services to consumers through the TalkTalk brand, to businesses through TalkTalk Business, and by wholesaling to resellers.

TalkTalk intends to be at the heart of Britain's Full Fibre future. In November 2018, we launched FibreNation – a new company that will help drive our ambition to roll out Fibre to the Premises (FTTP) to three million homes and businesses.

4.3 million
Customers

2.3 million
Fixed Low Price Plans

1.8 million
FTTC customers

54,800
High speed data connections

HQ
London (moving to Salford by January 2020)

Accolades

Wi-Fi Hub

Which? Best Buy

Good Housekeeping – Reader Recommended

Moneywise Home Finances Awards 2018 – Best Value for Money for Home Entertainment Bundles

Voted Most Popular Broadband Provider in the uSwitch Broadband Awards 2019

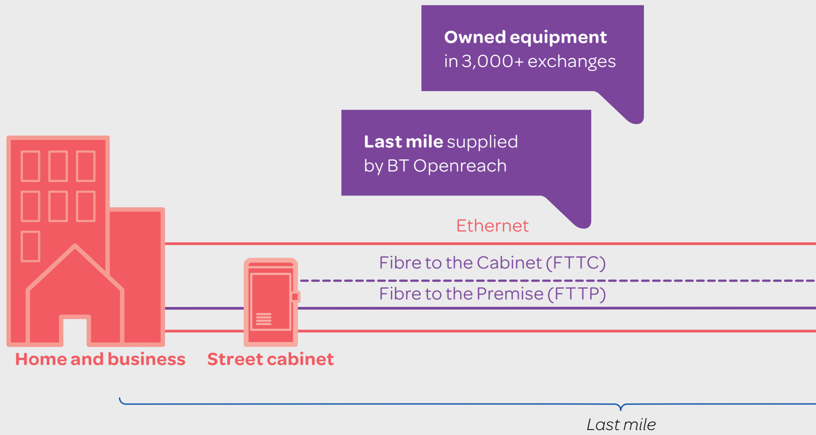
How we are connected

Watch the explainer video:
talktalkgroup.com/talktalkgroup/about-us

Price-regulated copper and Ethernet

Fibre partially regulated

Core optical network
Two separate national networks supporting 9.6Tbps of capacity



What we do

Consumer

Our key focus in the retail space is to provide affordable and reliable fixed connectivity (broadband, Fibre and landline) to consumers. TalkTalk was the first, and remains one of only a few major providers, to guarantee no mid-contract broadband price rises with its industry-leading Fixed Low Price Plans (FLPP). Since their launch in 2016, over 2.3 million customers have signed up to an FLPP. These propositions continue to resonate as they provide price certainty to consumers over the length of a 12, 18 or 24-month contract.

Our 'Fast Broadband' FLPP is our standard broadband plan designed to cater for the needs of consumers who do not require increased download speeds available via a Fibre connection. Connectivity is provided via a standard analogue telephone line using ADSL technology, which allows for average download speeds of 11Mbps.

We also offer Fibre broadband connectivity to our retail customers, provided via our Fibre to the Cabinet (FTTC) network using VDSL technology. Our retail 'Faster Fibre Broadband' FLPP is designed for households with several devices that need to be connected to the internet at the same time, offering average download speeds of 36Mbps or 63Mbps with a Fibre speed boost.

We also offer sensibly priced add-ons for our retail customers. With TalkTalk TV, customers can choose their perfect TV package – with up to 80 Freeview channels, as well as flexible access to an extensive range of premium content from Sky, BT Sport and Netflix. Our YouView set top box enables customers to pause, rewind and record live TV. That, combined with our catch-up TV service and TalkTalk TV store app, provides the customer with flexible, great value entertainment. We have also simplified our mobile offering, now giving customers access to unique offers in partnership with O_2 that are only available to TalkTalk customers.

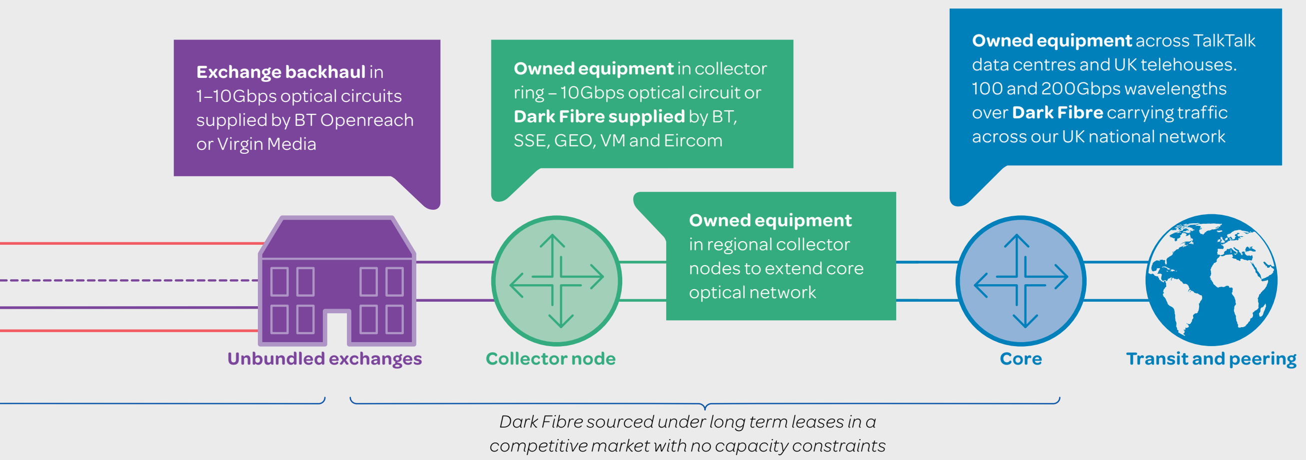
Business (B2B)

Our business arm, TalkTalk Business (TTB), is one of the largest B2B telecoms providers in the UK. Through the indirect channel, we work with over 650 partners to deliver a full range of business-grade communications products and services, including connectivity and networking as well as voice and IP telephony.

Through our partners, we are Britain's largest provider of wholesale broadband to small business and consumers, with over 50% market share. Our full suite of Ethernet products allows us to serve businesses from SMEs to enterprise as well as public sector and our unrivalled exchange footprint gives us the reach and scale to deploy nationwide Full Fibre at great value.

We also serve the needs of 80,000 Business customers nationwide through our separated TTB Direct division from SoHo and SME to mid-market companies and large retailers. TTB Direct offers a wide range of data connectivity solutions, from business broadband and Fibre, through to high-value Ethernet circuits and wide area networks.

Through a combination of self-serve APIs and portals, TTB offers a highly scalable, low cost delivery model for all connectivity options suiting all types of partners – from local resellers to global carriers. We continue to grow year on year through a relentless focus on being easy to do business with.



Chairman's introduction

Sir Charles Dunstone
Executive Chairman

This business is turning the corner. The customer base is growing and we have rediscovered our mission as the challenger. We are now a healthier business, better able to deliver the sort of earnings growth we know we are capable of.

It is now two years since we reset TalkTalk. We said at the time that we would create a simpler, lower cost business, focused on fewer priorities. We undertook to grow the customer base and, over time, improve the underlying profitability of the business.

We also said this was a long term strategy that would take time.

Two years on, I am very confident that our strategy is the right one and I am proud of the progress we are making.

It has not been easy, but we are gradually changing the fundamentals of this business. After several years of decline, the customer base is growing again. We have untangled ourselves from complex, non-core products and are now focused on our strength – fixed connectivity.

And we have rediscovered our mission as the challenger, with a fairer business model that does not rely on overcharging existing customers to offset cheaper deals for new ones. This business is always at its best when we offer something different from our rivals, rather than mimicking them. Creating pricing parity for new and existing customers certainly cost us initially, but we have now absorbed much of that pain and are now starting to see the benefit, with a bigger, happier and more loyal customer base. It was the right thing to do, for customers and the business.

That progress has been hard won, but it means this business is turning the corner. Having tackled our weaknesses head on, we are now a healthier business, better able to deliver the sort of earnings growth we know we are capable of.

In the year ahead we will continue to focus on the priorities outlined above and our move to Salford over 2019 is a milestone in TalkTalk's history. Bringing our teams together, in one location, will I hope, lead to a re-energised, leaner and more effective business.

As ever my sincere thanks to the loyal and very hard working members of TalkTalk. They really do their very best for the business and I am proud to be their Chairman.

Sir Charles Dunstone
Executive Chairman

23 May 2019

37 Learn more about how we live our values in the **People** section

Chief Executive Officer's review

Tristia Harrison
Chief Executive Officer

It is just two years after re-setting TalkTalk, the fundamentals of the business are so much stronger.

Core business performance[1,2,3]

Two years ago, we set out our strategy to be Britain's leading value provider of core fixed connectivity. We said we would return the customer base to growth, whilst radically simplifying TalkTalk to focus on fewer priorities as a leaner, more efficient business.

Two years on, our strategy is working, and we are well positioned to execute our plan. FY19 saw us sustain our strong customer growth, with 150k broadband net adds (FY18: 192k). We have now seen nine consecutive quarters of base growth.

FY19 saw the benefits of a bigger base translate into improved financial performance. Together with strong Consumer and B2B demand for faster, higher ARPU services, Headline revenue (excluding Carrier and Off-net) grew 2.2% to £1,544m. The high take-up of faster services means Group ARPU continues to stabilise, with Consumer ARPU growing as planned. This, combined with the benefits of sustained cost reduction as we create a simpler, leaner TalkTalk, means Headline EBITDA grew 16.7% to £237m (including FibreNation costs). That means we exit the year with a larger, more profitable customer base.

Crucially, the market dynamics continue to validate our strategy. Demand for fixed connectivity continues to rise, with data usage up 30–40% year on year, driven in part by streaming services which are replacing the need for traditional premium TV offerings. That is why our simplification to focus on fixed connectivity whilst relentlessly reducing our central costs remains the right approach. In an uncertain economic climate where price really matters, our structural price advantage means TalkTalk is well positioned to benefit as the only scale, value provider.

Consumer[1]

The Consumer business continues to benefit from the significant increase in demand for Fibre products. We had our strongest ever year of Fibre net adds, at 490k (FY18: 348k), including a record 152k in Q4 (Q4 FY18: 98k), where 71% of new customers took a Fibre product (Q4 FY18: 45%). Fibre customers come at a higher ARPU and the improved reliability of the products leads to lower cost to serve, higher satisfaction and lower churn. The profitability of our Fibre base was also materially improved by a significant reduction in the wholesale price we pay Openreach for Fibre products. This was delivered through a combination of regulatory reductions and a commercial discount arrangement with Openreach. That allows us to continue upgrading customers to future-proofed services whilst continuing to grow EBITDA.

The Consumer business continues to offer a structurally fairer proposition in the market. The introduction of FLPP has brought greater parity to the price paid by new and existing customers. As part of our interim financial results presentation, we highlighted that the average monthly price differential paid by new and existing customers was £1–2 per month, compared to £13–15 elsewhere in the market. That means the Consumer business is well positioned to benefit from forthcoming regulatory intervention designed to reduce the 'loyalty penalty' paid by existing customers.

A combination of our FLPP and the mix-shift towards Fibre products has seen the business bring churn down to 1.20% for FY19 (FY18: 1.22%). This is particularly significant given a record number of customers came to the end of their first FLPP throughout the year, enabling them to leave penalty free. Careful base management and improved customer satisfaction ensured re-contracting rates performed ahead of target, enabling us to sustain our ongoing low churn.

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Chief Executive Officer's review continued

TalkTalk Business

TalkTalk Business continued its strong growth in FY19, as it cemented its position as one of the few scale B2B challengers to BT. We continue to have the UK's largest wholesale broadband base, with more than 50% market share.

In FY19, we restructured TalkTalk Business to maximise future growth. The vast majority of B2B revenue (83%) and EBITDA comes from our indirect business, where we wholesale connectivity to a network of partners and resellers, which then sell it to end customers. Whilst these customers typically have lower ARPU, they also have much lower cost to serve, as partners and resellers absorb the cost and complexity of issues like billing and customer care. When combined with significantly lower subscriber acquisition costs, it means indirect customers are equally as profitable as ones we serve and manage directly.

Our Direct business, where we sell to end customers and manage their service ourselves, is comparatively smaller, accounting for 17% of B2B revenue. We announced earlier in the year that we would not be proceeding with the planned sale of the Direct business to Daisy. Since then, to ensure we maximise the growth potential we see for Direct, we have now structured it as a stand-alone business division. This ensures it receives dedicated management focus as we grow the business and continue to improve the quality of service we provide to our Direct customers. We are no longer in a sale process and have renewed focus on serving small, medium and large B2B customers directly.

Network and connectivity

As we have simplified the business, we have been able to better prioritise our capex on core, fixed connectivity. That has enabled us to absorb a 30–40% year on year increase in traffic over our network, whilst improving its performance for customers. This data increase has largely been driven by video content, such as Netflix, Amazon Prime and YouTube. We have invested to improve how we deliver these services. For instance, we extensively cache this content, effectively storing it on our network, moving it closer to customers in a way that produces a more seamless viewing experience, whilst also significantly reducing our costs.

Given our focus on core, fixed connectivity it is essential that our foundations are strong and that we are able to adapt to the changing needs of our customers, whilst continuing to scale. As such, we will continue to incur non-Headline items in relation to our multi-year network and IT transformation programme, which will fundamentally restructure the Group's network, IT infrastructure and technology organisation. This programme is expected to run until 2021 and underpins the wider Group strategy ensuring that it is fit for the future.

In FY19, we also launched new digital tools that improve how we manage customer issues. Our new 'My Service Centre' tool allows customers to self-diagnose and resolve issues without having to contact us. Early results show improved customer satisfaction, whilst reducing our operating costs. It is an important step on our journey to a self-serve model, using new technology to improve the quality of service whilst delivering ongoing cost reduction.

Fibre for Everyone

As Consumer and B2B customers increasingly demand faster, more reliable services, it is crucial TalkTalk has a clear strategy to offer a more diverse range of Fibre products that can accommodate different needs.

In FY19 we launched Fibre for Everyone, a cross-group initiative to ensure we are well positioned to benefit from existing and future Fibre demand. In the short term, that means migrating a greater proportion of our base onto FTTC services and ensuring TalkTalk is a fast adopter of products such as Single Order Generic Ethernet Access (SOGEA) and G.Fast.

The only long term solution to rising demand, however, remains Full Fibre. FY19 saw us make significant progress on our plan to use our scale to unlock greater Full Fibre investment and ensure the maximum number of customers benefit from gigabit services. We launched FibreNation as a wholly owned subsidiary of TalkTalk and initiated a formal process to identify the right long term funding partner as it rolls out gigabit services to three million premises as an independent company. In the meantime, we accelerated the rollout to three additional towns and cities, Harrogate, Knaresborough and Ripon, with building due to start in summer 2019. That means the value of our asset increases as we finalise the long term funding arrangement. In the areas not served by FibreNation, we intend to wholesale Full Fibre services from Openreach and potentially others. The Fibre for Everyone programme will ensure the business is well positioned to negotiate access to the services our customers need at a price they can afford.

Cost reduction[3]

We continue to make good progress in resetting TalkTalk as a simpler, lower cost business. We have transitioned to selling non-core products, such as mobile and TV, in a capital light way. We have also significantly reduced the cost of providing our core Fibre broadband services, through a meaningful reduction in the wholesale cost we pay Openreach. Our operating costs will further reduce as we roll out new digital tools that allow customers to self-serve, such as 'My Service Centre'. 2019 also saw us complete a rigorous review of all external spend, as we ensure our costs reflect our simplified business.

As part of this radical simplification process, there is significant opportunity to create a leaner, more efficient operating model, as we focus on fewer priorities. In FY18 we consolidated two offices, in Irlam and Warrington, onto a single site, the Soapworks in Salford. The move has improved collaboration, created a more agile culture and enabled us to better recruit and retain critical talent. We are therefore going further, relocating our headquarters from London and making the Soapworks the single main campus for the business. The vast majority of London roles will transition to the North West by January 2020, with recruitment and hiring already underway. Whilst the move will incur non-Headline costs of approximately £30m, of which £22m has been recognised in FY19, we expect it to generate annualised savings of c.£25m–£30m, with c.£16m–£20m of this realised in FY20. This is an important move for the business as we realise the financial benefits of our ongoing simplification.

Outlook[1,2,3]

As a consequence of our hard work and disciplined focus over the last two years, the fundamentals of this business are now much stronger. We have pivoted the customer base back to growth and the trends on ARPU, churn and cost reduction are positive. That is already delivering improved financial performance, with FY19 Headline EBITDA growth of 16.7%.

We remain confident in FY20 EBITDA growth, with Headline EBITDA (including FibreNation costs) in line with market expectations. This growth is underpinned by:

- accelerating Fibre mix, modest base growth and adoption of fairly priced add-ons, leading to moderately growing ARPU, offset by ongoing Voice usage decline;
- regulatory and commercial tailwinds in costs of goods sold, as Ofcom's WLA and BT Openreach commercial discounts continue to reduce the amount we pay for wholesale FTTC services; and
- relentless cost reduction, with lower cost to serve, as we benefit from the implementation of our 'My Service Centre' tool and a self-service model; lower central costs, as the financial benefits of our HQ move to Salford feed through into the financials (£16m–£20m in FY20); and significantly lower FibreNation costs.

As we look beyond FY20 and into the medium term, with the customer base now larger and more stable, we can afford to be even more disciplined on the cohorts of customers we acquire based on customer lifetime value (CLV) analysis. Going forward, our focus on growth remains, but shifts towards growing the Fibre mix within the base, as copper fast becomes a legacy product. The improved economics of Fibre customers, with higher ARPU and lower churn and cost to serve, alongside our structural price advantage and materially lower cost base, will lead to sustained revenue and ARPU growth and continued EBITDA improvement.

TAHarrison

Tristia Harrison
Chief Executive Officer

23 May 2019

Looking forward the business will continue with the same plan, focused on accelerating Fibre, reducing costs and simplifying the business.

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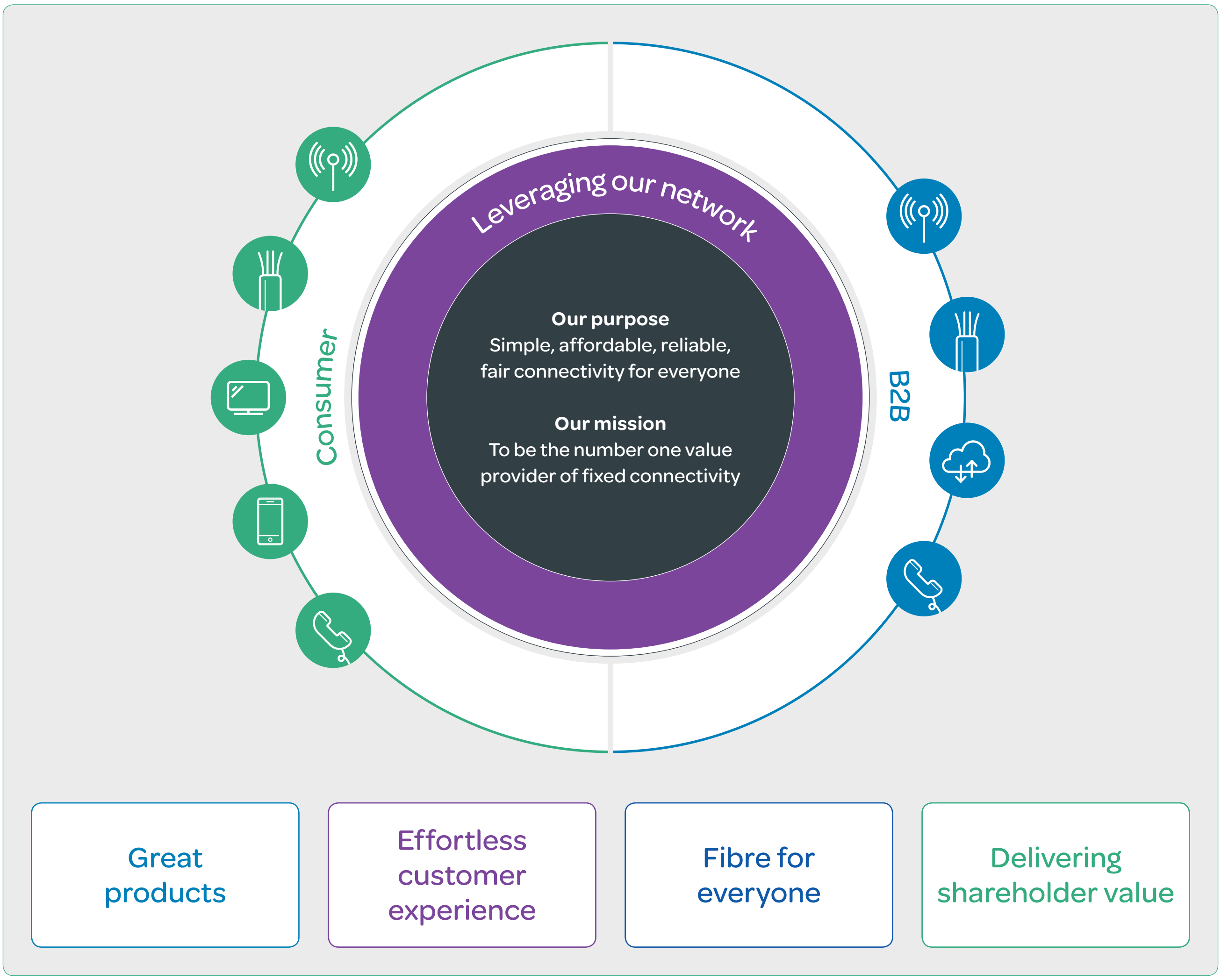
Our business model



Broadband

We offer our Consumer and Business customers simple, affordable, reliable and fair fixed connectivity.

Fibre

We offer both Consumer and Business customers access to Fibre broadband connectivity, provided via our FTTC network using VDSL technology.

Fixed line voice

We continue to offer fixed line voice connectivity to Consumer and Business customers. In addition to this we offer great value boosts, such as unlimited UK calls and international call packages, as fairly priced add-ons.

TV

TalkTalk TV lets our Consumer customers choose their perfect TV package – with up to 80 Freeview channels, as well as flexible access to an extensive range of premium content from Sky, BT Sport and Netflix.

Mobile

Our simple and compelling proposition allows Consumer customers to access unique offers in partnership with O_2 that are only available to TalkTalk customers.

Data products

We offer data solutions to Business customers at great value through our high margin Ethernet-based connectivity services. Within our product portfolio we are seeing a clear shift to businesses demanding higher capacity gigabit speeds.

Our strategy

Investment case

1. Clarity of purpose

- Our purpose is to provide simple, affordable, reliable, fair connectivity for everyone.
- This has enabled us to be the UK's leading value for money fixed connectivity provider, serving approximately 12 million people in 4.3 million homes and businesses, giving us a strong market position in both Consumer and B2B.
- Over the last two years we have simplified the business, doing fewer things with a greater focus on our core products (Broadband, Landline and Data services), whilst also offering sensibly priced add-ons (TV, Mobile, Call Boosts and Enhanced Security products).

2. Compelling fundamentals

- We have one of the few scale residential customer bases in the UK, complemented by unrivalled scale in the B2B market.
- We have Britain's largest unbundled network, with 96% coverage in the UK. This gives us a structural cost advantage, which underpins our value proposition.
- In an uncertain economic climate, there has never been a better time for a value player, with customers demanding greater value for money.

3. Clear strategy

- We see ever increasing demand for reliable and affordable fixed connectivity, with Consumers and Businesses using an increasing amount of data. As such our Consumer and B2B divisions are focused on faster, more profitable products.
- Customers taking our faster products are more loyal and satisfied, leading to lower churn; all of which improves customer lifetime value.
- Simplification has enabled us to become a leaner, more efficient business, with strong cost disciplines, as evidenced by our decision to move our HQ from London to Salford.
- Our unique price proposition (FLPP) has pre-empted forthcoming regulation on 'loyalty penalties', leaving us well positioned for any regulatory intervention.
- All decisions we make are based on improving the customer experience, whilst enabling the business to increase ARPU and profitability, as well as cash generation.

4. Differentiated products and services

- We have over 2.3 million customers benefitting from our FLPP.
- OTT video services (e.g. Netflix and YouTube) and online gaming (e.g. Fortnite and Apex Legends) are driving exponential data usage, creating even more demand for reliable and affordable fixed connectivity.
- We are upselling more and more customers to faster Fibre products to cope with their data demands and enhance their connectivity experience.
- We have improved the in-home experience by launching our award-winning Wi-Fi Hub (Which? "Best Buy" Wireless Router), providing our fastest, strongest and most reliable Wi-Fi signal ever.
- We have introduced new online tools to help customers resolve issues quickly and conveniently.
- We offer fairly-priced add-ons (TV, Mobile, Call Boosts and Enhanced Security products) to supplement our fixed connectivity offering.

5. Market opportunity

- TalkTalk is at the heart of Britain's Fibre future and is committed to rolling out Full Fibre to 3 million homes and businesses through our new company, FibreNation, in partnership with an infrastructure investor.
- A more beneficial regulatory environment underpins build-cost reductions and provides stability for future FTTP investment, leaving us well positioned to be a major player in Britain's Full Fibre future.

Our plan remains unchanged to be the number one value provider of fixed connectivity which will lead to sustained growth. We will achieve this by focusing on six key areas:

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A happy, stable, profitable Consumer base

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Leveraging our network

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Driving cost efficiencies

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One TalkTalk team

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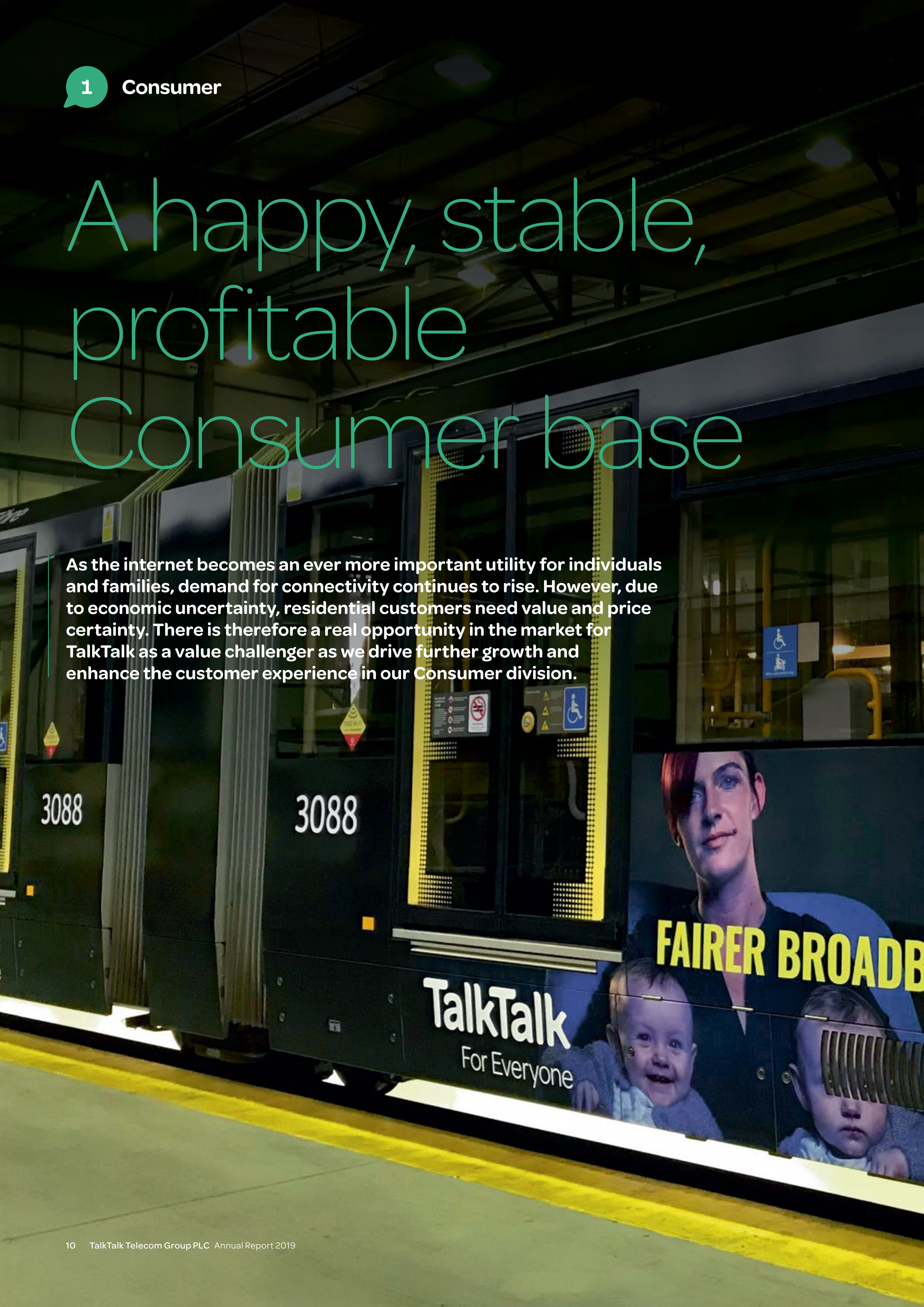
Investing in Britain's Fibre future

A happy, stable, profitable Consumer base

As the internet becomes an ever more important utility for individuals and families, demand for connectivity continues to rise. However, due to economic uncertainty, residential customers need value and price certainty. There is therefore a real opportunity in the market for TalkTalk as a value challenger as we drive further growth and enhance the customer experience in our Consumer division.



Our radically simpler FLPP, launched in October 2016, continue to resonate with customers, with 2.3 million in the Consumer base having taken an FLPP by the end of March 2019. This means more of our base – over 68% – is now in contract. Customers appreciate not just the material savings the plans offer, but also the certainty and fairness they provide as we guarantee not to increase broadband prices mid-contract. Since resetting our price proposition, this has enabled us to reduce the delta between front and back book pricing. This means that TalkTalk is well positioned for any regulatory changes that may be introduced in this space.

We will continue to offer compelling, sensibly priced add-on propositions for those customers who want to benefit from extra services. Our supplementary TV offering is unique in the market for the breadth of content available and the flexibility of access that customers enjoy. Under our mobile proposition, we now provide customers access to unique offers in partnership with O2 that are only available to TalkTalk customers. Our great value voice/calling packages also offer outstanding value for UK and international destinations.

150k

Customer base growth in FY19

2.3m+

Customers on Fixed Low Price Plans

We have markedly improved our in-home connectivity experience for customers over the last year. A major contributor to this is the higher mix of customers taking Fibre products; at the end of March 2019, over 40% of our base (Consumer and B2B) are taking Fibre. In FY19, we also launched our new router, the Wi-Fi Hub, providing our fastest, strongest, most reliable Wi-Fi signal ever. The move to Fibre benefits both the end customer and the business. Customers have higher satisfaction levels as they enjoy faster, more reliable connectivity. For TalkTalk, Fibre customers also generate higher ARPU, come with a lower cost to serve (e.g. fewer faults) and stay with us for significantly longer, leading to materially lower churn. As such, over customer lifetime, despite contributing lower gross margin, these Fibre customers are more profitable than copper customers. We expect the demand for Fibre to continue to grow in FY20 (through both upselling and new acquisitions) and we will continue to roll out the Wi-Fi Hub to the Consumer base.

We will maximise the benefits of the investments already made to optimise the customer experience, with easier access to existing self-serve channels. Over a third of all our conversations are now through messaging and chat. We will also continue to leverage our 'My Service Centre' tool, where we can better identify and resolve problems. Through this dashboard, customers will also have the ability to digitally diagnose and service issues, both of which are large drivers of calls to our customer service centres.

Business data provider of choice

Businesses, like consumers, continue to demand faster, more reliable connectivity at a fair price. TalkTalk Business is well positioned to capitalise on this demand by offering a range of data and voice products that address three significant markets and cement its position as Britain's business data provider of choice.

50%+

Wholesale B2B market share

3k+

Enabled exchanges for Ethernet, EFM and business broadband

TalkTalk Business sells direct to end customers, from SoHo to Enterprise. Also in the indirect channels, TalkTalk Business wholesale connectivity and Voice to a network of 650 active partners which use it to provide services to over one million Business and Consumer customers. The wholesale channel accounts for 83% of TalkTalk Business revenue.

TalkTalk Business is already Britain's largest provider of wholesale broadband, with over 50% market share. The indirect channel allows us to retain a simple, cost-effective business model which can address the needs of businesses as well as reaching a larger consumer base whereby our network of partners takes responsibility for providing the complex range of additional products Business customers may need and manage the service and billing as well as the associated customer acquisition costs. We also continue to grow our Ethernet base, offering fast, highly reliable data products to Business customers which do not compromise on quality for their data connectivity.

We see real opportunity to continue to grow our market share and profitability. We will cement our leading position in wholesale data as Business customers move to faster, higher ARPU products, including G.Fast, FTTP and 10Gb Ethernet. As the business access market becomes more complex with alternative providers, we will leverage our scale and experience to provide a simple way for our partners to access the services they need. That includes investing further in portals, monitoring and insight to provide a simpler, lower cost, more frictionless customer experience. Crucially, we will do that whilst investing in greater automation and robotics to further reduce our costs, to ensure we continue to offer very competitive pricing.

Our investment in the quality, reliability and simplicity of our service means TalkTalk Business is well positioned to continue its strong growth and capitalise on the rising demand for business and consumer connectivity.

05 For more information see the **Chief Executive Officer's review**

3 Network and connectivity

Leveraging our network

Our simplified focus on fixed connectivity means our capex is now concentrated on improving the performance of our network. Our strategy focuses on improving three Cs – customer experience, capacity and cost.

Network

We are investing in new technologies to improve the customer experience. This includes new tools to allow the network to 'self-drive' through incidents and outages to minimise customer disruption; using real-time network telemetry data to improve the quality of experience and product; and rolling out advanced diagnostics that allow customers to identify and resolve problems without having to call us.

On capacity, we are investing to ensure the network continues to provide seamless services, despite rapidly rising bandwidth requirements. The network sees a 30%–40% increase in data usage year on year, driven by customers upgrading to faster products and consuming significantly more video content. To manage this, we have made a number of investments to improve video performance with increased caching in our network. This improves the quality of the customer experience whilst significantly reducing bandwidth pressure on the network. We now serve close to 90% of video content this way.

Crucially, we are improving the efficiency of the network, meaning we can absorb rising bandwidth demand whilst reducing our cost per Gb. We are doing this by adopting additional high capacity optical products across our network; deploying our next generation access switching capability that uses more effective backhaul options; and exploiting new tools to identify and resolve issues in real time, reducing network disruption.

Our strategy means we are well positioned to benefit from rising business and consumer demand for fixed connectivity, leveraging our network to improve the service we provide whilst ensuring our cost per Gb remains the lowest in the industry.

Where these activities are part of a fundamental transformation of the network and form part of our network transformation programme, related costs of £15m (2018: £19m) have been recognised within non-Headline results. Further detail is included within note 9 to the consolidated financial statements.

Systems

In addition, we are continuing with our Technology Stabilisation Programme, to further strengthen the resilience of our internal systems. The two year programme, which we started in FY19, covers a number of IT systems involved in critical customer journeys. We are covering remediations across technology, people and process and are prioritising the key activities using subject matter experts and root cause analysis data to ensure any underlying issue is fixed.

96%

Coverage

4 Cost reduction

Driving cost efficiencies

We are proud to be a value brand. It is at the heart of everything we do. But it requires discipline. In order to offer the best possible prices to customers, we have to ensure we operate as efficiently as possible.

Over the last two years, we have reset TalkTalk as a simpler, more efficient business. Our decision to concentrate on fixed connectivity has allowed us to focus our people and capex on a more focused set of priorities, as we switched to delivering non-core services, such as TV and mobile, in a capital-light way. We have also rigorously scrutinised our external spend, to ensure it aligns with our simpler model and is consistent with being a value brand. After absorbing some exceptional transition costs, our more focused model is now delivering significant savings.

It is not just about the products we sell, but also how we deliver them. We continue to invest in new digital tools that allow customers to diagnose and resolve problems themselves, at a time of their choosing.

Customers tell us they prefer the convenience and flexibility of self-serve. Our pivot to a digital, self-serve model means customer satisfaction is rising as our costs come down. This builds upon our network transformation initiatives, which are leveraging new technology to increase the capacity of our network whilst reducing our cost per Gb.

The next financial year will also see us complete a fundamental restructure of our people, aimed at creating a leaner, more efficient business. We will relocate our headquarters from London to Salford, as we reduce our headcount to better reflect our simpler set of priorities. It is a milestone moment for TalkTalk. In addition to delivering material financial savings, it also supports our drive to create a more agile, collaborative culture better able to deliver the services our customers need at a price they can afford.

5 One Salford campus

One TalkTalk team

At TalkTalk, we have a very clear mission. That is to be the UK's leading value provider of fixed connectivity. To continue delivering for our customers, we are making sure we have the right resources and skills in place as we all focus on a clearly identified set of priorities. We will now be more efficient than ever as we work as one TalkTalk team.

Over the course of the next financial year, we will become an energised, highly effective team of colleagues based on one primary site. In November 2018, we announced our plans to relocate our headquarters from London to Salford to support our next phase of growth. While we have always had a base in the North-West, we now want to build on that heritage and create a world-class campus for the whole business. As part of the move, we will be creating several hundred roles in the North-West (a mix of relocating existing roles from London and new posts).

The success of our Soapworks site in Salford has exceeded expectations, improving collaboration between teams, supporting a more flexible working environment and enabling the Company to attract and retain the best talent. As we transition nearly all roles from London to our Salford campus we remain fully committed to creating an environment where colleagues can be themselves and give their all. A place where peers are called on to out-think the competition and collaborate with each other to deliver great results for our customers and as a result are highly likely to recommend TalkTalk as a great place to work.

108 For more information see **note 9** to the consolidated financial statements


SOAPWORKS

Investing in Britain's Fibre future

Our network is the very backbone of the service we provide to our customers. To maintain the competitive advantage our network gives us, we need to continually invest and out-innovate our competitors to offer high performance, quality services to both our Consumer and B2B customers. We will continue to optimise the network to maximise bandwidth and service availability whilst always seeking to reduce operating costs.

A Fibre first provider

With consumers and businesses requiring reliable, fast connectivity more than ever, TalkTalk is determined to continue meeting this increasing demand. We are already embracing the scale Fibre roll-out that is critical for the UK's digital future – whether by delivering part Fibre products (FTTC) to our retail and B2B customers or by accelerating our Full Fibre (FTTP) plans via FibreNation and collaboration with Openreach.

First steps to Fibre

We are currently driving scale adoption of our FTTC products. This follows a reduction in wholesale prices as a result of Ofcom's Wholesale Access Review (WLA) and a commercial deal agreed with Openreach. The move to Fibre benefits both the end customer and the business. Customers on Fibre products have higher satisfaction levels as they enjoy faster, more reliable connectivity. For us, these customers generate higher ARPU, come with a lower cost to serve and lead to materially lower churn.

3

New towns and cities included in our roll-out

100k

Homes to be covered by new network

Accelerating FTTP roll-out

TalkTalk is determined to be at the heart of Britain's Full Fibre future. In the findings of its Future Telecoms Infrastructure Review published in 2018, the Government agreed that Britain needs much more FTTP and recognised that we cannot only rely on the incumbent to deliver. However, alternative network investment is only viable where networks can secure high, fast take-up. That in turn requires scale customer bases, which can be migrated quickly and cheaply onto new networks, giving investors the confidence that take-up thresholds can be met.

With 4.3 million customers, we are one of a few providers that can use our position in the market to accelerate FTTP investment at scale. We will deliver this in two ways:

1

FibreNation: In November 2018, we launched FibreNation, an independent company that will drive our ambition to roll out FTTP to three million homes and businesses. As well as leading on the completion of the FTTP pilot in York, FibreNation will begin rolling out to three new towns – Harrogate, Ripon and Knaresborough – from summer 2019. TalkTalk will be the anchor tenant and Sky will remain a wholesale customer of the new network in the expanded footprint. We remain in discussions with third parties about the long term capital structure for FibreNation.

2

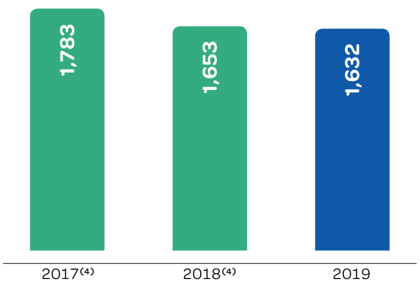
Partnering with Openreach: While FibreNation has a critical role to play, we want all consumers and businesses to enjoy the benefits of faster, more reliable connectivity. We are therefore ready to be a wholesale partner for Openreach and other providers (if commercially suitable) in the areas FibreNation does not reach. Subject to fair, sensible pricing, we will provide the scale volume commitments Openreach needs to de-risk its own investment.

W Learn more about FibreNation on our website at **talktalkgroup.com**

Measuring our performance

Financial metrics[3]

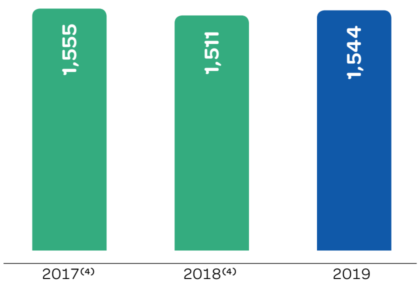
Statutory revenue[4] (£m)



Definition
Total Statutory revenue.

Comments
Statutory revenue declined 1.3% due to MVNO revenues which are down £25m year on year as we wind down this business, offset by a larger average base and increasing Fibre penetration.

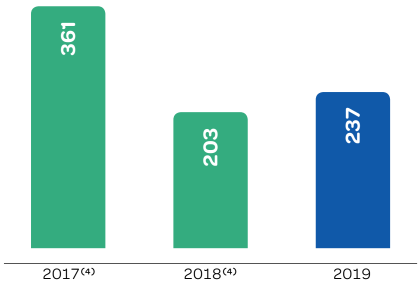
Headline revenue[1] excluding Carrier and Off-net (£m)



Definition
Total revenue before non-Headline items and excluding Carrier and Off-net revenue.

Comments
Headline revenue excluding carrier and off-net was up 2.2% due to the higher average base together with the increased penetration of Fibre partly offset by FLPP ARPU dilution and Voice revenue decline.

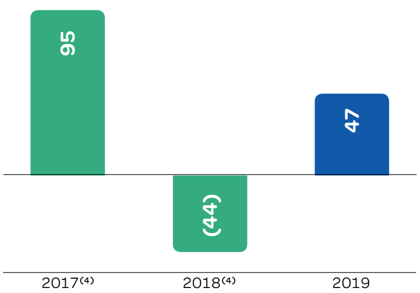
Headline EBITDA[1] (£m)



Definition
Total Headline[1] earnings before interest, tax, depreciation, amortisation and share of results of joint ventures.

Comments
Headline EBITDA increased 16.7% predominantly due to the higher average base together with the increased penetration of Fibre, lower regulatory and commercial wholesale pricing for Fibre input costs and reduced our operating costs.

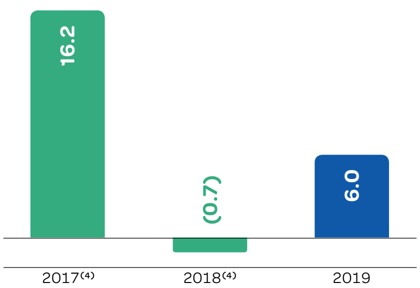
Statutory operating profit/(loss) (£m)



Definition
Total Statutory operating (loss)/profit.

Comments
Statutory operating profit of £47m represents an improvement of £91m year on year due to Headline EBITDA improvements and significantly lower non-Headline items associated with re-organising and simplifying the business.

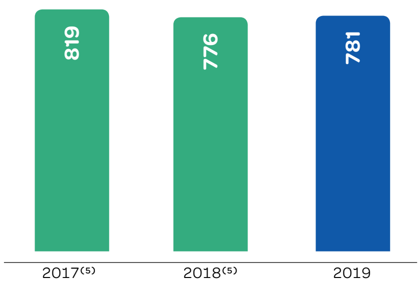
Headline basic EPS[1] (p)



Definition
Basic EPS excluding non-Headline items.

Comments
Headline basic EPS improved year on year as a result of increased net profits.

Net debt[1] (£m)

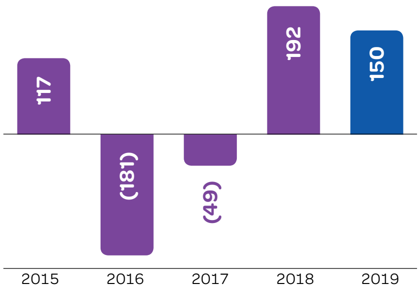


Definition
Represents total borrowings after derivatives offset by cash and cash equivalents including finance leases.

Comments
Net debt remained broadly flat year on year.

Non-financial metrics(3)

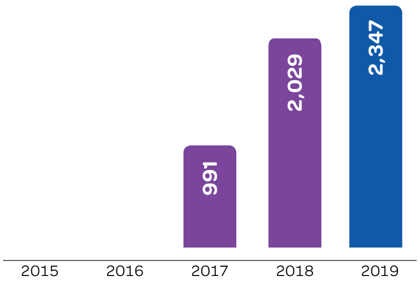
Broadband net adds(2) (000)



Definition
The net of new broadband customers(2) joining TalkTalk and those leaving TalkTalk.

Comments
Our broadband base grew by 150k as we continued to invest in growing the base, with good momentum in FLPP take-up.

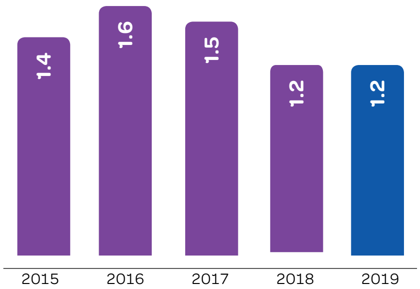
FLPP take-up (000)



Definition
The number of customers who have taken one of our Fixed Low Price Plans since October 2016.

Comments
300k more customers took one of our fixed low price plans during the year, keeping the percentage of customers in-contract broadly flat year on year.

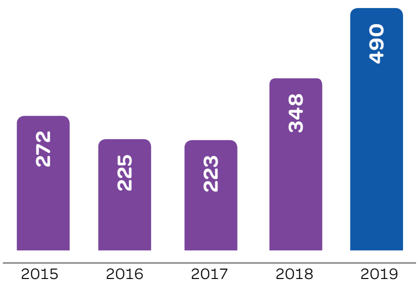
Churn(2) (%)



Definition
The percentage of our average customer base(2) leaving TalkTalk each month.

Comments
Churn reduced slightly year on year from 1.22% to 1.20% driven by a stable in-contract base and other operational and customer experience improvements.

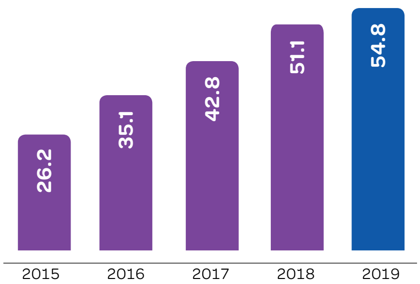
Fibre net adds (000)



Definition
The net of new Fibre customers joining TalkTalk and those existing customers upgrading to Fibre offset by those leaving TalkTalk.

Comments
Growth in the Fibre base accelerated strongly in the year, adding 41% more customers year on year, taking the overall Fibre base to nearly 1.8 million, representing 44% of the MPF base compared to 33% a year ago.

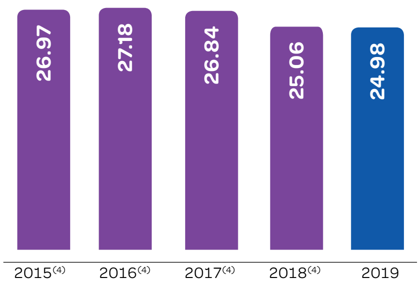
EFM and Ethernet base(3) (000)



Definition
The total number of high speed data connections in our B2B division.

Comments
We saw further growth in our high speed data products (EFM and Ethernet) with 3,700 net additions in the year. Whilst growth remains strong, it is increasing at a slower rate, countered by a higher volume of 1Gb connections in the mix, which comes with significantly higher ARPU.

ARPU (£)



Definition
Average monthly revenue per On-net customer.

Comments
ARPU was 8p lower year on year with FLPP ARPU dilution and voice usage declines offset by increasing Fibre mix.

(1) See note 1 to the consolidated financial statements for an explanation of APMs and non-Headline items. See note 9 for a reconciliation of Headline information to Statutory information.
(2) All customer KPIs relate to the On-net base. The closing Off-net base represents less than 1% of the total broadband base (FY19: 29k; FY18: 43k).
(3) Following the review of current strategic focus of the Group, the KPI presented have been changed to better reflect the metrics most relevant to the Group.
(4) 2015 to 2017 comparatives have not been restated for the retrospective application of IFRS 15 and IFRS 9. See note 1 for further details on the restatement of comparative information due to the retrospective application of IFRS 15 and IFRS 9.
(5) See note 1 for further details on the restatement of comparative information due to the retrospective approach of IFRS 15 and IFRS 9.

Regulatory environment

Our business activities, and those of Openreach, our largest supplier, are subject to the laws and regulations of the EU and the UK. At the EU level, the telecoms industry is regulated by a variety of legal instruments and policies, collectively referred to as the Common Regulatory Framework, regulating the establishment and operation of electronic communications networks and the provision of electronic communications services, such as telephony, internet access and, to some degree, television services.

The Common Regulatory Framework primarily seeks to open European markets for communications services, rather than addressing issues of content and comprises:

- Directive 2002/19 on access to, and interconnection of, electronic communications networks and associated facilities;
- Directive 2002/20 on the authorisation of electronic communications networks and services;
- Directive 2002/21 on a common regulatory framework for electronic communications networks and services; and
- Directive 2002/22 on universal service and users' rights relating to electronic communications networks and services.

These Directives are supplemented by EU Directive 2002/58, regulating the processing of personal data and the protection of privacy in the electronic communications sector.

In the UK, the Common Regulatory Framework is implemented through (i) the Communications Act 2003, which regulates all forms of communications technology, whether used for telecommunication or broadcasting; and (ii) the Wireless Telegraphy Act 2006, which regulates radio communications (including with respect to the spectrum, licensing arrangements, usage conditions and charges, licence bidding and trading, and enforcement and penalties). The Privacy and Electronic Communications Regulations 2003, as amended, implemented EU Directive 2002/58, regulating the processing of personal data and the protection of privacy in the electronic communications sector.

We are also subject to regulation under the UK Broadcasting Acts 1990 and 1996 and other UK statutes and subordinate legislation, including the Competition Act 1998, the Enterprise Act 2002, the Enterprise and Regulatory Reform Act 2013 and the Digital Economy Act 2017.

The UK telecommunications market is regulated by Ofcom, which sets the charges and other terms for wholesale access to infrastructure and associated services provided by BT, where BT is deemed to have 'Significant Market Power'. Most of the regulated wholesale products we purchase from Openreach are provided by Openreach. Ofcom's objective is to serve consumers' interests through encouraging investment and ensuring that these wholesale products enable effective competition in retail markets, so that consumers and businesses benefit from a choice of attractive services and retail service providers.

We rely upon a number of wholesale products from Openreach to be able to offer services to our customers. The key wholesale products are LLU (the copper connections into homes/businesses), Generic Ethernet Access (GEA) (access to Openreach's FTTC network) and Ethernet (Fibre links used to connect exchanges to our core network and also to connect some Business customers). The prices and terms of these are set by Ofcom though a triennial market review process which gives us reasonable certainty of future costs. From 2021 Ofcom is planning to change to a five year review period and conduct the reviews for major products such as MPF, GEA and Ethernet together.

We, along with other communication providers, are required to comply with various regulation and legislation. Our compliance with regulation is monitored internally by the Regulatory Compliance Committee.

Electronic communication services

Ofcom Strategic Review of Digital Communications

BT completed the legal separation of Openreach in October 2018 to address the competition concerns Ofcom identified in its 2016 Strategic Review of Digital Communications. Ofcom has committed to monitor the new arrangements and if they are not effective will review whether to impose structural separation. We continue to engage with Openreach and Ofcom to urge quicker progress and believe that structural separation will be required if the legal separation does not yield tangible consumer benefits.

Broadband services

LLU charge control and service standards

In March 2018, Ofcom published its final determination in the 2018 Wholesale Local Access Market Review (WLAMR) which set regulated prices and quality levels for MPF and GEA. This determination has resulted in significant real term price reductions for both MPF and GEA. The MPF price is expected to remain essentially flat in nominal terms, moving from £85.91 in 2018/19 to £85.81 in 2019/20, while the 40/10 GEA price will fall from £69.59 in 2018/19 to £61.51 with effect from 1 April 2019. Other GEA products (both lower and higher speeds) remain unregulated; however, TalkTalk has entered into a long term contract with Openreach which provides for prices well below listed levels for 80/20 GEA rentals, along with smaller reductions in 40/10 GEA pricing, in return for volume commitments. This is the first time that Ofcom has imposed a charge control for GEA products on Openreach. Many ancillary products, such as installations and ceases, will also see meaningful price reductions.

At the same time, quality of service standards imposed on Openreach will increase substantially. In particular, the required proportion of fault repairs completed on time will rise to at least 88% in 2020/21, from 83% today. These increased levels of quality of service are likely to materially benefit TalkTalk's customers.

Business Connectivity Market Review (BCMR)
Following BT's successful appeal of the 2016 market review, Ofcom reimposed large elements of the regulation it had initially imposed but under temporary regulation. However, it did not reimpose the obligation on Openreach to provide Dark Fibre access (DFA). This temporary regulation falls away at the end of March 2019. Ofcom is consulting on a new market review that was intended to cover the period from April 2019 to March 2021 when the Access Review is planned to come into force. However, delays in Ofcom's process created a lacuna in regulation, resolved by a temporary commitment not to increase prices before 30 June 2019. Ofcom has proposed in the BCMR that average wholesale Ethernet prices should stay flat in nominal terms and that DFA is only imposed for limited cases. We have argued strongly that wholesale prices should be set at cost and DFA imposed widely.

Access Review
Ofcom is planning to combine the previous market reviews into a single integrated market review that is referred to as the Access Review which is intended to come into force from April 2021. Ofcom has started to consult on elements of the approach that it might adopt and has indicated that the Access Review may result in significant changes in regulation in order to promote FTTP investment. We expect a full set of proposals by the end of 2019.

Duct and pole access
Openreach is implementing Ofcom's decision to require it to improve wholesale access to its ducts and poles so that its rivals can use these assets to roll out their own FTTP networks. The improvements include: relaxing the usage restrictions to allow the use of BT's ducts and poles for leased lines alongside broadband; requiring BT to fix faults and relieve congestion to make its assets 'ready for use' to enable third party access; and reducing and capping the rental prices BT can charge for duct and pole access. Duct and pole access could benefit us by reducing the cost and increasing the speed of the roll-out of our own FTTP network. We are trialling its use in York. Ofcom is further consulting through the Physical Infrastructure Market Review (PIMR) on entirely removing restrictions on DPA use so that it can be used for broadband or leased lines in any proportion and expects to implement the change in 2019/20.

Universal Service Obligation

The Digital Economy Act 2017 gives the Secretary of State the power to introduce a new broadband Universal Service Obligation (USO), providing residential and Business customers with a legal right to request a broadband service of 10Mbps or more. In March 2018 the Government confirmed that it would pursue a formal, regulated USO and tabled the appropriate secondary legislation in Parliament. Ofcom is now conducting a number of consultations on designating providers and funding mechanisms and expects customers to be able to request USO connections from the end of 2019.

The quality of service standards imposed on Openreach will increase substantially and is likely to materially benefit TalkTalk's customers.

FTTP policy
Following the Future Telecoms Infrastructure Review (FTIR) which concluded in 2018, Government's ambition is for 15 million premises to be able to access Full Fibre by 2025 and nationwide coverage to be achieved by 2033. It is committed to promoting infrastructure competition and bringing down barriers to network deployment to support this vision. The key components of the strategy are:

- reducing build costs through bringing forward legislation to ensure Full Fibre deployment to new builds; and simplifying wayleaves so that telecoms companies have a 'right to entry' like other utilities. It is also seeking to streamline street works by issuing a standardised national framework for operators and local authorities;
- supporting access to passive infrastructure through Openreach delivery of the DPA improvements and reviewing the regulations for access to third party infrastructure;
- supporting roll-out in rural areas through an "outside-in" strategy to connect the final 10% using public investment;
- requiring Ofcom to oversee an industry-led switchover from copper to Full Fibre networks; and
- improving access to spectrum and cell sites to enable increased mobile coverage and enable 5G deployment.

We are engaging with the Government on its proposed Statement of Strategic Priorities for Ofcom that forms part of implementing the FTIR.

Regulatory environment continued

Automatic compensation

The Digital Economy Act 2017 clarified Ofcom's powers to impose a system of automatic compensation. Following discussions with Ofcom and other providers, TalkTalk agreed to a voluntary code, which introduces automatic compensation in specific instances on broadband and landline services. The voluntary code is in lieu of formal regulation and is also supported by BT, Sky, Virgin Media and Zen Internet. TalkTalk is implementing the changes and the new regime will be implemented in April 2019.

Television and video-on-demand regulation

As a provider of On-Demand Programme Service (ODPS), we must comply with a number of Statutory obligations in relation to 'editorial content' and notify Ofcom of our intention to provide ODPS. Failure to notify Ofcom or comply with the relevant Statutory obligations may result in the imposition of fines or, ultimately, a prohibition on providing an ODPS.

There is, at present, no wholesale or retail price regulation on the provision of any TV channel, following Ofcom's withdrawal of regulation on Sky Sports in December 2015.

Other material current or potential regulation

Brexit

On 23 June 2016, the UK voted to leave the European Union (EU). The UK Government has been considering how the vote will impact the future of telecoms regulation in the UK. Final decisions will be subject to terms of the UK's future relationship with the EU. We are working closely with the Government and Ofcom on the issue and have attended several Government-led forums on potential implications.

Contingency planning for no-deal outcome

As details about a final deal remain unplanned, TalkTalk has assessed the impact of a no-deal scenario once the Article 50 window closes. We have consulted with our supply chain to understand potential disruption, and also engaged with Ofcom and the Government. Our conclusion is that we have limited exposure as a UK company which provides services only within the UK. Our assessment has highlighted potential impact in two areas:

- Supply chain disruption: any additional wait at point of entry could disrupt our supply of hardware, both that used in our network and by our customers. We plan to increase our stock stored in the UK for a period of time to mitigate against this risk.
- Limits to data sharing: we share industry concerns about any barriers to sharing data across UK-EEA boundaries in the absence of an agreement on UK adequacy with EU data protection standards. We are taking mitigating action to enable data sharing on a contractual basis.

We have shared our scoping exercise and assessment with the Government and Ofcom, neither of which have raised any additional concerns.

Longer term

The exact implications of a new relationship will depend on the outcome of the negotiations. We are not advocating radical regulatory changes as Britain withdraws from the EU. The EU Withdrawal Agreement and Political Declaration would see telecommunications continuing to closely align with the EU, including implementation of the new European Electronic Communications Code.

We share the view of other infrastructure providers that companies must have the ability to recruit the necessary skills for major construction projects. This is particularly relevant for our FibreNation business, and we are working on a cross-sector basis to make the case for appropriate flexibility in the future immigration system. However, we do not forecast any immediate problems in building our workforce.

Child online safety

The Digital Economy Act 2017 introduced new powers designed to protect children from accessing pornography online. The Act enables the Government to appoint a regulator that can compel ISPs to block access to pornographic websites that do not have adequate age verification mechanisms in place. We have worked very closely with the Government and the regulator, the British Board of Film Classification, on the issue and on its processes. While the new regime was initially due to launch in mid-2018, implementation has been delayed until mid-2019, but we remain supportive of the new powers as a proportionate way to protect children online.

We have also engaged constructively with ministers and officials on the Government's Online Harms White Paper. We have advocated a more strategic approach to the issue, which focuses on fewer, scalable solutions to the range of online harms children may encounter, and supported a new, light-touch regulatory body to oversee how social media companies minimise harm on their platforms.

We continue to be active members of the self-regulatory body the Internet Watch Foundation and firmly support its work on removing child sexual abuse material from the internet.

Investigatory Powers Act

The Investigatory Powers Act 2016, which consolidates and updates existing legislation governing the retention and sharing of communications data, received royal assent on 29 November 2016. We worked closely with the Government on the details of the legislation and are now working with various public bodies on the transition to this new legislative regime.

Effectively managing risks

Every organisation faces risks of varying severity as an inherent part of doing business. Some of these are within the control of the organisation and others are not.

The Board has identified the following principal risks and uncertainties to the Group, which the Group seeks to proactively manage and monitor on an ongoing basis. The details of these principal risks, and the controls in place for mitigating them, are outlined below in no particular order of severity. The principal risks have been identified and assessed on a gross risk basis with consideration to the impact on the Group's ability to deliver its strategy and therefore its mission. In addition, a directional arrow has been included alongside each risk to reflect the movements in gross risk from the prior year.

The Group's risk management framework facilitates continuous and ongoing discussion of risks and associated risk appetite to ensure that appropriate focus is placed on mitigating principal risks and significant net risks are included in the Group Risk Register for review at each Board meeting. The Board will continue to assess the principal risks and uncertainties faced by the Group and will update the risks and mitigation plans accordingly.

Management have reviewed the potential impact of Brexit and have concluded the impact will be limited. In addition, management have considered a soft/no Brexit on the Going Concern and viability assessments, together with any other impact on the Group's financial statements.

09 For more information on our strategy

Risk management framework

Strategic governance

Board

Audit Committee

Remuneration Committee

Nomination Committee

Operational and financial governance

Senior Management Team (Executive Committee)

First line of defence	Second line of defence	Third line of defence
Operational management	Central support functions	Audit and Risk function Including Internal Audit, risk management and external advisers

Gross risk

↑ Gross risk has increased ↓ Gross risk has decreased — Gross risk remains broadly the same as the prior year

Strategic objectives

1 A happy, stable, profitable Consumer base
2 Business data provider of choice
3 Leveraging our network
4 Driving cost efficiencies
5 One TalkTalk team
6 Investing in Britain's Full Fibre future

Principal risks and uncertainties continued

1 Customer trust and brand reputation — 1 2 3 4

Risk and impact	Mitigation
Customer confidence and trust are critical to TalkTalk's business and the Company's operating approach always seeks to do what is right for the customer. However, as a value for money connectivity provider in the market, there is a risk that TalkTalk is perceived as a 'budget' provider, associated with price rather than quality and service. Business and industry challenges including cyber threats, scam calls or poor customer experience also present a risk to brand reputation and trust. Failure to maintain trust, improve brand reputation and offer a positive customer experience may result in negative impact to customer satisfaction, increased churn, performance decline or loss of investor confidence.	TalkTalk remains confident of the role for a well-regarded value operator in the market and is committed to improving the end-to-end customer experience. TalkTalk introduced its FLPP in October 2016 which continue to resonate strongly with customers and, combined with the ongoing transformation of customer services, the Company has managed to maintain growth in the core business in FY19 which is expected to continue into FY20. The organisation also continues to invest in network and systems to support the provision of reliable products to customers as well as ongoing investment in and focus on security (see Data and cyber security risk). These factors have contributed to a stable risk landscape with steady customer confidence and improving customer satisfaction. In addition, TalkTalk continues to support customers in dealing with the industry-wide issue of scam calls. Initiatives such as the 'Beat the Scammers' campaign and Call Safe are designed to help customers protect themselves from the threat of scams. TalkTalk will continue to focus on existing as well as new customers, guided by the four key principles we believe are critical to being a value for money connectivity provider – simplicity, affordability, reliability and fairness.

2 People capability ↑ 3 4 5

Risk and impact	Mitigation
TalkTalk recognises employees as a key asset and aspires to be a 'Great Place to Work' for all colleagues. We understand the increasing challenges and importance in the market of defining an effective operating model and attracting and retaining the right talent to deliver organisational performance and future growth aspirations. Failure to attract and retain required talent and competencies within an effective organisational environment may negatively impact our ability to deliver on performance targets and strategic objectives. Also, in November 2018 TalkTalk announced that the vast majority of its London roles will be moved to a single main campus in the current Salford site by January 2020 to reduce operational complexity and deliver a more efficient focused business. This will lead to further challenges in attracting and retaining talent as roles are moved from the London office to Salford.	TalkTalk has established values which act as a cultural framework and are embedded through the business in recruitment and performance management processes. Structured talent forecasting and assessment processes are in place to ensure required talent is proactively understood and actions plans are in place to actively manage attrition risks and succession. These processes also ensure a proactive review of the senior management level to ensure the right leadership is in place for motivating, inspiring and leading the workforce to deliver on the corporate objectives. A people scorecard is also in place for ongoing monitoring and oversight of people risk and, where required, actions to further mitigate risk exposures are identified and implemented. In addition, Group-wide activities are carried out to assess the level of employee engagement and insight gained is used to develop action plans to ensure a highly engaged and motivated workforce is maintained. The move of roles from the London site to the Salford main campus is being governed through a cross-functional programme with close oversight from the Executive Committee and Board.

3 Competitive landscape — 1 2 3 4 6

Risk and impact	Mitigation
TalkTalk is established as a value for money connectivity provider in the growing quad play market. The value proposition is a key part of the business model and to date has provided competitor differentiation. Over the last year significant competitor activity has continued with similar intensity to the prior year. The competitive landscape therefore remains largely unchanged with varying degrees of activity in most product channels. The risk that this competitive backdrop makes it difficult for TalkTalk to maintain its value credentials remains consistent with the prior year.	A clear pricing strategy is in place with ongoing monitoring of pricing position and value proposition. The strategy is reviewed to ensure it remains competitive and continues to support our position as a value for money provider against the changing competitor activity landscape. TalkTalk FLPP continue to see strong customer take-up. FLPP offers both new and existing customers the opportunity to lock in their price for the term of their contract guaranteeing no mid-contract price rises. The introduction of FLPP, along with the focus on continuous improvement in connectivity, has seen a return to growth across both residential and Business customer bases. The introduction of the new industry leading Wi-Fi Hub in FY19 is driving great improvements in customer experience and the Great Connection Guarantee gives new customers confidence in switching to TalkTalk as they can leave within 30 days if they are not happy with their new Fibre connection. In addition, competitor pricing activity continues to be monitored to understand customer and market impact and plans are revisited accordingly if necessary. TalkTalk uses customer communications to promote its simple, affordable, reliable and fair messages and is committed to helping customers understand the best positioned package to meet their needs.

Risk and impact	Mitigation
4 Changing market structure	— 1 2 4 6
The Government and Ofcom are committed to promoting investment in Full Fibre networks through infrastructure competition in the UK telecommunications market. BT Group agreed to the legal separation of Openreach in March 2017 and implementation is in progress under close scrutiny by Ofcom. Uncertainty remains about the extent to which this will drive network investment and service quality. Ofcom's Wholesale Local Access Market Review (WLAMR) has led to: • requirements for Openreach to make it cheaper and simpler for competitors to use its existing infrastructure when building networks; • caps on wholesale broadband prices, including a reduction in superfast broadband prices; and • higher service standards for Openreach installations and repairs. The Government has also sought to incentivise network competition, through the FTIR, which included a range of measures designed to make it quicker, simpler and cheaper for a range of companies to build Full Fibre networks. The FTIR complemented existing Government policy, including the Local Full Fibre Networks Programme and the work of the Government's Barrier Busting Unit. Ofcom is currently concluding the BCMR and beginning the Access Review. Together these reviews will govern the future regulatory landscape, including how regulation will evolve as greater network competition emerges.	TalkTalk continues to be a vocal advocate of competition and is well placed to benefit from an increasing trend towards a more pro-competition regulatory framework. This poses a significant risk to incumbent players in the market, whilst presenting potentially valuable opportunities for challengers. The business is actively engaging with the necessary external stakeholders, particularly Ofcom and the Government, to share views and attempt to deliver the best market and customer outcomes, as well as to proactively understand and respond to the opportunities and challenges presented by structural market changes. TalkTalk is well placed to benefit from the transition to Full Fibre networks. We are actively engaged with Openreach on product and service developments, including FTTP roll-out plans, in order to pursue favourable outcomes for TalkTalk. Through the creation of FibreNation, we also continue to make good progress on our strategy to invest in an independent network that reaches three million homes and businesses.
5 Regulatory compliance	↑ 1 2
The telecommunications sector is highly regulated, with compliance over key customer-focused regulations monitored by the governing body, Ofcom. Another of the key governing bodies relevant to the Company is the Information Commissioner's Office (ICO). The regulations and laws that TalkTalk must comply with, including Ofcom General Conditions and data legislation, are designed to support customers. Recent changes to the regulatory landscape have increased the obligations on the business. Changes include the General Data Protection Regulation (GDPR), revisions to Ofcom's General Conditions, an amended broadband speed code and the implementation of a system of automatic compensation. Failure to comply with regulatory obligations may result in negative customer impact and/or significant regulatory fines.	The Group's Regulatory Compliance Committee, a subcommittee of the Board, 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 Group Legal Counsel and Company Secretary has chaired weekly compliance meetings throughout the year, attended by senior management. There are clear lines of accountability both in first-line operations and in our second-line assurance function and there has been continued focus on embedding processes and controls to maintain compliance to industry regulations including focus on delivering improvements in our complaint handling processes and reducing complaint volumes. Plans are also in place to deliver the significant volume of regulatory changes which come into force over the next twelve months. TalkTalk has established structured programmes to deliver changes resulting from Ofcom's end-to-end review of its General Conditions. The progress of this activity will be governed by the existing Compliance Committee and meetings to ensure effective delivery.

Gross risk

↑ Gross risk has increased ↓ Gross risk has decreased — Gross risk remains broadly the same as the prior year

Strategic objectives

1 A happy, stable, profitable Consumer base
2 Business data provider of choice
3 Leveraging our network
4 Driving cost efficiencies
5 One TalkTalk team
6 Investing in Britain's Full Fibre future

Principal risks and uncertainties continued

Risk and impact	Mitigation
6 Data and cyber security	— 1 2 3
Security of customer, commercial and colleague data poses increasing reputational and financial risk to all businesses and the gross risk remains high. In particular, emerging developments in cyber and data related threats and crime consistent with prior years present a significant challenge in terms of securing data and systems against attack. TalkTalk receives most of its revenue through card transactions and like many businesses utilises third parties as part of doing business. TalkTalk recognises that failure to successfully secure data and systems against attack may have a material impact on brand reputation and financial performance. Other associated costs may also be incurred, including potential regulatory fines.	In FY19 TalkTalk has continued to invest in and focus on actively implementing an ongoing programme to build security capability. Investment is also planned to continue in FY20 and beyond. TalkTalk's security strategy is centred around four strategic themes: • Secure by Design; • Secure in Operations; • Secure Third Parties; and • Secure Culture. The strategy is underpinned by the NIST Cyber Security Framework and is positioned to continuously improve the security maturity of the organisation, as well as maintaining and updating ongoing activities (such as monitoring activities, vulnerability scanning, penetration testing and the data loss prevention solution) to ensure they remain fit for purpose. Over the last three years significant investment has been made in building out a bigger security function and capability including successfully establishing an in-house Security Operations Centre (SOC), which launched late 2017. During 2018, further projects were delivered to improve and mature our security control environment and security capabilities. These activities and investments are supporting the management of security risks and evolving security threats. In addition, a robust governance structure remains in place with a PLC Security Committee meeting every two months. This is a subcommittee of the Board, chaired by a Non-Executive Board member, with the CEO and other senior executive representation. Furthermore, there is a monthly Security Committee that is made up of senior management across all of key areas of the business to discuss the latest security threats and risks, approve changes and manage exceptions to security policies, and ensure that security projects are managed effectively.
7 Resilience and business continuity	— 1 2 3 5 6
TalkTalk is reliant on its infrastructure as well as key third party suppliers and partners in order to deliver quality products and services to its customers. Network, system or third party failure could result in significant disruption to services or business processes, which may have a negative impact on customers and therefore damage customer loyalty or result in complaints. It is therefore important to establish resilience in the network and systems and also to require resilience from our third parties and partners. The approach adopted for supporting infrastructure and associated resilience, including use of third parties, is regularly reviewed to ensure an optimal model is maintained which drives resilience and efficiency. There is a risk that changes to approach may not be delivered effectively resulting in negative impact to operations. It is also noted that in the event of an incident, TalkTalk must be able to respond in an efficient and effective manner in order to minimise impact on customers and performance.	Network resilience is assessed and monitored on a regular basis and again, over the last year, TalkTalk has continued to deliver network analysis, improvements and simplification at pace supporting greater resilience. Continuous monitoring of network availability is also in place to ensure any issues are identified in a timely manner and resilience testing takes place. Where an incident does occur, a robust incident response process is in place and exercised to ensure effective response, followed by a problem management review that is linked to service improvement. The Group recognises that network resilience is also reliant on the dependency on Openreach for the last mile and as such Ofcom focus on Openreach processes, systems and controls should help mitigate the risk. Other prioritised critical processes, systems and third parties are identified, and business owners are assigned accountability for assessing resilience and implementing business continuity plans to enable continuity of operations in the event of an incident. TalkTalk also continues to invest in supporting appropriate resilience on critical systems which will be a key focus for FY20 on a risk-based approach. For third parties, the relationship owners are assigned accountability for requiring critical third parties to have adequate business continuity plans in place and obtaining third party assurance where appropriate that their plans have been reviewed and tested on a regular basis.

Risk and impact	Mitigation
8 Financial ↑ 1 2 3 4 5 6	
As with many organisations, TalkTalk must actively manage liquidity risk. Other key financial risks include the availability of long term funding, the ability to comply with covenants and other terms of funding arrangements, and foreign exchange and interest rate risk. In addition, there are a number of new accounting standards that either have been adopted in FY19, being IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers', or will be adopted in FY20, being IFRS 16 'Leases'.	The Group Treasury function is responsible for managing the Group's liquid resources and managing compliance with the terms of funding agreements. Policies and operating procedures are in place and these are regularly reviewed to ensure they remain appropriate for the business. In addition, the Executive Committee and the Board oversee the liquidity, funding position and covenant compliance of the Group on a regular basis and are required to provide approval on major and significant funding decisions. The Group Treasury function is also responsible for managing foreign exchange and interest rate risks in line with the Group's policy. TalkTalk has established projects to deliver the required changes to accounting standards and the status of these projects is tracked as part of the Group's Change Management Framework.
9 Change delivery and execution ↑ 1 2 3 5 6	
Delivery of performance and strategic objectives and development of the business are reliant on the ability to successfully deliver innovation and other operational changes required to support growth and performance. Failure to effectively deliver significant change programmes and associated benefits critical to TalkTalk's strategy would result in an inability to deliver performance objectives and limit TalkTalk's competitive position in the market.	A formal change framework is in place for delivery of change projects which helps ensure appropriate processes and governance are in place to drive successful project delivery. The framework is intended to ensure a desired level of quality is reached throughout the lifecycle of each project and has continued to support successful delivery of key change programmes in FY19. The Group Change function remains a key effective control for facilitating prioritisation discussions to ensure people and financial resources are appropriately engaged, allocated and focused. Performance measures for key change projects are defined and monitored and regularly reviewed by Group Change. Monitoring and oversight of key change projects occur at both the business unit leadership team level and by the Executive Committee on a regular basis, enabling real time consideration of the potential impact of other operational and strategic activities on change projects. In addition, as part of the organisational reset, TalkTalk has aimed for further simplification by concentrating on fewer, more focused initiatives to support delivery of simplified, clear strategic objectives. This inherently limits delivery and execution risk.

Gross risk

↑ Gross risk has increased ↓ Gross risk has decreased — Gross risk remains broadly the same as the prior year

Strategic objectives

1 A happy, stable, profitable Consumer base
2 Business data provider of choice
3 Leveraging our network
4 Driving cost efficiencies
5 One TalkTalk team
6 Investing in Britain's Full Fibre future

Chief Financial Officer's statement

Kate Ferry
Chief Financial Officer

Accelerated Fibre uptake delivered 490k net adds in 2019 and we remain confident of 2020 EBITDA growth.

Throughout this CFO review, alternative performance measures (APMs) are presented as well as Statutory measures and these measures are consistent with prior periods. This presentation is also consistent with the way that financial performance is measured by management, reported to the Board, the basis of financial measures for senior management's compensation schemes and provides supplementary information that assists the user to understand the financial performance, position and trends of the Group.

The Group has adopted a full retrospective approach to IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments' and therefore restated the prior period to reflect the updated accounting policies and present a relevant comparative. More details on the restatement are provided in the notes to the consolidated financial statements.

Overview (1,2,3)

Continued base growth in all four quarters of the year means we have now seen positive net adds for nine consecutive periods. The resulting larger customer base, coupled with our ambition to upgrade customers to faster, more reliable and ARPU accretive Fibre products has seen us increase Headline revenue (excluding Carrier and Off-net) year on year by 2.2%. This growth has been in the face of continued FLPP ARPU dilution, with higher ARPU legacy customers migrating onto lower price packages, and continued fixed line Voice usage declines, due to consumers and businesses using their landline less and less. At a gross margin level, we have seen improved profit margins, due to lower Fibre wholesale rates, with regulatory pricing and commercial discounts reducing our input costs year on year. Throughout the year we have also been on a relentless drive to simplify the business, doing fewer things and focusing solely on core fixed connectivity, which has enabled us to reduce our operating costs. Headline EBITDA has therefore grown by 16.7% to £237m (2018 restated: £203m).

As a result of simplifying the business over the last two years, we have been able to reduce non-Headline items pre-tax from £115m to £42m, with costs relating to the HQ move to Salford and our multi-year network and IT transformation programme being the main drivers of the remaining spend. This reduction alongside Headline EBITDA growth has seen our Statutory loss before tax reduce from £100m to £5m in the year. We have kept net debt (including finance leases of £39m) broadly flat at £781m (2018 restated: £776m including finance leases of £31m) and committed headroom as at 31 March 2019 of £306m (2018 restated: £348m).

Group revenue (1,2,3)

Headline revenue (excluding Carrier and Off-net)(2) of £1,544m was 2.2% higher year on year with On-net revenues up 3.9% but Corporate revenues (excluding Carrier) 4.7% lower. The growth in On-net revenues reflects the higher average Consumer and Business bases compared to 2018 together with the increased penetration of Fibre partly offset by FLPP ARPU dilution and Consumer Voice revenue decline, which was down 20.3% year on year due to lower usage of the platform. The contraction in Corporate revenues was primarily due to Voice, which was down 18.8% on the prior year, being offset by a 6.8% increase in Data revenue reflecting a larger average base, as well as the upselling of customers to higher speed and higher ARPU services.

The Group's total Headline revenue only grew by 0.2% to £1,609m, with the growth above dampened by a 27.8% decline in Carrier revenue, reflecting our decision to reduce activity in the low margin business, as well as the expected continued decline in Off-net revenues by £9m, which now represent less than 1% of total Group revenue. Statutory revenue declined 1.3% due to MVNO revenues which are down £25m year on year to £23m as we wind down this business.

Gross margin(2,3)

Headline gross margin of 52.8% was 100bps higher year on year reflecting the revenue benefits noted above and lower costs of sales resulting from the WLA review and BT Openreach volume discounts on FTTC products.

Statutory gross margin of 52.8% was 190bps higher year on year reflecting the reasons above as well as the improvement in gross margin of our MVNO proposition.

Operating expenses(2,3)

Headline operating expenses decreased by £15m year on year due to reduced headcount across the business, disposal of small customer bases, lower outsource partner costs and the benefits of transitioning to a more self-serve model which have produced significant savings in our costs to serve offset by FibreNation costs and higher commissions incurred under a distribution agreement with a major distribution partner and increased investment in targeted channels.

The Group has moved to lower cost customer acquisition and marketing models during the year; however, the benefits of this were more than offset in the year by a higher base of customers connected through a previous distribution agreement.

Statutory operating expenses were down £72m year on year as non-Headline items reduced from £103m to £46m. See further information on non-Headline items below.

(1) See note 1 for further details on the restatement of comparative information due to the retrospective application of IFRS 15 and IFRS 9.

(2) See note 1 for an explanation of alternative performance measures (APMs) and non-Headline items. See note 9 for a reconciliation of Headline information to Statutory information.

(3) All customer KPIs relate to the On-net base. The closing Off-net base represented less than 1% of the total broadband base (FY19: 29k; FY18: 43k).

Financial information[1,2,3]

	2019			2018 (restated)[1]		
	Headline[1,2] £m	Non-Headline[1,2] £m	Statutory £m	Headline[1,2] £m	Non-Headline[1,2] £m	Statutory £m
Revenue	1,609	23	1,632	1,605	48	1,653
Cost of sales	(759)	(11)	(770)	(774)	(38)	(812)
Gross profit	850	12	862	831	10	841
Operating expenses	(613)	(46)	(659)	(628)	(103)	(731)
EBITDA[3]	237	(34)	203	203	(93)	110
Depreciation and amortisation	(138)	(8)	(146)	(131)	(12)	(143)
Share of results of joint ventures	(10)	–	(10)	(11)	–	(11)
Operating profit/(loss)	89	(42)	47	61	(105)	(44)
Net finance costs	(52)	–	(52)	(46)	(10)	(56)
Profit/(loss) before taxation	37	(42)	(5)	15	(115)	(100)
Taxation	32	5	37	(22)	22	–
Profit/(loss) for the year attributable to the owners of the Company	69	(37)	32	(7)	(93)	(100)
Earnings/(loss) per share						
Basic	6.0		2.8	(0.7)		(10.3)
Diluted	6.0		2.8	(0.7)		(10.1)

Revenue summary	2019 £m	2018 (restated)[1,2] £m
On-net	1,263	1,216
Corporate	333	367
Off-net	13	22
Headline revenue	1,609	1,605
Less Carrier	(52)	(72)
Less Off-net	(13)	(22)
Headline revenue (excluding Carrier and Off-net)	1,544	1,511

(1) See note 1 for further details on the restatement of comparative information due to the retrospective application of IFRS 15 and IFRS 9.

(2) See note 1 for an explanation of alternative performance measures (APMs) and non-Headline items. See note 9 for a reconciliation of Headline information to Statutory information.

(3) All customer KPIs relate to the On-net base. The closing Off-net base represented less than 1% of the total broadband base (FY19: 29k; FY18: 43k).

Headline EBITDA[2,3]

Headline EBITDA increased by 16.7% to £237m (2018 restated: £203m) reflecting the factors noted above.

Depreciation and amortisation

Headline depreciation and amortisation expense has increased £7m year on year due to accelerated depreciation on certain assets following the continued reassessment of useful economic lives.

Share of results of joint ventures

Our share of results of joint ventures was marginally lower year on year at £10m and consists of the Group's investment in YouView.

Net finance costs

Statutory finance costs for the year were £52m compared to £56m in 2018. This decrease was primarily due to the £10m in relation to the non-Headline cost of repurchasing 100% of the $185m USPP Notes in August 2017 and the re-financing during 2018, partially offset by higher average net debt in 2019.

Taxation

The Statutory tax credit for the year of £37m is mainly due to the recognition of deferred tax losses following agreement on loss streaming methodology with HM Revenue & Customs.

Non-Headline items[2]

	2019 £m	2018 (restated)[1,2] £m
MVNO closure	3	(42)
Network transformation	(15)	(17)
One Team operating model	(22)	–
Business reorganisation	–	(19)
Operating efficiencies – Property	–	(12)
Operating efficiencies – Making TalkTalk Simpler	–	(3)
EBITDA	(34)	(93)
Depreciation and amortisation	(8)	(12)
Finance costs	–	(10)
Taxation	5	22
Non-Headline items	(37)	(93)

(1) See note 1 for further details on the restatement of comparative information due to the retrospective application of IFRS 15 and IFRS 9.

(2) See note 1 for an explanation of alternative performance measures (APMs) and non-Headline items. See note 9 for a reconciliation of Headline information to Statutory information.

Chief Financial Officer's statement continued

Non-Headline items continued

Within the Group's Statutory EBITDA there were non-Headline items of £34m (2018: £93m) associated with the moving of our head office to Salford and various transformation projects.

Following the Group's announcement in May 2017 to exit our MVNO operations, the base has been wound down, leaving only a core base of profitable customers remaining, resulting in trading profits of £3m in the year, compared to a £9m loss in 2018. The Group continues to transition from a wholesale agreement with Vodafone to a mobile distribution agreement with Telefonica. The wholesale agreement with Vodafone has been extended to support the smooth transition of remaining customers. The MVNO trading activity will continue to diminish with contractual commitments expiring in 2021. Additionally, in the prior year the Group incurred exit costs in relation to onerous supplier commitments, decommissioning, asset write offs and redundancies totalling £33m, that were not repeated in 2019.

Our multi-year network and IT transformation programme continued during the year incurring costs of £15m (2018: £17m) which will fundamentally restructure the Group's network, IT infrastructure and technology organisation. This programme is expected to run until 2021 and underpins the wider Group strategy ensuring that it is fit for the future.

The Group incurred £22m (2018: £34m) in relation to reorganisation programmes associated with the movement of our head office to Salford, where 2018 costs are mainly associated with implementing changes to the Group's organisational structure under the new leadership team and the rationalisation of our property estate.

Non-Headline depreciation and amortisation largely relate to amortisation of acquisition intangibles as well as depreciation and amortisation associated with reorganisation programmes noted above. Non-Headline finance costs incurred in the prior year primarily relate to the cost of repurchasing 100% of our $185m USPP Notes in August 2017.

Earnings per share

	2019 £m	2018 (restated)[1,2] £m
Headline earnings (£m)	69	(7)
Basic EPS	6.0p	(0.7p)
Diluted EPS	6.0p	(0.7p)
Statutory earnings (£m)	32	(100)
Basic EPS	2.8p	(10.3p)
Diluted EPS	2.8p	(10.1p)

(1) See note 1 for further details on the restatement of comparative information due to the retrospective application of IFRS 15 and IFRS 9.

(2) See note 1 for an explanation of alternative performance measures (APMs) and non-Headline items. See note 9 for a reconciliation of Headline information to Statutory information.

EPS on a Headline basis is provided alongside our Statutory measures to assist in providing supplementary information that assists the user to understand better the financial performance, position and trends of the Group. A full reconciliation to Statutory results can be found in note 9.

Basic Headline EPS was 6.0p (2018: (0.7p)) and on a Statutory basis it was 2.8p (2018: (10.3p)). The year on year increase in EPS reflects the increase in net profit described above.

Net debt and cash flow

	2019 £m	2018 (restated)[1,2] £m
Opening net debt[1,2]	(776)	(819)
Headline EBITDA[1,2]	237	203
Working capital	11	(3)
Capital expenditure	(113)	(128)
Interest and taxation	(50)	(47)
Non-Headline items[1,2]	(47)	(73)
Acquisitions	(7)	(8)
Dividends	(28)	(71)
Share issue	–	201
Finance leases – non-cash movement	(8)	(31)
Closing net debt[1,2]	(781)	(776)

(1) See note 1 for further details on the restatement of comparative information due to the retrospective application of IFRS 15 and IFRS 9.

(2) See note 1 for an explanation of alternative performance measures (APMs) and non-Headline items. See note 9 for a reconciliation of Headline information to Statutory information.

Net debt of £781m (including finance leases of £39m) was broadly flat year on year (FY18: £776m including finance leases of £31m). Committed headroom at 31 March 2019 was £306m (2018: £348m).

The Group had a net working capital inflow of £11m (2018: £3m outflow) driven by the timing of payments, which will reverse, and the receipt of supplier compensation relating to prior years.

Capital expenditure for the year was £113m (2018: £128m), representing a decrease on prior year due to the simplification of the business. This expenditure is primarily for continued investment and enhancement of our network capability, investment in FibreNation (£13m) and in our online systems.

Non-Headline items of £47m (2018: £73m) relate to the cash outflows resulting from the decision to exit our MVNO operations and the ongoing network transformation programme in addition to the initial costs associated with the movement of our HQ to Salford.

Acquisitions expenditure in the year of £7m (2018: £8m) has broadly remained consistent with 2018 and continues to relate to the YouView joint venture.

Dividends

Dividends of £28m paid in the year (2018: £71m) comprised the final dividend for 2018 of 1.50p and the interim dividend for FY19 of 1.00p.

The Board is committed to improving profitability, cash generation and reducing leverage. In this context, the Board has declared a final dividend for FY19 of 1.50p (2018: 1.50p), taking the total dividend for the year to 2.50p (2018: 4.00p). For FY20 the Board expects to declare an interim cash dividend of 1.00p (FY19: 1.00p) and a final cash dividend of 1.50p (FY19: 1.50p) taking the total cash dividend for the year to 2.50p (FY19: 2.50p). Looking beyond FY20, the Board expects to return to a more normalised dividend policy once the business has reduced leverage towards the Group's mid term net debt/Headline EBITDA target of 2.0x.

The final dividend for FY19 will be paid on 2 August 2019, subject to approval at the AGM on 17 July 2019 for shareholders on the register on 5 July 2019 (ex-dividend 4 July 2019).

Funding and capital structure

The Group is financed through a combination of bank facilities, Senior Notes, receivables purchase facility, supply chain financing, invoice discounting, retained profits and equity.

The Group continues to review its funding and capital structure with the objectives of diversifying sources and managing both the average tenor and interest cost. The average term of our debt at 31 March 2019 was two years ten months.

At 31 March 2019, the Group had total committed facilities of £1,115m (2018: £1,115m), further detail of which is given in the notes to the consolidated financial statements. At 31 March 2019, £809m (2018 restated: £767m) had been drawn under these facilities, leaving £306m (2018 restated: £348m) of undrawn facilities.

The Group was in compliance with the terms of all its facilities, including the financial covenants, at 31 March 2019 and throughout the year and expects to remain in compliance with the terms going forward.

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 CFO review.

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 £1,115m of committed credit facilities and as at 31 March 2019 the headroom on these facilities was £306m. Our forecasts and projections, after assuming a soft/no Brexit, and taking into account reasonably possible changes in trading performance indicate that there is sufficient cash and covenant headroom on our facilities. In considering reasonably possible sensitivities, we have identified feasible mitigating actions and cash management activities together with the use of additional, currently uncommitted, facilities within our control to ensure covenants are not breached. 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 preparing the financial statements.

CE Ferry

Kate Ferry
Chief Financial Officer

23 May 2019

People

Daniel Kasmir
Chief People Officer

In order to constantly deliver a great experience for our customers, it's important that the people who work for us have a great employee experience. We encourage creative thinking, collaborative behaviour and a winning mentality in an environment which is inclusive, attractive and dynamic.

Building a Great Place to Work

In 2018 we entered the Great Place to Work Institute Awards, by submitting an extensive Culture Audit and asking all colleagues to complete our engagement survey. As a result of these submissions we are proud to have been named as one of the UK's Best Large Workplaces in April 2018.

Great Place To Work® Best Workplaces™ Large Category UK 2018

This year we have been working with colleagues to understand what they think makes us different as an employer, building on what we are already good at, whilst really stretching ourselves to improve too. We have gathered feedback through regular listening sessions, a bimonthly survey and conversations with One Voice (our nominated colleague representatives). As a result, we have landed some significant organisational changes and introduced some new ways of working.

In order to attract and retain great talent across the business we have evolved how we communicate and engage with colleagues, refined our approach to reward and recognition, increased our support of People Leaders and placed more emphasis on our inclusion agenda.

Future organisation

In late November 2018 we shared our proposal to move the majority of roles based in London to our Salford office over the course of 2019, and in January 2019 we also confirmed our intention to close our Stornoway office. These proposals were created in order to improve our productivity and our ability to collaborate – with colleagues being based in one core campus. Colleagues who are being consulted as part of these proposals have been supported and guided throughout the process, by line managers and One Voice (our employee representatives) as well as via regular communications on our relocation plans and the support available.

In addition to these proposals, we also announced a set of organisational changes that continue to improve our efficiency and effectiveness. An important part of these changes was designing our new simpler organisation in a more cross-functional and collaborative way, with agile ways of working that mean we keep the customer at the heart of our processes, make decisions swiftly and launch products and services at pace.

A new approach to communications

Over the last year we have put a real focus on multiple initiatives to drive engagement and understanding of our strategy amongst colleagues.

In June we hosted a 90 minute live interactive webcast called TalkTalk Live – a magazine-style show hosted by our Executive Committee to launch our priorities for the year ahead. Interactive elements of the show allowed colleagues to send in questions, answer polls and win prizes. Colleagues were able to watch the live event from their desks, in large groups and also if working from home. A total of 947 colleagues completed a post-webcast survey with 91% of them wanting the same format to be used again in the future.

At TalkTalk Live we launched our monthly Group scorecard – each month, Tristia 'vlogs' the Group scorecard, reporting on progress of our seven core KPIs on film, with context for any month-on-month changes. The scorecard vlog now is emailed out to all colleagues each month and played across our internal TVs across our sites each month too.

In October, we introduced a bimonthly survey to give us a more agile and real-time way of measuring how our colleagues are feeling – our Employee net promoter score (eNPS). In this we ask two questions – 'how likely are you to recommend TalkTalk as a place to work?' and 'how likely are you to recommend our products and services?'. It is run by a third party and colleagues complete this anonymously and can add qualitative commentary to support their answers. An average of 45% of colleagues respond to this survey and the results are communicated in our monthly scorecard vlog.

This year we created more opportunities for colleagues to engage in discussions with our ExCo:

- We hosted 15 ListenListen events (round table discussions with no agenda) and shared the points raised to the rest of the business – with follow-up blogs.
- We have also hosted eleven WeTalks; these are online Q&A sessions, based on a specific topic, with the relevant leaders/subject matter experts as hosts.
- There have also been regular, functional huddle events too; these are informal stand-ups led by our leadership teams to share the latest updates and achievements with their team.

Our intranet (The Wire) remains a critical communication tool for the business with an average of 2,045 average daily users. Here colleagues at all levels of the organisation can post and blog, to share what they are working on and seek feedback. We continue to provide all colleagues with an overview of all the key business news from The Wire every Friday in an email publication called 'Re:Wired'.

In FY19 we rolled out Office 365 for colleagues, including Microsoft Teams in January 2019; this allows colleagues to collaborate within teams (physical and virtual) effectively sharing chat, files and project milestones. We have over 80% adoption of this tool, with an average of 46 meetings a day taking place on the system.

Reward and benefits

This year we have built on our already strong foundations with our reward and benefits for colleagues. We continued our Wellbeing Wednesday initiative and introduced a Wellbeing Week focused on our four main areas: mental wellbeing, financial wellbeing, physical wellbeing and lifestyle wellbeing.

In August we launched an extremely popular Step Challenge as a way to get teams competing against each other to up their daily steps and win prizes. A total of 45 teams across the business took part in the 'count me in' challenge. By the end of August the teams had walked a total of 72,628,998 steps or 34,388 miles.

Our online peer-to-peer recognition platform 'Shout Out' launched in January 2018 and continues to be a huge success with 4,527 shout-outs made this financial year. Each month six winners are recognised; they are announced by our ExCo via our monthly video update and awarded gift vouchers. We are also proposing to introduce a new outstanding performance award scheme for FY20. This scheme will give colleagues the opportunity to win between £500 and £2,000 each quarter and to come together with fellow winners and ExCo members to celebrate their success.

We renewed our ShareSave scheme for employees, with 26% of colleagues opting into the latest scheme. We also reviewed our FY20 bonus structure too, proposing that we have one scheme for all colleagues which is entirely based on how well we perform on our Company metrics taking effect from 1 April 2019.

Developing our people and our leaders

In 2018 we launched a more flexible approach to our performance management tool (MyTalk). The new approach is all about continual conversations, personal development and performance rather than having two formal moments each financial year.

We also launched a brand new online learning catalogue called Learning for Everyone, to give colleagues a one-stop-shop for all their career and development needs. We have thousands of resources available here, curated playlists and access to a whole host of face-to-face business skills programmes – from emotional intelligence to strategic thinking and planning.

Living our values every day

Every customer matters	We zig when the world zags	We always save our customers money	We can be ourselves here	We do the right thing	We deliver our commitments
We want to get it right for our customers – no matter who they are, or how long they have been with us, we focus on the things that mean the most to them.	When we spot an opportunity, we are not afraid to challenge and innovate.	The price has to be right – but that does not mean compromising on service. We provide our customers with affordable, reliable products and services that just work.	People from all walks of life thrive here – that difference makes us stronger, more fun and a better place to work.	Business is about more than just making money. It is about having the courage to stand up for what is right – for our customers, colleagues, partners, shareholders and local communities.	If something is worth doing, it is worth doing properly. That means we always take ownership, identify clear priorities, plan thoroughly and deliver flawlessly from start to finish.

People continued

Developing our people and our leaders continued

This year we have had 43 apprentices working across the business. Our apprentice schemes include team leader training, management degrees and tech and professional apprenticeships. We have recently launched an Apprenticeship Community internally too in order to help all our apprentices support one another on their journey.

In June 2018 we launched our People Leader Online Community specifically for our 320+ People Leaders. It is a digital hub where Leaders across the business can ask each other questions and give each other advice and support on any topic, from how to hold a successful performance review to tips on how to celebrate successes within a team.

In September 2018 we launched our Leadership Agreement; this is a set of standards for Leaders to sign up to that are designed to drive greater consistency of performance across our People Leader population. That then impacts the performance of all colleagues and ultimately increases trust and engagement whilst delivering our plan.

We also launched our leadership development programme, Coaching for Performance, to uncover and develop the skills and actions that demonstrate the standards presented in the Leadership Agreement. Since September 2018 we have supported the development of 25% of our People Leaders and will continue throughout FY20.

Creating an inclusive place to work

Over the course of FY19 we have put a lot of focus on celebrating diversity and creating an inclusive place to work. We believe that our differences make us stronger, more fun and a better place to work.

Our internal employee networks are supported and promoted too, with our very own colleague-led Women In Tech and Talk Pride (LGBTQ+) groups growing in strength and awareness.

We continue to celebrate calendar events across the year too including World Mental Health Day, Christmas, Diwali, Pride, Valentine's Day, Easter, Chinese New Year and International Women's Day to name just a few.

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. We also seek to ensure interview formats and locations do not discriminate against any potential applicants. Examples include offering phone or online interviews where this is preferred by a candidate. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged.

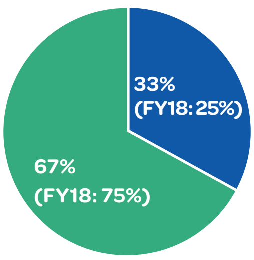
It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees. TalkTalk has a clear Dignity at Work policy, setting out how we ensure that every employee is treated with respect at work. The policy includes details of grievance procedures and what support (and where appropriate confidentiality) employees can expect.

We have maintained a strong focus on mental health in the workplace this year, from driving activity during Mental Health Awareness Week to piloting mental health training for People Leaders, which we will be rolling out to all People Leaders next year.

We have partnered with companies including Women In Tech and Working Families to help us better support and increase our female talent across the business and we have worked with the 30% Club for the second year running to put ten of our female colleagues onto its mentoring programme. The 30% Club champions gender balance on boards and in senior management to increase corporate performance for both companies and their shareholders.

A breakdown by gender of the number of people who were Directors of the Company, senior managers and other colleagues as at 31 March 2019 is set out below.

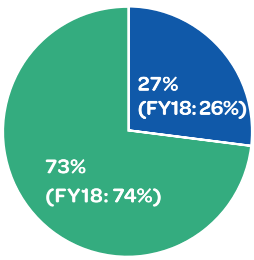
Gender diversity – all colleagues[1]



Female 732 Male 1,497

(1) This includes those who have not shared their gender with us.

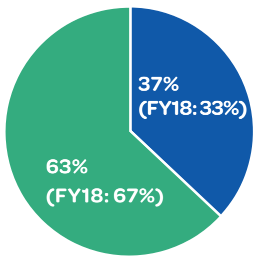
Gender diversity – senior management[2]



Female 10 Male 27

(2) Band A and B.

Gender diversity – directors



Female 3 Male 5

Corporate social responsibility

At TalkTalk we want everyone to enjoy the benefits of being connected. Working with several partners, we have delivered a full calendar of activity so we can be a force for good for everyone, from our customers to wider society.

Digital safety and security

Internet Matters

We are a founding member and a proud partner of Internet Matters, an organisation that provides information, support and advice for parents and carers across the UK about digital safety. We are a top tier funder and seconded two members of staff to work for Internet Matters full time. In addition to our contributions, we also provide in-kind marketing and legal support.

Families need consistent and clear information when it comes to protecting children online, and as we face ever-evolving technological changes, it is crucial that we all stay one step ahead. We continue to support Internet Matters by raising awareness of online safety for children wherever it is appropriate for our customers, such as in 'welcome booklets' and when parental controls are activated, as well as placing its logo and website link on our product packaging.

We continue to support the organisation's development, including bringing new partners on board and helping with a new membership and funding strategy.

Royal Foundation's Taskforce on the Prevention of Cyberbullying

TalkTalk joined the Royal Foundation's Taskforce on the Prevention of Cyberbullying in 2016, supporting the organisation's mission to provide young people and families with the resources required to deal with cyberbullying. We worked with the Taskforce in the delivery and development of its Stop Speak Support campaign, including providing campaign support around its launch. While the work of the Taskforce came to an end in May 2018, we continue to work on a cross-industry basis to continue this legacy and further collaboration between industry and charities on new technology solutions to tackle cyberbullying.

Internet Watch Foundation

TalkTalk is also a top-tier member of the Internet Watch Foundation, the not-for-profit entity whose vision is to eliminate child sexual abuse imagery online. In FY19, we continued to implement the charity's URL list service so that our customers are prevented from accidentally stumbling upon child sexual abuse imagery. In addition to these core services, our funding contributes to the IWF's Hotline function, which offers a way for victims and members of the public to report abusive imagery anonymously so that they can be removed, and research into the impact of new technologies.

Our products and services

One of the most significant ways we can improve overall digital safety and security is through the products and services we offer. In 2011, TalkTalk was the first internet service provider to launch a whole-home filtering service, called HomeSafe®, to all residential customers at no extra cost. We offer an equivalent service to Business customers providing instant protection to all internet devices, called WorkSafe®.

We have continued to offer SuperSafe to customers, providing protection from viruses and malware, plus the peace of mind of secure web browsing. SuperSafe and SuperSafe Boost to date have been subscribed to by 2.1 million customers.

Blocking scam and unwanted calls was another priority in FY19. CallSafe, a free security feature for customers that screens inbound calls, continues to be popular with our customers. Once activated, when a customer receives a call, the caller is asked to record their name. CallSafe will then play it back to the customer and they can choose how to handle the call. Around 175,000 customers have now activated the feature, and in FY19, CallSafe stopped around eleven million calls from coming through every month.

TalkSafe, a way of identifying a customer when they call using their voice, has seen continued take-up.

We continued 'Beat the Scammers', our education and awareness campaign to protect consumers from scams and encourage activation of our free protection tools; thousands of customers a month report scammers' details to us online to help us prevent them from targeting other customers on our network.

TalkTalk continues to lead the industry with a set of guidelines called 'The Nevers'. It outlines information we will never ask customers.

Ambitious about Autism

We are delighted to continue providing support for Ambitious about Autism, the national charity for children and young people with autism. They provide pioneering education services, raise awareness and understanding, as well as campaign for change. Every year we host a gala dinner and auction for the charity which, thanks to the enthusiastic participation of colleagues, customers and suppliers, has raised nearly £4m for children and young people with autism since 2006; this year's auction raised £430,000 for the charity.

In September 2018, over 100 TalkTalk colleagues took part in a Static Bike Ride Challenge, racing a staggering 6,828 miles from London to Stornoway and back! The fundraisers were split into eight teams where they pedalled the length of the UK, raising over £4,225 for the charity.

We are now exploring plans to further develop our partnership with the charity in FY20 as part of our HQ move to Salford.

Corporate social responsibility continued

Protecting our environment

This section covers 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.

We continue to take our environmental responsibility seriously at TalkTalk. We acknowledge the environmental impact of our business and have been working hard to minimise it since 2010, when we introduced our Energy Policy which included a ten-year energy-intensity reduction target of 80%, which we are on track to deliver.

Emissions source	**2019**	2018	2017
Fuel combustion: stationary	**256**	186	508
Fuel combustion: mobile	**504**	523	575
Facility operation	**2,406**	9,817	122
Purchased electricity	**8,790**	11,593	15,261
Total emissions (tCO_2e)[1]	**11,956**	22,119	16,466
Bandwidth (Gb/sec)	**3,535**	2,805	2,138
Intensity (tCO_2e per Gb/sec)	**3.4**	7.9	7.7

(1) Scope 1 and 2 emissions. In 2018, an increase arose due to an incident in one of our data centres.

This information was calculated using the methodology set out in the latest Environment Reporting Guidelines (ref. PB 13944), published by Defra in March 2019. Emission factors are taken from the BEIS emissions factor update published in 2018.

As part of our overall commitment to reducing our carbon emissions, we also track CO_2 emissions from all sources, including those for which we are not directly responsible, such as electricity used by our equipment at third part sites and commercial flights. According to our internal tracking, we have continued to reduce our carbon intensity as follows:

	2019	2018	2017
Total emissions (tCO_2e)[1]	**40,249**	59,527	61,461
Bandwidth (Gb/sec)	**3,535**	2,805	2,138
Total intensity (tCO_2e per Gb/sec)	**11**	18[2]	29

(1) Scope 1, 2 and 3 emissions.

(2) Restated due to administrative error.

As a result of our continued commitment to increase energy efficiency, we have retained our ISO 50001 accreditation, renewed our Carbon Saver Gold standard, received the Carbon Saver Decade of Achievement Award, and scored a B for Climate Change disclosure and B- for supplier engagement in our Carbon Disclosure Project submission (against sector averages of B- and C respectively).

Although of a lesser impact, we also monitor and manage our waste production and water consumption and will be setting reduction targets accordingly.

Anti bribery and corruption

The Group has robust anti-bribery and corruption policies in place. These policies:

- remind colleagues of the relevant law governing these issues;
- define the high standards we expect colleagues and partners to adhere to;
- set out scenarios and examples to ensure colleagues can identify instances of bribery or corruption;
- advise colleagues on how they can ask questions or report concerns; and
- define the disciplinary consequences for failure to comply with our policies.

The policies include, but are not limited to:

- Offering a bribe – such as offering bribes to potential customers to gain their business and offering discretionary cash rebates to customers in order to inflate their sales/ retention bonuses.
- Receiving a bribe – such as accepting a gift to secure new or continued business with our suppliers.
- Bribing foreign officials – such as arranging for the business to pay an additional payment to a foreign official to speed up administrative processes and inappropriate payments relating to customs.
- Facilitation payments/ kickbacks – any form of facilitation or kickback payment made in return for a business favour or advantage.
- Charity donations -whilst TalkTalk does on occasion make charitable donations, our anti corruption and bribery policy sets out the required approval process to ensure these payments are appropriate and not use to solicit business advantage.

The anti-corruption and bribery policy offers advice and guidance on how colleagues should ask for advice or report concerns. Colleagues can either report concerns to HR, or use a confidential reporting helpline if they wish to remain anonymous. Call made to this service are regularly reviewed and investigated where appropriate.

Our anti-corruption and bribery policies are available for colleagues to view on the corporate intranet and are required on a regular basis to ensure they remain fit for purpose.

Modern slavery

Ethical behaviour is at the heart of everything we do at TalkTalk. We are committed to identifying and addressing any risks of modern slavery within our business and supply chains, including those of our subcontractors and partners.

Our Modern Slavery Statement can be found on the TalkTalk Group website.

Strategic report approval

The strategic report was approved by the Board of Directors on 23 May 2019 and is signed on its behalf by:

TAHarrison

Tristia Harrison
Chief Executive Officer

CK Ferry

Kate Ferry
Chief Financial Officer

Leading with experience

Executives

Sir Charles Dunstone
Executive Chairman
Sir Charles is the founder of The Carphone Warehouse plc and created TalkTalk in 2002. He was appointed Chairman of TalkTalk in 2010 and became Executive Chairman in May 2017. Sir Charles has directed the development of TalkTalk to become one of the leading fixed line telecommunication businesses in the UK. Sir Charles is currently Chairman of Royal Museums Greenwich and was previously Chairman of Dixons Carphone Plc.

Tristia Harrison
Chief Executive Officer
Tristia is Chief Executive Officer of TalkTalk; prior to this Tristia was the Managing Director of TalkTalk's Consumer business. Tristia joined The Carphone Warehouse Group plc in 2000 and has held a number of senior management and executive positions in Carphone Warehouse Group plc and TalkTalk Group. She joined the Board in 2014. Tristia is Non-Executive Director at Next PLC and is also a Trustee at Comic Relief and national charity Ambitious about Autism.

Kate Ferry
Chief Financial Officer
Kate is Chief Financial Officer of TalkTalk. Prior to joining TalkTalk, Kate was a member of the Dixons Carphone Plc Executive Committee, originally joining the Carphone Warehouse Group Plc in 2010 as Corporate Affairs Director to facilitate the demerger from TalkTalk. Kate began her career in audit with PricewaterhouseCoopers, qualifying as an ACA before moving to Merrill Lynch as a Director within the retail sector equity research team, where she spent the next ten years.

Specific skillsets

	Finance	Television	Telecoms	Security/IT
Charles Dunstone			✓	
Tristia Harrison			✓	
Kate Ferry	✓		✓	
Ian West		✓	✓	
John Gildersleeve			✓	
John Allwood	✓		✓	
Sir Howard Stringer		✓	✓	
Roger Taylor	✓		✓	
Cath Keers	✓		✓	
Nigel Langstaff	✓		✓	
Phil Jordan			✓	✓

Non-Executives

Ian West
Senior Independent Director
Ian joined the Board in February 2011 and is the Senior Independent Director. He has been involved in the TMT sector for over 30 years as a manager, director and investor. Ian held numerous roles at Sky over eleven years, latterly as Managing Director of the Sky Digital subscription business. Ian is also currently an investor in, and/or Director of, 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 Gildersleeve
Deputy Chairman
John Gildersleeve is Deputy Chairman having joined the Board in 2010, as well as being the Chairman of British Land. John was formerly Deputy Chairman and Senior Independent Director of Spire Healthcare Group plc, Chairman of Carphone Warehouse Group plc, New Look Retail Group, EMI Group and Gallaher Group; a Non-Executive Director of Dixons Carphone Plc, Lloyds TSB Bank PLC, Vodafone Group and Pick n Pay Stores (South Africa) and an Executive Director of Tesco plc.

John Allwood
Non-Executive Director
John joined the Board of TalkTalk in 2010 and was Chairman of the Audit Committee until 27 June 2018. He has spent his entire career in media and telecoms, holding 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. In addition to his role at TalkTalk, he is Chairman at IMImobile plc and a Director of Creative Education Trust.

Sir Howard Stringer
Non-Executive Director
Sir Howard joined the Board in July 2012. In addition to his role at TalkTalk, Sir Howard is Chairman of Atrium TV. Sir Howard had a distinguished 30 year career as a journalist, producer and executive at CBS Inc.; previous appointments include: Chairman of Sony Corporation; President of CBS Broadcasting of the American Film Institute; SAID Business School Oxford and New York Presbyterian Ophthalmology Center and board member of BBC Commercial Holdings Ltd.

Roger Taylor
Non-Executive Director
Roger joined the Board as a Non-Executive Director in November 2015, having previously been TalkTalk's Non-Executive Deputy Chairman between January 2010 and July 2012. From 1999, Roger served over 16 years as CEO, CFO and Deputy Chairman of Carphone Warehouse Group plc and Dixons Carphone plc. Roger is also a founding Partner in both Student Castle LLP and Freston Ventures Investments LLP, which invests directly in a number of private businesses including Five Guys Europe and MOD Pizza UK, in addition to various indirect private equity and investment funds.

Cath Keers
Non-Executive Director
Cath joined the Board as a Non-Executive Director in August 2016, having previously been Customer Director and Marketing Director of O_2 UK and Non-Executive Director of Telefonica Europe plc and more recently Royal Mail plc. Cath is Chair of ustwo, a digital product, games and venture business, and Non-Executive Director of Sage Group plc and Funding Circle, supporting growth of small businesses.

Nigel Langstaff
Non-Executive Director
Nigel joined the Board in November 2017 and was appointed as Chairman of the Audit Committee in June 2018. Nigel was at Carphone Warehouse Group plc from 1997 until its merger with Dixons Retail in 2014. He held a number of senior finance roles including UK Finance Director and Group Finance Director, before becoming CFO in 2010. He was also a Director of Virgin Mobile France from 2009 to 2014. Prior to working at Carphone Warehouse Group plc, he spent four years with Arthur Andersen, where he qualified as an ACA. He is a Trustee for a number of charities, including Renaissance Foundation, Ensemble Pour La Difference and the David Ross Education Trust.

Phil Jordan
Non-Executive Director
Phil joined the Board of TalkTalk as a Non-Executive Director in October 2018. He has previously spent more than 20 years in the telecoms sector as both CIO of Vodafone UK & Ireland and Group CIO of Telefonica based in Madrid, Spain. He is now Group CIO and a member of the Operating Board at Sainsbury's. Phil has worked as a non-executive adviser on technology in investment and retail banking and is a member of many global IT industry advisory boards.

Tim Morris
Group General Counsel and Company Secretary
Tim is responsible for all legal matters in the UK and across Europe including acquisitions, corporate governance and company secretarial matters at TalkTalk Group. Previously he was General Counsel and Company Secretary at Carphone Warehouse Group plc.

Corporate governance

Chairman's introduction

An integral part of the Board's role is to define the long term strategic goals for the Group, whilst ensuring a strong corporate governance framework within which the Group can effectively operate in order to achieve its objectives. As the Chairman, a fundamental part of my role given the evolving landscape of corporate governance is to ensure that I create a culture of transparency which enables the Company to have an effective Board in which all members are able to contribute and challenge openly. Our Board allows us to draw on a diverse range of professional skills and qualities which enables each Director to bring a particular and often unique perspective to every discussion, shaped by their backgrounds in a number of industries over many years. This culture of openness in the Company always provides for the best collective outcome and helps underpin the Board's commitment as a whole to rigorous scrutiny and analysis of the Group's key issues and opportunities.

Role of the Chairman

The Chairman is responsible for the overall effectiveness in directing the Company, to provide leadership of the Board and ensure Board agendas emphasise strategic, performance and core value matters. The Chairman ensures the Board receive accurate, clear and timely information and the Board decision making process is effective. The Chairman is responsible for ensuring constructive relations between the executives and non-executives, which includes holding meetings without the executives present to facilitate the non-executives development, effective contribution and address any issues and concerns.

The Chairman ensures effective communication with shareholders, maintaining sufficient contact with major shareholders to understand any issues or concerns and ensuring the views of the shareholders are communicated to the Board where necessary.

Compliance with the UK Corporate Governance Code ("Code")

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 in respect of the year ended 31 March 2019 the Company has complied with the ongoing provisions of the 2016 Code issued by the Financial Reporting Council 'FRC' and available at www.frc.org.uk. The FRC released an updated version of the Code on 16 July 2018 ("New Code"), which applies to reporting periods on or after 1 January 2019. The New Code will therefore apply during the course of the financial year ending 31 March 2020. As a business we have endeavoured to engage with the New Code early and changes will be reflected in next years report.

Board balance and independence

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 and its five key principles: leadership, effectiveness, remuneration, accountability and relations with shareholders.

Taking into account the changes to the Board during the year, which are described below, at 31 March 2019, the Board had eleven members.

In accordance with Section B.1.2 of the Code at least half of the Board (excluding the Chairman) were considered independent Non-Executive Directors during the period being: John Gildersleeve (Deputy Chairman); Ian West (Senior Independent Non-Executive Director); John Allwood; Cath Keers; Sir Howard Stringer; Nigel Langstaff; and Phil Jordan. Roger Taylor, also a Non-Executive Director, is not considered to be independent as he was previously Deputy Chairman of the Company from January 2010 to July 2012 and has other significant business interests with the Chairman.

During the period the following Board changes occurred: as noted in last year's Annual Report, James Powell stepped down as Non-Executive Director on 24 May 2018; the Company also announced on 24 May 2018 that with effect from 30 June 2018, Charles Bligh would step down from the Board as Chief Operating Officer; and on 27 June 2018 John Allwood stood down as Chairman of the Company's Audit Committee – he remained a member of that Committee with Nigel Langstaff assuming the role of Audit Chairman.

Phil Jordan was appointed as Non-Executive Director on 16 October 2018 and was also appointed as Chairman of the Company's Security Committee.

As explained in the Company's prospectus in 2010, pursuant to Section A.3.1 of the Code, Sir Charles Dunstone was not considered to be independent on his initial appointment as Chairman primarily because of the size of his shareholding in the Company and because he was previously Chief Executive Officer of The Carphone Warehouse Group plc in which the Company was created. Notwithstanding the above the Company is still able to carry on an independent business as its main activity at all times.

The Chairman and the Executive Directors have service contracts that can be terminated by either the Company or the Director on twelve months' notice. Further, the Non-Executive Directors are expected to serve for an initial period of three years, albeit either party may terminate the appointment on three months' notice with no compensation for loss of office. After each three year period, the contracts automatically renew. The initial three year periods commenced on the following dates: John Gildersleeve (20 January 2010); John Allwood (20 January 2010); Ian West (8 February 2011); Sir Howard Stringer (26 July 2012); Roger Taylor (11 November 2015); Cath Keers (1 August 2016); Nigel Langstaff (15 November 2017); and Phil Jordan (16 October 2018). All Directors in any event stand for re-election every year. For where tenure is greater than six years, independence is reviewed accordingly. The terms of appointment for Non-Executive Directors are available for inspection during normal business hours.

Leadership

How the Board operates

The Board has reserved certain matters requiring Board approval, and delegated others to a Committee of the Board for approval. Matters that were reserved for the Board include approving the Group's strategy, annual budgets and other longer term planning.

During the period, day to day management of the Company rested with the Group's Executive Committee, which was led by the Chief Executive Officer and was part of the operational management of the Group.

Non-Executives did not form part of the executive management team and their responsibilities include: constructive challenge and help in developing proposals on strategy; scrutiny of management's performance in meeting agreed goals and objectives; satisfying themselves on the integrity of financial information; and ensuring that controls and risk management systems are robust and defensible.

Board Committees

The Board has established the five principal Committees below, to which it has delegated certain matters; the first three are as required by the Code, the fourth is to ensure the compliance of the Group within the consumer and business regulatory environment in which it operates and the fifth Security Committee manages any security threats and risks to the business.

In the period, the current members of each Committee are described below:

Audit	Remuneration	Nomination	Compliance	Security
Nigel Langstaff (Chair)(1)	John Gildersleeve (Chair)	John Gildersleeve (Chair)	John Gildersleeve (Chair)	Phil Jordan (Chair)(3)
John Allwood	Ian West	Ian West	Tristia Harrison	Charles Dunstone
Ian West	Roger Taylor	John Allwood	Charles Bligh(2)	Tristia Harrison
Cath Keers	John Allwood	Sir Howard Stringer	Tim Morris	

(1) Nigel Langstaff appointed as Chairman of the Audit Committee 27 June 2018.

(2) Charles Bligh stepped down from the PLC Board on 30 June 2018.

(3) Phil Jordan was appointed on 16 October 2018.

The work of each Committee is described in more detail in the section relating to it below:

Audit Committee

A detailed description of the Committee's remit and work during the period is contained in the Audit Committee Report on pages 49 to 51. Other Directors and senior management, including the Chief Financial Officer, the Chief Executive Officer, the Company Secretary and the external auditor, attend by invitation of the Committee.

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 at the registered office and are published on the Group's website (www.talktalkgroup.com), comply with the Code.

Remuneration Committee

A detailed description of the Committee's remit and work during the period is contained in the Directors' Remuneration Report on pages 52 to 67. Other Directors, including the Chief Executive Officer, the Company Secretary, the Chief People Officer and advisers, attend by invitation of the Committee.

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

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

Nomination Committee

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 carries out a formal selection process of candidates, which includes nominees put forward by any member of the Board, and then proposes and makes recommendations regarding appointments to the Board, whether of Executive or Non-Executive Directors. The Committee does from time to time use search consultants in accordance with the procedure agreed by the Board; during the period the Committee oversaw the appointment of Phil Jordan as Non-Executive Director and independent consultants were instructed as part of his appointment.

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.

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

Diversity

When taking into account appointments, the Committee and the Board overall understand the importance of having a diverse membership and recognise that diversity encompasses diversity of skills and experience, age, gender, disability, sexual orientation, race, cultural background and belief.

The diversity policy applies equally to all appointments in the Company, and the Board continues to believe that appointments should be made 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. Enhancing diversity at all levels is important and we continue to review it annually in accordance with relevant guidance.

Corporate governance continued

Leadership continued

Board Committees continued

Compliance 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 no less than three times a year and reports to the Board accordingly. The Group also operates a weekly Compliance Committee made up of those senior executives responsible for all key areas of compliance across the Group. At these meetings relevant compliance is monitored against a weekly scorecard.

Security Committee

The Security Committee provides overall assurance and oversight of TalkTalk's Security Programme by managing the security threats and risks based off the Company's business strategy and risk appetite.

The Committee meets at least six times per year and is chaired by Phil Jordan (Non-Executive Director); members of the Committee include: Tristia Harrison (Chief Executive Officer), Charles Dunstone (Executive Chairman), the Head of Security and various other members of the executive management team.

Number of regular formal Board meetings attended during the year

Director	Role	Board	Audit	Remuneration	Nomination
Number of meetings		6	3	4	2
Sir Charles Dunstone	Executive Chairman	6/6			
Kate Ferry	Chief Financial Officer	6/6			
Tristia Harrison	Chief Executive Officer	6/6			
Charles Bligh(1)	Chief Operating Officer	1/1			
John Gildersleeve	Non-Executive Director	6/6		4/4	2/2
Ian West	Senior Independent Director	6/6	3/3	4/4	2/2
John Allwood	Non-Executive Director	6/6	3/3	4/4	2/2
Sir Howard Stringer(2)	Non-Executive Director	4/6			1/2
Roger Taylor	Non-Executive Director	6/6		4/4	
Cath Keers	Non-Executive Director	6/6	3/3		
Nigel Langstaff	Non-Executive Director	6/6	3/3		
Phil Jordan(3)	Non-Executive Director	3/3			

(1) Charles Bligh stepped down 30 June 2018.

(2) Sir Howard Stringer was absent from the June Board meeting due to a prior commitment and absent from the October Board and Nomination Committee meetings on medical grounds.

(3) Phil Jordan was appointed on 16 October 2018.

As well as the formal meetings during the period, the Board met at other times as appropriate for specific matters, including approving trading 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 part in Board discussions. All Directors receive papers to review in advance of meetings. They also receive regular reports and members of the Group's Executive team are invited to present at Board meetings and at the annual strategy meeting so that the Non-Executive Directors keep abreast of developments in the Group.

During the period, the Chairman met regularly with the Non-Executive Directors, usually prior to every Board meeting. Notwithstanding that Sir Charles Dunstone is Executive Chairman and alongside Ian West's important role of Senior Independent Non-Executive Director, these meetings ensure that any concerns continue to be raised and discussed outside of formal Board meetings.

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

Accountability – operational management of the Group

Following the resignation of Charles Bligh as Chief Operating Officer, the Company updated the division of responsibilities to fall directly between the Chairman and the Chief Executive Officer, with the management of the Group's business activities being delegated to the Chief Executive Officer who has ultimate responsibility for establishing objectives and monitoring executive actions and performance through the Executive Committee.

The Chief Executive Officer is responsible for chairing the Executive Committee weekly and monthly meetings. Key responsibilities of the Executive Committee during the period were to:

- rigorously assess the Group's trading performance;
- identify and develop to a successful conclusion those large-scale cross-Group projects that are critical to delivering the Group's strategy and maximising shareholder value; and
- provide a cross-functional forum for the discussion of opportunities and risks arising from business activities, as well as to communicate business performance.

Effectiveness – performance evaluation and continued development

Under provision B.6.2 of the Code the next external Board performance evaluation will take place in 2020; however, during the period each Board member has been subject to an internal Board performance evaluation, where the balance of skills, knowledge and experience of each Director was reviewed.

A report was compiled by the Company Secretary; these results and the comments of the evaluator were analysed by the Chairman, the Senior Independent Non-Executive Director and the Board as a whole against the broad criteria of overall Board effectiveness and individual contributions. 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 results of the internal Board evaluation during the period were as follows: the Board was operating effectively, the evaluation of the Non-Executives by the Executives found their contribution towards strategy and risk management highly valued and the Chairman's performance in his Executive capacity was assessed positively and performing well specifically alongside the Chief Executive Officer.

The Senior Independent Non-Executive Director also met with the other Non-Executive Directors during March 2019 to assess the Chairman's effectiveness during the year, the views of Executive Directors were taken into account and the results of the internal Board performance evaluation were unanimously positive. The Board is confident that the Chairman upholds the highest standards, is a strong leader and fulfils his duties as Chairman.

The Company Secretary ensured 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.

Remuneration

The Board, primarily through its Remuneration Committee, sets clear guidelines and objectives in respect of Executive pay, which are described below in the Directors' Remuneration Report.

Risk management and internal control

The Board views management of risk as integral to good business practice. The Company has established an ongoing risk management programme to identify, assess and mitigate business, financial, operational and compliance risks. The programme is designed to support management's decision making and to improve the reliability of business performance. The risk management process operates throughout the Group, being applied equally to the main business units and corporate functions.

The nature of risks identified and assessed is wide ranging, covering risks arising from the regulatory environment, strategy, counterparties and organisational change associated with major projects. Action plans and controls to mitigate identified risks are put in place where possible and if considered appropriate by the Board, taking account of costs and benefits. A report is provided to the Directors at relevant Board meetings setting out key risks, changes in the status of the key risks and updates on mitigation.

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 and channels to enable employees to raise concerns about possible irregularities in financial reporting and other issues and associated processes for those matters to be investigated. Further details are contain in the Strategic Report on page 27.

The systems of internal control are supported by the Internal Audit and Risk function. Any significant risks identified in the year were given appropriate priority.

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 effectiveness of these systems is periodically reviewed by the Audit Committee in accordance with the revised guidance in the Turnbull Report, including ensuring the external audit goes out to tender every ten years in line with the EU regulations and directive on audit. These systems are also refined as necessary to meet changes in the Group's business and associated risks.

The Audit Committee also adopts an internal audit charter each year in accordance with International Internal Auditing Standards.

The systems of internal control were in place throughout the period and up to the date of approval of the Annual Report. 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.

Further to the changes described above, the Board continues to ensure that the Group's culture and ways of working further embed information security risk management across the business.

Relations with stakeholders

The Board continues to believe that it is important to explain business developments and financial results to the Company's stakeholders and to understand any 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 inappropriate information is released.

The Chief Executive Officer and the Chief Financial Officer have lead responsibility for investor relations. They are supported by the Head of Investor Relations 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 the Senior Independent Non-Executive Director are available to meet with major shareholders, if such meetings are required.

The Company also plans 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, which 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).

The Company keeps its customers and suppliers informed of any service updates through a combination of emails, letters and telephone communications. Our larger customers and suppliers also have dedicated account managers, in addition to dedicated teams that engage with the Company's regulators and key external stakeholders.

Corporate governance continued

Relations with stakeholders continued

The Company's employees have access to an internal portal which contains regular updates provided by the Executive Committee and senior management team along with regular email blogs from the business.

The Board will also communicate with employees via the 'Employee Voice' forum, with Nigel Langstaff appointed as the Non-Executive Director to lead the Group. More information can be found on page 53.

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

Viability statement

The context for assessment

The aim of the viability statement is for the Directors to report on the assessment of the prospects of the Group meeting its liabilities over the assessment period, taking into account the current financial position, outlook, principal risks and uncertainties, key judgements and estimates in preparing the financial statements.

The Directors have based their assessment of viability on the Group's current business model and strategic plan, which is updated and approved annually by the Board, in line with our objective of providing simple, affordable, reliable and fair connectivity for everyone, underpinned by the six strategic objectives outlined on page 9 to the Strategic Report. The effective management of principal risks and uncertainties is outlined within pages 27 to 31.

The assessment period

The Directors have assessed the viability of the Group over the three year period to March 2022, as this is an appropriate planning time horizon given the speed of change and customer demand in the industry and is in line with the Group's strategic planning period.

Assessment of viability

The viability of the Group has been assessed taking into account the Group's current financial position, including external funding committed for the period of assessment, and after modelling the impact of certain scenarios arising from the principal risks which have the greatest potential impact on viability in the period under review. In particular, the Board has considered the sustainability of the business model, the impact of customer trust and brand reputation on churn, the regulatory and market environment, advances in technology and the Group's ability to raise long term funding. These risks are aligned with the Group's review of its principal risks and uncertainties on pages 27 to 31.

The specific scenarios are hypothetical and necessarily severe for the purpose of creating outcomes that have the ability to threaten the viability of the Group. Should any of these scenarios occur, various options are available to the Group to maintain liquidity so as to continue in operation such as: accessing new external funding, more radical short term cost reduction actions and/or reducing capital expenditure. None of these actions have been factored into our scenario modelling.

Scenario	Associated principal risks and uncertainties	Description and potential impact
Competition	Customer trust and brand reputation Competitive landscape Changing market structure Regulatory compliance Data and cyber security	Failure to respond to a decline in customer confidence and trust and impact of changing market structure or regulatory compliance may potentially give rise to increased levels of churn or lower than forecast connections. In addition, the Group could potentially experience lower revenue as a result of a change in the competitive landscape. The potential impact of the above would result in reduced profitability and cash generation.
Simplifying the business – reduction in cost savings or increased costs	Changing market structure People capability Resilience and business continuity Change delivery and execution Data and cyber security Changing market structure	Failure to achieve the Group's objectives to continue to simplify the business. Alternatively, a negative impact on the Group's cost base derived from the regulatory environment, economic uncertainty as seen in the changing market structure (for example: a soft/no Brexit) or a serious data/cyber security breach resulting in potential fines. The potential impact of the above would result in reduced profitability and cash generation.

Conclusions

Based on these severe but possible scenarios the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over this three year period.

Audit Committee report

Nigel Langstaff
Audit Committee Chairman

On behalf of the Board, I am pleased to present the Audit Committee Report for 2019.

Introduction

During the year, the Committee comprised the following independent Non-Executive Directors: (Nigel Langstaff (appointed 15 November 2018)), John Allwood, Ian West, Cath Keers and James Powell (resigned 24 May 2018).

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 Chief Executive Officer, the Chief Financial Officer as well as representatives of the Company's external auditor and other members of senior management from Finance, Legal and Internal Audit and Risk also attend these meetings by invitation of the Committee or the Chairman. 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. In addition, the external auditors have access as required outside formal meetings.

Nigel Langstaff and John Allwood are the members 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 (including the Guidelines on alternative performance measures (APMs), issued by the European Securities and Markets Authority);
- key aspects of the Company's operations;
- matters that influence or distort the presentation of accounts and key financial information;
- the principles of, and developments in, key applicable company law and other legislation relevant to the Company;
- the role of internal and external audit 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 the annual cycle encompassed the Code requirements to:

- monitor the integrity of the financial statements of the Company and review significant financial reporting judgements made by management;
- disclose the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed;
- confirm that the Annual Report and 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 (for example: qualifications and experience). In addition, review the annual internal audit plan for the forth coming year considering the level of internal audit resource;
- review the output and findings of the internal audit team;
- 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;
- considered communications from the Financial Reporting Council including matters for CFOs and Audit Committee Chairs;
- 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; and
- review and approve changes to the Company's accounting policies.

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.

Audit Committee report continued

Significant issues

The significant issues considered by the Audit Committee in the current year which have all been discussed with the external auditors 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 and the viability statement	The Committee considered and challenged papers, analysis and forecasts assuming a soft/no Brexit prepared by management. The review took into account reasonably possible changes in trading performance and feasible mitigating actions and the external auditor's review of these papers, and concluded that management's recommendation to prepare the financial statements on a going concern basis is appropriate. The Committee also considered and challenged management's approach to the viability statement, including the period of review, other sources of finance, risk factors and commitments, key judgements and estimates in preparing the Group financial statements, sensitivities, and feasible mitigating actions, and concluded that the external disclosure for both the going concern assessment and viability statement is appropriate.
The treatment and disclosure of non-Headline items and alternative performance measures	The Committee considered and challenged management's approach and presentation of separately disclosed non-Headline items and alternative performance measures including the refinement of the Group's non-Headline Policy in the prior year. In particular, the Committee considered whether the recognition of service level related credits should be included in Headline performance, consistent with the recognition of the associated costs for which the Group is being compensated. The Committee also considered whether network transformation, the OneTeam operating model, amortisation of acquisition intangibles and the MVNO operating profit/loss relating to an existing business should be recognised within non-Headline results. The Committee also considered the views of the external auditor on management's policy and its application during the year. At each meeting the Committee reviewed a paper prepared by management on non-Headline items, including the nature of all the items and the balance of income and cost between non-Headline and Headline earnings. In addition, the Committee also reviewed items included within Headline results to determine if they should more appropriately be disclosed as non-Headline. The Committee reviewed and agreed the disclosure for inclusion in the consolidated financial statements in relation to non-Headline items and alternative performance measures taking into account the Guidelines on APMs issued by the European Securities and Markets Authority (ESMA) and the Financial Reporting Council (FRC).
Revenue recognition and the impact of the transition to IFRS 15	During the year, the Group has adopted IFRS 15 'Revenue from Contracts with Customers' and applied the fully retrospective approach. The Group put in place a project team to assess the impact of IFRS 15, determine appropriate accounting policies and implement necessary systems, processes and controls. Assessment was also given to matters such as employee remuneration, tax, forecasting and covenant compliance. The new standard significantly impacts the Group in relation to the amount, timing and recognition of revenue and associated costs, as well as related disclosures. The Group has made significant judgements in relation to IFRS 15 in determining contract costs that are appropriate to be capitalised, the appropriate transaction price used, performance obligations, the probability of collectability of revenue and agent vs principal in certain channels. The application of IFRS 15 also requires the Group to make certain estimates that affect the determination of the amount and timing of revenue and costs from contracts with customers, with customer tenure being a key source of estimation uncertainty. The Committee reviewed and challenged management papers on the accounting treatment and agreed with the conclusions taking into account external auditors review of these papers. The recognition of revenue is also dependent on the Group's IT systems, infrastructure and outsource providers and the Committee considered any relevant IT control weaknesses and related mitigating controls and assessed that the processes in place were reasonable.
Supplier arrangements and income received in relation to service level related disputes	The Committee has reviewed certain new or amended supplier arrangements during the year, due to the complexity of the arrangements and the key judgements applied by management to ensure that costs and income are classified and measured appropriately and recognised in the correct period. This review required an understanding of the nature of the significant transactions, adherence to the Group's accounting policies and the application of IFRS, with particular reference to IFRS 15. In addition, the Committee considered management's assessment of the quantification of service level related credits that may be subject to regulatory guidance, legal ruling or alternative dispute resolution processes. As a result of the review, without prejudice to the Group's legal position, the Committee concluded that the income had been appropriately recorded.
Non-current assets and impairment review	The Group's assets include internal capitalised costs incurred in relation to the development of software and other assets for internal use. During the year, management has performed an impairment review of goodwill and non-current assets, together with a review of useful economic lives. The Committee considered the appropriateness of the Group's capitalisation policy and the judgements applied and agreed with the conclusions reached by management.

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, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's and Company's position, business model and strategy. In particular, the Directors have considered the balance of income and costs between Headline and non-Headline earnings and the refinement of the Group's policy and disclosure in relation to non-Headline items and alternative performance measures (see note 1 to the consolidated financial statements). When arriving at this position the Board was assisted by a number of processes including:

- the Annual Report and Accounts are drafted by appropriate senior employees across all areas of the business with overall supervision being provided by the Chief Financial Officer, 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 Audit 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.

In the year ended 31 March 2019, the Committee discussed the effectiveness of the external audit process and audit quality with the other attendees of the Committee meeting. Based on the results of the auditor assessment carried out in the year, the Committee is satisfied with the effectiveness and quality of the external audit process. No actions are recommended. Following the 2019 audit, the auditor assessment will again be completed by each member of the Committee, the Chief Financial Officer and other members of senior management who are invited to attend the Committee meetings. The assessment covers all aspects of the audit process, from the audit partner's interaction with the Committee, through to the planning and delivery of the audit from a management and external audit perspective. The feedback from this process will be considered by the Committee and provided to both the auditor and to senior management. The Committee continues to consider the appropriateness of the re-appointment of the external auditor, including rotation of the audit partner. Deloitte LLP has been the Company's external auditor since August 2002, prior to TalkTalk's demerger from Carphone Warehouse Group plc and this is Katie Houldsworth's second year as lead audit partner.

The Company's policy is to comply with the Code, which includes a requirement to put external audit out the tender at least once every ten years. In accordance with the Competition and Market's Authority (CMA) Statutory Audit Services Order, which is designed to align with the provisions of the EU Regulations on external audit tender and rotation, and current guidance, the Company is required to conduct a competitive audit tender by June 2023. As the year ending 31 March 2022 will be Katie Houldsworth's final year as lead auditor, the Committee intends to run the tender process for the 31 March 2023 audit in late 2020.

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:

	2019 £m	2018 £m
Fees payable to the Company's auditor for the audit of the Company's Annual Report and Accounts	0.1	0.1
Audit of the Group and its subsidiaries pursuant to legislation	0.7	0.5
Audit services provided to all Group companies	0.8	0.6
Other non-audit services	0.1	0.1
Total Group auditor's remuneration	0.9	0.7

During the year, the Group incurred non-audit fees of £0.1m for the Group's interim review procedures. 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.

Nigel Langstaff
Audit Committee Chairman

23 May 2019

Directors' remuneration report

John Gildersleeve
Remuneration Committee Chairman

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for FY19 in TalkTalk Telecom Group PLC's ninth year as a publicly listed company.

Introduction

In line with the Large and Medium-sized Companies and Group (Accounts and Reports) (Amendment) Regulations 2013 (the 'Regulations'), the Remuneration Report for the year ended 31 March 2019 is split into two sections:

- The Remuneration Policy, which sets out the Company's policy on remuneration for Executive Directors. The policy was accepted by shareholders by a binding vote at the 2017 AGM and will be effective for three years from this date. There have been no amendments to the Remuneration Policy in the year ended 31 March 2019, save for points of clarification around the use of Remuneration Committee discretion (as agreed with the Investor Association during the 2017 AGM season), the Company approach to employee voice (following implementation of the Employee Voice Forum in June 2018).
- The Annual Report on Remuneration, which explains how the Remuneration Policy was applied in relation to Executive Directors for the year ended 31 March 2019 and how it will be implemented for the year ending 31 March 2020.

Aligning the Remuneration Policy with Company strategy and performance

During the course of the year, our CEO set out our One Plan strategy for the Company – to accelerate our simplification and cost reduction journey, consolidate to one primary campus in Salford and reinforce our position as the value player of choice in the broadband market. One Plan will build on our recent successes and accelerate our change journey. Over the past twelve months the Company has again seen strong base growth with 150k net adds and good progress on cash delivery. However, Headline EBITDA has not met our expectations as set out at the start of the year.

Over the course of FY19, the Committee has reviewed the existing remuneration arrangements in order to ensure that the strong link between the Remuneration Policy and the updated business strategy continues to remain clear and that the right incentives are in place to support the delivery of our strategy. As can be seen on page 62 of the report, this is clearly demonstrated in relation to performance against the annual bonus plan targets for the year.

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 FY19

Board resignations

Charles Bligh stepped down from the Board on 30 June 2018 and left employment of the Company on 31 December 2018.

James Powell left his role as Non-Executive Director and member of the Audit Committee on 24 May 2018.

Role changes

John Allwood stepped down as Chair of the Audit Committee on 27 June 2018 but remained a member of the Committee. His associated committee fees were amended accordingly. On the same date, Nigel Langstaff was appointed Chair of the Audit Committee on 27 June 2018. In line with the disclosure in last year's report, associated committee fees were increased accordingly.

Board appointments

Phil Jordan was appointed as a Non-Executive Director and Chair of the Security Committee on 16 October 2018. His fees were set in line with Company policy for Non-Executive Directorships and Chair responsibility.

Remuneration Policy during the period

In the year ended 31 March 2019 and in line with the binding shareholder vote at the 2017 AGM, the Remuneration Committee has reviewed the Remuneration Policy for Executive Directors and has determined that it remained appropriate and fit for purpose for that period. All remuneration arrangements for Executive Directors and Non-Executive Directors have been operated in line with that shareholder-approved Remuneration Policy.

FY19 Annual bonus performance

The Remuneration Committee carefully considered performance against the annual bonus plan targets for the year ended 31 March 2019 taking into consideration the wider business performance in the year. Despite strong growth having been delivered through incremental net adds throughout the year, the Committee noted that, due to the planned investment in growth, the annual bonus plan hurdle had not been met and therefore determined that no bonus payment would be due to Executive Directors for FY19. Achievement against the performance measures set is shown on page 62 of the report.

Remuneration Committee meeting attendance during FY19

Over the course of the year ending 31 March 2019, Committee meeting attendance was as follows:

Non-Executive Director	Number of meetings held	Number of meetings attended
John Gildersleeve	4	4
Ian West	4	4
Roger Taylor	4	4
John Allwood	4	4

Remuneration Policy for FY20

The Committee firmly believes that remuneration arrangements for Executive Directors should be based on the same principles as those of the wider employee population and should strive to achieve the objective of a simple, transparent and fair approach to remuneration for all colleagues.

As indicated in last year's report, an 'Employee Voice' forum has been established with Nigel Langstaff appointed as the Non-Executive Director to lead the group. The forum meets on a biannual basis with the objectives of further strengthening engagement between the Board and employee population, discussing executive and wider remuneration and other matters as mutually agreed. The first Employee Voice forum was held in June 2018 with a subsequent meeting in December 2018. These meetings have been constructive and have helped to further strengthen employee voice at a Board level and transparency of remuneration matters throughout the Company.

The Remuneration Policy, which was approved by a binding shareholder vote at the July 2017 AGM, is set out on pages 54 to 60 and details of how this Policy will be implemented for the financial year ahead are set out on pages 61 to 67.

I hope that you will find this report helpful and informative and agree that the determinations made by the Committee are appropriate and in the long term interests of both the Company and our shareholders. I would also like to take this opportunity to thank our shareholders for their ongoing commitment to the Company and hope that you support the Directors' Remuneration Report for the year at our AGM in July 2019. I will be available at the meeting to answer any questions that you may have regarding the work of the Committee.

John Gildersleeve
Remuneration Committee Chairman

23 May 2019

Key messages for 2020

- No changes have been made to the Remuneration Policy during the year ended 31 March 2019, save for points of clarification as set out above.
- Executive Directors will receive no payment under the annual bonus plan for the year ended 31 March 2019.

Our priorities for 2020

- To continue to grow the dialogue in the biannual Employee Voice meetings between representatives from the Company's 'One Voice' body and a nominated Non-Executive Director.
- To support the smooth consolidation of operations from the White Building in London to the Soapworks in Salford, which includes the requirement to recruit over 400 roles.

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 Policy in operation for the year ending 31 March 2019 was approved through a binding vote by shareholders at the 2017 AGM, receiving 92.99% support, and took immediate effect following the AGM. That Policy will apply for a period of three years from this date. The Policy stated below reflects small amendments to the approved Policy which were disclosed in last year's report, for the purpose of clarity, such as further disclosure being provided around the use of Remuneration Committee discretion, our proposal to improve employee voice, updates to pension contribution rates for FY20 to ensure compliance with the Statutory auto enrolment minimum thresholds from April 2019 and updates for page numbers.

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 application of the Directors' Remuneration Policy in the year ended 31 March 2019. In reaching their decisions in relation to the application of the Remuneration Policy, the Committee is mindful, however, that with the Company's strong culture of employee share ownership, with over 45% 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, the newly established 'Employee Voice' forum and also the all-employee consultation body 'One Voice'. It should also be noted that although the Remuneration Policy is specifically used to set the remuneration for Executive Directors, where appropriate, similar remuneration practices are adopted throughout the Company for all employees.

The Board, however, is committed to better understanding the views of employees and, as such, has appointed a Board representative as the Non-Executive Director responsible for 'Employee Voice'. For the year ending 31 March 2019, this post has been held by Nigel Langstaff. Beginning in June 2018, representatives of the employee forum 'One Voice' meet with the Board representative twice each financial year to discuss matters such as, but not limited to, the application of the strategy of the Company and key Executive remuneration decisions.

The Remuneration Committee is committed to consultation with major shareholders both when setting the Remuneration Policy and when amending or applying new elements of the policy from time to time. Any significant changes are put to major shareholders and if any of these shareholders are opposed to any proposed application of the Policy, the Committee will endeavour 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 and other key senior management, there are two long term incentive plans – the Discretionary Share Option Plan (DSOP) and the Shareholder Value Plan (SVP), which operates under the rules of the Value Enhancement Scheme (VES). These plans do not run concurrently.

The SVP is an alternative reward mechanism for Executive Directors and other members of the senior leadership team who will not normally participate in the DSOP. The Remuneration Committee intends that, generally, in any one year, participants may only receive an award under the SVP and no other long term incentive plan, unless exceptional circumstances apply such as the recruitment of key individuals.

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. All future long term incentive awards will be subject to malus and clawback provisions.

On leaving the Company, Executive Directors will be required to maintain for two years such number of shares equal to 200% of their annual base pay on the date they leave or all the shares they own on the date they leave if they have not built up such 200% shareholding by the leave date, unless the Committee decides otherwise in exceptional circumstances.

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 base pay.

For the purpose of this requirement the Company requires these to be in unfettered and beneficially owned shares. Newly appointed Executive Directors are given the opportunity to build up their shareholding over a period of years.

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 5% base pay for Executive Directors (increasing to 6% from 1 April 2019). Cash payments in lieu of pension contributions may also be made to Executive Directors, but these will be subject to normal tax and NI deductions. Company contributions for all participating employees are made at 5% base pay (increasing to 6% from 1 April 2019) and all employees have the ability to join the Company's defined contribution pension scheme. Company contributions will be reviewed over time, to ensure compliance with minimums set under auto enrolment guidelines.

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
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.
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 Headline Group EBITDA(1), customer experience and growth measures. The measures and targets are set annually by the Remuneration Committee to ensure they are appropriately stretching for the delivery of ‘on target’, ‘stretch’, ‘super stretch’ and ‘maximum’ 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: • on target awards for Executive Directors are equivalent to 50% of base pay; • stretch awards for Executive Directors are equivalent to 100% of base pay; • super stretch awards for Executive Directors are equivalent to 150% of base pay; and • maximum awards for Executive Directors are equivalent to 200% of base pay.
Variable Share-based incentive plans 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. Awards typically vest after three years from the date of grant. 60% of the total vested options are typically exercisable in the third year, with the remaining 40% typically being eligible for exercise from the fourth year. There is no intention to award DSOP awards to those Executive Directors participating in the SVP. 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 or new Executive Director promotion.	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 300% base pay multiple, unless the Board determines that exceptional circumstances exist which justify exceeding this limit, in which case options will not exceed 400% of base pay. In line with the DSOP scheme rules approved by shareholders, the Remuneration Committee has discretion over all aspects of the plan including but not limited to performance conditions, vesting conditions and levels and cancellation of the scheme.

(1) See note 1 to the consolidated financial statements for Headline EBITDA definition and note 9 to the consolidated financial statements for a reconciliation of Headline information to Statutory information.

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 SVP (award under the VES rules)	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 SVP, awarded under the VES rules, 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. 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 hurdle and therefore return to shareholders. 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. The Committee has discretion to apply other appropriate performance conditions as it sees fit. Participation shares that 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. 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 (up to 20%), the amount of which the Remuneration Committee may use its discretion to determine. Executive Directors will be required to hold 100% of any vested shares for a period of twelve months following vesting. Other participants will usually 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. Vesting may occur earlier if the Company was taken over, subject to the discretion of the Remuneration Committee. 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%. In line with the VES scheme rules approved by shareholders, the Remuneration Committee has discretion over all aspects of the plan including but not limited to performance conditions, vesting conditions and levels and cancellation of the scheme.

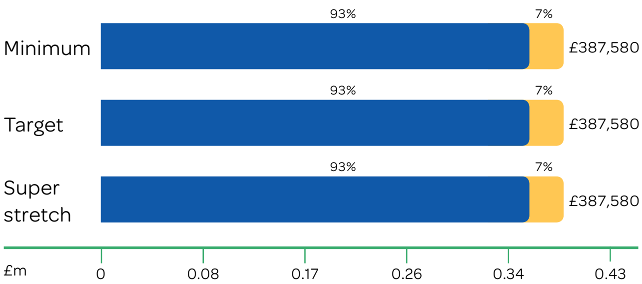
Directors' remuneration report continued

Remuneration Policy continued

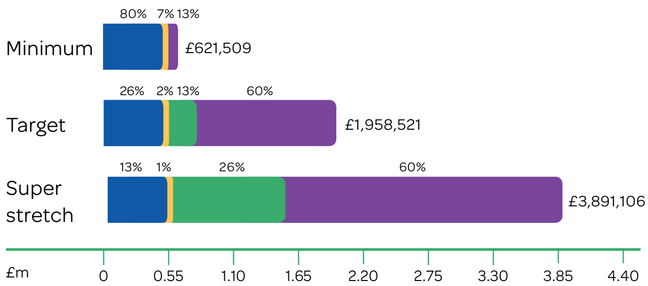
Remuneration scenarios

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

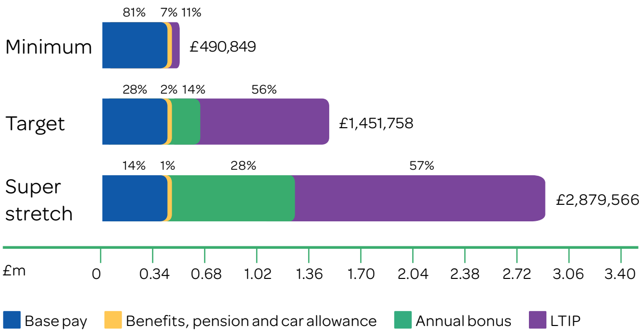
Executive Chairman
Sir Charles Dunstone



Chief Executive Officer
Tristia Harrison



Chief Financial Officer
Kate Ferry



(1) Base pay is actual base pay for the year ended 31 March 2019.
(2) Taxable benefits are at the level over the year ended 31 March 2019.
(3) Pension is based on a 5% Company contribution/cash for Tristia Harrison and Kate Ferry. Sir Charles Dunstone does not participate in the pension scheme.
(4) Annual performance bonus is at 50% of base pay for target performance, 100% of base pay for stretch performance and 200% of base pay for maximum performance. Sir Charles Dunstone does not participate in the annual performance bonus.
(5) SVP outcomes include assumed share price increases over the four-year performance term. The minimum level represents the point above the CAGR hurdle at which the pool would be expected to begin to generate value for participants and the maximum level represents the point at which it is expected that the 2.75% scheme cap would be triggered. The Target level has been set at the mid point between the minimum and maximum levels. Sir Charles Dunstone does not participate in any long term incentive plan.
(6) As the SVP 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 Save-As-You-Earn (SAYE) Scheme

The Company operates an all-employee, HMRC-approved, SAYE 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, currently £500 per month, or in line with HMRC limits if these are increased in the future. Details of current schemes can be found in the Annual Report on Remuneration section of this report.

TalkTalk Share Match Plan (SMP)

The Company operates an all-employee, HMRC-approved Share Match Plan. The TTG Share Match Plan enables eligible employees to purchase market priced shares by entering into a partnership share agreement and holding such shares in trust for up to five years. 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. 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.

Currently the Company provides one matching share for each partnership share purchased by participating employees or Executive Directors.

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.

Service contracts and remuneration packages continued

Recruitment policy for new hires

When hiring a new Executive Director, the Remuneration Committee will align the remuneration package with the Remuneration Policy stated previously, 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.

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 9.4.2R 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 previously, including the factors it considers for new hires.

Any remuneration awarded prior to promotion to the role of 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.

Directors' remuneration report continued

Remuneration Policy continued

Service contracts and remuneration packages continued

How the Remuneration Committee exercises discretion
The Committee has discretion relating to annual bonus, SVP and DSOP in line with its rules and according to the Remuneration Policy, and below provides further clarification on such discretion.

These include but are not limited to:

- timing of an award/payment;
- size of an award or bonus payment in line with the approved Remuneration Policy;
- performance and vesting conditions in line with the relevant scheme rules;
- cancellation of the scheme in line with the relevant scheme rules;
- dealing with a change of control; and
- treatment of leavers in line with the relevant scheme rules.

Any use of discretion within the policy framework will be explained in the Annual Report on Remuneration. There may be exceptional circumstances under which the Committee may use discretion or judgement in the interests of the business and its shareholders, which may be discussed with major shareholders on a case-by-case basis.

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 64.

The fees for Non-Executive Directors are set out on page 65 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 65. The Board has also agreed that the Directors may retain their fees from such appointments.

Annual Report on Remuneration

The following sections set out how the Company's Remuneration Policy was implemented in the year ended 31 March 2019 and how it will be implemented for the year ending 31 March 2020.

Single figure of remuneration*

To assist shareholders' understanding and in line with the Regulations, the table below provides a single figure of remuneration for each Executive Director. The information for Non-Executive Directors is included in the table on page 65.

Year ended 31 March 2019

Executive Director	Base pay(1) £000	Taxable benefits(2) £000	Pension(3) £000	Bonuses(4) £000	LTIP £000	SAYE gain £000	Notice payment £000	2019 total £000
Charles Dunstone	360	28	–	–	–	–	–	388
Charles Bligh(5,6,7)	375	12	19	66	–	–	821	1,293
Tristia Harrison	500	17	25	–	–	–	–	542
Kate Ferry	400	15	20	–	–	–	–	435
Aggregate emoluments	1,635	72	64	66	–	–	887	2,658

(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 made or cash in lieu paid 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) Charles Bligh stepped down from the Board on 30 June 2018 and left employment with the Company on 31 December 2018. Charles Bligh was paid in full in relation to his base pay, pension and other benefits from 1 April 2018 to the date and his employment ended on 31 December 2018.

(6) The figures shown include notice payments in relation to base pay, car allowance and pension made in relation to contractual obligations on leaving the Company and in line with the Company's exit payment policy.

(7) The Committee used the discretion allowed under the Policy to determine that Charles Bligh's 20% loan liability due on SVP I would not be repayable and he was provided a bonus of £65,861.02 to settle such liability. Further details of this can be found on page 63 of the report.

Year ended 31 March 2018

Executive Director	Base pay(1) £000	Taxable benefits(2) £000	Pension(3) £000	Bonuses(4) £000	LTIP £000	SAYE gain £000	Notice payment £000	2018 total £000
Dido Harding(5,6)	67	2	7	–	–	–	675	751
Iain Torrens(7,8)	213	8	21	45	–	–	4	291
Charles Dunstone(9)	360	6	–	–	–	–	–	366
Charles Bligh	500	16	25	–	–	–	–	541
Tristia Harrison	500	16	25	–	–	–	–	541
Kate Ferry(10)	192	7	8	–	–	–	–	207
Aggregate emoluments	1,832	55	86	45	–	–	679	2,697

(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 made or cash in lieu paid 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) Dido Harding stepped down from the Board and left employment with the Company on 10 May 2017.

(6) The figures shown include notice payments in relation to base pay, car allowance and pension made in relation to contractual obligations on leaving the Company.

(7) Iain Torrens stepped down from the Board on 30 September 2017. His employment with the Company also ended on this date. Notice payment figure shown also includes payment in lieu of holiday entitlement accrued but untaken by 30 September 2017.

(8) The Committee used the discretion allowed under the Policy to determine that Iain Torrens' 20% loan liability due on SVP I would not be repayable.

(9) Charles Dunstone moved from being a Non-Executive Director to an Executive Director on 1 April 2017.

(10) Kate Ferry was appointed to the Board on 9 October 2017.

Directors' remuneration report continued

Annual Report on Remuneration continued

Appointments in the year ended 31 March 2019

Phil Jordan joined the Company as a Non-Executive Director on 16 October 2018 and was appointed Chair of the Security Committee upon joining and his fees were set in line with the approved Remuneration Policy.

Nigel Langstaff was appointed Chair of the Audit Committee on 27 June 2018 and his fees were increased by £10,000 per annum to reflect his broader role and responsibility and in line with the approved Remuneration Policy.

In line with the Remuneration Policy, the Committee considered both internal and external factors when setting the remuneration packages for the newly appointed Non-Executive Director, in order to ensure that the decisions taken were made in the best interests of the Company and its shareholders.

Leavers in the year ended 31 March 2019

Charles Bligh stepped down from the Board on 30 June 2018 and left employment with the Company on 31 December 2018.

James Powell stepped down from the Board on 24 May 2018 and left employment with the Company on 16 October 2018.

Base pay

Year ended 31 March 2019

There were no changes to base pay for any Executive Directors in the year ending 31 March 2019.

For the year ended 31 March 2019 average base pay increases for all other employees were 1%.

Year ending 31 March 2020

It is anticipated that there will be an average 2% base pay uplift for Executive Directors in the year ending 31 March 2020.

For the year ending 31 March 2020, average base pay increases for all other employees will be budgeted at 2% and any such increases will be applied from 1 April 2019. There will also be additional budget allocated to ensure that adjustments continue to be made in order to ensure that no employee of the Company is in receipt of base pay lower than the Voluntary Living Wage, in line with the commitment made in prior years.

Pension contributions*

Year ended 31 March 2019

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.

Pension contributions for Tristia Harrison and Kate Ferry were made by the Company of 5% of their base pay for the year ended 31 March 2019. Pension contributions for Charles Bligh were also made by the Company of 5% of base pay for the period up to 31 December 2018 when he left employment of the Company. Charles Dunstone does not participate in the Company Pension Scheme.

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

Year ending 31 March 2020

Pension payments for Executive Directors and all other employees of the Company were reviewed over the course of the year ending 31 March 2019. To ensure compliance with the Statutory auto enrolment minimum thresholds from April 2019, it was determined that Company contributions would be increased to 6% of base pay from 1 April 2019.

In the year ending 31 March 2020, pension contributions for Tristia Harrison and Kate Ferry (and all other employees of the Company) will be capped at 6% of base pay, in line with the Remuneration Policy.

Annual performance bonus

Year ended 31 March 2019

For the year ended 31 March 2019, the annual performance bonus was based on a 'balanced scorecard' blend of financial and non-financial measures as set out in the table below and, in line with the approved Remuneration Policy, Executives had an incentive opportunity in the range of 0% to 200% of base pay.

The Remuneration Committee carefully considered performance against the annual bonus plan targets for the year ended 31 March 2019, taking into consideration the wider business performance in the year. Despite strong growth having been delivered through incremental net adds throughout the year coupled with ongoing improvements in customer experience, the Committee noted that, due to the planned investment in growth, the annual bonus plan hurdle had not been met and therefore determined that no bonus payment would be due to Executive Directors for FY19.

Achievement against the targets is presented in the table below:

Measure[1]	Weighting	Target performance	Stretch performance	Maximum performance	Actual performance	Performance against target	% base pay received in relation to measure
Group net adds[2]	20%	160	190	>275	150	Miss	–
Group EBITDA[3,4]	25%	245	255	>275	237	Miss	–
Group net cash flow[3]	25%	(10)	–	>20	3	Between stretch and super stretch	–
Revenue growth	15%	3.1%	3.4%	4.1%	0.1%	Miss	–
Customer experience[4,5]	15%					Target	–

(1) A net debt ratio entry gate of 3.1x applied to the scheme which had to be triggered for any bonus payment to be made.

(2) Group net adds are measured as the total number of broadband net adds at 31 March 2019.

(3) See note 1 to the consolidated financial statements for Headline EBITDA and Free Cash Flow definitions and note 9 to the consolidated financial statements for a reconciliation of Headline information to Statutory information.

(4) Group EBITDA target adjusted for IFRS 15 impact.

(5) Customer Experience is measured through TalkTalk Business and Consumer customer satisfaction (CSAT and NPS respectively), network performance as defined by Exchange performance and a measure of Ofcom Complaints. Customer Satisfaction, Network Performance and Ofcom complaints all carry an equal 5% weighting as part of the overall 15% Customer Experience KPI.

Annual performance bonus continued

Year ending 31 March 2020

A review of the annual bonus plan was conducted in the year ended 31 March 2019 to ensure that the performance measures in the balanced scorecard continue to be aligned to Company strategy. The expected performance measures and their weightings for the year ending 31 March 2020 are set out below:

Expected performance measure	Expected weighting
Financials(1)	100%

(1) Financials are expected to be measured through Headline EBITDA and Headline free cash flow.

An entry gate will be applied to the annual bonus plan, which has to be triggered for any bonus payment to be made. The entry gate will be a balanced scorecard of measures including FTTP rollout, Fibre mix, Ofcom complaints, IT Incidents and Customer Lifetime Value.

The Board has determined that the disclosure of performance targets for the year ending 31 March 2020 continues to be commercially sensitive and they 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's competitors to the detriment of business performance.

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

Share-based incentive plans*

Year ended 31 March 2019

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 SVP (awarded under the Value Enhancement Scheme (VES) rules)

Participation shares were acquired in 2014 and loans were granted by the Company. Interest is accrued on the loan on an annual basis. A subsequent loan is provided to participants on an annual basis, until the scheme vests, at which point the loans plus accrued interest are repaid.

Tranche 2 (40%) of the SVP reached its vesting, at which point performance against the growth hurdle was calculated and it was determined that the performance conditions had not been satisfied, with the TSR CAGR performance being -23% against a target of 7%.

In accordance with the scheme rules, on the return of 40% of their participation shares to the Company, participants were required to repay 20% of their outstanding loan (and any accrued interest).

In line with the treatment of the Tranche 1 liability applied in the year ended 31 March 2018, the 20% loan liability outstanding on the returned shares of £20,216 each was added to the starting loan of the SVP III award for Tristia Harrison and Charles Bligh. details of the SVP award can be found in the next section of this report. Interest on this additional loan will accrue over the duration of the SVP III scheme in line with the scheme rules.

Interest on outstanding loans was charged at 2.5% until the Tranche 2 vesting date.

There were no loans outstanding in relation to this scheme at 31 March 2019.

SVP III

Participation shares were acquired at market value on 20 July 2017 for all participants with the exception of Kate Ferry, whose Participation shares were acquired on her joining the Company, and loans were granted by the Company on the same basis as the SVP awarded in 2014.

There is one performance condition on which vesting is dependent:

- At least a 7% compound annual increase in the market capitalisation of TalkTalk Telecom Group PLC from the starting valuation over the following three and four year periods.

Subject to meeting the relevant performance conditions, the scheme would vest 60% in May 2020, with the remaining 40% vesting twelve months later. On vesting, all shares must be held for twelve months from the vesting date for Executive Directors and 50% of shares for a minimum of twelve months from the vesting date for other participants. 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, up to a maximum of 20%.

Interest is accrued on the loan on an annual basis, which is set by HMRC and was charged at 2.5% during the year. A subsequent loan is provided to participants on an annual basis, until the scheme vests, at which point the loans plus accrued interest are repaid. Loans were outstanding to the following Executives in the year ended 31 March 2019:

Director	2019 % share of pool(1)	2019 Number of participation shares purchased	2019 Outstanding loan and interest(2)
Tristia Harrison(3)	10%	200	138
Kate Ferry(4)	7%	140	82
	17%	340	220

(1) SVP III shares were acquired by participants on 20 July 2017.

(2) The fair value of the award is equal to the outstanding loan and interest.

(3) The outstanding loan value includes the 20% liabilities rolled over from Tranche 1 and Tranche 2 of SVP I.

(4) Kate Ferry's SVP III shares were acquired on 9 October 2017 on her start date with the Company.

Charles Bligh was treated as a scheme leaver in line with the scheme rules when his employment ended.

The Remuneration Committee, in line with the scheme rules, exercised its discretion in relation to the repayment of the loan liability for Charles Bligh and provided him with a special one-off bonus payment of £65,861.02 in order to settle such liability. All associated tax and NI deductions were paid in relation to this bonus. The details relating to this special one-off bonus are shown in the single figure table on page 61 of this report.

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

There was no clawback in respect of SVP, SVP II or SVP III and no Non-Executive Directors participated in these schemes during the year ended 31 March 2019.

Year ending 31 March 2019

The TalkTalk Group SVP

The Company does not plan to make any awards in the year ending 31 March 2020 to any Executive Directors already participating in this scheme.

Directors' remuneration report continued

Annual Report on Remuneration continued

All-employee share plans*

TalkTalk Save-As-You-Earn (SAYE) Scheme

The TalkTalk SAYE Scheme is a 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 Sharesave Scheme as long as they have been employed for a qualifying period. To participate in the Scheme an eligible employee must enter into a Sharesave contract and agree to make monthly contributions between £5 and £500 for a specified period of three or five years.

Options granted to acquire TalkTalk shares under the 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.

No Executive Directors were awarded share options under the 2018 Scheme.

No Non-Executive Directors participated in this scheme.

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

All-employee Share Match Plan (SMP)

In June 2014, the Company introduced an all-employee, HMRC-approved Share Match Plan, which had been approved by the Remuneration Committee during the previous financial year. 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 Plan was granted by shareholders at the AGM on 24 July 2013.

No Executive or Non-Executive Directors participated in this scheme in 2019.

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 as at 31 March 2019 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(1)
Charles Dunstone	200%	329,083,199	Yes	100,827%
Tristia Harrison	200%	1,955,298	Yes	431%
Kate Ferry(2)	200%	139,835	No	39%

(1) Share price on 31 March 2019 of £1.103 used for calculation.

(2) Kate Ferry joined the Company in 2017 and has the opportunity to build up her shareholding over a number of years in line with the approved Remuneration Policy.

There have been no changes to the shareholdings of Executive Directors between 31 March 2019 and 23 May 2019.

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

	Ordinary shares of 0.1p		
Director	**31 March 2019**	31 March 2018	Date of contract
John Gildersleeve	**291,866**	291,866	20 January 2010
Ian West	**364,714**	364,714	8 February 2011
John Allwood	**10,000**	10,000	20 January 2010
Howard Stringer	**56,000**	56,000	26 July 2012
James Powell	**–**	1,000	26 July 2012
Roger Taylor	**9,826,688**	9,826,688	11 November 2015
Cath Keers	**–**	–	1 August 2016
Nigel Langstaff	**299,736**	299,736	15 November 2017
Phil Jordan(1)	**–**	n/a	16 October 2018

(1) Appointed as Chair of the Security Committee on 16 October 2018.

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**	**2019 total £000**	Fees £000	Taxable benefits £000	2018 total £000
John Gildersleeve	80	–	80	80	–	80
Ian West	80	–	80	80	–	80
John Allwood(1)	62	–	62	69	–	69
Howard Stringer	50	–	50	50	–	50
James Powell(2)	8	–	8	50	–	50
Roger Taylor	50	2	52	50	2	52
Cath Keers	50	–	50	171	–	171
Nigel Langstaff(3)	58	–	58	19	–	19
Phil Jordan(4)	25	–	25	–	–	–
Aggregate emoluments	463	2	465	569	2	571

(1) Stepped down as Chair of the Audit Committee on 27 June 2018.
(2) Stepped down from the Board on 24 May 2018.
(3) Appointed Chair of the Audit Committee on 27 June 2018.
(4) Appointed to the Board and Chair of the Security Committee on 16 October 2018. A Non-Executive Director fee of £45,000 per annum and Security Committee Chair fee of £10,000 per annum were set, in line with other Non-Executive Directors of the Company.

There were no changes to fee levels for Non-Executive Directors in the year except where there were changes in the membership of the various Committees of the Board.

Payments to past Directors

In the year ended 31 March 2019, there were no payments made to past Directors not disclosed elsewhere in the report.

Payments for loss of office

In the year ended 31 March 2019, there were no payments made to Executive Directors, past or present, in compensation for loss of office other than payments in lieu of contractual notice set out elsewhere in the report.

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
John Gildersleeve	Remuneration, Nomination, Compliance	20 January 2010	1 April 2016
John Allwood(1)	Audit, Nomination, Remuneration	20 January 2010	1 April 2016
Ian West	Audit, Nomination, Remuneration	8 February 2011	16 May 2016
Sir Howard Stringer	Nomination	26 July 2012	1 April 2016
James Powell(2)	Audit	26 July 2012	1 April 2016
Roger Taylor	Remuneration	11 November 2015	11 November 2015
Cath Keers	Audit	1 August 2016	1 August 2016
Nigel Langstaff(3)	Audit	15 November 2017	15 November 2017
Phil Jordan(4)	Security	16 October 2018	16 October 2018

(1) Chair of the Audit Committee until 27 June 2018, although remains on the Committee.
(2) Stepped down from the Board on 24 May 2018.
(3) Appointed as Chair of the Audit Committee on 27 June 2018.
(4) Appointed to the Board and Chair of the Security Committee on 16 October 2018.

Fees for external appointments

Director	Organisation	**2019 £000**
Tristia Harrison(1)	Next PLC	29

(1) Fees relate to the period from appointment date of 25 September 2018. Annual fees are currently set at £56,834 plus £1,000 for each further day on Company business in excess of the normal time commitment.

Annual Report on Remuneration continued

Additional information continued

Advice and services provided to the Remuneration Committee

Except when matters concerning their own positions are being considered, the Chief Executive Officer, Company Secretary and the Chief People Officer 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 2019, the Remuneration Committee was advised on matters relating to executive remuneration by Willis Towers Watson. The Remuneration Committee deems the advisers to be independent from the Company and the advice it received during the year to be appropriate and objective.

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

The fees paid for services are set out below:

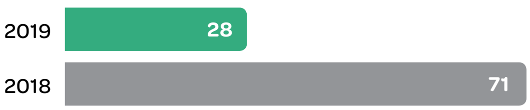
Company	Nature of service	2019 £000
Willis Towers Watson	Remuneration matters and long term Incentive Design	27

Relative importance of spend on pay

The difference in actual expenditure between FY18 and FY19 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)

-£43m



Total employee pay (£m)

-£28m

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.

	Single figure of remuneration[1]	Bonus as a % of maximum available	Shares vesting as a % of maximum[2]
2011 £000[3]	920	19.9%	–
2012 £000[3,4]	967	40.0%	–
2013 £000	5,617	39.2%	100%
2014 £000	6,842	37.6%	–
2015 £000	1,047	47.3%	–
2016 £000	2,810	23.5%	50%
2017 £000 [5,6]	1,142	23.5%	20%
2018 £000[7]	541	–	–
2019 £000	**542**	**–**	**–**

(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 for the VES which vested in 2012 and 2013 as it does not have a maximum percentage of shares. However, for information the 2010 DSOP award vested at 100% of the maximum in 2012.
(3) Maximum bonus for Executive Directors was 200% base pay for the years ended 31 March 2011 and 2012.
(4) Only the 50% relating to TSR measures of the DSOP 2012 vested in May 2015.
(5) The Remuneration Committee determined that 20% of the DSOP 2013 should vest in May 2016.
(6) The reduction in the single figure number in 2017 represents the lower DSOP percentage vesting and a reduction in the share price from the prior year.
(7) The 2018 comparison relates to Tristia Harrison in the post of CEO where all prior years relate to Dido Harding in the post of CEO.

Additional information continued

Comparing pay to performance continued

The table below shows the percentage change in remuneration between 2018 and 2019 for the CEO and all other employees of the Group.

	Base pay % change	Taxable benefits % change	Annual bonus % change
CEO(1)	–	–	–
Employees(2)	1%	–	(100%)

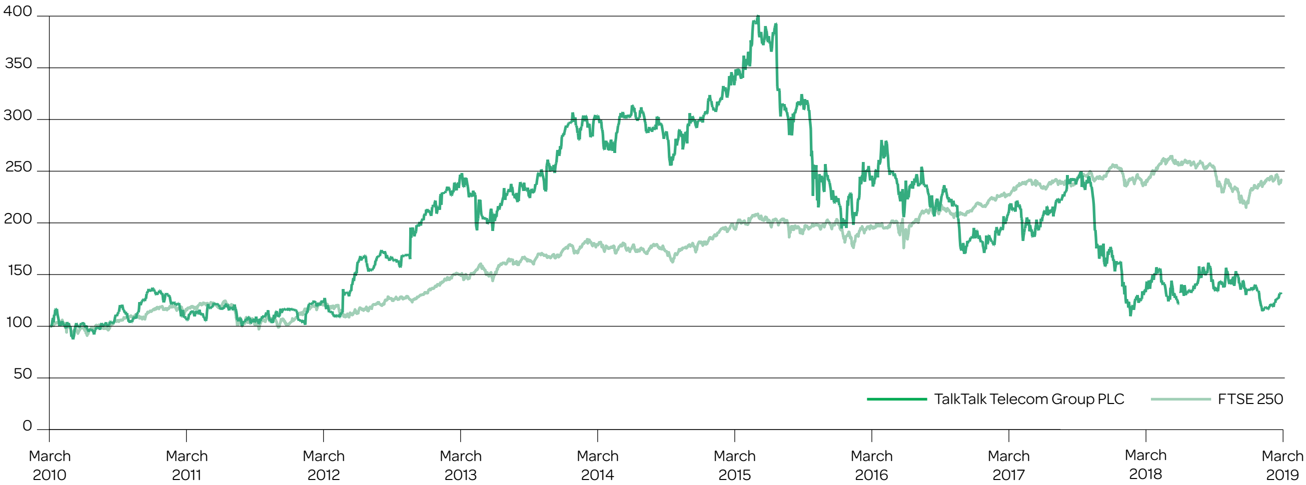
(1) There is no annual bonus payment due for Executive Directors for the year ending 31 March 2019.

(2) Actual average increase for all other employees of the Company includes annual pay review and all increases related to role promotions.

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 (the '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 Investment Association in November 2018. 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 Directors' Remuneration Report will be proposed at the 2019 AGM. Voting regarding the 2018 Directors' Remuneration Report was as follows:

	Votes for	Votes against	Votes withheld	Total votes
Remuneration Report	1,028,352,234	17,561,399	513,635	1,046,427,268
	98.32%	1.68%		

John Gildersleeve
Remuneration Committee Chairman

23 May 2019

Directors' report

Reporting requirements

The Group is required to produce a Strategic Report complying with the requirements of Section 414A of the Companies Act 2006 (the 'Act'). The Group has complied with this requirement and incorporates a detailed review of the Group's activities, business performance and developments during the year in a way that is fair, balanced and understandable and gives an indication of likely future developments on pages 1 to 41.

The Corporate Governance Statement, as required by Rule 7.2.1 of the Financial Conduct Authority (FCA) Disclosure and Transparency Rules, is set out on pages 44 to 48 of the Corporate Governance Report and forms part of the Directors' Report.

The Group has complied with the requirements of Section 414CB of the Companies Act 2006 by including certain non-financial information within the strategic report. This can be found as follows:

- Our business model is on page 8;
- Information regarding the following matters, including policies, the process implemented in pursuance of the policies and outcomes of those policies, can be found on the following pages:
  - Environmental matters on page 40;
  - Employees on pages 36 to 38;
  - Social matters on page 39; and
  - Anti-corruption and anti-bribery matters on page 41.
- Where principal risks have been identified in relation to any of the matters listed above, these can be found on pages 27 to 31, including a description of the business relationships, products and services which are likely to cause adverse impacts in those areas of risk, and a description of how the principal risks are managed.
- All key performance indicators of the Group, including those non-financial indicators, are on pages 22 to 23.
- The CEO, (pages 5 to 7) and CFO, (pages 32 to 35) sections includes, where appropriate, references to, and additional explanations of, amounts included in the Group's financial statements.

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 agreed longer commercial credit terms with certain suppliers, this includes an arrangement with a major distribution partner, whereby the trade payable continues to be recognised. Excluding this supplier, the underlying average credit period taken on trade payables was 53 days (2018: 49 days). Including this supplier, the average credit period taken was 58 days (2018: 53 days).

Contracts with controlling shareholders

During the period, there were no material contracts with controlling shareholders.

Compensation for loss of office

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 consolidated financial statements.

Capital structure

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 including the Executive Directors 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 in Article 16 of the Company's Articles of Association.

Shares held by the Group Employee Share Ownership Trust (ESOT) abstain from voting.

In addition, at the AGM in 2018, the Company was granted the right to acquire 11,462,696.70 being 10% ISC shares. This right expires on the date of the 2019 AGM or 20 October 2019 (whichever is sooner).

The Articles of Association may be changed by special resolution.

The Company has a total of 1,146,269,670 ordinary shares in issue.

Details in the movements in authorised and issued share capital during the period are provided in note 23 to the consolidated financial statements.

Details in relation to share schemes are provided in note 5 to the consolidated financial statements.

Going concern

Our business activities, together with the factors likely to affect our future performance and market position are set out in the Chief Executive's Review. Our financial position, cash and borrowing facilities are described within the Chief Financial Officer's statement, together with further detail on other sources of finance including receivables financing and commitments given in the notes to the consolidated financial statements.

We have £1,115m of committed credit facilities and as at 31 March 2019 the headroom on these facilities was £306m. Our forecasts and projections, after assuming a soft/no Brexit, and taking into account reasonably possible changes in trading performance indicate that there is sufficient cash and covenant headroom on our facilities. In considering reasonably possible sensitivities, we have identified feasible mitigating actions and cash management activities together with the use of additional, currently uncommitted, facilities within our control to ensure covenants are not breached. 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 preparing the financial statements.

The UK Corporate Governance Code requires the Directors to assess and report on the prospects of the Group over a longer period. This longer term viability statement is set out within the Annual Report on page 48.

Borrowings and financial instruments

The disclosures required in relation to the use of financial instruments by the Company, including the financial risk management objectives and policies (including in relation to hedging) of the Company; specific quantitative information on borrowings and financial instruments; and the exposure of the Company to foreign exchange risk, interest rate risk, liquidity risk and credit risk, can be found in notes 20 and 21 to the financial statements and the risks and uncertainties section of the Strategic Report on pages 27 to 31, which are incorporated by reference to this report.

Board of Directors

The Board of Directors are outlined within the Corporate governance report on pages 42 to 43.

Appointment of Directors

The rules relating to the appointment and/or removal of Directors are contained in 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 consolidated financial statements.

Results and dividends

The Group results and dividends for the year ended 31 March 2019 are set out in the consolidated income statement and note 8 on pages 81 and 107 respectively. 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.

The Board is committed to improving profitability, cash generation and reducing leverage. Looking beyond FY20, the Board expects to return to a more normalised policy once the business has reduced leverage towards the Group's mid term net debt/Headline EBITDA target of 2.0x.

Significant shareholdings

At 22 May 2019, the Company had been notified of the following interests in the Company's shares:

Name	Number of shares	% of share capital
Sir Charles Dunstone	329,083,199	28.71
Toscafund Asset Management	214,971,704	18.75
Invesco Perpetual Asset Management	129,479,431	11.30
Mr David PJ Ross	128,675,616	11.23
Capital Research Global Investors	86,622,473	7.56
Jupiter Asset Management	47,245,674	4.12

The total interests of the Directors are detailed in the Directors' Remuneration Report on page 64.

Directors' indemnities

Directors' liability insurance is provided for Directors.

Disclosures required under Listing Rule 9.8.4R

Other than the following, no further information is required to be disclosed by the Company in respect of Listing Rule 9.8.4R:

- details of the incentive plans, which are set out on pages 63 to 64 of the Directors' Remuneration Report and note 5 to the consolidated financial statements (incorporated by reference into this report).

Greenhouse gas emissions reporting

Details of the Group's greenhouse emissions can be found in the Corporate Social Responsibility section on page 40.

Charitable donations

Charitable donations paid during the year are disclosed on page 39 of the Strategic Report.

Political donations

There have been no political donations during the year.

Market Abuse Regulation

The Company continues to oversee its share dealing processes (including those relating to persons discharging managerial responsibilities) and its share dealing policy and provides mandatory training to certain of its employees.

Equal opportunities

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

We are committed to providing equal opportunities and avoiding unlawful discrimination by further developing our diversity and inclusion strategy over the coming year.

We are keen to ensure that employees are paid appropriately for the work that they do. We believe that everyone should have the same opportunities, regardless of gender, and we are committed to levelling the internal playing field to create a truly inclusive culture. We undertook our second gender pay audit in the year ended 31 March 2019 and will continue to do so on an annual basis. We have also complied with the mandatory gender pay reporting regulations and published our first report on 1 February 2019.

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the group. This is achieved through formal and informal meetings. The Chief Executive Officer posts regular video and written biogs to staff, updating on Company performance and major issues. This includes details of the Company 'Scorecard', which allows employees to understand how the Company is performing against pre-defined annual targets. These are supplemented by regular biogs by Executive Committee members. Employee representatives, the One Voice, are consulted regularly on a wide range of matters. This includes being briefed about relevant developments on a confidential basis ahead of public announcements, so that their views and thoughts can be considered and incorporated. TalkTalk has a Share Save scheme for staff and the vast majority of employees are eligible for an annual bonus scheme related to the financial and operational performance of the Company.

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.

Approved and authorised for issue and signed on its behalf by:

Tim Morris
Company Secretary

23 May 2019

TalkTalk Telecom Group PLC
11 Evesham Street
London W11 4AR

Directors' responsibility 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 have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and Article 4 of the IAS Regulation, and have also chosen to prepare the Parent Company financial statements under IFRS as adopted by the EU.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing these financial statements, IAS 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 IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions of the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group 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 the Group 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.

Each of the Directors, whose names and functions are listed in the Corporate Governance section of the Annual Report, confirm that, to the best of their knowledge:

- the financial statements, prepared in accordance with IFRS as adopted by the EU, 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 it faces; and
- the Annual Report and the financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This Responsibility Statement was approved by the Board of Directors on 23 May 2019 and is signed on its behalf by:

Tristia Harrison
Chief Executive Officer

Kate Ferry
Chief Financial Officer

Independent auditor's report

To the members of TalkTalk Telecom Group PLC

Report on the audit of the financial statements

Opinion

In our opinion:

- **the financial statements of TalkTalk Telecom Group plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2019 and of the group's loss 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 IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; 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.**

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated and parent company cash flow statements;
- the statement of accounting policies;
- the related notes to the group accounts 1 to 28; and
- the notes to the parent company financial statements 1 to 12.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters

The key audit matters that we identified in the current year were:

- management override of controls;
- disclosure of non-Headline items and the presentation of alternative performance measures in the financial statements;
- revenue recognition including the impact of the transition to IFRS 15 Revenue in the year;
- capitalised time and the impairment of network assets; and
- complex supplier arrangements.

Within this report, any new key audit matters are identified with and any key audit matters which are the same as the prior year identified with .

Materiality

The materiality that we used in the current year was £5.0m which was determined on the basis of considering a number of different measures including Statutory loss before taxation, Headline profit before taxation, EBITDA and Statutory revenue. This approach is in line with prior year and our considerations reflect the volatility in the results of the Group as management continue to focus on simplifying the business.

Independent auditor's report continued

To the members of TalkTalk Telecom Group PLC

Summary of our audit approach continued

Scoping	Based on our assessment of the risks of material misstatement at the group level, we focused our group audit scope primarily on TalkTalk Consumer and TalkTalk Business. Each of these were subject to a full audit and together this covered over 99% (2018: 99%) of the group's total revenues. Together with our audit of the group balances, our group audit scope covered 89% of statutory loss before taxation (2018: 92% of statutory loss before taxation) and 97% of net assets (2018: 97% of net assets).
Significant changes in our approach	Last year our report included revenue recognition as a key audit matter – specifically in relation to the completeness of revenue recorded through billing systems, the accuracy and completeness of revenue recognised on transactions which are outside the billing process and the appropriateness of revenue share arrangements with third parties and how the revenue and costs are disclosed in the financial statements. In the current year we have rather directed our audit focus on the adjustments made in relation to the transition to IFRS 15, which are processed outside of the billing system, as well as the key judgements applied in respect of the accounting policies adopted under IFRS 15. Revenue share arrangements have now been included within a newly identified key audit matter in the year, being the accounting in relation to complex supplier arrangements. Due to the financial impact of various complex supplier arrangements entered into by the group and the accounting judgements adopted within the group accounting policies we increased the level of audit focus in relation to the interpretation of the contracts in place and the accounting adopted thereon.

Conclusions relating to going concern, principal risks and viability statement

Going concern
We have reviewed the directors' statement in note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Principal risks and viability statement
Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 27 to 31 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation on page 48 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 48 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Management override of controls

Key audit matter description

International Standards on Auditing require us to presume a risk of fraud arising from management override of controls and conduct our audit testing accordingly. Key areas of potential risk include inappropriate bias in relation to accounting judgements and inappropriate accounting for significant or unusual transactions taking place in the year. Our audit focus in this area primarily related to the quantum and nature of items occurring during the year, including the recording of non-Headline items, accounting adopted in relation to complex supplier arrangements, judgements applied in relation to the carrying value of assets on the balance sheet, accounting judgments applied in relation to the transition to IFRS 15 and judgements made within management forecasts. The number of areas requiring the application of judgement and estimation techniques creates additional risk of bias in accounting estimates and therefore we have considered this to be a key audit matter. This risk is heightened in a year where there has been a guidance downgrade.

Disclosures relating to the items noted above are included in notes 1 and 9 and the matters are discussed in the report of the Audit Committee on pages 49 to 51.

How the scope of our audit responded to the key audit matter

In considering the key audit matter relating to management override of controls we have:

- challenged accounting estimates (individually and collectively) for management bias that would result in material misstatement, in particular focusing our attention on the areas noted above. We obtained evidence to support the rationale behind key estimates made and quantified the impact on the financial statements. Details of our audit response in relation to disclosure of non-Headline items, revenue recognition policies and complex supplier arrangements have been outlined below in their respective key audit matters;
- obtained supporting documentation and obtained an understanding of the business rationale for significant transactions that we have become aware of that are outside the normal course of business or that otherwise appear to be unusual given our understanding of the Group;
- challenged management's forecasts supporting their goodwill and non-current asset carrying values as well as the going concern assumption including working capital trends throughout the year. We have agreed known commitments and transactions and challenged key underlying assumptions. We have run our own sensitivity analysis including a reasonable worst-case scenario which removes uncommitted or unapproved items. In considering our reasonable worst-case scenario we have also considered mitigating actions and cash management techniques that in the event of a breach of covenant that management has within their control which would be used to ensure covenants are not breached; and
- completed journal entry testing, where data analytics tools were used to identify those postings that might be indicative of management override of controls. For the journal entries that were determined to meet these characteristics, we obtained explanations and examined supporting documentation to understand the nature and rationale for each entry.

Key observations

We note there continues to be significant judgements taken by management in reaching both Statutory and Headline results in relation to the carrying value of assets on the balance sheet, accounting judgements made in relation to complex supplier arrangements and the subsequent treatment of costs and accounting estimates revisited in light of current data within the business.

We concur with the judgmental items included within Statutory and Headline results and are satisfied that these have been disclosed in the financial statements.

Independent auditor's report continued

To the members of TalkTalk Telecom Group PLC

Key audit matters continued

Disclosure of non-Headline items and the presentation of alternative performance measures in the financial statements

Key audit matter description

The Group presents alternative performance measures to provide supplemental information to enable users of the financial statements to gain an understanding of the Group's financial performance. During the year, the Group has incurred items classified as 'non-Headline items' amounting to £42 million prior to the impact on taxation (2018 – £115 million). The disclosure of non-Headline items and their presentation on the face of the income statement remains a key audit matter given the level of management judgement involved as inappropriate classification of such items would impact on the disclosure of Headline earnings, which is a key performance indicator used by the Group.

Over the last few years, the Group has come to the end of a number of significant projects and has started a number of projects (such as 'Network Transformation' and 'One Team') as well as disclosing the impact of the loss on exiting the Mobile Virtual Network Operator (MVNO) operations as a key non-Headline item in the current year. These are multi-phase projects spanning a number of years and consequently, we consider there is significant management judgement in determining whether those costs or projects are non-Headline based on the Group's policy or are, in substance, 'business as usual' and therefore should be recognised in arriving at Headline earnings.

The nature of these costs has been defined in note 9 to the accounts and the related accounting policy has been disclosed in note 1. The Audit Committee's discussion of this matter is set out on pages 49 to 51.

How the scope of our audit responded to the key audit matter

In addition to understanding the composition of non-Headline items and agreeing a sample of items to supporting documentation, we challenged management's rationale for the presentation of items within the consolidated income statement as non-Headline, particularly around the areas of higher judgement such as dual running costs, internal labour costs, and costs in relation to the launch of 'Network Transformation' to determine whether the costs recognised as non-Headline meet the criteria of the accounting policy for such items defined by the Group within note 1. This includes assessing the incremental nature of the costs, whether they are specific to individual projects (including the MVNO operations of the Group) and considering whether they should be classified as part of Headline operations.

Our work has also included a testing, on a sample basis, of items included within the income statement to identify income and expenses which may be non-Headline by nature but not separately identified. This included consideration of credit balances within Headline results, including those in relation to billing disputes.

Key observations

We concur with the treatment of non-Headline items in the year that have been recognised in accordance with the Group's accounting policy.

Revenue recognition and the impact of the transition to IFRS 15

Key audit matter description

Revenue represents a significant balance of £1,609 million (2018 restated – £1,605 million), consisting of a high volume of individually low value transactions across the business and consumer customer bases. We have identified the following types of transactions and assertions related to revenue recognition which give rise to a key audit matter relating to risks arising from the complexity of telecom transaction processing within the Group as well as the level of management judgement:

- the completeness of revenue recorded through billing systems due to the large number of transactions processed to support the revenue postings;
- 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 (such as customer credit provisions and adjustments made in relation to third party arrangements) including the IFRS 15 adjustments which are processed as part of a SQL model outside of the underlying billing systems; and
- the level of complexities involved when determining the key judgements made by management with FY2019 being the first financial year where the Group will report under IFRS 15. These judgments include the identification of material rights, support for the recoverability of contract assets, assessment of average customer life over which contract costs are amortised, treatment of early termination charges, contract identification within the TTB Indirect channel and completeness of the IFRS 15 assessment for the TTB business. Due to this, the judgements made and the accounting adopted has been a focus area for the FY2019 audit.

See note 1 to the financial statements for revenue recognition policy and the critical judgements and key sources of estimation uncertainty relevant to the transition to IFRS 15 that has been applied by the Group and the Audit Committee report on pages 49 to 51.

How the scope of our audit responded to the key audit matter

Completeness of revenue recorded through billing systems
We involved our IT specialists to test the operating effectiveness of automated and non-automated controls over the customer billing systems. Our tests assessed the controls in place to ensure services supplied to customers are input into and processed through the billing systems.

This enabled us to take a controls reliance approach over billing systems processing over 95% of revenue transactions (by value). We subsequently applied a combination of audit procedures and sample testing to obtain evidence over the accuracy and completeness of the reported output of these systems.

The accuracy and completeness of revenue recognised on transactions which are outside the normal billing process
We performed testing on a sample of non-systematic adjustments which included the adjustments made in relation to IFRS 15. We involved specialists to assess the appropriateness of the SQL model used by management for the purposes of calculating the IFRS 15 adjustments. Our work also included agreeing a sample of contracts to the output per the SQL model to determine whether they had been recognised in line with Group policies as well as analytical reviews to understand the movement's year on year.

Judgements made in relation to the transition to IFRS15
We assessed the appropriateness of the revenue recognition policy adopted with reference to IFRS 15. We and completeness of the IFRS 15 assessment for the TTB business. We involved subject matter experts on IFRS15 to assess the appropriateness of the policies adopted by management. We also performed testing to assess whether the judgments applied had been recognised in line with Group policy.

Key observations

We note that the policies applied in relation to revenue recognition are in line with the guidance of IFRS 15 however note the high level of estimation applied in determining the IFRS 15 transition adjustments and group policy. We note that estimates applied are highly sensitive in supporting the accounting adopted in relation to IFRS 15 and refer to more detail outlined in relation to these in Note 1.

In our testing on IT systems, we have identified certain control deficiencies. We confirmed that the mitigating business controls identified address the risk of a material misstatement to the financial statements.

Independent auditor's report continued

To the members of TalkTalk Telecom Group PLC

Key audit matters continued

Capitalised time and impairment of operating intangibles

Key audit matter description

The Group has significant network assets held on the balance sheet of £420m (2018: £493m) which is predominantly made up of £227m (2018: £235m) of operating intangibles and £193m (2018: £226m) of network equipment and computer hardware. Network assets include £29.2m (2018: £30.1m) of internally capitalised time recorded in FY19. Internal capitalised time relating to the development of network infrastructure and system enhancements remains a significant balance year on year accordingly there is a risk that inappropriate classification of operating expenses would impact on the disclosure of Headline earnings, which is a key performance indicator used by the Group and hence this has been determined as a key audit matter.

With the launch of the 'Network Transformation' programme and the impending copper line switch programme, there is also a risk assets and work capitalised (including external resource, licensing and software) supersede existing network infrastructure, resulting in the carrying value of assets exceeding the recoverable value and triggering impairments across the existing asset base.

See note 1 to the financial statements for the impairment and asset related accounting policies that have been applied by the Group and the Audit Committee report on pages 49 to 51.

How the scope of our audit responded to the key audit matter

Capitalised time

We reviewed each capital programme in progress across the year against the requirements of IAS 38 Intangible Assets ("IAS 38"). We also performed substantive testing procedures on a sample of time capitalised in the year via corresponding with project managers and agreeing time spent to the core timesheet system as well as gaining an understanding of the work carried out in the year and whether directly attributable to each capital programme.

Impairment review of network assets

We challenged management's impairment review of the asset base as at 31 March 2019, focusing on those areas under the 'Network Transformation' programme via assessing the recoverable value of assets held against the carrying value on the balance sheet. We assessed management's review by involving specialists to assess the discount rate used via independently calculating an acceptable range with reference to market data, challenging the identification of Cash Generating Units and challenging management's sensitivity analyses in line with our forecasting work outlined above.

Key observations

We are satisfied with the carrying value of the network assets held on the balance sheet as at 31 March 2019 and that the nature of capital additions in the year are in line with the requirements of IAS 38.

Complex supplier arrangements

Key audit matter description	The Group periodically enters into complex supplier arrangements including revenue share arrangements and agency structured contracts. Due to the judgement required in determining the commercial substance of the arrangement, as well as the complexity of certain arrangements including multi-year considerations, there is a risk that these are incorrectly accounted for or recognised in the wrong accounting period and that all arrangements are not disclosed appropriately. Judgements made vary by supplier and contractual arrangements in place individually. Please see Note 1 of the financial statements for disclosure on the supplier arrangements.
How the scope of our audit responded to the key audit matter	As part of our procedures in addressing the key audit matter identified above, we performed the following: • we reviewed the completeness of the list of supplier arrangements provided by management through reviewing an extract of debit items recorded on supplier accounts through the year; • we held discussions with the key supplier relationship managers at TalkTalk in order to understand fully the commercial substance of complex supplier arrangements; • we tested a sample of material balances recorded during the year by reviewing the signed contract agreements, assessing whether the amounts recognised are in line with the agreed terms and conditions and meet the appropriate recognition criteria; and • we assessed and challenged disclosures made to determine whether these allow transparency and a clear understanding of the arrangements entered into.
Key observations	We are satisfied that the treatment in the accounts is appropriate and that these judgements are appropriately disclosed within the financial statements.

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.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent Company financial statements
Materiality	£5.0m (2018: £3.6m)	£4.7m (2018: £3.4m)
Basis for determining materiality	Materiality has been determined by considering a number of different measures including Statutory loss before taxation, headline profit before taxation, EBITDA and Statutory revenue.	1% of net assets (2018: 0.3% of net assets)
Rationale for the benchmark applied	There continues to be significant volatility in the results of the Group due to the change in the Mobile strategy, the roll out of programmes such as Network Transformation and the group reorganisation. As such, we have considered a range of metrics when determining our materiality. The materiality applied equates to 0.3% of revenue (2018: 0.2%), 2.3% of EBITDA (2018: 2.6%) and 0.3% of total assets (2018: 0.2%).	We consider the net assets to be an appropriate benchmark for the measure of the materiality of the parent company on the basis that it is the Group's ultimate parent and is a non-trading company.

Independent auditor's report continued

To the members of TalkTalk Telecom Group PLC

Our application of materiality continued

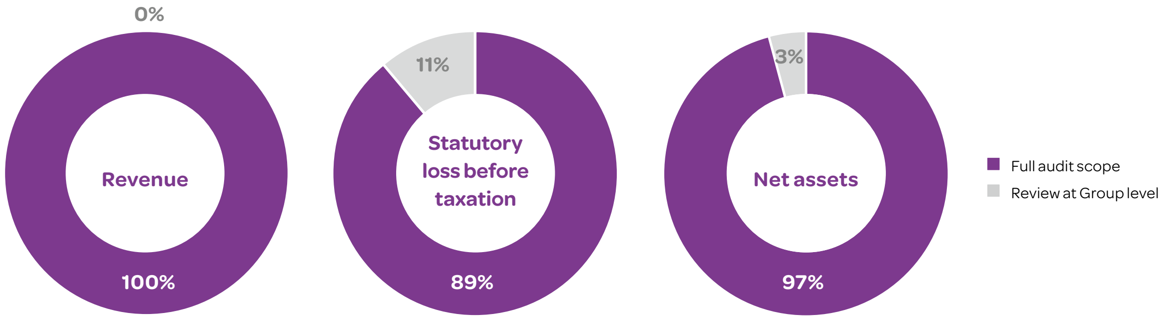
We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 50% of group materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered the following factors:

- the quality of the control environment and whether we were able to rely on controls,
- the two guidance downgrades that have been issued in the last 18 months;
- a greater number of significant and higher risks of material misstatement; and
- the significant changes in the group as they focus on simplifying the strategy which has impacted results.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £250,000 (2018: £180,000), 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 and consistent with the prior year, we focused our Group audit scope primarily on the TalkTalk Consumer and TalkTalk Business operating units. Each of these were subject to a full audit which was performed directly by the Group audit team and together they represent over 99% (2018: over 99%) of the Group's total revenues. Specific focused audit work was performed over Group functions, including those covering treasury and taxation. Together this covered 89% of Statutory loss before taxation (2018: Statutory loss before taxation - 87%) and 97% of net assets (2018: 97%). Our audit work at each division was executed at levels of materiality which were lower than Group materiality and ranged from £4.25m to £3.5m (2018: £2.5m to £3.1m).



Other information

We have nothing to report in respect of these matters.

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- *Fair, balanced and understandable* – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- *Audit committee reporting* – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Responsibilities of Directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities
In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit and the audit committee, including obtaining and reviewing supporting documentation, concerning the group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, including tax, valuations, pensions, IT, revenue and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas: management override of controls, revenue recognition, complex supplier arrangements, recognition of capitalised time and the impairment of network assets; and
- obtaining an understanding of the legal and regulatory framework that the group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the group. The key laws and regulations we considered had a direct effect on the financial statements included the UK Companies Act, Listing Rules and tax legislation. In addition, compliance with Ofcom regulation is fundamental to the group's operations.

Audit response to risks identified
As a result of performing the above, we identified management override of controls, complex supplier arrangements and capitalised time and impairment of assets as key audit matters. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with BT Openreach and other large suppliers and also Ofcom; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments and our procedures to address the risks identified within revenue recognition; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Independent auditor's report continued

To the members of TalkTalk Telecom Group PLC

Report on other legal and regulatory requirements

Opinions 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.

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

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 in respect of these matters.

Other matters

Auditor tenure
Following the recommendation of the audit committee, we were appointed by TalkTalk Telecom Group plc in 2002 to audit the financial statements for the year ending 31 March 2002 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 17 years, covering the years ending 31 March 2010 to 31 March 2019.

Consistency of the audit report with the additional report to the audit committee
Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Use of our report

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.

Kate J Houldsworth FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, UK

23 May 2019

Consolidated income statement

For the year ended 31 March 2019

		2019			2018 (restated)[1]		
	Notes	Headline[2] £m	Non-Headline (note 9)[2] £m	Statutory £m	Headline[2] £m	Non-Headline (note 9)[2] £m	Statutory £m
Revenue	2	1,609	23	1,632	1,605	48	1,653
Cost of sales		(759)	(11)	(770)	(774)	(38)	(812)
Gross profit		850	12	862	831	10	841
Operating expenses[2]		(613)	(46)	(659)	(628)	(103)	(731)
EBITDA[3]	9	237	(34)	203	203	(93)	110
Depreciation and amortisation	3	(138)	(8)	(146)	(131)	(12)	(143)
Share of results of joint ventures	14	(10)	–	(10)	(11)	–	(11)
Operating profit/(loss)	3, 9	89	(42)	47	61	(105)	(44)
Net finance costs	6	(52)	–	(52)	(46)	(10)	(56)
Profit/(loss) before taxation	9	37	(42)	(5)	15	(115)	(100)
Taxation	7, 9	32	5	37	(22)	22	–
Profit/(loss) for the year attributable to the owners of the Company	9	69	(37)	32	(7)	(93)	(100)
Earnings/(loss) per share							
Basic (p)	10			2.8			(10.3)
Diluted (p)	10			2.8			(10.1)

The accompanying notes 1 to 28 are an integral part of this consolidated income statement. All amounts relate to continuing operations.

(1) See note 1 for further details on the restatement of comparative information due to the retrospective application of IFRS 15 and IFRS 9.

(2) Operating expenses includes £11m (2018: £20m) of credit losses on financial assets. For further details see note 17.

(3) See note 1 for an explanation of Alternative Performance Measures (APMs) and non-Headline items. See note 9 for a reconciliation of Headline information to Statutory information.

Consolidated statement of comprehensive income

For the year ended 31 March 2019

	2019 £m	2018 (restated)[1] £m
Profit/(loss) for the year attributable to the owners of the Company	32	(100)
Other comprehensive income		
Items that may be reclassified to profit or loss:		
Gain on a hedge of a financial instrument	–	2
Gain on a hedge reclassified to income statement	–	6
Total other comprehensive income	–	8
Total comprehensive income/(expense) attributable to the owners of the Company	32	(92)

The accompanying notes 1 to 28 are an integral part of this consolidated statement of comprehensive income. All amounts relate to continuing operations.

(1) See note 1 for further details on the restatement of comparative information due to the retrospective application of IFRS 15 and IFRS 9.

Consolidated balance sheet

Company number: 07105891
As at 31 March 2019

	Notes	2019 £m	2018 (restated)[1,2] £m
Non-current assets			
Goodwill	11	495	495
Other intangible assets	11	235	251
Property, plant and equipment	12	199	234
Investment in joint venture	14	2	3
Trade and other receivables	17	2	2
Contract costs	18	308	228
Deferred tax assets	7	118	81
		1,359	1,294
Current assets			
Inventories	16	34	29
Trade and other receivables	17	160	246
Contract assets	18	39	20
Cash and cash equivalents	20	67	43
		300	338
Assets classified as held for sale[2]	15	47	34
Total assets		1,706	1,666
Current liabilities			
Trade and other payables	19	(491)	(480)
Contract liabilities	18	(20)	(16)
Borrowings	20	(10)	(96)
Provisions	22	(35)	(31)
		(556)	(623)
Liabilities classified as held for sale	15	(7)	(6)
Non-current liabilities			
Trade and other payables	19	(5)	(6)
Borrowings	20	(838)	(723)
Provisions	22	(12)	(28)
		(855)	(757)
Total liabilities		(1,418)	(1,386)
Net assets		288	280
Equity			
Share capital	23	1	1
Share premium	24	684	684
Translation reserve	24	(64)	(64)
Demerger reserve	24	(513)	(513)
Retained earnings and other reserves	24	180	172
Total equity		288	280

(1) See note 1 for further details on the restatement of comparative information due to the retrospective application of IFRS 15 and IFRS 9.
(2) See note 1 for further details on the restatement of the assets classified as held for sale.

The accompanying notes 1 to 28 are an integral part of this consolidated balance sheet.

These financial statements were approved and authorised for issue by the Board on 23 May 2019. They were signed on its behalf by:

T Harrison
Chief Executive Officer

K Ferry
Chief Financial Officer

Consolidated cash flow statement

For the year ended 31 March 2019

	Notes	2019 £m	2018 (restated)[1] £m
Operating activities			
Operating profit/(loss)		47	(44)
Share-based payments	4	3	8
Depreciation of property, plant and equipment	12	71	72
Amortisation of other operating intangible assets	11	67	62
Amortisation of acquisition intangibles	11	8	9
Share of losses of joint ventures	14	10	11
Impairment of other operating intangible assets	11	–	2
Reversal of cost of inventories previously written down		(2)	(1)
Gain on disposal of customer base		(2)	–
Gain on disposal of joint venture	14	–	(1)
(Decrease)/increase in provisions		(12)	23
Operating cash flows before movements in working capital		190	141
Decrease in trade and other receivables		76	39
Increase in contract assets		(99)	(8)
(Increase)/decrease in inventory		(3)	1
Increase/(decrease) in trade and other payables		25	(38)
(Decrease)/increase in contract liabilities		4	1
Cash flows generated from operating activities		193	136
Income taxes paid		(1)	–
Net cash flows generated from operating activities		192	136
Investing activities			
Acquisition of subsidiaries and joint ventures, net of cash acquired		(9)	(8)
Disposal of customer bases		2	–
Investment in intangible assets		(67)	(87)
Investment in property, plant and equipment		(37)	(38)
Cash flows used in investing activities		(111)	(133)
Financing activities			
Settlement of Group ESOT shares		1	1
Issue of shares		–	201
Repayments of obligations under finance leases		(9)	(4)
Repayments of borrowings	25	(27)	(391)
Drawdown of borrowings	25	55	309
Interest paid		(43)	(42)
Other finance costs		(6)	(13)
Equity dividends paid	8	(28)	(71)
Cash flows used in financing activities		(57)	(10)
Net increase/(decrease) in cash and cash equivalents		24	(7)
Cash and cash equivalents at the start of the year		43	50
Cash and cash equivalents at the end of the year	20	67	43

(1) See note 1 for further details on the restatement of comparative information due to the retrospective application of IFRS 15 and IFRS 9.

The accompanying notes 1 to 28 are an integral part of this consolidated cash flow statement.

Consolidated statement of changes in equity

For the year ended 31 March 2019

	Notes	Share capital £m	Share premium £m	Translation reserve £m	Demerger reserve £m	Retained earnings and other reserves £m	Total equity £m
At 1 April 2017 as previously reported		1	684	(64)	(513)	32	140
Change in accounting policies in respect of IFRS 9 and IFRS 15 (net of tax)	1	–	–	–	–	89	89
At 1 April 2017 (restated)[1]		1	684	(64)	(513)	121	229
Loss for the year (restated)		–	–	–	–	(100)	(100)
Other comprehensive income							
Items that may be reclassified to profit or loss:							
Gain on hedge of a financial instrument		–	–	–	–	2	2
Gain on hedge of a financial instrument		–	–	–	–	6	6
Total other comprehensive income		–	–	–	–	8	8
Total comprehensive expense (restated)		–	–	–	–	(92)	(92)
Transactions with the owners of the Company							
Share-based payments	4	–	–	–	–	12	12
Settlement of Group ESOT shares		–	–	–	–	1	1
Issue of shares	23	–	–	–	–	201	201
Equity dividends	8	–	–	–	–	(71)	(71)
Total transactions with the owners of the Company		–	–	–	–	143	143
At 31 March 2018 (restated)		1	684	(64)	(513)	172	280
Profit for the year		–	–	–	–	32	32
Total comprehensive income		–	–	–	–	32	32
Transactions with the owners of the Company							
Share-based payments	4	–	–	–	–	3	3
Settlement of Group ESOT shares		–	–	–	–	1	1
Equity dividends	8	–	–	–	–	(28)	(28)
Total transactions with the owners of the Company		–	–	–	–	(24)	(24)
At 31 March 2019		1	684	(64)	(513)	180	288

(1) See note 1 for further details on the restatement of comparative information due to the retrospective application of IFRS 15 and IFRS 9.

The accompanying notes 1 to 28 are an integral part of this consolidated statement of changes in equity.

Notes to the consolidated financial statements

1. Accounting policies and basis of preparation

Basis of preparation

TalkTalk Telecom Group PLC is incorporated and domiciled in England and Wales under the Companies Act 2006. The Company's shares are listed on the London Stock Exchange and is a public limited company. The registered office of the Company is 11 Evesham Street, London, W11 4AR. The principal activities of the Group are the provision of telecommunication services to Consumer and B2B customers.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). The consolidated financial statements of the Group have also been prepared in accordance with 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 consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments and investments. The consolidated 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.

Management has reviewed the potential impact of Brexit on the Group financial statements and has concluded that the impact will be limited, this includes any impact on the IFRS 9 expected loss model, further details have been included in note 17 to the consolidated financial statements. Management also note no changes to this assessment from a post balance sheet event perspective.

The consolidated financial statement comparatives have been restated to reflect the retrospective application of IFRS 9 and 15. In addition, following the preparation of the unaudited condensed financial statements for the period ended 30 September 2018 and the conclusion of the IFRS 15 transition project, management have finalised the impact of IFRS 15. This has given rise to changes to the period of contract cost deferral and the recognition of stock owned by a third party. Further details are included in relation to the retrospective application of IFRS 15 within this note to the consolidated financial statements on pages 93 to 96.

During the year ended 31 March 2019, the Group has restated the assets classified as held for sale at 31 March 2018 from £13m to £34m. This has arisen as non-current assets of £8m and inventory of £13m were identified as forming part of the FibreNation disposal group and therefore more appropriately classified as held for sale under IFRS 5. The Group has also restated the liabilities classified as held for sale at 31 March 2018 from £11m to £6m to more appropriately classify liabilities within the Group. The impact has been to reduce non-current assets from £1,095m by £13m and reduce current assets from £434m by £8m. Current liabilities has decreased from £568m by £5m (before the impact of IFRS 9 and IFRS 15 restatements). Further details on assets held for sale is presented in note 15.

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 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.

Alternative performance measures (APMs)

The consolidated financial statements include APMs as well as Statutory measures. These APMs used by the Group are not defined terms under IFRS and may therefore not be comparable with similarly titled measures reported by other companies. They are not intended to be a substitute for, or superior to, GAAP measures. All APMs relate to the current year results and comparative periods where provided. This presentation is also consistent with the way that financial performance is measured by management, reported to the Board, the basis of financial measures for senior management's compensation schemes and provides supplementary information that assists the user in understanding the financial performance, position and trends of the Group. The APMs were the same as those that applied to the audited consolidated financial statements for the year ended 31 March 2018. See note 9 for reconciliation of Headline information to Statutory information.

During the prior year, the Group refined its policy in relation to non-Headline items so as to streamline its application, simplify the Group's reporting and ensure consistency between Headline and non-Headline performance. In particular, the Board considers that the recognition of service level related credits should be included in Headline performance, consistent with the recognition of the associated costs for which the Group is being compensated. The MVNO operating loss, being in relation to a business being exited, has also been recognised within non-Headline results. There was no impact on the Statutory performance of the Group or the Group's consolidated balance sheet. See page 139 for listing and definitions of APMs.

Performance is measured based on Headline EBITDA, defined as operating profit or loss before non-Headline items, as presented to the CODM. EBITDA is defined as the operating profit or loss before depreciation, amortisation, share of results of joint ventures, net finance costs and taxation.

1. Accounting policies and basis of preparation continued

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 performance and market position are set out in the Chief Executive's Review. Our financial position, cash and borrowing facilities are described within the Chief Financial Officer's Statement, together with further detail on other sources of finance including receivables financing and commitments given in the notes to the consolidated financial statements.

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

We have £1,115m of committed credit facilities and as at 31 March 2019 the headroom on these facilities was £306m. Our forecasts and projections, after assuming a soft/no Brexit, and taking into account reasonably possible changes in trading performance indicate that there is sufficient cash and covenant headroom on our facilities. In considering reasonably possible sensitivities, we have identified feasible mitigating actions and cash management activities together with the use of additional, currently uncommitted, facilities within our control to ensure covenants are not breached. 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 preparing the financial statements.

The UK Corporate Governance Code requires the Directors to assess and report on the prospects of the Group over a longer period. This longer term viability statement is set out within the Annual Report on page 48.

Accounting policies

The Group's principal accounting policies, which relate to the consolidated 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 presented net of VAT and other sales related taxes. Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a good or service to a customer.

Nature of goods and services

The Group's revenues are earned from the provision of fixed connectivity services. The typical length of a contract for bundled packages is 12–36 months. Contracts often include multiple goods and services, which are generally capable of being separately identifiable or distinct and accounted for as separate performance obligations.

For bundled packages, including monthly service fees and activation fees from contract subscribers, the Group accounts for revenue from individual goods and services separately if they are distinct – i.e. if a good or service can be distinguished from other components of the bundled package and if a customer can benefit from it separately. The consideration for the bundled packages comprises cash flows from customers, expected to be received in relation to goods and services delivered over the contract term. The consideration (transaction price) is net of any discounts and credits and is allocated between separate performance obligations in a bundle based on their relative stand-alone selling prices.

The Group identifies the following primary performance obligations: supply of connectivity services (broadband, Fibre, ethernet, TV, etc.) and the supply of hardware (routers, set top boxes, etc.). As a practical expedient different connectivity services are typically applied concurrently; as a result, they are accounted for as a single performance obligation.

Stand-alone selling prices for connectivity services and hardware are based on individual pricing where such observable prices exist. Otherwise such prices are defined in reference to their assessed market value or a cost plus a margin approach.

The timing of satisfaction of performance obligations is summarised below:

- Hardware – at a point in time, typically at contract inception when control of the hardware is transferred to the customer. This usually occurs when the customer signs a new contract, the connectivity service is due to commence and the hardware is sent to the customer.
- Services/subscriptions – over time as the services are provided, reflecting the customer simultaneously receiving and consuming the connectivity service. Revenue is recognised on a straight line basis over the contract term based on the nature of the connectivity services. The services are billed and paid for on a monthly basis.

Additional services, such as usage (including TV content), result in revenue recognition only once the customer utilises the service.

The probability of collectability is assessed across the Group and where collectability is identified not to be probable, revenue is recognised only when the cash is received from the customer.

Notes to the consolidated financial statements continued

1. Accounting policies and basis of preparation continued

Contract assets and liabilities

The recognition of revenue as described above results in the recognition of contract assets (e.g. where more revenue has been recognised upfront in relation to hardware compared to actual cash consideration received for the hardware) and contract liabilities (e.g. where connection revenues received from the customer upfront are deferred over the contract term). Each contract asset and liability will unwind over the related contract term. Both contract assets and liabilities are shown separately in the consolidated financial statements. Contract assets include some accrued income which is assessed for impairment based on lifetime expected credit losses (ECL), in accordance with IFRS 9.

Contract costs

Contract costs eligible for capitalisation as incremental costs of obtaining a contract comprise commission costs directly attributable to obtaining contracts or pools of contracts. Contract costs are capitalised in the month of service activation if the Group expects to recover those costs. Contract costs comprise sales commissions paid to retail partners and to sales agents which can be directly attributed to an acquired or retained contract. In all other cases subscriber acquisition and retention costs are expensed when incurred.

Costs directly incurred in fulfilling a contract with a customer, which largely comprise the cost of connecting a customer to the Group's network so that the connectivity services can be provided are recognised as an asset.

Capitalised commission and connection costs are amortised on a systematic basis that is consistent with the transfer to the customer of the services when the related revenues are recognised. The Group has determined that average customer tenure (50–60 months for broadband and 120 months for Ethernet) is an appropriate period to amortise cost to obtain and fulfil a contract. This reflects the fact that incremental commissions are typically not paid on customer renewals or extensions. Likewise, connection costs support a customer over their tenure and are not required again because a customer renews or goes beyond their minimum contract term. These costs are accounted for on a portfolio basis, and are reviewed for impairment, taking into account the Group's customer life-time value analysis.

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 obtained. Unhedged transactions are recorded at the exchange rate on the date of the transaction. Hedge accounting as defined by IFRS 9 'Financial Instruments' has been applied. The gain or loss is recognised 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	
	2019	2018	**2019**	2018
Euro	**1.13**	1.14	**1.16**	1.14
United States Dollar	**1.31**	1.34	**1.30**	1.40

Leases

The Group as lessee

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below).

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

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.

1. Accounting policies and basis of preparation continued

Financial instruments

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

Classification and measurement of financial assets and liabilities

Classification of financial assets is generally based on the business model in which the financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at amortised cost if it is held with the objective of collecting the contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. All other financial assets are measured at fair value through other comprehensive income or profit or loss.

Financial assets at amortised cost

Trade and other receivables

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as financial assets measured at amortised cost.

Under the IFRS 9 'expected credit loss' model, a credit event (or impairment 'trigger') no longer needs to occur before credit losses are recognised. The Group analysed the risk profile of trade receivables based on past experience and an analysis of the receivable's current financial position, potential for a default event to occur, adjusted for specific factors, general economic conditions of the industry in which the receivables operate and assessment of both the current and the forecast direction of conditions at the reporting date. A default event is considered to occur when information is obtained that indicates that a receivable is unlikely to pay the Group.

Credit risk is regularly reviewed by management to ensure the expected credit loss (ECL) model is being appropriately applied.

Interest income is recognised by applying the effective interest rate, except for short term receivables when the recognition of interest would be immaterial.

Amounts receivable from suppliers (included within trade and other receivables)

Occasionally, the Group enters into agreements with certain suppliers for rebates on the cost of goods purchased. Judgement is applied by management in these circumstances to ensure that the rebate is recognised over the appropriate financial year.

Income from suppliers in the year related to renegotiated contract rates and compensation received under existing contracts and where these amounts relate to historical transactions, negotiated in the current year, they are recognised in the current year income statement. Where they relate to future transactions, negotiated in the current year, they are recognised in accordance with the contractual terms.

Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand and bank deposits.

Financial liabilities at amortised cost

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 are generally classified as subsequently measured at amortised cost. Financial liabilities not measured at amortised cost include, derivatives held for trading and other financial liabilities designated as such at initial recognition, which are measured at fair value through other comprehensive income. Financial liabilities are derecognised when they are extinguished.

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.

Borrowings

Borrowings represent committed and uncommitted bank loans, Senior Notes, a receivables purchase agreement and bank overdrafts. These are initially measured at net proceeds 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 year in which they are incurred.

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

Financial assets and liabilities at fair value through other comprehensive income

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 within the assets of the Group.

Notes to the consolidated financial statements continued

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

The Group's hedging policy is not affected by the adoption of IFRS 9.

Cash flow hedges

The Group may use derivative instruments (primarily interest rate swaps) to manage its interest rate risk. The Group designates these as cash flow hedges. The portion of the gain or loss on the hedging instrument determined to be an effective hedge is recognised in other comprehensive income. These amounts have been reclassified to profit or loss in accordance with IFRS 9. Any remaining gain or loss on the hedging instrument is hedge ineffectiveness that is recognised in profit or loss.

Measurement

The financial instruments included on the Group 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.
- 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 principal items in the financial statements involving critical accounting judgements are as follows:

Forecast assumptions used in the going concern and viability statement assessments

When the Directors review forecast assumptions used in the going concern assessment, they apply judgement on what are considered reasonably possible changes in trading performance, how likely sources of finance will be renewed and whether certain future commitments will crystallise. In relation to the viability statement, the Directors take into account the Group's current financial position, and give judgement on which hypothetical scenarios linked to the Group's principal risks would be necessarily severe for the purpose of creating outcomes that have the ability to threaten the viability of the Group and consequently give rise to the need for mitigating actions. These judgements are subjective in nature, but such considerations are necessary for the Directors to confirm the viability of the Group and the treatment of it as a going concern.

Classification of items as non-Headline

Headline measures represent trading results before non-Headline items which are defined in note 9. The Directors believe that presentation of the Group's results in this way is relevant to assist the user in understanding the financial performance, position and trends of the Group, as non-Headline items are identified by virtue of their size, nature and/or incidence. This presentation is consistent with the way that financial performance is measured by management, reported to the Board, the basis of financial measures for senior management's compensation schemes and assists in providing supplementary information that allows the user in understanding the underlying trading results. In determining whether an event or transaction is non-Headline, the Directors consider both quantitative and qualitative factors such as the nature of the item and the frequency or predictability of occurrence.

Supplier arrangements

The Group will from time to time enter new or amended supplier arrangements, which due to their nature may require judgement to ensure that associated income and costs are classified and measured appropriately and recognised in the correct period. Such arrangements may include bonuses/commissions received or paid. For amounts paid consideration is given as to whether these are treated as a contract cost and therefore deferred on the balance sheet over customer tenure or instead recognised upfront in the period incurred. For income received a judgement is made as to whether this relates to future or past events and the timing of recognition will reflect this.

1. Accounting policies and basis of preparation continued

The principal items in the financial statements involving critical accounting judgements are as follows: continued

Recognition of revenue

The application of IFRS 15 requires the Group to make critical judgements that affect the determination of the amount and timing of revenue and costs from contracts with customers. These include:

- Contract costs
  Judgement has been exercised in determining contract costs that are appropriate to be capitalised. Most incremental commissions and connection costs in the business clearly meet the requirements; however, other arrangements, such as volume bonuses based on the delivery of a pool of contracts, require greater judgement. These contract costs are amortised over average customer tenure (50–120 months depending on the product and channel) which reflects the fact that incremental commissions are typically not paid on customer renewals and that connection costs support a customer over their tenure not just their initial contract term.
- Collectability
  The probability of collectability is assessed across the Group. Revenue is recognised when the performance obligation is complete. Early termination fees in the Consumer business have a lower recovery rate and on this basis such revenue is not recognised upfront, but rather when the cash is received from the customer.
- Agent vs principal
  Consideration is given to arrangements in the partner channel in the Business division, to assess who is the Group's customer, being either the partner or the end customer. Following consideration of the fact that customer relationship services, pricing decisions and billing to the end customer are provided by the partner, it is assessed that the partner is TalkTalk's customer. Whilst TalkTalk contracts directly with the partner, the IFRS 15 contract is assessed to be at the individual circuit and therefore measured at this level. This reflects the fact that it is at this level that the partner makes its buying decision, the Group accepts the order, each party defines its obligations, the contract terms are defined and the Group provides its services.

The principal items in the financial statements involving key sources of estimation uncertainty are:

Recognition of revenue

The application of IFRS 15 requires the Group to make certain estimates that affect the determination of the amount and timing of revenue and costs from contracts with customers. These include:

- Contract costs and customer life-time value analysis
  Contract costs are deferred and recognised over the expected duration of the customer relationship. The estimate of the expected average duration of customer relationship is based on customer churn relative to the size of the customer base and is currently determined to be 50–120 months depending on the product and channel. However, such rates are subject to fluctuation and may be impacted by future events such as new product launches, an increase in competition in the market or wider macroeconomic factors. A lower average customer tenure would mean that deferred costs are amortised over a shorter period of time and could result in an impairment of the asset in lower profitability channels. A six-month reduction in customer tenure which is considered a reasonably possible movement would not result in an impairment charge, but deferred costs associated with one channel would then have limited headroom and therefore could be subject to impairment at tenures below this.

New and amended accounting standards that have been issued but are not yet effective

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective and, in some cases, had not yet been adopted by the EU:

- IFRS 3 'Business Combinations'
- IFRS 11 'Joint Arrangements'
- IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'
- IAS 12 'Income Taxes'
- IAS 19 'Employee Benefits'
- IAS 28 'Investments in Associates and Joint Ventures'
- IAS 39 'Financial Instruments: Recognition and Measurement'

These IFRSs are not expected to have a material impact on the Group's consolidate financial position or performance of the Group.

Notes to the consolidated financial statements continued

1. Accounting policies and basis of preparation continued

Application of significant new or amended EU-endorsed accounting standards

IFRS 9

The Group has applied IFRS 9 retrospectively and restated comparatives, to aid comparability of financial performance. The adjustments arising from the adoption of IFRS 9 are reflected in the restated balance sheet as at 31 March 2018 with an opening cumulative effect being recognised in retained earnings as at 1 April 2017.

The application of IFRS 9's impairment requirements at 1 April 2017 and IFRS 15's collectability assessment resulted in a £33m reduction in the Group's retained earnings as at 1 April 2017. A related net deferred tax asset of £5m has also been recognised.

IFRS 9 introduces new requirements for the following areas:

- the classification and measurements of financial assets and financial liabilities;
- impairment of financial assets; and
- general hedge accounting.

Classification and measurement of financial assets and financial liabilities

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the Group's business model for managing financial assets and the contractual cash flow characteristics.

The Group has not designated any debt investments that meet the amortised cost or FVTOCI criteria as measured at fair value through profit or loss (FVTPL).

The Directors of the Company reviewed and assessed the Group's existing financial assets and liabilities based on the facts and circumstances upon transition and concluded that the initial application of IFRS 9 has had no impact on classification and measurement, apart from the impairment of financial assets noted below.

Impairment of financial assets

The only material impact on the consolidated financial statements is in relation to the impairment of trade receivables within financial assets.

IFRS 9 requires an ECL model as opposed to an incurred credit loss model under previous accounting policies (IAS 39 'Financial Instruments: Recognition and Measurement'). The ECL model requires the Group to account for lifetime ECL and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. On this basis, it is no longer necessary for a default event to have occurred before credit losses are recognised. As a consequence of this change, credit losses are recognised earlier than under IAS 39.

IFRS 9 requires the Group to assess the risk profile of its trade receivables. The Group analysed the risk profile of trade receivables based on past experience and an analysis of the receivable's current financial position, adjusted for specific factors, general economic conditions of the industry in which the receivables operate and assessment of both the current and the forecast direction of conditions at the reporting date. The Group has performed the calculation of ECL separately for Consumer and Business customers and rebutted the assumption under IFRS 9 that all debts over 90 days should have a credit allowance.

General hedge accounting

In accordance with IFRS 9's transition provisions for hedge accounting, the Group has applied the IFRS 9 hedge accounting requirements retrospectively from the date of initial application on 1 April 2017. The Group's qualifying hedging relationships in place as at 1 January 2018 also qualified for hedge accounting in accordance with IFRS 9 and were therefore regarded as continuing hedging relationships. No rebalancing of any of the hedging relationships was necessary on 1 April 2017. As the critical terms of the hedging instruments match those of their corresponding hedged items, all hedging relationships continue to be effective under IFRS 9's effectiveness assessment requirements. The Group has also not designated any hedging relationships under IFRS 9 that would not have met the qualifying hedge accounting criteria under IAS 39.

1. Accounting policies and basis of preparation continued

Application of significant new or amended EU-endorsed accounting standards continued

IFRS 15

Background and adoption

IFRS 15 'Revenue from Contracts with Customers' impacts the amount, timing and recognition of revenue and certain associated costs, as well as related disclosures. The Group has implemented IFRS 15 in the current year and has applied the fully retrospective approach meaning the comparative year has been restated and there has been a one-off cumulative credit to retained earnings relating to transition at 1 April 2017 of £144m and the recognition of a £27m deferred tax liability.

IFRS 15 requires the Group to apportion revenue earned from contracts with customers to performance obligations the Group has with our customers, on the basis of stand-alone selling prices. This is done through applying a five-step model defined in the standard:

1. Identify the contract with the customer.
2. Identify the performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations in the contract.
5. Recognise revenue when (or as) the entity satisfies a performance obligation.

In addition to the changes to revenue recognition described above, IFRS 15 also provides guidance in relation to certain costs incurred obtaining a contract or fulfilling the contract with the customer, requiring such costs to be deferred over time.

The Group put in place a cross-functional team to assess the impact of IFRS 15, determine appropriate accounting policies, and implement appropriate systems and processes so as to be able to calculate opening adjustments and ongoing IFRS 15 compliant financial records. Assessment was also given to other matters such as implications for employee remuneration, tax, forecasting and covenant compliance.

Key impacts and changes in accounting policy

The key effects of the application of IFRS 15 are as follows:

- Revenue continues to be recognised upfront in relation to hardware provided to the customer (routers, set top boxes, etc.); however, whilst previously such revenue was recognised only to the extent the customer contributed to this hardware, under IFRS 15 revenue is allocated to the hardware based on the relative stand-alone selling prices of each of the performance obligations of the contract regardless of their contract pricing. Stand-alone selling prices are determined by reference to the price at which the Group sells the individual goods or services stand-alone, their assessed market value and a cost plus methodology. As the Group often provides hardware free or at a discounted price to customers, this results in more revenue being recognised at the commencement of a contract when the hardware is provided, and less being recognised over the remainder of the contract as the service is provided.
- Connection revenues, being fees charged to the customer to connect them to the Group's network, were previously recognised at the point the connection activity has been completed at the commencement of the contract. Under IFRS 15 such activities are typically not a performance obligation and therefore the revenue forms part of the overall transaction price being allocated to each of the actual performance obligations of the contract based on their relative stand-alone prices.
- Certain discounts and credits were previously deferred and amortised over the minimum customer contract period and where such a minimum period did not exist over the average customer tenure. As these discounts are not related to performance obligations under IFRS 15 they form part of the total transaction price and are allocated to each of the performance obligations in line with their relative stand-alone selling prices.
- Incremental sales commission costs directly attributable to obtaining contracts or pools of contracts and directly attributable costs associated with fulfilling the customer contracts (largely comprising the costs of connecting a customer) were previously expensed as incurred. These costs are now recognised as an asset and amortised over the period in which the corresponding benefit is received, which is assessed to be average customer tenure (50–120 months). Average customer tenure is based on customer behaviour, with specific reference to their propensity to churn. Commission costs not incremental to new contracts continue to be expensed as incurred.
- A collectability assessment has been performed in relation to all streams of revenue. Where recoverability has been found not to be probable, which is the case in regard to certain early termination fees, the revenue is recognised when received rather than following the revenue recognition policies stated above.
- The Group previously had certain arrangements whereby it would repurchase stock owned by a third party, where this inventory had been previously sold by the Group. IFRS 15 provides prescriptive guidance on such repurchase arrangements and consequently this is now treated as a financing arrangement. Therefore rather than derecognising the stock when sold to the third party as was previously the treatment, the stock continues to be recognised by the Group and a corresponding debt balance recognised. This stock has been recognised applying the Group's stock provision policy set out in note 16.

Notes to the consolidated financial statements continued

1. Accounting policies and basis of preparation continued

Summary of financial impact of retrospective adoption of IFRS 15 and IFRS 9 on consolidated financial statements

The following tables summarise the financial impacts of adopting IFRS 15 and IFRS 9 on the Group's consolidated financial statements:

Consolidated income statement and other comprehensive income

	2018 Headline			2018 Non-Headline			2018 Statutory		
	Previously reported £m	IFRS 15 & 9 adjustments £m	As restated £m	Previously reported £m	IFRS 15 & 9 adjustments £m	As restated £m	Previously reported £m	IFRS 15 & 9 adjustments £m	As restated £m
Revenue	1,658	(53)	1,605	50	(2)	48	1,708	(55)	1,653
Cost of sales	(774)	–	(774)	(38)	–	(38)	(812)	–	(812)
Gross profit	884	(53)	831	12	(2)	10	896	(55)	841
Operating expenses	(651)	23	(628)	(109)	6	(103)	(760)	29	(731)
EBITDA	233	(30)	203	(97)	4	(93)	136	(26)	110
Depreciation and amortisation	(131)	–	(131)	(12)	–	(12)	(143)	–	(143)
Share of results of joint ventures	(11)	–	(11)	–	–	–	(11)	–	(11)
Operating profit/(loss)	91	(30)	61	(109)	4	(105)	(18)	(26)	(44)
Net finance costs	(45)	(1)	(46)	(10)	–	(10)	(55)	(1)	(56)
Profit/(loss) before taxation	46	(31)	15	(119)	4	(115)	(73)	(27)	(100)
Taxation	(28)	6	(22)	22	–	22	(6)	6	–
Loss for the period attributable to the owners of the Company	18	(25)	(7)	(97)	4	(93)	(79)	(21)	(100)
Total comprehensive expense							(71)	(21)	(92)

Earnings/(loss) per share

	2018		
	Previously reported £m	IFRS 15 & 9 adjustments £m	As restated £m
Headline earnings/(losses)	18	(25)	(7)
Statutory loss	(79)	(21)	(100)
Weighted average number of shares (millions)			
Shares in issue	979	–	979
Less weighted average holdings by Group ESOT	(4)	–	(4)
For basic EPS	975	–	975
Dilutive effect of share options	12	–	12
For diluted EPS	987	–	987

	Previously reported £m	IFRS 15 & 9 adjustments £m	As restated £m
Basic earnings/(loss) per ordinary share			
Headline	1.8	(2.5)	(0.7)
Statutory	(8.1)	(2.2)	(10.3)

	Previously reported £m	IFRS 15 & 9 adjustments £m	As restated £m
Diluted earnings/(loss) per ordinary share			
Headline	1.8	(2.5)	(0.7)
Statutory	(8.0)	(2.1)	(10.1)

Summary of financial impact of retrospective adoption of IFRS 15 and IFRS 9 on consolidated financial statements continued

Consolidated balance sheet

	2018 (restated)		
	Previously reported (re-presented)[1] £m	IFRS 15 & 9 adjustments £m	As restated £m
Non-current assets			
Goodwill	495	–	495
Other intangible assets	251	–	251
Property, plant and equipment	234	–	234
Investment in joint venture	3	–	3
Trade and other receivables	2	–	2
Contract costs	–	228	228
Deferred tax assets	97	(16)	81
	1,082	212	1,294
Current assets			
Inventories	22	7	29
Trade and other receivables	361	(115)	246
Contract assets	–	20	20
Cash and cash equivalents	43	–	43
	426	(88)	338
Assets classified as held for sale[1]	34	–	34
Total assets	1,542	124	1,666
Current liabilities			
Trade and other payables	(467)	(13)	(480)
Contract liabilities	–	(16)	(16)
Borrowings	(75)	(21)	(96)
Provisions	(31)	–	(31)
	(573)	(50)	(623)
Liabilities classified as held for sale	(6)	–	(6)
Non-current liabilities			
Trade and other payables	–	(6)	(6)
Borrowings	(723)	–	(723)
Provisions	(28)	–	(28)
	(751)	(6)	(757)
Total liabilities	(1,330)	(56)	(1,386)
Net assets	212	68	280
Equity			
Share capital	1	–	1
Share premium	684	–	684
Translation reserve	(64)	–	(64)
Demerger reserve	(513)	–	(513)
Retained earnings and other reserves	104	68	172
Total equity	212	68	280

(1) The Group has re-presented the net assets classified as held for sale as at 31 March 2018 to £28m from £2m to include additional non-current assets of £8m and inventory of £13m and a reduction in current liabilities of £5m, reflecting those assets and liabilities that qualify as held for sale under IFRS 5.

Notes to the consolidated financial statements continued

1. Accounting policies and basis of preparation continued

Summary of financial impact of retrospective adoption of IFRS 15 and IFRS 9 on consolidated financial statements continued

Consolidated cash flow statement

	2018 (restated)		
Impact on cash generated from operations:	Previously reported £m	IFRS 15 & 9 adjustments £m	As restated £m
Operating activities			
Operating loss	(18)	(26)	(44)
Share-based payments	8	–	8
Depreciation of property, plant and equipment	72	–	72
Amortisation of other operating intangible assets	62	–	62
Amortisation of acquisition intangibles	9	–	9
Share of losses of joint ventures	11	–	11
Impairment of other operating intangible assets	2	–	2
Reversal of cost of inventories previously written down	–	(1)	(1)
Gain on disposal of joint venture	(1)	–	(1)
Increase in provisions	23	–	23
Operating cash flows before movements in working capital	168	(27)	141
Decrease in trade and other receivables	12	27	39
Increase in contract assets	–	(8)	(8)
(Increase)/decrease in inventory	(17)	18	1
Decrease in trade and other payables	(45)	7	(38)
Increase in contract liabilities	–	1	1
Cash generated from operations	118	18	136

Future accounting developments

At the date of authorisation of these consolidated financial statements, IFRS 16 has not been applied. IFRS 16 was in issue, but not yet effective.

The Directors expect that the following standard will have an impact on the consolidated financial statements of the Group in future years:

IFRS 16

Transition approach

The Group will adopt this standard for the year ending 31 March 2020 under a modified retrospective approach. The Group has a variety of operating leases and certain finance leases already recognised within the Group financial statements. The accounting for finance leases remains materially unchanged between IAS 17 and IFRS 16. However, the accounting for operating leases in particular will change when IFRS 16 is implemented.

Structure and status of IFRS 16 implementation project

The Group commenced an implementation project prior to 31 March 2017, whereby management performed a feasibility impact of the proposed standard. This process and initial findings were discussed with the Audit Committee in March 2017 following consultation with advisers and the Group's auditor.

Following this feasibility review, management has implemented specific governance around the project cumulating in the development of an in-house central depositary platform for leases and the associated relevant data in the Group's network. The platform and its control environment will continue to be developed as the Group transitions to IFRS 16 during the year ending 31 March 2020.

1. Accounting policies and basis of preparation continued

Future accounting developments continued

IFRS 16 continued

Implications of IFRS 16

Following a detailed review by management of the implications of IFRS 16 the following can be noted:

- a number of lease contracts currently disclosed within note 26 to the financial statements, which currently give rise to recurring expenses within operating expenses, will be recognised on the balance sheet as a 'right of use asset' for the year ending 31 March 2020;
- a corresponding lease liability (current and non-current) reflecting the Group's commitment to pay consideration to third parties under these contracts will also be recognised, increasing the Group's net debt although the cash flow profile remains the same for the Group;
- the Group will depreciate the right of use assets through profit and loss over the shorter of the assets' useful lives and the assessed lease term;
- the Group will charge interest on the liability using the rate of interest implicit in the lease or, if the interest rate implicit in the lease cannot be determined, the Group's incremental borrowing rate. Interest will be charged to finance costs; and
- the profile of the overall expense in profit and loss will change as the interest expense will be more front-loaded compared to a straight line operating lease rental expense.

Specifically, for management to conclude on whether a contract contains a lease, the following has been considered:

- whether there is an identified asset that the Group has the right to obtain substantially all the economic benefits;
- whether the Group has the right to direct how and for what purpose the asset is used;
- whether the Group has the right to operate the asset without the supplier having the right to change those operating instructions; and
- whether the Group has designed the asset in a way that predetermines how and for what purpose the asset will be used.

In addition, management has also considered other salient factors in the assessment of the standard such as:

- the length of assessed lease term taking into account the non-cancellable period of the lease including periods covered by an option to extend or an option to terminate if the Group is reasonably certain to exercise either option; and
- the applicability of interest rate implicit in the lease or the Group's incremental borrowing rate.

Following the above assessment, management have concluded that the following items that are currently classified as operating leases (note 26) will be recognised in the financial statements using the new requirements:

- certain property, including offices and data centres;
- the Group's backhaul network, being backhaul circuits;
- the Group's collector ring, being collector circuits;
- elements of the Group's core network;
- all dedicated bandwidth Fibres we rent from third parties;
- the Group's interconnect network, being primarily ISI circuits and ducts;
- IT equipment leases, including printers; and
- motor vehicles.

Key IFRS 16 judgements

A high volume of transactions will be impacted by IFRS 16 and material judgements will be required in identifying and accounting for leases. The most significant judgements in applying IFRS 16 relate to the identification of leases and the determination of lease term, particularly in relation to high volume network leases. In identifying which arrangements contain a lease, management have concluded that the following arrangements will be out of the scope of IFRS 16 based upon the Group's specific network circumstances:

- the footprint the Group rents from BTOR in the unbundled exchanges and in co-location data centres, as this is not considered to be an identifiable asset that the Group has the right to direct the use of;
- the copper and Fibre lines the Group rents in the 'last mile', comprising copper between the exchange and customer/business premise for MPF and SMPF customers, and a combination of copper and Fibre for our FTTC customers, as the Group does not have the ability to control or direct the use of the equipment in full as stipulated within IFRS 16; and
- the determination of the lease term for high volume network leases has been made using a portfolio approach, for which the portfolio lease term has been determined as five years. This determination has been made based on the best available evidence of historical average use of such assets, taking into account expectations of future usage. The Group will review its portfolio term on an annualised basis. The potential impact on transition of adopting a four or six-year lease term would decrease or increase the lease liability respectively with a corresponding similar decrease or increase in the right of use asset.

Notes to the consolidated financial statements continued

1. Accounting policies and basis of preparation continued

Future accounting developments continued

IFRS 16 continued

Exemptions and practical expedients to be applied and taken

Management has reviewed available exemptions contained within IFRS 16 and concluded that tie cables, being the tie pairs the Group rents from BTOR in the unbundled exchanges, and laptops will fall under the low value asset exemption. The Group therefore intends to utilise this exemption for these assets.

Management has concluded that the following areas give rise to practical expedients which will be applied:

- The Group plans to exclude directly attributable initial costs from the measurement of the right of use asset on transition. The Group will therefore apply transition provisions in relation to previously capitalised connection costs and write off these costs through opening reserves. Future connection costs after the date of transition as will be included within the right of use asset.
- The Group plans to assess if leases are onerous under IAS 37 immediately before transition opposed to performing an impairment review under IAS 36.
- The Group will apply on a lease by lease basis the short term lease exemption under IFRS 16 for those leases with less than twelve months remaining at the date of transition.

2. Segmental reporting

IFRS 8 'Operating Segments' requires the segmental information presented in the financial statements to be that used by the Chief Operating Decision Maker (CODM) to evaluate the performance of the business and decide how to allocate resources. The Group has identified the Board as its CODM. 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 reportable operating segment with all trading operations based in the United Kingdom.

	2019 £m	2018 (restated) £m
Statutory revenue	1,632	1,653
Less MVNO revenue	(23)	(48)
Headline revenue[1]	1,609	1,605

	2019 £m	2018 (restated) £m
Headline EBITDA[1]	237	203
Depreciation of property, plant and equipment	(71)	(69)
Amortisation of operating intangibles	(67)	(62)
Share of results of joint ventures	(10)	(11)
Non-Headline items – gross profit	12	10
Non-Headline items – operating expenses	(46)	(103)
Non-Headline items – depreciation and amortisation	(8)	(12)
Statutory operating profit/(loss) (note 9)	47	(44)

The Group's Headline revenue[1] is split by On-net, Off-net and Corporate products as this information is provided to the Group's CODM.

	2019 £m	2018 (restated) £m
On-net[3]	1,263	1,216
Corporate	333	367
Off-net	13	22
Headline revenue[1,2,3]	1,609	1,605
Less Carrier	(52)	(72)
Less Off-net	(13)	(22)
Headline revenue (excluding Carrier and Off-net)[1]	1,544	1,511

(1) See note 1 for an explanation of alternative performance measures (APMs) and non-Headline items. See note 9 for a reconciliation of Headline information to Statutory information.

(2) See note 1 for further details on the restatement of comparative information due to the retrospective application of IFRS 15 and IFRS 9. See note 9 for a reconciliation of Headline information to Statutory information.

(3) Statutory revenue is equal to Headline revenue plus MVNO revenue added to On-net.

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

2. Segmental reporting continued

Corporate revenue is further analysed as:

	2019 £m	2018 (restated) £m
Carrier	52	72
Data	173	162
Voice	108	133
Corporate revenue	333	367

3. Operating profit/(loss)

Operating profit/(loss) is stated after charging/(crediting):

	2019 £m	2018 (restated) £m
Depreciation of property, plant and equipment (note 12)	71	69
Amortisation of other operating intangible assets (note 11)	67	62
Amortisation of acquisition intangibles (note 11)	8	9
Impairment of operating intangibles (note 11)	–	2
Gain on disposal of joint venture	–	(1)
Expected credit loss recognised on financial assets (note 17)	11	20
Employee costs (note 4)[3]	124	152
Cost of inventories recognised in expenses	56	48
Reversal of cost of inventories previously written down	(2)	(1)
Rentals under operating leases	97	101
Supplier rebates	(5)	(8)
Service level related disputes[1]	(11)	(14)
Auditor's remuneration[2]	1	1
Non-Headline items (note 9)	34	93
Non-Headline items – depreciation (note 9 and note 12)	–	3

(1) Included in operating profit/(loss) are associated increased costs relating to these service level related disputes.

(2) A breakdown of auditor's remuneration is disclosed within the Corporate Governance section on page 51.

(3) Includes a credit adjustment of £2m in relation to share based payments (note 5).

4. Employee costs

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

	2019 Number	2018 Number
Administration	1,625	1,634
Sales and customer management	562	654
	2,187	2,288

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

	2019 £m	2018 £m
Wages and salaries	104	124
Social security costs	12	15
Other pension costs	5	5
	121	144
Share-based payments (note 5)	3	8
	124	152

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.

Notes to the consolidated financial statements continued

4. Employee costs continued

Compensation earned by key management personnel is analysed below. The key management personnel comprised the Board of Directors (see the Directors' Remuneration Report on pages 52 to 67) and other senior management.

	2019 £m	2018 £m
Salaries and fees	4.0	4.9
Performance bonuses	0.8	1.4
Benefits	0.2	0.3
Pension costs	0.2	0.2
Share-based payments	1.1	2.6
Notice payment	–	0.7
Compensation for loss of office	1.2	0.3
	7.5	10.4

The Board of Directors and key management personnel have been advanced loans to enable them to purchase participation shares in TalkTalk Group Limited in relation to SVP share schemes.

5. Share-based payments

Accounting policy

The Group issues equity settled share-based payments to certain employees and Executive Directors. 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 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. During the year, this has given rise to a credit adjustment to Headline EBITDA of £2m.

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.

TalkTalk Telecom Group PLC schemes

TalkTalk Telecom Group PLC schemes are the Shareholder Value Plan (SVP), Discretionary Share Option Plan (DSOP), Save-As-You-Earn (SAYE) Scheme and Share Match Plan (SIP). Where applicable, the ESOT holds shares to settle these plans, based on the latest view of vesting.

In order to aid the user of the financial statements, the dilutive effect on EPS of each scheme has been presented. This has been calculated using an average share price for the financial year of £1.17 (2018: £1.69).

5. Share-based payments continued

Summary of share schemes

Year ended 31 March 2019	IFRS 2 charge £m	Dilutive effect number millions	Options outstanding at the end of the year number millions
TalkTalk Telecom Group PLC schemes			
SVP – participation shares	–	–	–
SVP III – participation shares	1	–	9
DSOP – 2018 grant 2019	–	3	4
DSOP – 2017 grant 2018	–	6	5
DSOP – 2016 grant 2017	1	4	6
DSOP – 2012 grant 2013	–	–	–
SAYE	–	–	8
Share Match Plan	1	–	–
Total TalkTalk Telecom Group PLC schemes	3	13	32

Year ended 31 March 2018	IFRS 2 charge £m	Dilutive effect number millions	Options outstanding at the end of the year number millions
TalkTalk Telecom Group PLC schemes			
SVP – participation shares	–	–	–
SVP II – participation shares	3	–	–
SVP III – participation shares	1	2	–
DSOP – 2017 grant 2018	1	5	11
DSOP – 2016 grant 2017	2	3	9
DSOP – 2015 grant 2016	–	–	1
DSOP – 2012 grant 2013	–	1	1
SAYE	–	–	5
Share Match Plan	1	1	–
Total TalkTalk Telecom Group PLC schemes	8	12	27

(i) SVP

The SVP, SVP II and SVP III are growth plans and not share option plans operating under the Value Enhancement Scheme (VES) rules previously approved by shareholders. The SVP and SVP II enable participants to share in up to 7% of any increase in the value of the Group over an opening market capitalisation of £2,941m based on a five business day average up to 3 June 2014 for SVP and £2,292m based on a five business day average up to 19 May 2016 for SVP II. The awards are subject to the following performance conditions:

- at least a 7% compound annual increase (CAGR) in the market capitalisation of the Group from the above valuation over a three and four-year period; and
- the Group's TSR outperforms the FTSE 250.

The SVP III scheme was awarded during the year ended 31 March 2018. The scheme enables participants to share in up to 7% of any increase in the value of the Group over an opening market capitalisation of £1,648m based on a five business day average up to 21 June 2017. The award is subject to the following performance condition:

- at least a 7% compound annual increase (CAGR) in the market capitalisation of the Group from the above valuation over a three and four-year period.

The performance conditions are measured over an initial performance period from 3 June 2014 (SVP), 19 May 2016 (SVP II) and 21 June 2017 to the date of announcement of the Group's 2017 (SVP), 2019 (SVP II) and 2020 (SVP III) annual results, after which a total of 60% of the options will vest. The remaining options are measured over a performance period from 3 June 2014 (SVP), 19 May 2016 (SVP II) and 21 June 2017 to the date of announcement of the Group's 2018 (SVP), 2020 (SVP II) and 2021 (SVP III) annual results. The pool also has a maximum cap on incremental value equal to 2.75% of the total issued share capital of TalkTalk Telecom Group PLC at the date of each vesting.

There is a holding period on 100% of the PLC shares received in exchange for participation shares on vesting, of twelve months from each vesting date for Executive Directors. All other participants are required to hold 50% of the PLC shares received in exchange for participation shares on vesting for twelve months from each vesting date.

Notes to the consolidated financial statements continued

5. Share-based payments continued

Summary of share schemes continued

(i) SVP continued

The Group advanced loans to participants to enable them to purchase participation shares in TalkTalk Group Limited, the holding company of the Group's operating business. These loans are subject to a commercial rate of interest based on rates set by HMRC.

If an employee leaves the Group before the scheme vests, then the participation shares are forfeited for the value of the outstanding loan plus accrued interest.

During the year ended 31 March 2018 the Group reviewed all of its existing long term incentive plans, including the SVP II, to ensure they are in line with the revised business strategy. It subsequently decided SVP II awarded in 2016, having been set under our old strategy, did not meet the purposes for which those awards were originally granted and cancelled the award. The cancellation of awards gave rise to an non-Headline charge of £3m.

A fair value exercise was conducted for the awards using the Monte Carlo method with the total fair value of the participation shares granted totalling £5m in SVP, £4m in SVP II and £5m in SVP III.

A summary of the schemes is shown below:

	Participation shares	
SVP – 2015 grant	**2019 Number million**	2018 Number million
Outstanding at the beginning of the year	11	15
Forfeited during the year	(11)	(4)
Outstanding at the end of the year	–	11
Exercisable at the end of the year	–	–

	Participation shares	
SVP II – 2016 grant	**2019 Number million**	2018 Number million
Outstanding at the beginning of the year	–	18
Cancelled during the year	–	(12)
Forfeited during the year	–	(6)
Outstanding at the end of the year	–	–
Exercisable at the end of the year	–	–

	Participation shares	
SVP III – 2017 grant	**2019 Number million**	2018 Number million
Outstanding at the beginning of the year	13	–
Granted during the year	–	14
Forfeited during the year	(4)	(1)
Outstanding at the end of the year	9	13
Exercisable at the end of the year	–	–

(ii) DSOP

During the year ended 31 March 2019 the Group granted five million nil-priced share options (the '2018 grant'). These options are subject to the following performance condition:

- at least a 7% compound annual increase (CAGR) in the market capitalisation of the Group from the below valuation over the next three and four-year periods.

The options are measured as follows:

- a performance period from 24 May 2018 to 29 June 2021 vesting on announcement of the Group's 2021 annual results. 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, subject to the DSOP scheme rules.

5. Share-based payments continued

Summary of share schemes continued

(ii) DSOP continued

In 2018 the Group granted twelve million nil-priced share options (the '2017 grant'). These options are subject to the following performance condition:

- at least a 7% compound annual increase (CAGR) in the market capitalisation of the Group from the below valuation over the next three and four year periods.

The options are measured as follows:

- a performance period from 21 June 2017 to 21 June 2020 vesting on announcement of the Group's 2020 annual results. 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, subject to the DSOP scheme rules.

In 2017 (the '2016 grant'), the Group granted eleven million nil-priced share options. These options are subject to the following performance conditions:

- at least a 7% compound annual increase (CAGR) in the market capitalisation of the Group from the below valuation over the next three and four-year periods; and
- at least a 23.8% compound annual increase (CAGR) in the Headline earnings per share (EPS) of the Group from the 2016 Headline EPS; and
- the employee remains in service with the Group for the vesting periods.

The options are measured as follows:

- a performance period from 19 May 2016 to 19 May 2019 vesting on announcement of the Group's 2020 annual results. 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, subject to the DSOP scheme rules.

On the announcement of the Group's 2018 annual results it was determined the 2015 grant did not meet the necessary performance conditions and subsequently all remaining options under the scheme lapsed on this date.

Options are forfeited if an employee leaves the Group before the options vest.

The following table summarises the number of options, weighted average exercise price (WAEP) and valuation assumptions of each grant.

	2018 grant		2017 grant		2016 grant		2015 grant		2012 grant	
Number of share options outstanding	Number million	WAEP £	Number million	WAEP £	Number million	WAEP £	Number million	WAEP £	Number million	WAEP £
Opening balance at 1 April 2017	–	–	–	–	10	–	1	–	1	–
Granted during the year	–	–	12	–	–	–	–	–	–	–
Exercised during the year	–	–	–	–	–	–	–	–	–	–
Lapsed during the year	–	–	–	–	–	–	–	–	–	–
Forfeited during the year	–	–	(1)	–	(1)	–	–	–	–	–
Closing balance at 31 March 2018	–	–	11	–	9	–	1	–	1	–
Granted during the year	5	–	–	–	–	–	–	–	–	–
Exercised during the year	–	–	–	–	–	–	–	–	–	–
Lapsed during the year	(1)	–	(6)	–	(3)	–	(1)	–	(1)	–
Forfeited during the year	–	–	–	–	–	–	–	–	–	–
Closing balance at 31 March 2019	4	–	5	–	6	–	–	–	–	–
Number of share options exercisable										
At 31 March 2018	–	–	–	–	–	–	–	–	1	–
At 31 March 2019	–	–	–	–	–	–	–	–	–	–

Notes to the consolidated financial statements continued

5. Share-based payments continued

Summary of share schemes continued

(ii) DSOP continued

Valuation assumptions	2018 grant	2017 grant	2016 grant	2015 grant	2012 grant
Valuation method	Monte Carlo	Monte Carlo	Monte Carlo	Monte Carlo	Monte Carlo
Share price (p)	105	174	240	309	122
Exercise price (p)	nil	nil	nil	nil	nil
Expected volatility	38.26% and 34.78%	31.95% and 30.94%	28.75%	25.0%	30.0%
Expected exercise (60%/40%)	3 and 4 years	3 and 4 years	3 and 4 years	4 years	3 and 4 years
Risk free rate (3 years/4 years)	0.73% and 0.87%	0.24% and 0.39%	0.44% and 0.64%	1.67%	0.60%
Expected dividend yield	3.14%	4.73%	5.65%	5.60%	3.50%
Fair value of options granted (£m)	1	5	10	1	3
Weighted average remaining contractual life	7.2 years	8.3 years	7.1 years	n/a	n/a

Part of the 2016 grant was valued using the Black Scholes model; the valuation assumptions for these are shown below:

	DSOP – 2016 grant
Valuation method	Black Scholes
Share price (p)	240
Exercise price (p)	nil
Expected volatility	N/A
Expected exercise (years)	3 and 4 years
Risk free rate	N/A
Expected dividend yield	5.65%
Fair value of options granted (£m)	9
Weighted average remaining contractual life	7.6 years

(iii) 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 per month for schemes launched between 2010 and 2013 and between £5 and £500 per month for the 2014 scheme onwards. 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:

2018 grant	93p per share
2017 grant	145p per share
2016 grant	209p per share
2015 grant	307p per share
2014 grant	240p per share
2013 grant	192p per share
2012 grant	123p per share
2011 grant	119p per share
2010 grant	102p per share

	2019		2018	
	Number million	**WAEP £**	Number million	WAEP £
Outstanding at the beginning of the year	5	1.74	3	2.26
Granted during the year	6	0.93	4	1.45
Exercised during the year	–	–	–	–
Forfeited during the year	(3)	1.43	(2)	1.94
Outstanding at the end of the year	8	1.19	5	1.74
Exercisable at the end of the year	–	–	–	–

5. Share-based payments continued
Summary of share schemes continued
(iii) SAYE continued

	SAYE – 2018 grant
Valuation method	Black Scholes
Share price (p)	1.16
Exercise price (p)	0.93
Expected volatility	29%
Expected exercise (years)	3.6
Risk free rate	0.79%
Expected dividend yield	2.24%
Fair value of options granted (£m)	1
Weighted average remaining contractual life	3.2 years

(iv) Share Match Plan
The Group launched its first all-employee, HMRC-approved Share Match Plan (SIP) in June 2014, following the Remuneration Committee approval of this scheme in the year ended 31 March 2014. 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.

Currently the Group provides one matching share for each partnership share purchased by participating employees or Executive Directors. During the year ended 31 March 2018, the impact of the SIP on the Group's results was not material.

6. Net finance costs
Net finance costs are analysed as follows:

	2019 £m	2018 £m
Interest on bank loans and overdrafts	43	36
Facility fees and similar charges	9	10
Finance costs before non- items	52	46
Non-Headline – finance expense (note 9)	–	10
Finance costs	52	56

Included within facility fees and similar charges is £3m of amortised arrangement fees. In the year ended 31 March 2018, the Group refinanced its revolving credit facilities (RCF); arrangement fees of £5m were paid during the year and are being amortised over the life of the RCF.

The average interest rate in the year was 5.0% (2018: 4.6%).

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.

Notes to the consolidated financial statements continued

7. Taxation continued

Tax – income statement

The tax credit comprises:

	2019 £m	2018 (restated) £m
Current tax		
UK corporation tax	–	–
Adjustments in respect of prior years:	–	(5)
Total current tax credit	–	(5)
Deferred tax		
Origination and reversal of timing differences	(12)	(16)
Effect from write off of deferred tax losses	–	15
Recognition of deferred tax losses	(26)	–
Effect of change in tax rate	(3)	4
Adjustments in respect of prior years – deferred tax charge	4	2
Total deferred tax (credit)/charge	(37)	5
Total tax credit	(37)	–

The tax credit on Headline earnings for the year ended 31 March 2019 was £32m (2018 restated: £22m charge), representing an effective tax rate on pre-tax profits of -86% (2018 restated: 147%). The tax credit on Statutory earnings for the year ended 31 March 2019 was £37m (2018 restated: £0m charge), representing an effective tax rate on pre-tax profits of 740% (2018 restated: 0%) 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 19% (2018: 19%) to the loss before taxation are as follows:

	2019 £m	2018 (restated) £m
Loss before taxation	(5)	(100)
Tax at 19% (2018: 19%)	(1)	(19)
Items attracting no tax relief or liability	3	2
Effect of change in tax rate	(3)	4
Adjustments in respect of prior years	4	(3)
Movement in unrecognised tax losses during the year	(40)	16
Total tax credit through income statement	(37)	–

No tax (credit)/charge has been recognised through retained earnings and other reserves.

Tax – balance sheet

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

	Share-based payments £m	Timing differences on capitalised costs £m	Tax losses £m	IFRS 15 £m	IFRS 9 £m	Short term timing differences £m	Total £m
At 1 April 2018 as previously reported	3	43	43	–	–	8	97
Change in accounting policies in respect of IFRS 9 and IFRS 15 (note 1)	–	–	–	(21)	5	–	(16)
At 1 April 2018 (restated)	3	43	43	(21)	5	8	81
(Charge)/credit to the income statement	(1)	(4)	28	21	–	(7)	37
At 31 March 2019	2	39	71	–	5	1	118

7. Taxation continued

Tax – balance sheet continued

	Share-based payments £m	Timing differences on capitalised costs £m	Tax losses £m	IFRS 15 £m	IFRS 9 £m	Short term timing differences £m	Total £m
At 1 April 2017 as previously reported	3	42	60	–	–	3	108
Change in accounting policies in respect of IFRS 9 and IFRS 15	–	–	–	(27)	5	–	(22)
At 1 April 2017 (restated)	3	42	60	(27)	5	3	86
(Charge)/credit to the income statement	–	1	(17)	6	–	5	(5)
At 31 March 2018 (restated)	3	43	43	(21)	5	8	81

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2019 £m	2018 (restated) £m
Deferred tax assets	**118**	102
Deferred tax liabilities	**–**	(21)
Total deferred tax	**118**	81

The prior year has been restated to recognise a deferred tax liability associated with the adoption of IFRS 15 from 1 April 2017. This liability fully unwound in the year ended 31 March 2019. The prior year has been restated to recognise a deferred tax asset associated with the adoption of IFRS 9 from 1 April 2017. This asset will unwind over ten years.

During the current year the Group agreed an updated loss streaming methodology with HM Revenue & Customs and has therefore reassessed its unused tax losses in light of this agreement and its forecast future performance, resulting in the recognition of further deferred tax assets of £40m.

At 31 March 2019, the Group had unused tax losses of £447m (2018: £527m) available for offset against future taxable profits. A deferred tax asset of £71m (2018: £43m) has been recognised in respect of £415m (2018: £254m) of such losses, based on expectations of recovery in the foreseeable future.

No deferred tax asset has been recognised in respect of the remaining £32m (2018: £273m) of losses 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.

Short term timing differences as at 31 March 2019 of £1m relate to costs arising on non-Headline reorganisation programmes. Short term timing differences as at 31 March 2018 of £8m relate to a Corporate Interest Restriction, IFRS 9 deduction and items relating to consolidation.

A deferred tax asset of £1m has not been recognised in respect of R&D Expenditure Credit as there is currently insufficient evidence that there will be suitable taxable profits against which this asset can be recovered.

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:

	2019 £m	2018 £m
Ordinary dividends		
Final dividend for the year ended 31 March 2017 of 5.00p per ordinary share	**–**	47
Interim dividend for the year ended 31 March 2018 of 2.50p per ordinary share	**–**	24
Final dividend for the year ended 31 March 2018 of 1.50p per ordinary share	**17**	–
Interim dividend for the year ended 31 March 2019 of 1.00p per ordinary share	**11**	–
Total ordinary dividends	**28**	71

The proposed final dividend for the year ended 31 March 2019 of 1.50p per ordinary share on 1,143 million ordinary shares (approximately £17m) was approved by the Board on 23 May 2019 and will be recommended to shareholders at the AGM on 17 July 2019. The dividend has not been included as a liability as at 31 March 2019. The payment of this dividend will not have any tax consequences for the Group.

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

Notes to the consolidated financial statements continued

9. Reconciliation of Headline information to Statutory information

Headline information is provided because the Directors consider that it provides assistance in understanding the Group's underlying performance. Further details in relation to alternative performance measures (APMs) are contained within note 1.

Accounting policy – non-Headline items

During the years under review, the non-Headline items excluded from operating profit in arriving at Headline operating profit were certain adjusting items, the operating results of a business to be exited (MVNO operating profit/(loss)) and amortisation of acquisition intangibles.

Examples of charges or credits meeting the definition of adjusting items include where material, discontinued operations, gains or losses associated with the acquisition/disposal/exit of businesses, business restructuring and fundamental transformation programmes. Certain transformation and rationalisation programmes are so fundamental they may impact a number of years. In the event that other items meet the criteria, which are applied consistently from year to year, they are also treated as adjusting items.

Judgements in applying the Group's accounting policy

The classification of items as non-Headline is subjective in nature and therefore judgement is required to determine whether the item is in line with the accounting policies outlined above. Determining whether an item is non-Headline is a matter of qualitative assessment. Management consider amortisation of acquisition intangibles to be a non-Headline item due to it being inherently linked to losses associated with historic acquisitions of businesses in accordance with the Group's non-Headline accounting policy.

The following table includes details of non-Headline items and reconciles Headline information to Statutory information:

Year ended 31 March 2019	Revenue £m	Gross profit £m	EBITDA £m	Depreciation, amortisation and results of Joint Ventures £m	Operating profit £m	Profit/(loss) before taxation £m	Taxation £m	Profit for the year £m
Headline results	1,609	850	237	(148)	89	37	32	69
Adjusting items – network transformation (a)	–	–	(15)	–	(15)	(15)	2	(13)
Adjusting items – OneTeam operating model (b)	–	–	(22)	–	(22)	(22)	3	(19)
MVNO operating profit (c)	23	12	3	–	3	3	(1)	2
Amortisation of acquisition intangibles (d)	–	–	–	(8)	(8)	(8)	1	(7)
Statutory results	1,632	862	203	(156)	47	(5)	37	32

Year ended 31 March 2018 (restated)	Revenue £m	Gross profit £m	EBITDA £m	Depreciation, amortisation and results of Joint Ventures £m	Operating profit/(loss) £m	Loss before taxation £m	Taxation £m	Loss for the year £m
Headline results (restated)	1,605	831	203	(142)	61	15	(22)	(7)
Adjusting items – network transformation (a)	–	–	(17)	(2)	(19)	(19)	4	(15)
MVNO operating loss (c)	48	10	(9)	–	(9)	(9)	2	(7)
Amortisation of acquisition intangibles (d)	–	–	–	(9)	(9)	(9)	2	(7)
Adjusting items – operating efficiencies – MTTS (e)	–	–	(3)	(1)	(4)	(4)	–	(4)
Adjusting items – operating efficiencies – fundamental property rationalisation (f)	–	–	(12)	–	(12)	(12)	2	(10)
Adjusting items – mobile proposition (g)	–	–	(33)	–	(33)	(33)	6	(27)
Adjusting items – business reorganisation (h)	–	–	(19)	–	(19)	(19)	4	(15)
Adjusting items – finance expense (i)	–	–	–	–	–	(10)	2	(8)
Statutory results (restated)	1,653	841	110	(154)	(44)	(100)	–	(100)

9. Reconciliation of Headline information to Statutory information continued

Judgements in applying the Group's accounting policy continued

	2019 £m	2018 (restated)[1] £m
Operating profit/(loss)	47	(44)
Share of results of joint ventures	10	11
Depreciation and amortisation	146	143
EBITDA	203	110

(1) See note 1 for further details on the restatement of comparative information due to the retrospective application of IFRS 15 and IFRS 9. See note 9 for a reconciliation of Headline information to Statutory information.

During the year ended 31 March 2019, cash adjusting items were £47m (2018: £60m).

The above table shows how all APMs are reconciled to Statutory performance measures with the exception of Headline earnings per share (note 10) and net debt (note 20).

(a) Network transformation

During the year ended 31 March 2019, the Group continued its significant multi-year transformation programme which will fundamentally restructure the Group's network, IT infrastructure and technology organisation. The change the Group is undertaking will ensure it is fit for the future and underpins the wider Group strategy in providing an outstanding service to our customers as a value provider in the industry. This is a discrete project expected to run until 2021.

This programme has resulted in £15m (2018: £19m) of costs including project management, consultancy, dual-running costs, decommissioning costs, and accelerated depreciation.

A total taxation credit of £2m has been recognised on these costs in the year ended 31 March 2019 (2018: £4m).

(b) OneTeam operating model

Net costs of £22m (2018: £nil) have been incurred associated with simplifying the Group's organisational structure and relocating roles to one primary location at the Soapworks in Salford. These costs have been determined to be adjusting items and are presented as non-Headline in accordance with the Group's accounting policy as they represent a material business restructuring programme.

The costs include redundancy payments, dual-running costs, recruitment costs and other consultancy costs. The Group expects the finalisation of this fundamental reorganisation within FY20.

A taxation credit of £3m has been recognised on these costs (2018: £nil).

(c) MVNO operating profit/(loss)

Following the Group's announcement in May 2017 to reassess the Group's mobile strategy, the Group is now progressing with its alternative mobile distribution strategy. Operating profits of £3m (2018 restated: £9m loss) associated with this strategy have been incurred; given this one-off strategic decision, management considers these profits/(losses) are non-Headline items though they do not meet the criteria under IFRS 5 for separate disclosure as discontinued operations. The Group continues to transition from a wholesale agreement with Vodafone to a mobile distribution agreement with Telefonica. The wholesale agreement with Vodafone has been extended to support the smooth transition of remaining customers. The MVNO trading activity will continue to diminish with contractual commitments expiring in 2021.

A taxation charge of £1m has been recognised on these costs (2018: £2m credit).

(d) Amortisation of acquisition intangibles

An amortisation charge in respect of acquisition intangibles of £8m was incurred during the year (2018: £9m).

A taxation credit of £1m has been recognised on these costs (2018: £2m credit).

(e) Operating efficiencies – Making TalkTalk Simpler (MTTS)

During the year ended 31 March 2018, the Group completed its wide-ranging transformation programme that delivered material improvements to customer experience, driving operating cost savings, lower churn and subscriber acquisition costs.

The wide-ranging transformation programme was considered so fundamental that it impacted a number of years with the costs incurred relating to the improvement of the Consumer and TalkTalk Business systems and processes which focus on customer experience.

These programmes resulted in £4m of costs including project management, redundancy, consultancy, migration, call centre costs and accelerated depreciation costs.

A total taxation credit of £nil has been recognised on these costs in the year ended 31 March 2018.

9. Reconciliation of Headline information to Statutory information continued

Judgements in applying the Group's accounting policy continued

(f) Operating efficiencies – fundamental property rationalisation

During the year ended 31 March 2018, the Group completed its fundamental rationalisation of the sites from which it operates including the relocation of its Warrington and Irlam sites to one site at the Soapworks in Salford together with the rationalisation of its London property footprint. The revised estimated cost of this property rationalisation programme was provided for giving rise to additional costs of £12m during the prior year.

A total taxation credit of £2m has been recognised on these costs in the year ended 31 March 2018.

(g) Mobile proposition

Following the Group's announcement in May 2017 to reassess the Group's mobile strategy net exceptional costs were incurred in relation to decommissioning costs, asset write offs, provision releases, onerous supplier commitments and redundancies amounting to £33m for the year ended 31 March 2018.

A total taxation credit of £6m has been recognised on these costs in the year ended 31 March 2018.

(h) Business reorganisation

Net costs of £19m were incurred in the year ended 31 March 2018 associated with implementing changes to the Group's organisational structure following the Group reorganising the business under the new leadership team.

The costs include redundancy, other rationalisation costs and consultancy costs.

A taxation credit of £4m has been recognised on these costs in the year ended 31 March 2018.

(i) Finance expense

During the year ended 31 March 2018, the Group completed the repurchase of its $185m US Private Placement Notes. This resulted in incremental costs of £8m relating to the settlement of derivative instruments in designated hedge accounting relationships and associated fees. The Group also refinanced its revolving credit facilities, resulting in the accelerated amortisation of arrangement fees relating to the previous facilities leading to a £2m charge in the year.

A taxation credit of £2m has been recognised on these costs in the year ended 31 March 2018.

10. Earnings/(loss) per ordinary share

Earnings/(loss) per ordinary share are shown on a Headline and Statutory basis to assist in the understanding of the performance of the Group.

	2019 £m	2018 (restated)[1] £m
Headline earnings/(loss) (note 9)	69	(7)
Statutory earnings/(loss)	32	(100)
Weighted average number of shares (millions)		
Shares in issue	1,146	979
Less weighted average holdings by Group ESOT	(3)	(4)
For basic EPS	1,143	975
Dilutive effect of share options (note 5)	13	12
For diluted EPS	1,156	987

(1) See note 1 for further details on the restatement of comparative information due to the retrospective application of IFRS 15 and IFRS 9.

	2019 Pence	2018 (restated) Pence
Basic earnings/(loss) per ordinary share		
Headline	6.0	(0.7)
Statutory	2.8	(10.3)

	2019 Pence	2018 (restated) Pence
Diluted earnings/(loss) per ordinary share		
Headline	6.0	(0.7)
Statutory	2.8	(10.1)

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.

During the year, management has reviewed the Group's CGUs and now considers that the Group has five CGUs, of which four have allocated goodwill. These CGUs represent the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Cash inflows for the CGUs are generated as follows:

CGU	Services provided
TalkTalk Consumer	telecommunication services to retail customers
TalkTalk Business	telecommunication services to B2B customers through partner or wholesale channels
TalkTalk Business Direct	telecommunication services to B2B customers through direct channels
FibreNation	FTTP services
Historical MVNO operations	services as a mobile virtual network operator

The bulk of the Group's shared costs and assets relating mainly to infrastructure and central overheads are allocated across the CGUs based on the relative future cash flows generated by each and their reliance on the shared service functions and infrastructure.

Determining whether goodwill is impaired requires estimation of the value in use of the CGUs to which the goodwill has been allocated. In assessing value in use, the estimated cash flows of each CGU 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.

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 Group's three-year plan and extrapolated out to twenty 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.

	2019 £m	2018 £m
Opening, closing cost and net book value	495	495

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

	2019 £m	2018 £m
TalkTalk Consumer	347	347
TalkTalk Business	88	148
TalkTalk Business Direct	60	–
MVNO operations	–	–
	495	495

Goodwill relating to FibreNation of £2m has been classified within assets held for sale (note 15).

Notes to the consolidated financial statements continued

11. Goodwill and other intangible assets continued

(a) Goodwill continued

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 1.6% (2018: 1.7%).
- Discount rate
  The underlying discount rate for each CGU is based on the UK twenty-year gilt rate adjusted for an equity risk premium and the systematic risk of the CGU. The average pre-tax rate for all CGUs of 7.6% (2018: 7.8%) is used to discount the forecast pre-tax cash flows. 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 all CGUs due to the similarity of risk factors.
- Capital expenditure
  Forecast capital expenditure to maintain property, plant and equipment is based on senior management expectations of future required support of the network and current run rate of expenditure, typically at 6–7% of revenue.
- 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 changes 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 in future market developments.
- Profitability
  Forecast profitability over a three year period to March 2022 has been taken from the Group's viability assessment. Further years have been increased by the long-term growth rate stated above and the inclusion of a terminal value.

Goodwill sensitivity analysis

Sensitivity analysis has been performed in respect of certain scenarios, including an increase in competition impacting margins and lower than expected cost savings. The outcome of this analysis indicated that there is headroom in all CGUs. No reasonably possible changes in the key assumptions would cause the carrying amount of the CGUs to fall below 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. Directly attributable costs that are capitalised include employee costs specifically incurred in the development of the intangible asset. 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.

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 all CGUs based on the relative future cash flows.

Determining whether the carrying amounts 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 amounts 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 the future cash flows of the CGUs and the selection of appropriate discount rates to calculate present values.

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.

11. Goodwill and other intangible assets continued

(b) Other intangible assets continued

Accounting policy continued

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.

Other intangible assets are analysed as follows:

	Operating intangibles £m	Acquisition intangibles £m	Total other intangibles £m
Opening balance at 1 April 2018 as previously reported	241	16	257
Reclassification to assets held for sale(1)	(6)	–	(6)
Opening balance at 1 April 2018 as restated	235	16	251
Additions	59	–	59
Amortisation	(67)	(8)	(75)
Closing balance at 31 March 2019	227	8	235
Cost (gross carrying amount)	682	143	825
Accumulated amortisation	(455)	(135)	(590)
Closing balance at 31 March 2019	227	8	235

	Operating intangibles £m	Acquisition intangibles £m	Total other intangibles £m
Opening balance at 1 April 2017	219	24	243
Additions	86	1	87
Amortisation	(62)	(9)	(71)
Reclassification to assets held for sale(1)	(6)	–	(6)
Impairment	(2)	–	(2)
Closing balance at 31 March 2018 (restated)(1)	235	16	251
Cost (gross carrying amount)	623	143	766
Accumulated amortisation	(388)	(127)	(515)
Closing balance at 31 March 2018 (restated)(1)	235	16	251

(1) See note 1 for further details on the asset held for sale.

Operating intangibles

Operating intangibles includes internally generated assets with a net book value of £113m (2018: £106m), which are amortised over a period of up to eight years. This includes additions of £28m (2018: £28m) and an amortisation charge of £21m (2018: £24m) in the year ended 31 March 2019.

Acquisition intangibles

Acquisition intangibles relate to the broadband customer bases acquired from Virgin Media and Tesco in a prior year. These customer bases were valued from the discounted future cash flows expected from them, after a deduction for contributory assets.

At 31 March 2019, the net book value of the acquired broadband bases is material to the Group, with the Virgin Media base valued at £4m (2018: £8m) and the Tesco base valued at £4m (2018: £8m), with remaining useful economic lives of ten months (2018: 22 months) and eleven months (2018: 23 months) respectively.

Notes to the consolidated financial statements continued

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:

Fixtures and fittings and short leasehold improvements	10–20% per annum or lease term if shorter
Network and customer premise equipment and computer hardware	12.5–40% per annum

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

Impairment of assets

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.

	Short leasehold improvements £m	Network and customer premise equipment and computer hardware £m	Fixtures and fittings £m	Total £m
Opening balance at 1 April 2018 as previously reported	2	228	6	236
Reclassification to assets held for sale[1]	–	(2)	–	(2)
Opening balance at 1 April 2018	2	226	6	234
Additions	–	36	–	36
Depreciation	–	(69)	(2)	(71)
Closing balance at 31 March 2019	2	193	4	199
Cost (gross carrying amount)	8	945	10	963
Accumulated depreciation and impairment charges	(6)	(752)	(6)	(764)
Closing balance at 31 March 2019	2	193	4	199

	Short leasehold improvements £m	Network and customer premise equipment and computer hardware £m	Fixtures and fittings £m	Total £m
Opening balance at 1 April 2017	1	228	6	235
Additions	1	70	2	73
Acquired from business combinations	–	10	–	10
Depreciation	–	(67)	(2)	(69)
Assets transferred to assets classified as held for sale	–	(12)	–	(12)
Accelerated depreciation (note 9)	–	(3)	–	(3)
Closing balance at 31 March 2018	2	226	6	234
Cost (gross carrying amount)	8	909	10	927
Accumulated depreciation and impairment charges	(6)	(683)	(4)	(693)
Closing balance at 31 March 2018 (restated)[1]	2	226	6	234

(1) See note 1 for further details on the asset held for sale.

Property, plant and equipment held under finance leases

	Network equipment and computer hardware
Cost as at 31 March 2019	49
Accumulated depreciation	(14)
NBV as at 31 March 2019	**35**
Cost as at 31 March 2018	33
Accumulated depreciation	(2)
NBV as at 31 March 2018	31

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 2019 related to a 7.3% (2018: 7.3%) interest in Shared Band Limited, a telecommunications technology provider. The cost of the investment is not material.

(a) Investments

The Parent Company has investments in the following subsidiary undertakings, which affected the profits or losses or net assets of the Group. All entities are included in the consolidation of the Group.

Subsidiary undertakings	Country of incorporation or registration	Registered office	Principal activity	Percentage of ordinary shareholding
TalkTalk Telecom Holdings Limited[1]	England & Wales	11 Evesham Street[2]	Holding company	100
Beheer-en Beleggingsmaatschappij Antika BV	Netherlands	Euroweg[3]	In liquidation	100
Wireless Internet Portfolio BV	Netherlands	Euroweg[3]	In liquidation	100
TalkTalk Brands Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100
TalkTalk Group Ltd	England & Wales	11 Evesham Street[2]	Holding company	100
CPW Broadband Services (UK) Ltd	England & Wales	11 Evesham Street[2]	Telecommunications	100
Future Office Communications Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100
TalkTalk Broadband Services (Ireland) Limited	Ireland	39/40 Upper Mount Street[4]	Non-trading	100
TalkTalk Business (2CCH) Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100
TalkTalk Communications Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100
CPW Network Services Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100
TalkTalk Corporate Limited	England & Wales	11 Evesham Street[2]	Holding company	100
Core Telecommunications Limited	England & Wales	11 Evesham Street[2]	In liquidation	100
CPW UK Group Limited	England & Wales	11 Evesham Street[2]	Dormant	100
TalkTalk RB Limited (formerly Ratebuster Ltd)	England & Wales	11 Evesham Street[2]	Dormant	100
TalkTalk Technology Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Telequip Limited	England & Wales	348–350 Lytham Road[5]	In liquidation	100
Telco Global Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Vartec Telecom Europe Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Video Networks Limited	England & Wales	11 Evesham Street[2]	Dormant	100
World Online Telecom Limited	England & Wales	11 Evesham Street[2]	Dormant	100
GIS Telecoms Limited	England & Wales	11 Evesham Street[2]	Dormant	100
TalkTalk Direct Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Opal Connect Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Opal Business Solutions Limited	England & Wales	11 Evesham Street[2]	Dormant	100
UK Telco (GB) Limited	England & Wales	11 Evesham Street[2]	Dormant	100
TalkTalk UK Communications Services Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Onetel Telecommunications Limited	England & Wales	11 Evesham Street[2]	Dormant	100
V Networks Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Green Dot Property Management Limited	England & Wales	11 Evesham Street[2]	Non-trading	100
Executel Ltd	England & Wales	11 Evesham Street[2]	Dormant	100
Greystone Telecom Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Pipex Internet Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Pipex Communications Services Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Pipex UK Limited	England & Wales	11 Evesham Street[2]	Dormant	100
TalkTalk Telecom Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100
Telco Holdings Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100
Telco Global Distribution Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Tele2 Telecommunication Services Limited	Ireland	39/40 Upper Mount Street[4]	Non-trading	100
Tiscali UK Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100

Notes to the consolidated financial statements continued

13. Non-current asset investments continued

Accounting policy continued

(a) Investments continued

Subsidiary undertakings	Country of incorporation or registration	Registered office	Principal activity	Percentage of ordinary shareholding
Toucan Residential Ireland Limited	Ireland	39/40 Upper Mount Street[4]	Non-trading	100
TalkTalk TV Entertainment Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100
tIPicall Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100
Bolt Pro Tem Limited	England & Wales	15 Bedford Street[6]	Telecommunications	67
Nottingdale Receivables Limited[7]	England & Wales	6 St Andrew Street[8]	Receivables financing	–
Adventure Telecom Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100
Treetop Telecom Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100
FibreNation Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100
TalkTalk Business Direct Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100

(1) Directly held subsidiary.
(2) Full address: 11 Evesham Street, London, W11 4AR.
(3) Full address: Euroweg 20 3825 HD Amersfoort, Amsterdam, Netherlands.
(4) Full address: 39/40 Upper Mount Street, Dublin 2, Ireland.
(5) Full address: 348–350 Lytham Road, Blackpool, Lancashire, FY4 1DW.
(6) Full address: 15 Bedford Street, London, WC2E 9HE.
(7) Consolidated on the grounds of substance (see note 20).
(8) Full address: 5th floor, 6 St Andrew Street, London, EC4A 3AE.

Joint venture undertakings	Country of incorporation or registration	Registered office	Principal activity	Percentage of ordinary shareholding
YouView TV Limited	England & Wales	10 Lower Thames Street[1]	Telecommunications	14.3
Internet Matters Limited	England & Wales	6th Floor, One London Wall[2]	Telecommunications	25.0

(1) Full address: 10 Lower Thames Street, Third Floor, London, EC3R 6YT.
(2) Full address: 6th Floor One, London Wall, London, EC2Y 5EB.

(b) Acquisitions and disposals

(i) Acquisitions

In the prior year, the Group purchased a further 33.3% interest in Bolt Pro Tem Limited (BPT) for £1m, a joint venture in which it already held a 33.3% interest. Following this acquisition, the Group owned 67% and therefore a controlling interest in the company. As a result, the Group has recognised £2m of goodwill on acquisition and consolidated the assets and liabilities of BPT from the date of acquisition.

The impact of the acquisition to the Group's income statement is immaterial.

(ii) Disposals

The Group has made no disposal of investments during the current or prior year.

14. Investment in joint ventures

Accounting policy

Interests in joint ventures are accounted for using the equity method. The Group consolidated income statement includes the Group's share of the post-tax profits or losses of the joint ventures based on their financial statements for the year.

In the Group consolidated balance sheet, the Group's interest in joint ventures is 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).

YouView TV Limited (YouView)

The Group holds 14.3% (2018: 14.3%) of the ordinary share capital of YouView, a joint venture with The British Broadcasting Corporation, ITV Broadcasting Limited, British Telecom PLC (BT), 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. During a prior year, the Group signed a new agreement with the other existing holders of YouView whereby all seven original partners (together 'Tier 1' funders) continue to contribute approximately £1m per annum to fund basic operational and technology costs of YouView, and the Group together with BT as 'Tier 2' funders contribute up to a further £10m per annum for additional development of the technology to support their TV propositions. The Group's total contribution to YouView in the year ended 31 March 2019 was £9m (2018: £6m).

There was no change in the overall control of the joint venture as a result of these changes as all seven partners share overall control. Under this agreement, the Group's share of losses comprises one-seventh of any Tier 1 loss and half of any Tier 2 loss. During the year ended 31 March 2019, the Group recognised an £10m share of losses (2018: £11m).

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

Bolt Pro Tem Limited (BPT)

In the prior year, the Group purchased an additional 33.3% of BPT for consideration of £1m which took its overall holding to 66.67% and therefore resulted in the Group holding a controlling interest in BPT. As such the Group began accounting for BPT as a subsidiary under IFRS 3 (see note 13). During the prior year, the Group contributed £nil to the joint venture and received £nil share of losses.

Internet Matters Limited

During the year ended 31 March 2014, the Group, alongside BSkyB, BT and Virgin Media, established an equal membership joint venture, Internet Matters Limited. It is a not-for-profit company set up as an industry-led body to promote and educate parents about internet safety for children.

Interest in joint ventures is analysed as follows:

	2019 £m	2018 £m
Opening balance at 1 April	3	8
Additions	9	6
Share of results	(10)	(11)
Gain on disposal on step up acquisition	–	1
Movement to subsidiary	–	(1)
Closing balance at 31 March	2	3

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

Group share of results of joint ventures	2019 £m	2018 £m
Expenses	(10)	(11)
Loss before taxation	(10)	(11)
Taxation	–	–
Loss after taxation	(10)	(11)

Group share of net assets of joint ventures	2019 £m	2018 £m
Non-current assets	2	3
Net assets	2	3

15. Assets held for sale
The major classes of assets and liabilities classified as held for sale are as follows:

	2019 £m	2018 (restated)[1] £m
Assets classified as held for sale		
Goodwill	2	2
Other non-current assets	31	18
Current assets	14	14
Total assets classified as held for sale	47	34
Liabilities associated with assets classified as held for sale		
Current payables	(7)	(6)
Total liabilities associated with assets classified as held for sale	(7)	(6)

(1) See note 1 for further details on the asset held for sale.

Under IFRS 5, when certain conditions are met, including the Group committing to a sale plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale.

On 21 November 2018, the Group announced that it would not be progressing on the basis of the Heads of Terms agreed with Infracapital which were announced in February 2018. The Group, on the same date, announced the formation of FibreNation which is a wholly owned Full Fibre wholesale provider. The Group is in discussions with potential partners to develop an appropriate long-term capital structure for FibreNation.

In order to roll out FibreNation at the speed and to the scale ultimately required, TalkTalk needs a partner to invest in the operations and therefore the Group is committed to selling down a majority stake in its investment. The Group has engaged external parties to support the sale process, which is expected to be completed by 31 March 2020.

16. 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, power line adaptors 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, taking into account technical obsolescence and the level of technical supplier support.

	2019 £m	2018 (restated)[1] £m
Goods for resale	34	29

(1) See note 1 for further details on the restatement comparative information due to the retrospective application of IFRS 15.

The Group had certain arrangements whereby it would repurchase inventory owned by a third party, where this inventory had been previously sold by the Group. Under IFRS 15, this arrangement is considered a financing arrangement whereby the inventory continues to be recognised by the Group and the corresponding secured debt is recognised. Accordingly, comparatives have been restated. In addition, during the year the inventory financing has been repaid amounting to £21m (see note 20).

The carrying value of inventory expected to be recovered or settled after more than twelve months of 31 March 2019 is £5m (2018: £7m).

17. Trade and other receivables

Trade and other receivables comprise:

	2019 £m	2018 (restated)[1] £m
Non-current – trade and other receivables		
Other receivables	2	2
Current – trade and other receivables		
Trade receivables – gross	105	143
Less expected credit losses	(22)	(32)
Trade receivables – net	83	111
Other receivables	34	63
Prepayments	20	31
Accrued income	23	41
Total current trade and other receivables	160	246
Total trade and other receivables	162	248

(1) See note 1 for further details on the restatement of comparative information due to the retrospective application of IFRS 15 and IFRS 9.

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 20 days (2018: 26 days).

The Group has the ability on a rolling basis to sell its trade receivables to a third-party vehicle in exchange for a discounted consideration. The Group varies the level of trade receivables sold into the programme as part of managing its liquidity position. The Group is deemed to control the third-party vehicle and therefore continues to consolidate the relevant trade receivables on the grounds that substantially not all the risks and rewards of ownership have been transferred under the programme.

Service level related disputes

The Group's results include the recognition of certain service level related credits from suppliers to compensate the Group where the supplier has not operated within the contractual terms of these arrangements. The quantification of service level related credits may be subject to regulatory guidance, legal ruling or alternative dispute resolution processes. During the year the Group has settled certain service level related credits from suppliers to compensate the Group where the supplier has not operated within the contractual terms of these arrangements. This has resulted in the settlement of a receivable previously recognised.

In addition, during the year, the Group has recognised further service level payments of £3m where the supplier has not operated within contractual terms. On this basis, as at 31 March 2019, a receivable of £3m (2018: £46m) existed in relation to such claims, the resolution of which may give rise to an increase or decrease in the level of receivable recognised. This is without prejudice to the Group's legal position.

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

	2019 £m	2018 (restated) £m
UK Sterling	97	134
Other	8	9
	105	143

The ageing of gross trade receivables is as follows:

	2019 £m	2018 (restated) £m
Not yet due	56	68
0 to 2 months	16	16
2 to 4 months	9	12
Over 4 months	24	47
	105	143

17. Trade and other receivables continued

The ageing of the expected credit losses of trade receivables is as follows:

	2019 £m	2018 (restated) £m
Not yet due	(2)	–
0 to 2 months	(3)	–
2 to 4 months	(2)	–
Over 4 months	(15)	(32)
	(22)	(32)

Movements in the expected credit losses of trade receivables are as follows:

	2019 £m	2018 (restated) £m
Opening balance	(32)	(41)
Charged to the income statement	(11)	(20)
Receivables written off as irrecoverable	21	29
Closing balance	(22)	(32)

Trade receivables of £29m (2018: £43m) were past due, but not impaired. These balances primarily relate to TalkTalk Consumer and TalkTalk Business 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:

	2019 £m	2018 £m
0 to 2 months	13	16
2 to 4 months	7	12
Over 4 months	9	15
	29	43

18. Contract balances

Contract assets and liabilities

Contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date. Remaining balances are transferred to receivables when the rights become unconditional.

The contract liabilities primarily relate to the advance consideration received from customers, usually for connection activity at the commencement of the contract, for which revenue is recognised over time.

The following table provides information about contract assets and liabilities from contracts with customers:

	31 March 2019 £m	31 March 2018 (restated) £m
Contract assets	39	20
Contract liabilities	(20)	(16)
Net contract asset	19	4

At 31 March 2017, contract assets were £21m and contract liabilities £15m.

Contract assets and liabilities will largely unwind over the following three years reflecting that contracts with customers typically have a length of between one and three years. The increase in the contract asset in the year ended 31 March 2019 is driven by the Group's launch of its Wi-Fi hub, which has a higher stand-alone selling price compared to hardware provided to customers in the prior year.

Revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period was £11m (2018: £9m).

Contract costs

The Group has contract costs of £308m (2018: £228m). These costs comprise incremental sales commissions associated with obtaining customer contracts and directly attributable costs related to fulfilling a contract, being the cost of connecting a customer to the Group's network. Contract costs are amortised on a basis consistent with the transfer of goods and services to the customer, largely being on a straight line basis over the customer tenure. Amortisation of £99m (2018: £85m) was recognised in the consolidated income statement. No impairment loss has been recognised in relation to the costs capitalised.

19. Trade and other payables

Trade and other payables comprise:

	2019 £m	2018 (restated) £m
Non-current – trade and other payables		
Trade and other payables	5	6
Current – trade and other payables		
Trade payables	279	269
Other taxes and social security costs	9	12
Other payables	20	26
Accruals	125	127
Deferred income	58	46
	491	480
Total trade and other payables	496	486

The Group has agreed longer commercial credit terms being up to 300 days with certain suppliers, this includes an arrangement with a major distribution partner, whereby the trade payable continues to be recognised. Excluding these suppliers, the underlying average credit period taken on trade payables was 53 days (2018: 49 days). Including these suppliers, the average credit period taken was 58 days (2018: 53 days). Included in trade payables are capital payables amounting to £28m (2018: £82m).

The Group offers, via its bank group, supply chain financing facilities to its suppliers. These facilities allow suppliers to obtain payment from the sponsoring bank ahead of the commercially agreed payment terms giving a liquidity benefit to the supplier. The Group has no obligation to provide any such facility to any of its suppliers, has no obligation to include any invoices into the arrangement, bares no cost for providing the facility to its suppliers and only currently makes the facility available for the benefit of suppliers who choose to participate. The supplier is under no obligation to draw down on their receivable early, however due to the agreement between bank and supplier any invoices loaded into the programme become payable by the bank even on the original invoice due date. The supplier will manage the timing profile of when they receive funds directly with the sponsoring bank independently of TalkTalk, if election to receive payment early is made, they will receive funds from the sponsoring bank less a discount agreed between the bank and the supplier. The Group continues to have the payment obligation and will pay the sponsoring bank (invoice owner) on the original commercially agreed payment terms. At the 31 March 2019, the Group recognised payables of £50m (2018: £6m) where the supplier had elected to utilise the supply chain facilities, following the increased availability of such facilities.

Rebates receivable from suppliers of £6m (2018: £8m) are accounted for in accordance with the policy set out in note 1.

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

Notes to the consolidated financial statements continued

20. Cash and cash equivalents and borrowings

(a) Cash and cash equivalents comprise:

	2019 £m	2018 £m
Cash at bank and in hand	67	43

The effective interest rate on bank deposits and money market funds was 0.5% (2018: 0.2%).

(b) Borrowings comprise:

	Maturity	2019 £m	2018 (restated)[1] £m
Current			
£75m receivables purchase agreement facility	2019	–	67
Finance leases	2019	10	8
Inventory financing	2019	–	21
		10	96

	Maturity	2019 £m	2018 (restated)[1] £m
Non-current			
£400m Senior Notes	2022	400	400
£640m revolving credit facility	2022	348	300
£75m receivables purchase agreement facility	2020	61	–
Finance leases	2020, 2021, 2022, 2023, 2024	29	23
Non-current borrowings		838	723
Total borrowings		848	819

Net debt comprises:

	2019 £m	2018 (restated)[1] £m
Cash at bank and in hand	(67)	(43)
Borrowings	848	819
Net debt	781	776

Undrawn available committed facilities are as follows:

	Maturity	2019 £m	2018 (restated)[1] £m
Undrawn available committed facilities (excluding finance leases)	2020, 2022	306	348

The book value and fair value of the Group's borrowings are as follows:

	2019 £m	2018 (restated)[1] £m
Less than 1 year	10	96
1 to 2 years	71	7
2 to 3 years	406	7
3 to 4 years	359	406
4 to 5 years	2	303
Total borrowings	848	819

(1) See note 1 for further details on the restatement of comparative information due to the retrospective application of IFRS 15.

The fair value of borrowings is not materially different to its amortised cost.

20. Cash and cash equivalents and borrowings continued

(b) Borrowings comprise: continued

Borrowing facilities

The Group's committed facilities total £1,115m (2018: £1,115m). The Group's uncommitted facilities total £90m (2018 restated: £131m) giving headroom on committed facilities and uncommitted facilities of £306m (2018: £348m) and £90m (2018 restated: £110m) respectively.

The financial covenants included in each bank facility restrict the ratio of net debt to EBITDA and require minimum levels of interest cover. The amounts used in the covenant calculations are subject to adjustments for the receivables purchase agreement facility and non-Headline items. As at 31 March 2019, net debt to Headline EBITDA as calculated for the purposes of the Group's borrowings equated to 3.1x (2018: 3.0x). The Group was also in compliance with its covenants throughout the current and prior year.

Details of the Group's borrowing facilities as at 31 March 2019 are set out below:

£400m Senior Notes

On 15 January 2017, TalkTalk Telecom Group PLC issued £400m Senior Notes due 2022. The Senior Notes include incurrence-based covenants customary for this type of debt, including limitations on TalkTalk's ability to incur additional debt and make restricted payments, subject to certain exceptions. The Group is permitted to incur additional debt subject to compliance with a net debt to EBITDA ratio of 4.0x and to pay dividends when net debt to EBITDA is below 3.0x (2.75x from January 2019). Regardless of the Company's net debt to EBITDA ratio, dividends are also permitted to be paid out of a basket based on 50% of cumulative consolidated net income from 1 October 2016. The interest rate payable on the notes is 5.375% payable semi-annually.

£640m revolving credit facility (RCF)

On 8 May 2017, the Group signed a £640m RCF agreement, which matures in May 2022. 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 year.

£75m receivables purchase agreement

On 27 March 2019, the Group signed an extension to the £100m receivables purchase agreement (£25m on an uncommitted basis) which matures in June 2020 and is included within both the committed and uncommitted facilities. The Group has the ability on a rolling basis to sell its receivables to a third-party vehicle in exchange for a discounted consideration. The Group is deemed to control the third-party vehicle and therefore continues to consolidate the relevant receivables and the external debt on the grounds that substantially not all the risks and rewards of ownership have been transferred under the programme.

Uncommitted money market facilities, inventory financing and bank overdrafts

These facilities are used to assist in short term cash management and bear interest at a margin over the applicable borrowing rate. In the year ended 31 March 2019 the Group fully repaid and cancelled the £21m inventory financing facility.

Finance leases

The Group uses finance leases as an alternative source of financing for significant items of capital expenditure, matching the cash profile with the life of the asset and offering flexibility regarding ownership of the lease at the end of the finance term. Finance leases at 31 March 2019 were £39m (2018: £31m).

21. Financial risk management and derivative financial instruments

The book value and fair value of the Group's financial assets, liabilities and derivative financial instruments are as follows:

	2019 £m	2018 (restated) £m
Financial assets (Level 1)[1]		
Cash and cash equivalents	67	43
Contract costs	308	228
Current trade and other receivables[2]	160	246
Non-current investments and investment in joint venture	2	3
Non-current trade and other receivables	2	2
Contract assets	39	20
Financial liabilities (Level 1)[1]		
Contract liabilities	(20)	(16)
Current trade and other payables	(491)	(480)
Non-current trade and other payables	(5)	(6)
Current borrowings	(10)	(96)
Non-current borrowings	(838)	(723)
	(786)	(779)

(1) The Group has no financial instruments designated as fair value through profit or loss (FVTPL).

(2) Accrued income has been included within the other receivables.

Notes to the consolidated financial statements continued

21. Financial risk management and derivative financial instruments continued

(a) Financial instruments

The Group's activities expose 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 uses certain financial instruments to mitigate potential adverse effects on the Group's financial performance from these risks. These financial instruments primarily consist of foreign exchange hedges 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's cash flow hedges swapping the interest rate risk on the bank debt from floating to fixed rates matured in January 2019. These hedges have been fully effective from inception. The Group will keep its risk position under review in the coming year to determine whether further hedges are required, in line with its policy.

The fair value measurement is classified as Level 2 (2018: 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 2019 is £nil (2018: £nil).

(b) Embedded derivatives

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

(c) Foreign exchange risk

The Group uses 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.

Borrowings and foreign exchange contracts are sensitive to movements in foreign exchange rates; this sensitivity can be analysed in comparison to year-end rates. There would be no material impact of a 10% movement in the UK Sterling/Euro or UK Sterling/USD 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
2019	
Borrowings	809
Finance leases	39
Total borrowings and finance leases	848

	UK Sterling £m
2018	
Borrowings	788
Finance leases	31
Total borrowings and finance leases	819

During the year, the Group used derivatives for the management of foreign currency cash balances 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 can use cash flow hedges 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 a 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.

	2019 £m	2018 £m
100 basis points movement in the UK Sterling interest rate		
Income statement movement	4	3

21. 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.

The Group's core bank £640m revolving credit facility together with the Senior Notes, the Group's share capital and reserves and a number of equipment and property leases form the Group's core financing. The Group also has commercial contracts with certain customers on extended payment terms. To help manage the impact of these terms on its liquidity, the Group has access to invoice discounting lines with its banks which allow it to sell the receivables. The receivables are sold to the bank on a non-recourse basis and as such are derecognised on sale. At 31 March 2019, £36m (2018: £95m) of invoices had been sold using these lines.

In addition to focusing on its core sources of liquidity, the Group uses a mix of overdrafts, short-dated uncommitted money market facilities and commercial supplier terms to manage its day to day liquidity position. The Group will continue to review its sources of finance going forward.

Headroom is assessed based on historical experience as well as by assessing current business risks, availability and renewal of future facilities and foreign exchange movements.

The table below analyses the Group's financial liabilities into relevant maturity groupings. The amounts disclosed in the table are the contractual undiscounted gross cash flows including interest, assuming that 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	Total £m
2019						
Borrowings	(35)	(95)	(434)	(356)	–	(920)
Finance leases	(12)	(11)	(10)	(8)	(2)	(43)
Trade and other payables	(491)	(5)	–	–	–	(496)
	(538)	(111)	(444)	(364)	(2)	(1,459)

	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	Total £m
2018						
Borrowings	(118)	(30)	(30)	(430)	(301)	(909)
Finance leases	(9)	(8)	(7)	(6)	(4)	(34)
Trade and other payables	(480)	(6)	–	–	–	(486)
	(607)	(44)	(37)	(436)	(305)	(1,429)

(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 fixed line customers, and expected credit losses are made under IFRS 9 for any receivables that are considered to be irrecoverable. Further detail of the expected credit losses recognised are disclosed in note 17.

(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.

The capital structure of the Group consists of debt, which includes bank facilities, Senior Notes, receivables purchase facility, invoice discounting, retained profits and equity.

The Group continues to review its funding and capital structure with the objectives of diversifying sources and managing both the average tenor and interest cost.

The Group also assesses the risk profile of its trade receivables based upon past experience and an analysis of the receivable's current financial position, adjusted for specific factors, general economic conditions of the industry in which the receivables operate and assessment of both the current and the forecast direction of conditions at the reporting date. The Group has performed the calculation of ECL separately for Consumer and Business customers and rebutted the assumption under IFRS 9 that all debts over 90 days should have a credit allowance.

22. 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.

The tables below analyse the Group's provisions:

	2019 £m	2018 £m
Current	35	31
Non-current	12	28
	47	59

	Property £m	Contract and other £m	Total £m
2019			
Opening balance	19	40	59
Charged to income statement	3	19	22
Released to income statement	(3)	–	(3)
Utilised in the year	(4)	(27)	(31)
Closing balance	15	32	47

	One Company integration £m	Property £m	Contract and other £m	Total £m
2018				
Opening balance	1	15	20	36
Charged to income statement	–	9	43	52
Released to income statement	(1)	–	(7)	(8)
Utilised in the year	–	(5)	(16)	(21)
Closing balance	–	19	40	59

Provisions are categorised as follows:

One Company integration

This provision related principally to reorganisation costs and was released during the year following the change in mobile strategy announced in May 2017.

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. These provisions include the costs of exiting our Warrington and Irlam sites, as the Group relocated to one site at the Soapworks in Salford, and the rationalisation of our property footprint in London.

Contract and other

Contract and other provisions relate to onerous contracts and contracts with unfavourable terms, and committed costs relating to the OneTeam operating model. Onerous contracts are supplier commitments entered into prior to the reassessment of the Group's mobile strategy. These provisions are expected to be utilised over the next twelve months. All such provisions are assessed by reference to the best available information at the balance sheet date.

23. Share capital

	2019 million	2018 million	2019 £m	2018 £m
Authorised, issued and fully paid				
Ordinary shares of 0.1p each	1,146	1,146	1	1

The Company has one class of ordinary share that carries no right to fixed income. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

On 8 February 2018, the Group placed an aggregate of 190,654,206 new ordinary shares of 0.1p at a price of 107p per placing share to raise net proceeds of £201m after expenses. The placing shares represented approximately 19.95% of the Company's existing issued share capital. The placing utilised a cash box structure, whereby the cash box entity issued redeemable preference shares in consideration for the receipt of the cash proceeds (net of issue costs) arising from the placing. The Company's ordinary shares were issued as consideration for the transfer to it of the shares, which it did not already own, in the cash box entity. As a result, in the opinion of the Board, the placing qualified for merger relief under Section 612 of Companies Act 2006 so that the excess of the value of the acquired shares in the cash box entity over the nominal value of the ordinary shares issued by the Company was credited to the Company's other reserves.

The placing shares ranked pari passu in all respects with the existing ordinary shares, including the right to receive all dividends and other distributions declared, made or paid after the date of issue.

24. Reserves

Share premium

The share premium account records the difference between the nominal amount of shares issued and the fair value of the consideration received. The share premium account may be used for certain purposes specified by UK law, including to write off expenses incurred on any issue of shares or debentures and to pay up fully paid bonus shares. The share premium account is not distributable but may be reduced by special resolution of the Company's ordinary shareholders and with court approval.

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.

Demerger reserve

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

Retained earnings

Retained earnings are made up of accumulated reserves and proceeds from the share placing discussed in note 23.

Retained earnings are considered to be distributable reserves.

Other reserve – Group ESOT

The Group ESOT held two million shares at 31 March 2019 (2018: four million) in the Company for the benefit of 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 £2m (2018: £5m).

25. Analysis of changes in net debt

	Opening £m	Net cash flow £m	Non-cash movements £m	Closing £m
2019				
Cash and cash equivalents	43	24	–	67
Borrowings[1]	(788)	(28)	7	(809)
	(745)	(4)	7	(742)
Finance leases (note 26(b))	(31)	9	(17)	(39)
Net debt	(776)	5	(10)	(781)

(1) During the year, amortised borrowing costs of £10m were reclassified from other receivables to Borrowings of which £3m has been amortised during the year.

Notes to the consolidated financial statements continued

25. Analysis of changes in net debt continued

	Opening £m	Net cash flow £m	Non-cash movements £m	Closing £m
2018 (restated)				
Cash and cash equivalents	50	(7)	–	43
Borrowings[1]	(908)	120	–	(788)
Derivatives	39	(39)	–	–
	(869)	81	–	(788)
	(819)	74	–	(745)
Finance leases (note 26(b))	–	–	(31)	(31)
Net debt	(819)	74	(31)	(776)

(1) During the year, amortised borrowing costs of £10m were reclassified from other receivables to Borrowings of which £3m has been amortised during the year.

26. Leases

(a) 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:

	2019			2018		
	Property	**Network equipment**	**Total £m**	Property	Network equipment	Total £m
Less than 1 year	8	17	25	10	13	23
2 to 5 years	32	5	37	30	15	45
Greater than 5 years	53	1	54	66	2	68
	93	23	116	106	30	136

(b) Finance leases

	Minimum lease payments	
	2019 £	2018 £
Amounts payable under finance leases:		
Within one year	12	8
In the second to fifth years inclusive	31	26
	43	34
Less: future finance charges	(4)	(3)
Present value of lease obligations	39	31

	Present value of minimum lease payments	
	2019 £	2018 £
Amounts payable under finance leases:		
Within one year	10	8
In the second to fifth years inclusive	29	23
Present value of lease obligations	39	31
Analysed as:		
Amount due for settlement within 12 months (shown under current liabilities)	10	8
Amount due for settlement after 12 months	29	23
Present value of lease obligations	39	31

26. Leases continued

(b) Finance leases continued

It is the Group's policy to lease some of its equipment on finance leases. The average lease term is 4.1 years. For the year ended 31 March 2019, the average effective borrowing rate was 5.5% (2018: 6.2%). Interest rates are fixed at the contract date. All leases are on a fixed payment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in Sterling.

The fair value of the Group's lease obligations as at 31 March 2019 is estimated to be £39m (2018: £31m) using a 5.5% (2018: 6.2%) discount rate.

The Group's obligations under finance leases are secured by the lessors' rights over the leased assets.

27. Commitments

The Group has in the normal course of business entered into various multi-year supply and working capital agreements for core network, IT and customer equipment. As at 31 March 2019, expenditure contracted but not provided for in these financial statements amounted to £134m (2018: £203m). Of this amount, £82m (2018: £100m) related to supply for core network, IT and customer equipment, £52m (2018: £82m) related to capital commitments and £nil (2018: £21m) related to the supply of customer equipment. Of the capital commitments £10m (2018: £20m) relate to intangible assets.

28. Related party transactions

(a) Subsidiaries and joint ventures

Details of subsidiaries and joint ventures are disclosed in notes 13 and 14 respectively.

(b) Directors

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 52 to 67. The remuneration of all key management personnel is disclosed in note 4.

On 8 February 2018, the Group placed an aggregate of 190,654,206 new ordinary shares of 0.1p at a price of 107p per placing share to raise net proceeds of approximately £201m after expenses. The Executive Chairman, other Directors (R Taylor, T Harrison, N Langstaff, K Ferry, C Bligh, J Gildersleeve and I West) and the Company Secretary (T Morris) participated in this placing purchasing 32,710,280 shares, 4,672,896 shares, 279,671 shares, 186,915 shares, 139,835 shares, 65,256 shares, 46,728 shares, 18,691 shares and 186,915 shares respectively.

During the year, the freehold interest of a property owned by a third party and which is leased to TalkTalk was acquired by a company of which the Executive Chairman is a controlling owner. There was no new transaction between TalkTalk and that company and the contractual terms of the lease with TalkTalk were unchanged.

Company balance sheet

Company number: 07105891
As at 31 March 2019

	Notes	2019 £m	2018 (restated)[2] £m	2017 (restated)[2] £m
Non-current assets				
Investments in subsidiaries and joint ventures	4	1,199	1,197	1,189
Derivative financial instruments		–	–	31
		1,199	1,197	1,220
Current assets				
Cash and cash equivalents		29	17	121
Trade and other receivables	5	676	804	646
		705	821	767
Total assets		1,904	2,018	1,987
Current liabilities				
Trade and other payables	6	(43)	(171)	(113)
Non-current liabilities				
Borrowings	7	(748)	(700)	(813)
Total liabilities		(791)	(871)	(926)
Net assets		1,113	1,147	1,061
Equity				
Share capital	9	1	1	1
Share premium	10	684	684	684
Retained earnings and other reserves[1]	10	428	462	376
Total equity		1,113	1,147	1,061

(1) The Company's loss for the year was £9m (2018: £60m loss).
(2) See note 1 for further details of the restatement of comparative information and the presentation of a third balance sheet.

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

These financial statements were approved and authorised for issue by the Board on 23 May 2019. They were signed on its behalf by:

TA Harrison   CK Ferry

T Harrison
Chief Executive Officer

K Ferry
Chief Financial Officer

Company cash flow statement

For the year ended 31 March 2019

	Notes	2019 £m	2018 (restated)[1] £m
Operating activities			
Operating loss		(9)	(11)
Share-based payments		1	1
Impairment loss	4	9	6
Operating cash flows before movements in working capital		1	(4)
Decrease/(increase) in trade and other receivables		154	(162)
(Decrease)/increase in trade and other payables		(128)	59
Cash generated from/(used in) operations		27	(107)
Net cash flows generated from/(used in) operating activities		27	(107)
Financing activities			
Repayments of borrowings		–	(374)
Drawdown of borrowings		55	300
Interest paid		(42)	(40)
Other finance costs		–	(13)
Issue of shares		–	201
Dividends paid	3	(28)	(71)
Cash flows (used in)/generated from financing activities		(15)	3
Net increase/(decrease) in cash and cash equivalents		12	(104)
Cash and cash equivalents at the start of the year		17	121
Cash and cash equivalents at the end of the year		29	17

(1) See note 1.

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

Company statement of changes in equity

For the year ended 31 March 2019

	Notes	Share capital £m	Share premium £m	Retained earnings and other reserves £m	Total equity £m
At 1 April 2017		1	684	376	1,061
Loss for the year		–	–	(60)	(60)
Other comprehensive income					
Items that may be reclassified to profit or loss:					
Gain on hedge of a financial instrument		–	–	2	2
Gain on a hedge reclassified to income statement		–	–	6	6
Total other comprehensive income		–	–	8	8
Total comprehensive expense		–	–	(52)	(52)
Transactions with the owners of the Company					
Share-based payments reserve credit		–	–	8	8
Issue of shares		–	–	201	201
Equity dividends	3	–	–	(71)	(71)
Total transactions with the owners of the Company		–	–	138	138
At 31 March 2018		1	684	462	1,147
Loss for the year		–	–	(9)	(9)
Total comprehensive expense		–	–	(9)	(9)
Transactions with the owners of the Company					
Share-based payments reserve credit		–	–	3	3
Equity dividends	3	–	–	(28)	(28)
Total transactions with the owners of the Company		–	–	(25)	(25)
At 31 March 2019		1	684	428	1,113

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

Notes to the Company financial statements

1. Accounting policies and basis of preparation

Basis of preparation

The separate 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 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 Company operates.

The financial statements have been prepared on the going concern basis. Details of the considerations undertaken by the Board in reaching this conclusion are set out in note 1 to the Group consolidated financial statements.

The Company has applied IFRS 9 retrospectively and not noted any adjustments to comparative information.

Balance sheet and cash flow statement restatement

During the year, management has reviewed its balance sheet presentation. As a result of this review, management has restated other loans of £67m (2017: £58m) to amounts owed to Group undertakings, as in substance these loans are intercompany balances relating to the receivables purchase agreement outlined in note 20 to the consolidated financial statements. This restatement has not impacted key financial statement line items other than to reduce other loans and increase other payables by £67m at 31 March 2018 and £58m in 2017. This restatement has also had a consequential impact on the comparative cash flow statement giving rise to a greater increase in trade and other payables of £9m and a decrease in the drawdown on borrowings of £9m. In addition, in accordance with IAS 1, the 2017 balance sheet has also been disclosed and restated accordingly.

Accounting policies

The Company's accounting policies are in line with the Group's accounting policy as set out in note 1 of the Group consolidated financial statements. Where an accounting policy is generally applicable to a specific note, the policy is described within that note.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to exercise judgement in applying the Company'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.

Key sources of estimation uncertainty

Asset impairment review

Where there are indicators of impairment, an impairment test is performed on the relevant investment. The recoverable amount of investments is determined to be the higher of fair value less costs of disposal, and value in use. Value in use is calculated from cash flow projections based on internal forecasts and then beyond using estimated long-term growth rates. Key estimates with regard to the value in use calculations include the projections of future performance, discount rates and future growth rates. Fair value is determined by reference to the Company's share price value on the London Stock Exchange. Key estimates of future economic benefits made in relation to investments may differ from the benefits that ultimately arise and materially affect the recoverable value of the investments. No reasonably possible changes in the key assumptions would cause the carrying amount of the investments to fall below the recoverable amount.

IFRS 9

In accordance with IFRS 9, management has reviewed all financial assets held at amortised cost, including amounts owed by Group undertakings to assess whether any expected credit losses should be recognised taking into account future expected cash flows of other Group undertakings.

There are no significant judgements made in relation to the preparation of the financial statements.

2. Loss for the year

The Company has not presented its own profit and loss account as permitted by Section 408 of the Companies Act 2006.

The Company reported a loss of £9m for the year ended 31 March 2019 (2018: £60m loss).

The auditor's remuneration for audit and other services is disclosed in the Corporate Governance Report on page 51.

Detailed disclosures of the Directors' remuneration and share-based payments are given in the audited section of the Directors' Remuneration Report on pages 52 to 67 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.

Notes to the Company financial statements continued

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 year in which they are approved by the Company's shareholders. Interim dividends are recognised in the year in which they are paid.

	2019 £m	2018 £m
Ordinary dividends		
Final dividend for the year ended 31 March 2017 of 5.00p per ordinary share	–	47
Interim dividend for the year ended 31 March 2018 of 2.50p per ordinary share	–	24
Final dividend for the year ended 31 March 2018 of 1.50p per ordinary share	17	–
Interim dividend for the year ended 31 March 2019 of 1.00p per ordinary share	11	–
Total ordinary dividends	28	71

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

4. Investments

Accounting policy

Investments in subsidiaries and joint venture 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.

	2019 £m	2018 £m	2017 £m
Subsidiaries	1,176	1,174	1,166
Joint venture	23	23	23
	1,199	1,197	1,189

	2019 £m	2018 £m	2017 £m
Opening net book value	1,197	1,189	1,196
Additions	11	14	15
Impairment	(9)	(6)	(22)
Closing net book value	1,199	1,197	1,189

Joint venture

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

A full list of subsidiaries, joint arrangements, associated undertakings and any significant holdings (as defined in the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008) is presented in note 13 of the consolidated financial statements.

Additions

The additions in the year comprise:

- £2m relating to share-based payment schemes issued by the Company (2018: £8m; 2017: £5m); and
- £9m relating to the YouView joint venture (2018: £6m; 2017: £10m), settled by intercompany.

Impairment

The impairment in the year comprises:

- £9m relating to the YouView joint venture (2018: £6m; 2017: £22m) to align with its recoverable amount.

5. Trade and other receivables

	2019 £m	2018 £m	2017 £m
Amounts owed by Group undertakings	676	791	632
Prepayments and accrued income	–	13	14
	676	804	646

Interest on intercompany trading balances generated by TalkTalk's accounts payable function and bank sweeping arrangements is calculated at the Groups borrowing cost plus a margin; deposit balances receive interest at the Groups borrowing cost less a margin. Interest is either paid or capitalised monthly as appropriate. Where they exist, currency balances are calculated at similar rates.

6. Trade and other payables

	2019 £m	2018 (restated)[1] £m	2017 (restated)[1] £m
Amounts owed to Group undertakings	38	166	113
Accruals and deferred income	5	5	–
	43	171	113

(1) See note 1.

Interest on overdraft cash balances generated by the Group's pooling arrangements has been calculated at the Bank of England base rate plus 2%; deposits received 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.

During the prior year, the Group moved to an end of day sweeping arrangement and from this point no interest was charged on intercompany balances.

7. Borrowings

	2019 £m	2018 (restated)[1] £m	2017 (restated)[1] £m
Non-current			
Loans	748	700	813

(1) See note 1.

The table below analyses the Company's financial liabilities into relevant maturity groupings. The amounts disclosed in the table are the contractual undiscounted gross cash flows including interest, assuming that 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	5 years + £m	Total £m
2019							
Borrowings	(34)	(34)	(434)	(356)	–	–	(858)
Trade and other payables	(43)	–	–	–	–	–	(43)
	(77)	(34)	(434)	(356)	–	–	(901)

	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	5 years + £m	Total £m
2018							
Borrowings	(30)	(30)	(30)	(430)	(301)	–	(821)
Trade and other payables	(171)	–	–	–	–	–	(171)
	(201)	(30)	(30)	(430)	(301)	–	(992)

	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	5 years + £m	Total £m
2017							
Borrowings	(38)	(32)	(293)	(26)	(531)	(41)	(961)
Trade and other payables	(113)	–	–	–	–	–	(113)
	(151)	(32)	(293)	(26)	(531)	(41)	(1,074)

The details of the loans are disclosed within note 20 to the consolidated financial statements and should be regarded as an integral part of these financial statements.

Notes to the Company financial statements continued

8. Financial risk management and derivative financial instruments

The book value and fair value of the Company's financial assets, liabilities and derivative financial instruments are as follows:

	2019 £m	2018 (restated)[4] £m	2017 (restated)[4] £m
Financial assets[1]			
Cash and cash equivalents	29	17	121
Trade and other receivables[2]	676	804	646
Non-current investments and investment in joint venture	1,199	1,197	1,189
Derivative financial instruments[3]	–	–	31
Financial liabilities[1]			
Trade and other payables	(43)	(171)	(113)
Borrowings	(748)	(700)	(813)
	1,113	1,147	1,061

(1) The Company has no financial instruments designated as FVTPL.

(2) Prepayments and accrued income have been included within the other receivables.

(3) Derivative financial instruments of £32m relates to the USPP Notes, and (£1m) relate to interest rate hedges.

(4) See note 1.

The details of the Company's risk management activities are disclosed within note 21 to the consolidated financial statements and should be regarded as an integral part of these financial statements.

9. Share capital

	2019 million	2018 million	2017 million	2019 £m	2018 £m	2017 £m
Allotted, called up and fully paid						
Ordinary shares of 0.1p each	1,146	1,146	955	1	1	1

On 8 February 2018, the Company placed an aggregate of 190,654,206 new ordinary shares of 0.1p at a price of 107p per placing share to raise net proceeds of approximately £201m after expenses. The placing shares represented approximately 19.95% of the Company's existing issued share capital. For further details, see note 23 of the consolidated financial statements.

The placing shares ranked pari passu in all respects with the existing ordinary shares, including the right to receive all dividends and other distributions declared, made or paid after the date of issue.

10. Reserves

Share premium

The share premium account records the difference between the nominal amount of shares issued and the fair value of the consideration received. The share premium account may be used for certain purposes specified by UK law, including to write off expenses incurred on any issue of shares or debentures and to pay up fully paid bonus shares. The share premium account is not distributable but may be reduced by special resolution of the Company's ordinary shareholders and with court approval.

Retained earnings

Retained earnings are made up of accumulated reserves and proceeds from the share placing noted above.

Retained earnings are considered to be distributable reserves.

Other reserve – Group ESOT

The Group ESOT held two million shares at 31 March 2019 (2018: four million; 2017: five million) in the Company for the benefit of 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 £2m (2018: £5m; 2017: £10m).

11. Audit exemption

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 2019.

The Directors have applied this exemption for the following subsidiaries:

Company name	Company number
TalkTalk TV Entertainment Limited	05829251
tIPicall Limited	03216399
Adventure Telecom Limited	10796978
Treetop Telecom Limited	11390756
FibreNation Limited	11441177
CPW Network Services Limited	05408812
TalkTalk Brands Limited	05840856
TalkTalk Corporate Limited	06755322
Telco Holdings Limited	04219971

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.

12. 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 52 to 67. The remuneration of all key management personnel is disclosed in note 4 to the consolidated financial statements.

On 8 February 2018, the Group placed an aggregate of 190,654,206 new ordinary shares of 0.1p at a price of 107p per placing share to raise net proceeds of approximately £201m after expenses. The Executive Chairman, other Directors (R Taylor, T Harrison, N Langstaff, K Ferry, C Bligh, J Gildersleeve and I West) and the Company Secretary (T Morris) participated in this placing purchasing 32,710,280 shares, 4,672,896 shares, 279,671 shares, 186,915 shares, 139,835 shares, 65,256 shares, 46,728 shares, 18,691 shares and 186,915 shares respectively.

Three-year record (unaudited)

	2019 £m	2018 (restated)[1] £m	2017 £m
Headline results			
Revenue	**1,609**	1,605	1,720
Profit/(loss) for the year attributable to the owners of the Company	**69**	(7)	154
Net assets			
Non-current assets	**1,359**	1,294	1,126
Net current liabilities excluding provisions	**(181)**	(226)	(79)
Non-current liabilities excluding provisions	**(843)**	(729)	(871)
Provisions	**(47)**	(59)	(36)
Net assets	**288**	280	140
Headline earnings per share			
Basic (p)	**6.0**	(0.7)	16.2
Diluted (p)	**6.0**	(0.7)	16.1
Statutory earnings per share			
Basic (p)	**2.8**	(10.3)	6.1
Diluted (p)	**2.8**	(10.1)	6.0

(1) See note 1 for further details on the restatement of comparative information due to the introduction of IFRS 15 and IFRS 9 retrospectively.

Headline earnings represent the Group's income statement stated before non-Headline items.

Alternative performance measures

APMs are the way that financial performance is measured by management, reported to the Board, the basis of financial measures for senior management's compensation schemes and provides supplementary information that assists the user in understanding the underlying trading results.

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note reference for reconciliation	Definition and purpose
Income statement measure				
Headline revenue (excluding Carrier and Off-net)	Statutory revenue	Excludes non-Headline items, specifically MVNO Revenue. In addition, also excludes Carrier and Off-net revenues	Note 2 to the consolidated financial statements	Represents revenue excluding non-Headline revenue and low margin/volatile carrier revenue and non-core Off-net revenue. This APMs purpose is to allow the user to understand the Group's underlying revenue performance on a comparable basis.
EBITDA	Operating profit or loss	Operating profit or loss, before depreciation and amortisation, share of joint ventures, net finance costs and taxation	Note 1 to the consolidated financial statements	Represents operating profit before depreciation, amortisation and share of results of joint ventures.
Headline earnings before interest, tax, depreciation and amortisation (EBITDA)	Operating profit or loss	Operating profit or loss before non-Headline items, depreciation and amortisation, share of joint ventures, net finance costs and taxation	Note 9 to the consolidated financial statements	Represents operating profit before non-Headline items, depreciation, amortisation and share of results of joint ventures to assist in the understanding of the Group's performance. Management consider amortisation of acquisition intangibles to be a non-Headline item due to it being inherently linked to losses associated with historic acquisitions of businesses in accordance with the Group's non-Headline accounting policy. This APMs purpose is to allow the user to understand the Group's underlying financial performance measured by management, reported to the Board and that is a financial measure senior management's compensation schemes.
Headline basic EPS	Basic EPS	Basic EPS excluding non-Headline items	Note 10 to the consolidated financial statements	Represents Basic EPS excluding non-Headline items and provides supplementary information that assists the user in understanding the underlying trading results.
Balance sheet measure				
Net debt	Total borrowings after derivatives offset by cash and cash equivalents		Note 20 to the consolidated financial statements	Represents total borrowings after derivatives offset by cash and cash equivalents. It is a useful measure of the progress in generating cash and strengthening of the Group balance sheet position and is a measure widely used by various stakeholders.

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
APM	Alternative performance measure
ARPU	Average revenue per user on a monthly basis
BPT	Bolt Pro Tem Limited
CAGR	Compound annual growth rate
CGU	Cash generating unit
Churn	A measure of the number of subscribers moving 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
Demerger	The demerger of The Carphone Warehouse Group plc into TalkTalk Telecom Group PLC and Carphone Warehouse Group plc effective on 26 March 2010
DSOP	Discretionary Share Option Plan
EBITDA	Earnings before interest, taxation, depreciation and amortisation
ECL	Expected credit loss
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
FLPP	Fixed low price plan
FRC	Financial Reporting Council
FTTC	Fibre to the Cabinet
FTTP	Fibre to the Premise
Gbps	Gigabits per second
GEA	Generic ethernet access
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
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
LLU	Local loop unbundling
Mbits/Mbps	Unit of data transfer rate equal to 1,000,000 bits per second
MPF	Metallic path facility provides both broadband and telephony services to customers from TalkTalk Group exchange infrastructure
MVNO	Mobile virtual network operator
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
SVP	Shareholder Value Plan
Triple play	A customer that takes voice, broadband and TV services from the Group
TSR	Total shareholder return
UK Corporate Governance Code	UK Corporate Governance Code published by the FRC in May 2011
VES	Value Enhancement Scheme
WAEP	Weighted average exercise price

Financial calendar

Ex-dividend date	4 July 2019
Record date	5 July 2019
AGM	17 July 2019
Dividend payment date	2 August 2019

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