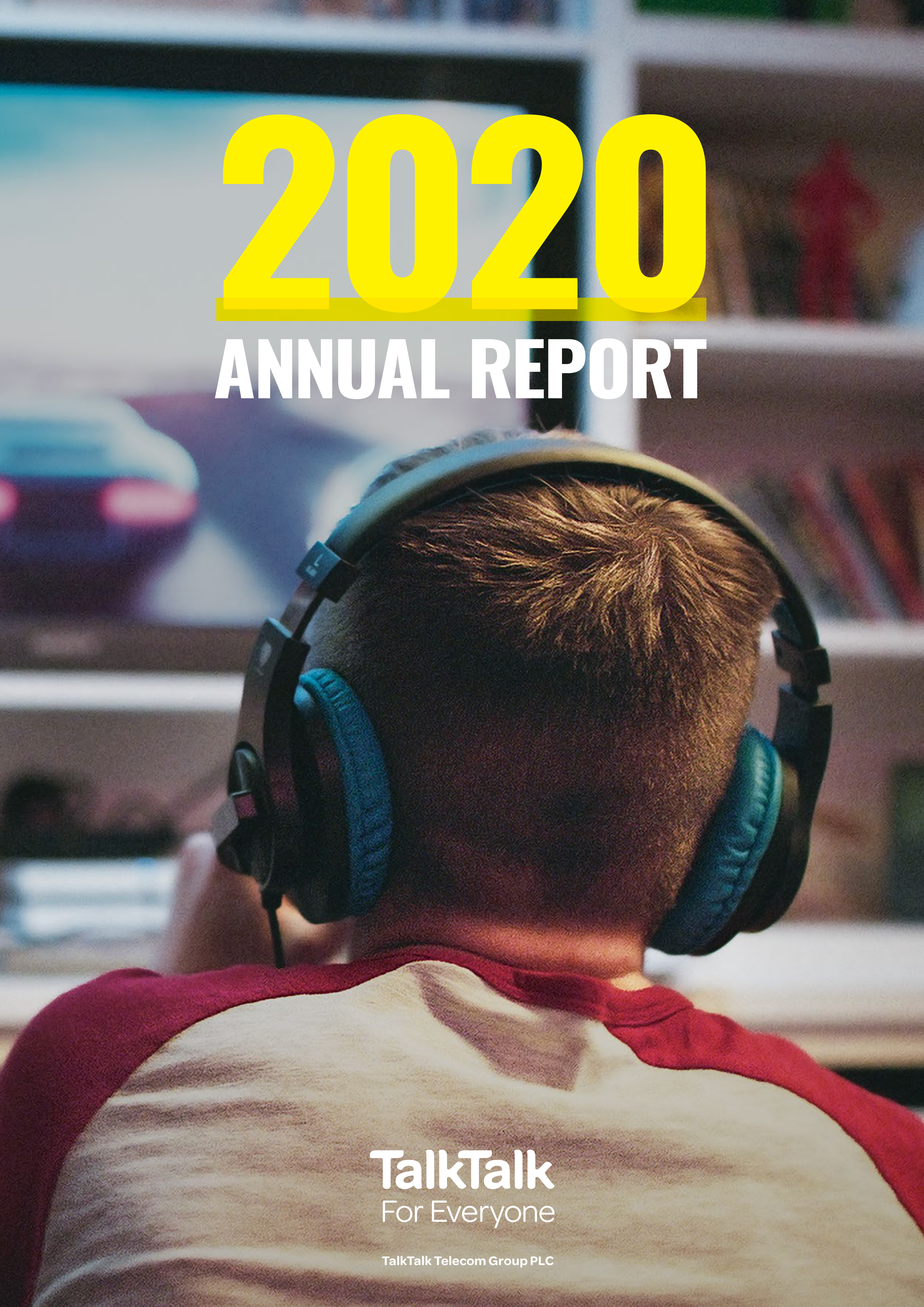
2020 ANNUAL REPORT



TalkTalk
For Everyone

TalkTalk Telecom Group PLC

TALKTALK IS THE UK'S LEADING VALUE FOR MONEY CONNECTIVITY PROVIDER

96% *population coverage*

Our purpose is to save customers money by delivering simple, affordable, reliable and fair connectivity for everyone.

4.2 million *customers*

2.4 million *Fibre customers*

UK's largest *wholesale broadband provider*

42,600 *high-speed ethernet connections*

GOLD STANDARD SERVICE AT A BRILLIANT PRICE ACROSS OUR FIBRE PRODUCTS

"We have the fastest average download speeds over 24 hours on our Faster Fibre and Superfast Fibre products versus BT, Sky, Plusnet and Vodafone equivalents*"

* According to data from Ofcom, the industry regulator, comparing average download speeds over 24 hours (in November 2019) for TalkTalk's Faster Fibre and TalkTalk's Superfast Fibre versus BT's Fibre Essential and BT's Fibre 2, Sky's Superfast Fibre, Plusnet's Unlimited Fibre and Plusnet's Unlimited Fibre Extra, Vodafone's Superfast 1 and Vodafone's Superfast 2. Links to Ofcom data: https://www.ofcom.org.uk/__data/assets/file/0037/194896/uk-home-broadband-performance-chart-data.csv and https://www.ofcom.org.uk/__data/assets/file/0039/194898/2019-panellist-data.csv

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Highlights

Metric	FY20 IFRS 16[1]	FY20 Pre-IFRS 16[1]	FY19 Pre-IFRS 16[1]
Headline[2] revenue (ex-Carrier and Off-net)	**£1,518m**	**£1,518m**	£1,544m
Statutory revenue	**£1,569m**	**£1,569m**	£1,632m
Headline[2] EBITDA	**£308m**	**£260m**	£237m
Statutory operating profit	**£197m**	**£202m**	£47m
Statutory profit/(loss) before taxation	**£131m**	**£146m**	(£5m)
Net debt[2,3]	**£954m**	**£775m**	£781m
Fibre net adds	**605k**	**605k**	490k
Fibre closing base	**2,370k**	**2,370k**	1,765k
Closing On-net broadband base	**4,220k**	**4,220k**	4,289k
On-net ARPU	**£24.35**	**£24.35**	£24.98
On-net churn	**1.20%**	**1.20%**	1.20%

1 IFRS 16 has been applied using the modified retrospective approach. Accordingly, the comparative information has not been restated, with FY20 results presented both including and excluding IFRS 16 to allow year on year analysis on a consistent basis. This alternative performance measure (APM) will be presented for one year only until the comparatives also include the adoption of IFRS 16. See note 1 of the consolidated financial statements for more information.

2 See note 1 of the consolidated financial statements for an explanation of APMs and non-Headline items and note 9 for a reconciliation of Statutory information to Headline information.

3 Total net debt includes £217m lease liability, under IFRS 16, of which £38m relates to finance leases (FY19: £39m finance leases).

COVID-19

- COVID-19 pandemic has seen good quality, reliable connectivity become an absolute necessity, further validating our position as the only scale, value provider in the market.
- Whilst the telecommunications sector has not felt the most severe effects of the COVID-19 pandemic, we will not be completely immune from the longer lasting macroeconomic impacts of the virus.
- The wellbeing and safety of our workforce has been a key focus for the management team. Thankfully, given critical worker status, the vast majority have been able to safely work from home. We have managed to navigate the crisis without needing to furlough any TalkTalk employees, with multiple roles re-purposed to help serve our customers.
- Worked closely with Government and have provided connectivity at key locations, including a number of the NHS Nightingale Hospitals, numerous care homes and supermarket distribution centres.
- Lockdown measures have resulted in material increases in daytime internet traffic and Voice usage, but our network has had sufficient headroom to handle these increases.
- Engineers have been unable to visit customer premises and this, combined with consumers being reticent to switch for fear of losing connectivity has led to lower gross additions; churn continues to be low based on our underlying improvements in customer experience and repair.
- Closure of third party overseas call centres has reduced our call handling capacity, meaning we have prioritised vulnerable customers through this channel. However, all customers have been able to interact with us digitally, accelerating our move to a 'digital first' service model. We will not be returning to pre-COVID-19 contact centre agent levels, further supporting our cost reductions.
- The extended lockdown and subsequent economic challenges may lead to an element of negative bad debt recoverability and we will watch revenue carefully as various furlough schemes fall away in the autumn. We continue to have significant flexibility in the cost base to offset these bad debt and/or potential revenue impacts.
- In light of this uncertainty we took a £3m provision, with regards to bad debt in FY20, and at present assume a c.£15m impact for FY21, reflecting current demand and bad debt.

Operational highlights

- Sale of Fibre Assets Business to CityFibre for £206m completed on 27 March 2020, underpinned by a long-term, competitive wholesale agreement.
- Closing Fibre base 34% higher year on year at 2,370k (FY19: 1,765k) with net adds of 605k (FY19: 490k), accounting for 32% share of all new Openreach Fibre to the Cabinet (FTTC) lines in FY20 (FY19: 22%).
- Strong Fibre uptake in both Consumer and B2B throughout FY20, with 78% of new Consumer customers taking a Fibre product (FY19: 58%) and 58% of new Partner connections taking Fibre (FY19: 42%).
- The overall broadband base contracted by 69k to 4,220k, as we continued our strategy of growing the Fibre base and taking a customer lifetime value (CLV) approach to base management, which saw some of our low value legacy copper customers to churn. The base returned to growth in Q4 with 7k net additions.
- Ongoing low level of average monthly churn at 1.20% (FY19: 1.20%), with Q4 the lowest ever at 1.04%.
- Completed operational transition of HQ from London to Salford, consolidating our employees in a single northern campus with material increases in engagement and productivity, whilst delivering cost savings in line with plan.

Financial highlights[1,2,3]

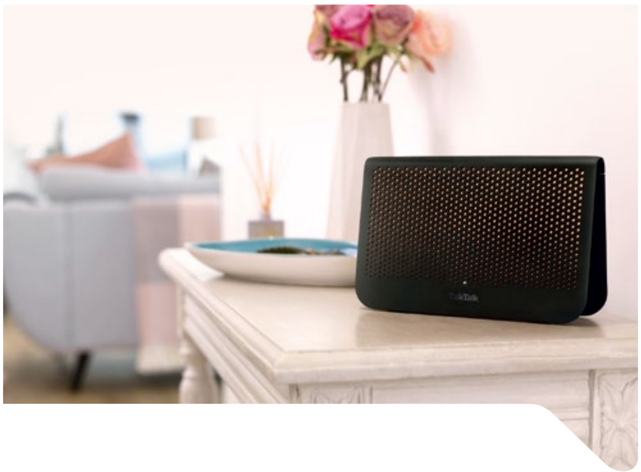
- Headline revenue (ex-Carrier and Off-net) and On-net ARPU down 1.7% and 2.5% respectively, largely due to the lower base and lower Voice usage and call boost revenue across Consumer and B2B. We also accelerated our strategy of re-contracting of our remaining higher ARPU legacy Copper customers onto a Fixed Low Price Plan (FLPP), ahead of regulatory and industry commitments on out of contract pricing, increasing our in-contract base to 71% (Q4 FY19: 68%). These effects were partly offset by increased Fibre penetration.
- Statutory revenue contracted by 3.9% mainly due to declining Carrier revenue and lower non-Headline MVNO revenue as we wind down this business.
- Headline EBITDA (pre-IFRS 16) grew 9.7% to £260m (FY19: £237m) driven by lower cost to serve due to a reduction in faults and contact centres calls as a result of an increase in more reliable Fibre connections, and the efficiencies from the move to our Salford campus and our new distribution agreement leading to a materially lower cost base.
- Statutory operating profit improvement reflects the profit on disposal of the Group's Fibre Assets Business, Headline EBITDA growth and fewer non-Headline items.
- Net debt (pre-IFRS 16) broadly flat year on year with the sale of the Group's Fibre Assets Business offset by significant working capital outflows due to settling a key supplier monthly invoice earlier than forecast (resulting in an additional payment year on year), a change in distribution model and accelerated Fibre growth, as well as the cash cost of our HQ move.
- Re-financed the Group's borrowings in February 2020 with issuance of £575 million 3.875% senior notes due 2025 (replacing previous £400m 5.375% senior notes due 2022); reduction of RCF from £640m to £430m in April 2020.
- Final dividend of 1.50p (FY19: 1.50p); total 2020 dividend of 2.50p (2019: 2.50p).

Looking forward

- Whilst we do not expect a significant deviation from our previous FY21 objectives, given the COVID-19 uncertainty, we do not feel it is appropriate to give formal guidance for the year at this stage.
- However, based on current trends we would expect to deliver stable Headline EBITDA year on year, assuming a c.£15m COVID-19 impact. The expectation is ongoing flexibility in the cost base, accelerated by COVID-19, should offset any potential negative impact on bad debt or revenues.
- We expect strong cash conversion as we continue to de-lever towards our medium term target of 2.0x net debt/Headline EBITDA. This will be driven by a materially lower working capital, reduced Capex, lower interest and significantly fewer re-organisation costs. We will therefore maintain the dividend at 2.5p and we will review our dividend policy as we continue to de-lever over the medium term.

AT THE HEART OF BRITAIN'S FULL FIBRE FUTURE

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 ensuring customers benefit from more choice, affordable prices and better services.

Today, we provide Fibre, broadband, landline, TV and mobile services to over four million customers. We serve our retail customers through the TalkTalk brand, our business customers through TalkTalk Business, whilst also wholesaling to resellers. Our fixed line network currently covers approximately 96% of UK homes, with unbundling equipment (such as digital subscriber line access multiplexers, multi-service access nodes and Ethernet switches) installed in over 3,000 exchanges, which is the largest such deployment in the UK.

As we look forward, we are well positioned to benefit from the roll-out of Full Fibre (Fibre to the Premise or FTTP) across the UK as network builders seek immediate access to high volumes of customers to support their investment. We therefore expect to be able to negotiate wholesale terms which enable us to cost effectively migrate our new and existing customers at pace to higher bandwidth and more reliable connectivity products.

Over 3,000
unbundled exchanges

686 million
GB average customer downloads per month

2,077
employees (as at 31 March 2020)

HQ
Salford, Greater Manchester (as of 1 April 2020)

ACCOLADES

Uswitch
Most Popular
Broadband Provider
Winner 2020

uSwitch Most Popular Broadband Provider
Winner 2020

Wi-Fi NOW AWARD 2019
BEST IN-HOME WI-FI PRODUCT

Wi-Fi Hub recognised with our partner ASSIA, Inc.
Best In-Home Wi-Fi Product 2019 by Wi-Fi NOW

WHAT WE DO

Fibre

We offer both Consumer and Business customers access to faster, more reliable Fibre broadband, provided via our Fibre to the Cabinet (FTTC) network.

We've also already connected thousands of customers to Full Fibre in York and the North East on the FibreNation network and elsewhere on a trial basis with Openreach.

Broadband

We continue to provide standard broadband connectivity (ADSL) for those customers who do not yet require the increased download speeds offered by a Fibre connection.

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 calling packages which give customers the ability to save money on items such as international calls.

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 services.

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 and BT Sport, as well as over the top (OTT) services from Netflix and Amazon Prime Video.

Mobile

Our simple and compelling proposition allows Consumer customers to access unique offers in partnership with O2.

OUR CUSTOMERS

Consumer

Our Consumer business provides affordable, reliable fixed line connectivity to residential consumers.

Fixed connectivity is the core of our proposition and is offered at varying bandwidths, with nearly 60% of our total customer base now taking a faster, more reliable FTTC product due to the ever-increasing demand for data. We offer these services on the basis of Fixed Low Price Plans (FLPPs). As well as ensuring that customers save money over the life of their contract, FLPPs guarantee no mid-contract broadband price rises, providing price certainty over the contract length of 12, 18 or 24 months.

In addition to the core Fibre/broadband products, we offer sensibly priced and revenue enhancing TV and fixed line telephony add-ons. Our TalkTalk TV add-ons provide flexible access to varied free and pay-to-view third party content through the YouView platform. We also offer Consumer customers an option to subscribe to O2's mobile services through our reseller agreement with them.

Business (B2B)

Our business arm, TalkTalk Business, is one of the largest B2B telecommunication services providers in the UK.

We offer a wide range of data connectivity and next generation voice products to businesses throughout the country, including fixed line telephony, broadband internet (including high-speed Ethernet), data networking and other connectivity solutions. These services are offered to private companies and public sector organisations, both directly and on a wholesale basis through approximately 900 channel partners. Through these partners, we are the UK's largest provider of wholesale broadband to small businesses and consumers, with over 50% market share.

PROUD PROVIDER OF CRITICAL NATIONAL INFRASTRUCTURE

"Our role as a critical national infrastructure provider has never been clearer and we are well placed to deliver on our strategy."

The environment has significantly changed in the wake of the COVID-19 pandemic, with lasting consequences for Britain as a country, an economy and a society.

TalkTalk has been proud to play our vital role as a provider of critical national infrastructure at a time when Britain's need for affordable, fast and reliable connectivity is greater than ever before.

Three years ago we reset TalkTalk on a path to simplification and prioritisation, and this has delivered a stronger business. Our focus on fixed connectivity at the best value has been met with growing demand for higher bandwidth products and a stable customer base.

Britain's journey to Full Fibre also remains an essential priority for the Government and with the ever-increasing demand, the imperative to meet the rollout target of 2025 is front of many minds. As part of the significant efforts to rebuild the economy in the wake of the current crisis, the drive to build this major digital infrastructure could serve as a key job creator and catalyst for that much needed growth.

This year, TalkTalk has shown that this journey to Fibre is welcomed by customers – they want faster, more reliable connections, and this can be seen in our results. We now have nearly 60% of our total base – across Consumer and TalkTalk Business – taking a Fibre product. This includes those customers moving from old Copper connections to Fibre to the Cabinet (FTTC), as well as those choosing Fibre to the Premise (FTTP) networks, where this is available. Our long term objective remains to transition all customers to FTTP networks as quickly as possible.

A significant development in March was the completion of the sale of our Fibre Assets Business to CityFibre for £206m – around three times the value invested. This was also underpinned by a long term competitive wholesale agreement for TalkTalk customers in CityFibre areas. In addition, we are in talks with Openreach regarding a potential national FTTP agreement. This is a path we will also seek to follow with other altnets where it is possible to do so. These agreements will enable us to offer next generation, Full Fibre connectivity to customers at an affordable price.

Our focus on Fibre has led to the creation of our 'Fibre for Everyone' programme. This cross-Group initiative will consume wholesale FTTP from a range of network operators to provide future-proof connectivity to homes and businesses across the UK.

Lastly, we have now concluded our move to Salford, with our place in the heart of the Northern Powerhouse fully established. While colleagues may have been spending less time in the office in recent weeks, the TalkTalk spirit is very much in evidence and as strong as ever.

Those colleagues remain the strongest asset this business has, and this year in particular, following an enormous amount of hard work under difficult circumstances, they have made me prouder than ever to be their Chairman.

Sir Charles Dunstone
Executive Chairman
11 June 2020

WE REMAIN FOCUSED ON OUR STRATEGY

"We exit the year a simpler, stronger business and are primed to deliver on our plan in the face of an increasingly uncertain environment."

Overview[1,2]

Whilst the global landscape has changed immeasurably, as a result of the COVID-19 pandemic, the vast majority of our reported financial year (FY20) was completed prior to this crisis, and as such, much of this review looks back at the year through that lens. However, there is no escaping the ongoing global economic impact of COVID-19, so we will address the impact it has had, and will likely continue to have, on TalkTalk at the end of this review in a COVID-19 specific section.

The underlying business is strong. We are now three years on since we set out our strategy to be Britain's leading value provider of core fixed connectivity. As we exit the current financial year, our strategy remains unchanged, with our focus on providing our customers the best value for money connectivity, whilst radically simplifying TalkTalk to focus on fewer priorities as a leaner, more efficient business.

Our strategy is underpinned by the sharp growth in demand for data consumption from both consumers and businesses, with data usage continuing to increase exponentially (c.40% year on year), driven by video streaming, online gaming and cloud storage services. This has only been accelerated by COVID-19, with data usage increasing further as people have been confined to their homes and relying on the internet for all manner of things, from working at home, to doing their online shopping, to keeping in touch with loved ones on various video call platforms, to completing a PE class online via YouTube. The internet is increasingly a utility and consequently, the demand for affordable and reliable fixed connectivity continues to rise, as does the consumer demand for higher speed and more resilient broadband.

These market dynamics continue to validate our strategy to focus on fixed connectivity and to specifically narrow our focus on higher bandwidth part-Fibre and Full Fibre broadband, as legacy copper infrastructure fast becomes not fit for purpose. Crucially, alongside this, we are continuing to reduce our cost base, as we remain resolutely focused on having a low cost structure that enables us to profitably provide customers with lower prices. This strategy has led to a 9.7% year on year increase in pre-IFRS 16 Headline EBITDA to £260m (£308m after the application of IFRS 16), including a £3m provision for COVID-19 bad debt. On a Statutory basis pre-IFRS 16 operating profit of £202m (£197m after the application of IFRS 16) was significantly higher than the prior year (£47m pre-IFRS 16) reflecting the profit on disposal of the Group's Fibre Assets Business, EBITDA growth and fewer non-Headline items.

With the increasingly uncertain economic climate, low prices matter even more, and TalkTalk continues to be well positioned to benefit as the only scale, value provider.

Fibre for Everyone

Throughout the year, we have continued to make strong progress on our strategy of converting standard broadband customers from legacy Copper connections to Fibre to the Cabinet (FTTC). These customers benefit from faster, more reliable connectivity, whilst for TalkTalk these customers come with a higher lifetime value. We now have nearly 60% of the total Consumer and B2B base taking a FTTC product. However, as customers continue to demand even faster, more reliable services, our long term ambition is to transition all customers to new Fibre to the Premise (FTTP) networks as quickly as possible. These FTTP services provide significantly greater speeds, as well as enhanced reliability and quality, meaning fewer faults, and therefore fewer calls to our call centres and reduced demand for engineer visits. As such, we expect this transition will provide customers with access to a superior product that will continue to reduce our cost to serve, enabling us to deliver competitive prices and retain customers for longer.

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Fibre for Everyone continued

Supporting this ambition, we created our 'Fibre for Everyone' programme. This is a cross-Group initiative, in an extension of our commercial wholesale FTTC agreements with Openreach, where we will aggregate wholesale FTTP from a range of network operators to provide future-proof connectivity to homes and businesses across the UK. In an acceleration of our Full Fibre strategy, on 27 March 2020, we completed the sale of our Fibre Assets Business for £206m to CityFibre. The sale represented an excellent return on investment and is accompanied by a long term, competitive wholesale agreement. We continue to work with CityFibre on a roll-out plan that will enable us to bring FTTP to as many customers as possible, as fast as possible. Separately, we remain in talks with Openreach, to gain access to competitive pricing to encourage faster adoption of FTTP throughout the UK. We will also seek to enter into wholesale agreements for FTTP with other altnets where we are able to do so.

We spent much of the first half of the year building the systems and capability to provide FTTP services and throughout the second half of the year have launched Openreach FTTP to customers on trial pricing. We expect that moving to FTTP will provide us with access to a superior product that will further reduce our cost to serve, enabling us to deliver competitive prices and retain customers for longer. We continue to be well placed to succeed in this space. With multiple routes to market through TalkTalk Consumer, Business and Wholesale, as well as a significant existing customer base, we are one of the few scale operators able to offer significant volume commitments to network builders and drive commercial advantage.

Consumer

Our single-minded focus on Fibre continues to bear fruit as customers are increasingly demanding faster, more reliable services. We saw another meaningful shift from legacy Copper to Fibre, as we delivered 605k Fibre net adds across the Group in FY20, making significant year on year progress (FY19: 490k). Nearly 60% of our total base (Consumer and B2B) is now taking a Fibre product, with the total Fibre base now almost 2.4 million customers.

Our propositions continue to resonate with our Consumer customer base, with an ever-increasing proportion of new customers signing up to a Fibre product. As we exited the year, 85% of new Consumer customers in March signed up to one of our higher speed products compared to 72% at the same stage twelve months ago. Of these new Fibre customers, 49% took our faster, higher ARPU 80Mbps product throughout FY20 (FY19: 30%). Lower wholesale costs from Openreach mean we can continue to migrate more of our base to these faster services more economically.

Continued investment in new 'digital first' self-service tools has led to significant improvements in the customer experience, evidenced by increasing satisfaction scores and NPS. Our online service centre tool provides a digital platform empowering the customer to choose the right customer service option for them, and often allowing customers to identify and resolve issues online without having to speak to an agent. This tool has been rolled out to all of our Consumer base and combined with other self-service methods (e.g. text messaging and live chat), we are seeing a reduction in call volumes, fewer complaints and increased customer satisfaction, which is leading to lower costs to serve. Increasingly, customers are also using the online service centre to self-adopt faster Fibre products, where they can see if their current speed is fit for their usage needs.

During the year, we kept On-net churn flat at 1.20% (FY19: 1.20%), although we saw an improvement from 1.27% in the first half to 1.12% in the second half, with our lowest ever quarter for churn at 1.04% in Q4 (although this was in part due to a slowdown in churn as a result of COVID-19 at the end of March). Throughout FY20 we saw some ARPU dilution as we actively targeted some of our remaining higher ARPU legacy Copper customers to re-contract onto FLPPs, ahead of regulatory and industry commitments on out of contract pricing. As such, our in-contract base increased to 71% (Q4 FY19: 68%). We also made a number of commitments in September 2019 to improve our customers' experience, including making it easier for new and existing customers to access the same deals from January 2020, as well as ensuring vulnerable customers are proactively moved to the best package for their needs. These pre-emptive actions leave us well positioned ahead of any further regulatory intervention on the 'loyalty penalty' paid by existing customers.

TalkTalk Business[3]

We have seen very similar trends in our B2B division, with clients consuming more data and demanding higher speed connections. As such, our strategy is consistent across both divisions, with the upgrade of customers to higher speed Fibre and Data products being the primary focus for both the indirect and Direct B2B business. The majority of new customers in our indirect partner business are now joining on Fibre products, with 58% of gross additions taking Fibre throughout FY20 (FY19: 42%), peaking at 69% in Q4 (Q4 FY19: 41%), delivering the highest ever quarterly Fibre net adds number in B2B.

Throughout the year we strategically locked in a number of our key Broadband and Ethernet partners with long term commitment deals, albeit with some moderate ARPU dilution – in return for contract security (average five years). We grew the overall Ethernet base to 42.6k (FY19: 37.3k), with 5.3k net adds (FY19: 5.3k), representing c.17% share of all new Openreach Ethernet lines, ahead of our market share of c.13%. Importantly within the mix, we saw 36% of orders for our 1Gb service (FY19: 23%), which comes with significantly higher ARPU and lower churn.

Given the success of 'My Online Service Centre' in the Consumer business, we have started to share our proprietary data with our partners to enable them to enhance their end-customer experience. Not only does this lead to more content customers, this also strengthens our relationship with key partners, as we work together to provide the best possible service to customers.

To ensure we maximise the growth potential of our Direct B2B business, we structured it as a stand-alone business division in the prior year with a new dedicated management team. This renewed focus, coupled with some targeted investment, has seen the Direct business prosper, delivering record Fibre net adds.

3 Since EFM is a legacy product, we are no longer including EFM connections in our Data KPIs, and instead will report Ethernet only.

Network and connectivity

Our core strategy remains the provision of fixed line connectivity, affordable for all. This means network expansion to stay ahead of demand is our core investment priority to meet rising demand (+40% year on year). Crucially, we are doing this more efficiently by exploiting new technology to reduce our cost per Gb, whilst driving industry changes along the way. Video streaming and online gaming continue to dominate peak bandwidth consumption, contributing to our peak usage record of over 6.4Tbps. To help manage this demand, we have successfully continued our strategy of storing (caching) content as close to the network edge as possible to minimise buffering and optimise required network expansion. We now serve over 90% of Netflix content at the network edge, and with recent market entrants such as Disney+ and Amazon Prime Video driving more over the top content we are working closely with those content providers to adopt similar caching strategies. This, combined with our continued transition to Fibre access technologies, is reflected by our strong position in the Netflix ISP performance rankings for the UK.

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 2022 and underpins the wider Group strategy.

Our continued use of network data to proactively diagnose connectivity issues, inform customers and recommend the right course of action to resolve remains at the heart of our Consumer connectivity strategy. In the second half of the year we have progressed this into the in-home environment at scale, using cloud-based data analytics and clear guidance to help customers improve their setup at home to fully enjoy the connectivity we supply to them.

Cost reduction

FY20 has seen us continue with our relentless drive to make TalkTalk a simpler, lower cost business, and this has materially fed through into the financials, with a significantly lower cost base. Our focus on core connectivity has seen us continue to sell our non-core products, such as mobile and TV, in a capital-light way. This Fibre-focused strategy, aided by our wholesale discount agreement with Openreach, has seen a big increase in the number of customers taking Fibre, meaning that a greater proportion of the base is benefiting from higher speed and more resilient connections. As a result, we are seeing fewer faults, engineer visits and calls into the call centre. In tandem with this, the full roll-out of 'My Online Service Centre' has seen more and more customers self-serving, further reducing calls to our contact centres, meaning we have significantly reduced our cost to serve year on year.

We have now completed the operational move of our HQ from London to Salford and are well on track to deliver the £25m–£30m annualised savings. With the move now operationally complete, we have seen improved collaboration and a more agile culture, and believe there are further benefits to be had, particularly as we continue to undertake a rigorous review of all external spend now that the majority of the business is located in one place.

We have also fully transitioned to a more targeted digital approach to marketing, which has enabled us to target higher value customers. We have largely moved away from price comparison websites, as well as exiting a distribution agreement with a third party in the prior year, as these routes to market were insufficiently profitable due to high acquisition costs and the acquisition of customers with a higher propensity to churn. Enhanced by a new distribution relationship, a shift to digital channels has enabled us to bring down customer acquisition costs year on year.

Finally, on costs, we re-financed the Group's borrowings, replacing the previous £400m 5.375% senior notes maturing in 2022 with £575m 3.875% senior notes maturing in 2025. Soon after year end, in April 2020, the Group also renewed its revolving credit facilities, reducing the facility size from £640m to £430m with this facility maturing in 2024. This activity provides the Group with a greater proportion of fixed, long-term, lower cost debt.

All of these initiatives will continue to provide ongoing reductions to our cost base into FY21 and beyond, and we see further flexibility in the cost base, accelerated by COVID-19, which will enable us to deliver additional savings.

People

To continue delivering for our customers, we are intent on making sure we have the right resources and skills in place to focus on our mission of being the UK's leading value for money fixed connectivity provider. With the move of our HQ from London to Salford operationally complete, the vast majority of the workforce are now situated in our North West HQ, with a small presence maintained in a satellite office in London. The move has been a great success, creating a strong customer oriented culture, and increased collaboration has led to a 56-point improvement in internal engagement scores since the move was announced in November 2018. We were delighted to make a discretionary payment of £15m to reward all our Executive Committee and employees upon completion of the sale of the Fibre Assets Business. This was to reflect their hard work at a particularly challenging and demanding time, and to enable them to share some of the value arising from the sale.

COVID-19

As we approached the end of FY20, the COVID-19 pandemic escalated globally, and the UK was put into lockdown on 23 March 2020. Whilst only impacting the closing weeks of FY20, this has inevitably had a significant effect on our ongoing operations. What has been most apparent throughout this global crisis has been the accelerated elevation of the internet to an essential utility, with broadband networks being classified as critical national infrastructure, keeping the nation connected in these extraordinary times. Good quality, reliable connectivity is an absolute necessity.

With many businesses across the world under significant pressure, we are very fortunate to work in an industry that is an essential service, and have therefore been able to navigate through the crisis without having to furlough any TalkTalk staff or take any Government support. As critical workers it has been imperative that we have been able to adapt to working remotely, and our flexible working culture has meant that it has been a relatively easy transition for most of our staff. Almost all TalkTalk employees have been able to work from home except for a small skeleton workforce in our Salford HQ and c.35 field and data centre engineers. We could not be more proud of our passionate and engaged people, who have gone above and beyond to help serve our customers during this period at a time where they themselves have been facing the uncertainties and challenges that the crisis has brought.

COVID-19 continued

Network usage was already on the rise, and since the lockdown this has grown, with a c.20% uplift in daytime traffic. Initially there was an increase in voice calls and call duration, as customers used landlines to stay connected with work, family and friends, but this has dropped off with people becoming more accustomed to using video calls over the internet (e.g. Zoom and WhatsApp). In order to ensure the network continues to be optimised to cope with changes in demand and usage, we have been constantly monitoring it to forecast and respond to the ongoing demand. This has enabled us to maintain network stability and maximise customer experience, whilst still having a considerable amount of headroom to handle peaks well above the demand level we are currently managing.

Perhaps the main operational impact in our Consumer business has been in how we serve our customers, with the acceleration of our 'digital first' strategy. Our two main third party customer service providers, in the Philippines and South Africa, have been impacted by local Government restrictions, which has led to a highly reduced number of customer service agents. We have worked closely with our partners with regards to their return to support, whilst at all times prioritising the welfare of agents. We have implemented some mitigating actions which include moving additional TalkTalk staff into customer facing roles, whilst customers have willingly used our digital service options. The response from colleagues across the business was overwhelming, with hundreds volunteering to help support our customers by responding to queries and helping resolve issues. We have also prioritised voice contact opportunities for our vulnerable customers to help better serve those customers most in need. As a result, we have accelerated our strategy to transition to digital customer service, with customers now empowered to troubleshoot, diagnose, self-serve and action issues online that would have previously required a phone call. Our previous focus and preparation on this 'digital first' approach has enabled us to operate more efficiently than many others throughout the crisis.

In terms of Consumer trading, we have shown good resilience. Greater reliance on the internet, as an essential utility, has meant that customers have been less likely to churn during lockdown as they prioritise maintaining service. Like others, we have pulled back on marketing, and this combined with the reduced capacity of Openreach and fewer customers switching has impacted new customer numbers. In spite of this, we have seen good natural demand lead to relatively buoyant gross additions, as consumers look to save money on bills in these uncertain economic times, further validating our position as the only scale, value provider in the market. Significant increases in data consumption, driven by homeworking, video calls and increased gaming and video streaming, mean households are hungry for more bandwidth. Consequently, we have seen as many as 88% of weekly new Consumer customers take a Fibre product, albeit from lower absolute gross additions, in what is again an acceleration of our pre-existing strategy. We are now starting to invest in marketing again and are seeing numbers start to pick up.

Businesses up and down the country have been profoundly impacted by the lockdown measures and we have been focused on informing, reassuring and supporting our B2B customers. With the Government announcing unprecedented measures to help UK businesses in these challenging times, we have been helping to raise awareness around the significant financial assistance on offer and have developed a content hub that is a repository of information for our customers and partners. Sadly, not all businesses will survive COVID-19, which creates uncertainty, but we are doing all that we can to help our B2B clients, from dialling up or down bandwidth requirements for those businesses whose needs have evolved in the wake of COVID-19, to having conversations with businesses about revised payment plans. Alongside Openreach we have launched a 'soft cease process' whereby businesses in trouble, and not using their connection, can stop paying their bill whilst their line is temporarily ceased, giving them some financial breathing space. We have also been working closely with the Government throughout COVID-19 and, alongside other ISPs, we have provided connectivity at a number of key locations, including the NHS Nightingale Hospital in London, numerous care homes across the country and supermarket distribution centres.

What this crisis has really emphasised is the need for next generation Full Fibre networks that are fit for purpose and provide customers with good quality, fast and reliable connectivity. Whilst progress has been made over the last twelve months, the UK is still lagging well behind the rest of the world with only c.12% Full Fibre availability (Source: Ofcom, Connected Nations Update – Spring 2020). Encouragingly, some FTTP builds have been able to continue throughout the COVID-19 outbreak, but it is inevitable that the pace of roll-out will be slower than initially planned. With this a Government priority, there will be a desire to accelerate the construction of these future-proofed networks as and when lockdown restrictions are eased. This will no doubt provide much needed employment opportunities for tens of thousands of people over the coming years.

Outlook

The economic impact of the COVID-19 pandemic, whilst uncertain, is likely to be significant. We exit FY20 in a more robust operational and financial position but will not be immune to upcoming challenges. Though we do not expect a significant deviation from our previous FY21 objectives, given this uncertainty, we do not feel it is appropriate to give formal guidance for the year at this stage. However, our strategy remains the same, and we enter FY21 a much simpler, stronger business. We have considered a range of scenarios to understand potential outcomes on our business and to plan appropriately. Based on current trends and the macroeconomic outlook we would expect:

- Headline EBITDA for FY21 to be stable year on year, assuming a c.£15m COVID-19 impact, with continued cost efficiencies and further flexibility in the cost base, accelerated by COVID-19 offsetting any potential negative impact on bad debt or revenues;
- strong cash conversion in FY21 as we continue to de-lever towards our medium term target of 2.0x net debt/Headline EBITDA. This will be driven by materially lower working capital, reduced Capex, lower interest and fewer re-organisation costs; and
- we will maintain the dividend at 2.50p per share.

Tristia Harrison
Chief Executive Officer
11 June 2020

OUR INVESTMENT CASE

1 Clarity of purpose

By aligning our culture, investments, operations and products with our core purpose, we have become the UK's leading value for money fixed connectivity provider.

2 Compelling fundamentals

We have Britain's largest unbundled network, with unrivalled B2B coverage and one of the UK's few scale residential customer bases.

3 Market opportunity

TalkTalk is at the heart of Britain's Fibre future and is uniquely positioned to benefit from significant demand for affordable, reliable connectivity.

4 Differentiated products

Our simple contracts, powerful bandwidth capabilities, fairly priced add-ons and award-winning technology makes us the supplier of choice for customers wanting reliable and affordable fixed connectivity.

5 Clear strategy

We have a clear and simple plan based on keeping our costs low so that we can save customers money by providing affordable and reliable connectivity for both consumers and businesses.

OUR MODEL FOR SUSTAINABLE GROWTH

INPUTS

- Large and stable customer base
- Growing demand for low cost fixed connectivity
- Significant Government support for Fibre expansion
- Strong brand recognition
- Partnerships with Fibre network providers
- Dedicated and talented employees

Read more about our services on page 3

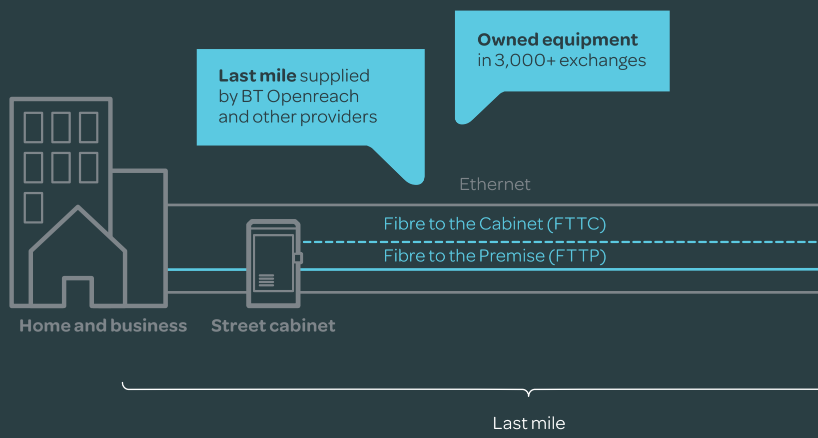
HOW WE ARE CONNECTED

KEY

Price-regulated copper and Ethernet

Fibre partially regulated

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



OUTPUTS

- Affordable and reliable products
- Effortless customer experience
- Fibre for Everyone
- Shareholder value

WHO WE DELIVER FOR

People

Our colleagues are our biggest asset and strength. Our workforce is knowledgeable, committed, collaborative and productive.

56 point improvement to employee net promoter score (eNPS)

Customers

It is vital that we engage with our customers to ensure we continue to provide great products and services that meet their changing needs.

4.2 million customers

Community

We value our communities and are committed to doing business the right way. We have a responsibility to ensure that we are contributing to society.

Over £4 million raised for Ambitious about Autism since 2006

Regulators

Regulation is vital to the success of our business, both by holding us to account for our actions and for holding our suppliers to account for their actions, whilst determining fair pricing.

88% of Openreach fault repairs to be completed on time

Shareholders

Our shareholders are the providers of capital, and continued access to capital is of vital importance to the long term success of our business.

2.50p dividend per share for the year

Government

Digital infrastructure is a Government priority with a focus on ensuring nationwide access to gigabit capable broadband connections as soon as possible.

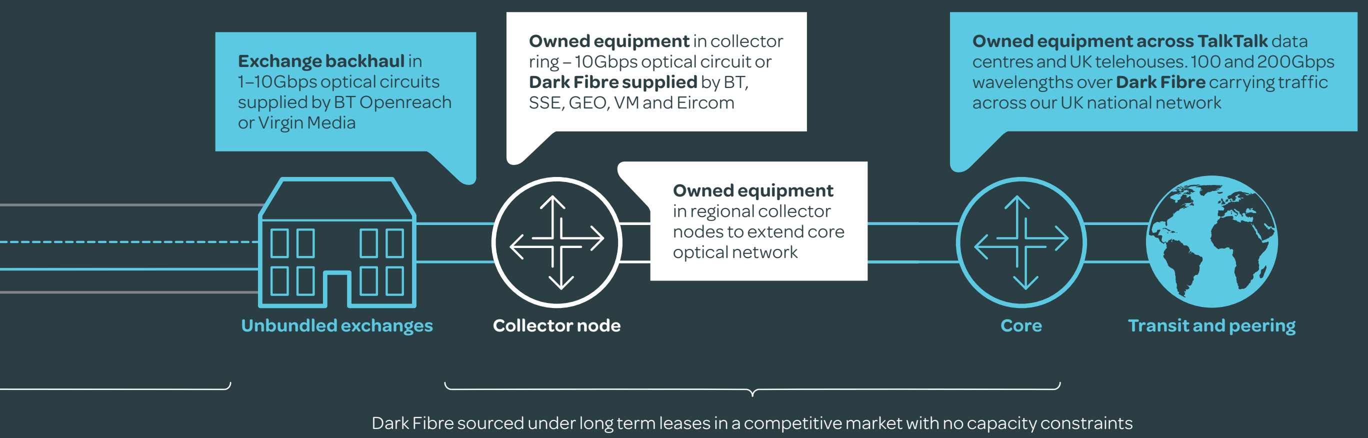
Government ambition for nationwide FTTP coverage by 2025

Suppliers

Our suppliers are fundamental to the quality of our products and services.

Over £1.4bn spent with suppliers per annum

Read more about how we engage with our stakeholders from page 26



STRENGTHENING OUR POSITION

Our strategic intent is to strengthen our position as the number one value provider of fixed connectivity for consumers and businesses in the UK. The rapid growth in demand for data from both consumers and businesses and the increased need for households and businesses to minimise expenditure both underpin the need for fast, affordable and reliable connectivity. Our low cost base, our highly efficient next generation network and our sustainable regulatory cost advantage enable us to maintain our low-priced market position and grow our business sustainably and profitably.

This will be further supported by the industry-wide adoption of Full Fibre as the reliability of this technology enables us to reduce our customer service costs and makes customers much less likely to switch provider.

The COVID-19 pandemic has further solidified the position of broadband networks as critical national infrastructure and gives us even more certainty over the direction of our strategy.

We aim to deliver this strategy by focusing on six key areas:

INVESTING IN THE UK'S FIBRE FUTURE

We are determined to meet the increasing demand of consumers and businesses for reliable, fast connectivity. This underpins every limb of our strategy. We are currently driving scale adoption of our FTTC products, following a reduction in wholesale prices as a result of Ofcom's Wholesale Local Fixed Market Review 2021-26 (the 'Ofcom Access Review') and a commercial agreement with Openreach. Our shift towards Fibre products is mutually beneficial for our customers and our business. Customers on Fibre products have higher satisfaction levels, as they enjoy faster, more reliable connectivity. These customers also generate higher ARPU, come with a lower cost to serve and lead to materially lower churn.

Since 2014, we have been a pioneer in developing Full Fibre, driven by our belief that it is critical for the UK's digital future. We will remain at the forefront of this drive. The UK Government highlighted the importance of greater FTTP availability and greater alternative network investment in Fibre infrastructure in its 2018 Future Telecoms Infrastructure Review. Such infrastructure development requires access to high volumes of customers who can quickly be migrated onto newly developed FTTP networks.

With the extensive experience we have gained since 2014 from our ownership of FibreNation and through migrating and serving our customers in York, we are well placed to migrate our scale customer base quickly and cheaply onto new FTTP networks. We have now completed the sale of our Fibre Assets Business to CityFibre for £206m which not only strengthens our financial position but also gives us access to CityFibre's Full Fibre network at highly competitive wholesale terms. Their ambition is to build a network to cover up to 25% of UK residential premises. Separately, we are in talks with Openreach with respect to a proposed national FTTP agreement to secure competitive Full Fibre pricing for the entirety of the UK.

CREATING THE FIBRE FIRST CHALLENGER FOR CONSUMERS

Our Consumer business serves residential customers directly through the TalkTalk brand. We have always been the value provider in this competitive market segment and plan to focus even more intently on sustaining our price advantage, improving connectivity and customer service, and acquiring customers more efficiently. We are pursuing four interlinked priorities to achieve this:

1. **Drive rapid uptake of Fibre (both FTTC and FTTP):** We intend to further increase our Fibre volumes by migrating existing ADSL customers and acquiring new customers to these higher bandwidth and more reliable services. In parallel we are promoting adoption of our market-leading Wi-Fi Hub which greatly improves in-home Wi-Fi coverage. This will substantially improve customer experience, drive higher ARPU, higher gross margin, lower cost to serve and reduced churn. Our Fibre products and Wi-Fi Hub also provide a more reliable fixed line connection to support our position as a TV aggregator. Our longer term success is predicated on making the most of the opportunity presented by the roll-out of FTTP and we are developing the capability to grow our FTTP base to over one million customers over the next five years.
2. **Save customers money:** We will continue to offer customers affordable connectivity which will save them money compared with higher priced competitors. We already guarantee customers no in-contract broadband price increases and we fully support Ofcom's fair pricing interventions so that customers can have full confidence they are paying no more than necessary. In TV we enable customers to access a wide variety of content without tying them into high priced bundles. We also aim to continue offering our customers a fairly priced mobile proposition through a reseller agreement with O2.
3. **Improve customer service:** Our key focus is to enable customers to interact with us on their terms at a low cost to us. We expect that increasing our product mix to 100% Fibre by 2025 will help us achieve 60% of our planned total cost reduction, given the improved performance of Fibre products. We expect to achieve the remaining 40% of our planned cost reduction goals by enhancing our digital first support model, automating key customer journeys and simplifying customer service with a combination of UK-based and offshore contact centres.
4. **Acquire customers more efficiently:** We are using micro segmentation to target and convert customers who we believe will benefit most from our proposition. We aim to develop a more loyal customer base and build customer advocacy, moving away from less effective traditional marketing channels. We believe that this approach will deliver lower cost per acquisition and a higher IRR on every £1 spent.

STRENGTHENING POSITION AS BUSINESS DATA PROVIDER OF CHOICE

TalkTalk Business sells both directly to end customers, from the smallest home office user to the large multi-site enterprise customers, and indirectly through wholesale arrangements to a network of approximately 900 partners. These partners then on sell these connectivity and Voice offerings, often bundling with other products and services, to serve more than one million business and residential customers. This partner channel accounts for approximately 80% of B2B revenues.

This structure enables us to operate a simple, cost effective business model, so we can both keep prices low and generate attractive margins. We see further opportunities to grow our market share and profitability by both retaining a strong price position as businesses data needs grow and improving the ease with which our customers can do business with us by investing in further simplifying our own operations.

LEVERAGING OUR SCALE AND NETWORK TO FURTHER ENHANCE CUSTOMER EXPERIENCE

We are investing in new technologies to improve customer experience, increase capacity and build capability. We continue to drive innovation into our network to allow the network to 'self-drive' through incidents and outages to minimise customer disruption. We are using real-time network telemetry data to improve the quality of our products and customer experience and rolling out advanced diagnostics that allow customers to identify and resolve problems more efficiently, without having to take the time to call us.

Ever increasing demand for bandwidth to meet customer data usage compels us to find more ways to reduce cost per user, a key factor that enables us to sustain one of the lowest cost networks in the UK. Over the last three years, data usage on our network has increased by almost 40% year on year, driven by customers upgrading to faster products and consuming significantly more data, especially video content. To manage this, we have invested to improve video performance with increased caching at the edge of our network. We now serve over 90% of Netflix video content in this way. We are also investing in high capacity optical products and deploying next generation switching capability to further reduce cost.

CONTINUING TO DELIVER COST EFFICIENCIES

We will continue to simplify our business and deliver cost efficiencies. Our decision to concentrate on fixed connectivity and deliver non-core services such as TV and mobile in a less capital intensive way has allowed us to focus our people and capital on a reduced set of priorities. We intend to continue to reduce our external spend to ensure it aligns with our simpler model and is consistent with our position as a value brand.

Over the past year, we have completed a fundamental restructuring of our organisation and created a leaner, more efficient business. In a milestone move for the Group, we relocated our headquarters from London to Salford, reducing our headcount to better reflect our simpler set of priorities. 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.

OPERATING AS ONE TALKTALK TEAM

We continue to take advantage of our headquarters' relocation to the new Soapworks campus in Salford to improve collaboration between teams, support a more flexible working environment and enable us to attract and retain the best talent. Since our relocation, we have seen a 56 point increase in employee net promoter scores, with employees more engaged and satisfied.

Further, while we have always had a base in the North West of England, we intend to build on that heritage to be closer to our customers in the North West and further enhance customer engagement. Over the coming years, we see significant opportunities to leverage our new campus to further improve customer and employee engagement, innovation and cross-team collaboration.

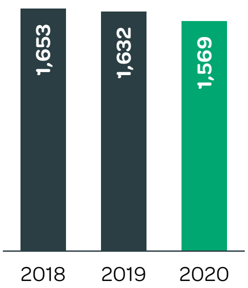
Key performance indicators

We use the following key performance indicators (KPIs) to measure progress against our strategic objectives. As our strategy evolves we will continue to review these KPIs to make sure they are the best measures to reflect our performance against our strategy and where a KPI has changed year on year this is explained in the commentary. All financial metrics below are provided on a pre-IFRS16 basis to provide two years of historical information on a consistent basis.

Each KPI is linked to our strategic objectives outlined on pages 12–13

FINANCIAL METRICS[3]

Statutory revenue[4] (£m)

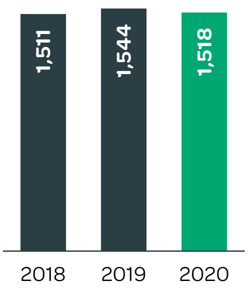


Definition
Total Statutory revenue.

Comments
Statutory revenue declined 3.9% predominantly due to a £24m decline in Carrier revenue, reflecting our decision to reduce activity in this low margin business, as well as an £11m reduction in MVNO revenues, as we wind down this business. The remainder is explained in the Headline revenue excluding Carrier and Off-net chart.

1 2 3 4 5 6

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

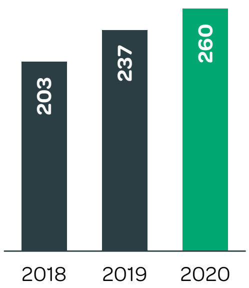


Definition
Total revenue before non-Headline items and excluding Carrier and Off-net revenue.

Comments
This metric is our main Headline revenue KPI which excludes low margin/volatile Carrier revenue and non-core Off-net revenue, providing a better view of the Group's underlying revenue performance. FY20 saw a contraction of 1.7% due to a modest decline on the On-net base, lower Voice revenue in Consumer and B2B and legacy base re-contracting driving ARPU dilution, offset by increased penetration of Fibre.

1 2 3 4 5 6

Headline[1] EBITDA (pre-IFRS 16)[2] (£m)

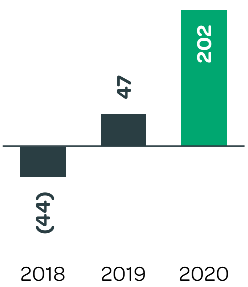


Definition
Total Headline[1] earnings before interest, tax, depreciation, amortisation and share of results of joint ventures, before the application of IFRS 16.

Comments
Headline EBITDA (pre-IFRS 16) increased 9.7% predominantly due to a significantly lower cost base with savings coming through from the move of our HQ from London to Salford, the benefit of happier customers on Fibre products leading to reduced service costs and an alternative customer acquisition and marketing model delivering lower SAC and marketing costs.

1 2 3 4 5 6

Statutory operating (loss)/profit (pre-IFRS 16)[2] (£m)

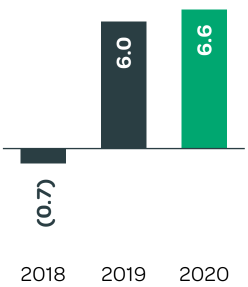


Definition
Total Statutory operating (loss)/profit.

Comments
Statutory operating profit (pre-IFRS 16) of £202m rose significantly year on year reflecting the Headline EBITDA growth and the profit on disposal of our Fibre Assets Business recognised within non-Headline items.

1 2 3 4 5 6

Headline[1] basic EPS (pre-IFRS 16)[2] (p)

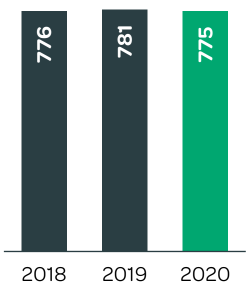


Definition
Basic EPS excluding non-Headline items.

Comments
Headline basic EPS (pre-IFRS 16) improved year on year as a result of increased net profits.

1 2 3 4 5 6

Net debt[1] (pre-IFRS 16)[2] (£m)



Definition
Represents total borrowings after derivatives offset by cash and cash equivalents. This measure is pre-IFRS 16, meaning the borrowings exclude all lease liabilities with the exception of finance leases.

Comments
Net debt (pre-IFRS 16) was broadly flat for the year, with the Fibre Assets Business sale inflow (£206m) offset by working capital outflows predominantly driven by timing of supplier payments.

1 2 3 4 5 6

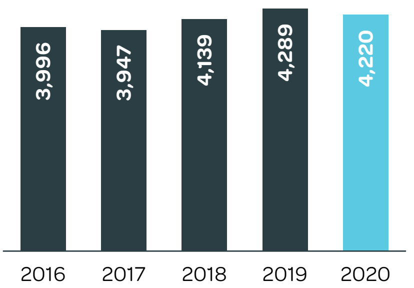
(1)	See note 1 of the consolidated financial statements for an explanation of APMs and non-Headline items and note 9 for a reconciliation of Headline information to Statutory information.
(2)	IFRS 16 has been applied using the modified retrospective approach. Accordingly, the comparative information has not been restated, with FY20 results presented both including and excluding IFRS 16 to allow year on year analysis on a consistent basis. This alternative performance measure (APM) will be presented for one year only until the comparatives also include the adoption of IFRS 16. See note 1 of the consolidated financial statements for more information.
(3)	All customer KPIs relate to the On-net base. The closing Off-net base represents less than 1% of the total broadband base (FY20: 21k; FY19: 29k).
(4)	2016 and 2017 comparatives have not been restated for the application of IFRS 15 and IFRS 9.

OUR STRATEGIC OBJECTIVES

1 Investing in the UK's Fibre future
2 Creating the Fibre first challenger for Consumers
3 Strengthening position as Business data provider of choice
4 Leveraging our scale and network to further enhance customer experience
5 Continuing to deliver cost efficiencies
6 Operating as one TalkTalk team

NON-FINANCIAL METRICS[3]

Broadband base ('000)



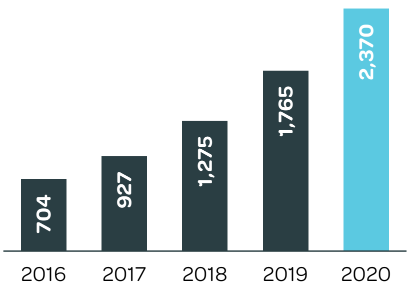
Definition
Total number of On-net broadband customers.

Comments
The base declined by 69k in the year as we focused on growing the Fibre base and allowed some low value legacy Copper customers to leave.

KPI change: This has been amended to reflect the total broadband base rather than total broadband net adds to provide the reader with both the total base size and information to calculate the net adds.

1 2 3 4 5 6

Fibre base ('000)



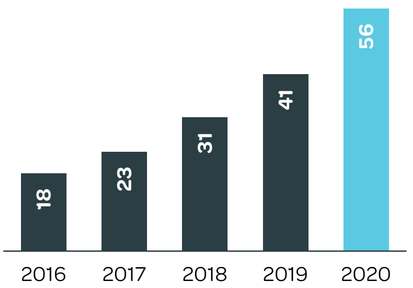
Definition
Total number of Fibre customers.

Comments
Growth in the Fibre base accelerated strongly in the year, with 605k net adds, taking the overall Fibre base to nearly 2.4 million, representing nearly 60% of the overall On-net base.

KPI change: This KPI has been amended to reflect the total Fibre base rather than total Fibre net adds to provide the reader with both the total base size and information to calculate the net adds.

1 2 3 4 5 6

Fibre penetration (%)



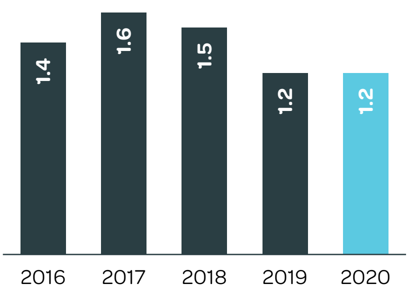
Definition
The percentage of TalkTalk's overall On-net base on a Fibre product.

Comments
Fibre penetration rose strongly with growth in the Fibre net adds accelerating in the year, whilst the overall base saw a modest decline with the churn of some legacy Copper customers.

KPI change: This KPI has changed from FLPP take-up to Fibre penetration as the majority of Consumer customers are now on FLPP and Fibre penetration is a KPI more aligned to our strategic objectives.

1 2 3 4 5 6

Churn (%)

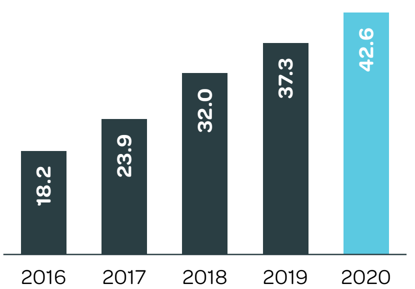


Definition
The percentage of our average customer base leaving TalkTalk each month.

Comments
Churn was stable year on year, but improved from 1.27% in H1 to 1.12% in H2, exiting the year at 1.04% in Q4, the lowest it has ever been.

1 2 3 4 5 6

Ethernet base ('000)



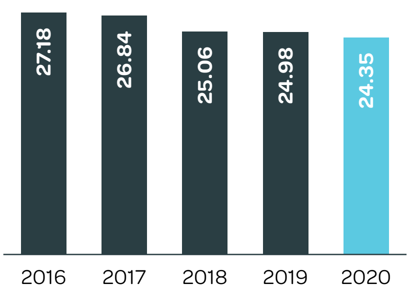
Definition
The total number of high-speed Ethernet connections in our B2B division.

Comments
The Ethernet base grew strongly again, with 5.3k net adds in the year, with an increasing mix of 1Gb connections, which comes with significantly higher ARPU.

KPI change: This KPI has been amended to only include the Ethernet base, which is the key data product in B2B. EFM has been excluded since it is a legacy product.

1 2 3 4 5 6

On-net ARPU[4] (£)



Definition
Average monthly revenue per On-net customer.

Comments
ARPU was 63p lower year on year with lower Voice revenue, legacy base re-contracting diluting ARPU and a higher proportion of wholesale customers in the mix, offset by Fibre penetration.

1 2 3 4 5 6

ANOTHER YEAR OF TRANSFORMATION

"It has been another year of transformation, with the sale of our Fibre Assets Business and the re-financing of our borrowings. We delivered good Headline profit growth and are now on a much more stable footing to deliver on our plan and to organically generate cash."

Financial information

	Headline[1,2]			Statutory[1,2]		
	2020 (IFRS 16) £m	2020 (pre-IFRS 16) £m	2019 (pre-IFRS 16) £m	2020 (IFRS 16) £m	2020 (pre-IFRS 16) £m	2019 (pre-IFRS 16) £m
Revenue	1,557	1,557	1,609	1,569	1,569	1,632
Cost of sales	(763)	(763)	(759)	(767)	(767)	(770)
Gross profit	794	794	850	802	802	862
Net operating expenses	(486)	(534)	(613)	(404)	(452)	(659)
EBITDA	308	260	237	398	350	203
Depreciation and amortisation	(185)	(132)	(138)	(193)	(140)	(146)
Share of results of joint ventures	(8)	(8)	(10)	(8)	(8)	(10)
Operating profit	115	120	89	197	202	47
Net finance costs	(66)	(56)	(52)	(66)	(56)	(52)
Profit/(loss) before taxation	49	64	37	131	146	(5)
Taxation	12	12	32	22	22	37
Profit for the year attributable to the owners of the Company	61	76	69	153	168	32
Earnings per share						
Basic	5.3	6.6	6.0	13.4	14.7	2.8
Diluted	5.3	6.6	6.0	13.2	14.5	2.8

1 IFRS 16 has been applied using the modified retrospective approach. Accordingly, the comparative information has not been restated, with FY20 results presented both including and excluding IFRS 16 to allow year on year analysis on a consistent basis. This alternative performance measure (APM) will be presented for one year only until the comparatives also include the adoption of IFRS 16. See note 1 of the consolidated financial statements for more information.

2 See note 1 of the consolidated financial statements for an explanation of APMs and non-Headline items and note 9 for a reconciliation of Statutory information to Headline information.

Revenue summary	2020 £m	2019 £m
On-net	**1,243**	1,263
Corporate	**303**	333
Off-net	**11**	13
Headline revenue	**1,557**	1,609
Less Carrier	**(28)**	(52)
Less Off-net	**(11)**	(13)
Headline revenue (excluding Carrier and Off-net)	**1,518**	1,544

Throughout this Chief Financial Officer's statement, alternative performance measures (APMs) are presented as well as Statutory measures and these measures are consistent with prior periods, with the exception of the pre-IFRS 16 results which in absence of restating the prior periods have been provided to allow year on year analysis on a consistent basis. 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 better understand the financial performance, position and trends of the Group.

The Group adopted IFRS 16 'Leases' in the current year and elected to adopt the standard using a modified retrospective approach, recognising the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. As a result comparative information has not been restated to reflect IFRS 16, and therefore where relevant the results for the year ended 31 March 2020 have been presented both including and excluding IFRS 16 to enable year on year analysis on a consistent basis. More details are provided in note 1 of the consolidated financial statements.

COVID-19

The vast majority of the financial year was completed prior to the full effects of the COVID-19 pandemic being felt. As such, there has not been a material impact on the reported numbers, other than a small increase in bad debt provisioning (£3m). There remains a great deal of uncertainty over the lasting economic impact of COVID-19, meaning we do not feel it is appropriate to give formal guidance at this stage.

Overview

Headline revenue (excluding Carrier and Off-net) contracted by 1.7%, with ongoing Voice decline and ARPU dilution partly offset during the year by a continued strong increase in Fibre penetration. Headline EBITDA increased to £308m (including the impact of IFRS 16). Prior to the adoption of IFRS 16, Headline EBITDA grew by 9.7% to £260m (2019: £237m) reflecting the continued focus on reducing the cost base of the business and the lower cost of serving our increasing Fibre customers. Due to the disposal of our Fibre Assets Business, resulting in a profit on disposal of £127m, our Statutory profit before tax increased to £131m (pre-IFRS 16: £146m) from a £5m loss in the prior year. The Board has recommended a final dividend of 1.50p (2019: 1.50p) in line with our stated dividend policy.

Group revenue

Headline revenue (excluding Carrier and Off-net) of £1,518m was 1.7% lower year on year with On-net revenues down 1.8% and Corporate revenues (excluding Carrier) 2.1% lower. The contraction in On-net revenue reflects continued industry-wide Voice usage decline, lower call boost take-up and a modest decrease in the overall customer base. In addition we targeted our remaining higher ARPU legacy Copper customers to re-contract onto FLPPs, ahead of regulatory and industry commitments on out of contract pricing, which has led to some ARPU dilution, but this has been offset in part by increased penetration of Fibre. Lower Corporate revenue (excluding Carrier) was primarily due to B2B Voice, which was down 13.6% on the prior year, whilst Data revenues grew by 4.6% reflecting the continued shift in the Ethernet base to higher bandwidth products.

The Group's total Headline revenue contracted by 3.2% to £1,557m, which includes a 46.2% decline in Carrier revenue, reflecting our decision to reduce activity in this low margin business, as well as the expected continued decline in Off-net revenues. Statutory revenue declined 3.9% due to the factors above and MVNO (mobile) revenues which are down £11m year on year to £12m as we wind down this business.

Gross margin

Headline gross margin of 51.0% was 180bps lower year on year reflecting the lower revenue noted above and higher costs of sales resulting from the move to Fibre products. This drive towards Fibre products dilutes gross margin percentage and is offset with reduced costs to serve, in line with our strategy.

Statutory gross margin of 51.1% was 170bps lower year on year reflecting the reasons above as well as an improvement in the gross margin of our MVNO proposition.

Net operating expenses

Headline net operating expenses decreased by £127m year on year, of which £48m relates to the implementation of new accounting standards (IFRS 16), whereby lease expenses are now incurred through depreciation and finance costs rather than operating expenses. The remaining £79m improvement is due to savings coming through from the move of our HQ from London to Salford, the benefit of happier customers on Fibre products leading to reduced costs to serve and a continued focus on right-sizing our cost base. The Group has also moved to an alternative customer acquisition and marketing model with different partners, which has delivered savings year on year. As a result of COVID-19, there was a £3m increase in bad debt provisioning in the reported numbers to reflect increased uncertainty of customer payments.

Statutory net operating expenses were down £255m year on year as a result of the planned disposal of our Fibre Assets Business, resulting in a profit on disposal of £127m recognised through non-Headline items. See further information on non-Headline items below.

EBITDA

Headline EBITDA increased by 30.0% to £308m reflecting the adoption of IFRS 16 and the factors noted above. Prior to the adoption of IFRS 16, Headline EBITDA was £260m (2019: £237m), representing 9.7% growth year on year.

Statutory EBITDA has risen by 96.1% to £398m reflecting the adoption of IFRS 16 and the factors noted above. Prior to the adoption of IFRS 16, Statutory EBITDA was £350m (2019: £203m), representing 72.4% growth year on year.

Chief Financial Officer's statement continued

Depreciation and amortisation

Headline depreciation and amortisation expense have increased year on year to £185m (Pre-IFRS 16: £132m, 2019 £138m) largely due to the impact of adopting IFRS 16 with the remaining £6m decrease resulting from lower investments in recent years.

Share of results of joint ventures

Our share of results of joint ventures was broadly flat year on year at a loss of £8m (2019: £10m loss) and consists of the Group's investment in YouView.

Net finance costs

Statutory finance costs for the year were £66m (Pre-IFRS 16: £56m, 2019 £52m). The increase being mainly due to the impact of adopting IFRS 16 and costs incurred as part of the bond re-financing which was completed in February 2020.

Taxation

A Statutory tax credit for the year of £22m (2019: £37m) has arisen due to the profit on disposal of our Fibre Assets Business not being taxable and the deferred tax assets now being recognised at 19% (previously 17%) reflecting the increase in the UK Corporation tax rate.

Non-Headline items[2]

	2020 £m	2019 £m
MVNO closure	**7**	3
Fibre Assets Business disposal	**109**	–
Network transformation	**(11)**	(15)
One Team operating model	**(15)**	(22)
EBITDA	**90**	(34)
Depreciation and amortisation	**(8)**	(8)
Taxation	**10**	5
Non-Headline items	**92**	(37)

2 See note 1 of the consolidated financial statements for an explanation of APMs and non-Headline items and note 9 for a reconciliation of Statutory information to Headline information.

Within EBITDA the Group recognised a non-Headline gain of £90m (2019: £34m loss) associated with the profit on disposal of our Fibre Assets Business, offset by the costs involved in moving of our head office to Salford and other transformation costs.

Following the Group's announcement in May 2017 to exit our MVNO operations, trading profits of £7m have been recognised, compared to £3m in 2019.

On 27 March 2020, the Group completed the disposal of its Fibre Assets Business resulting in a profit on disposal of £127m. Following the completion of the disposal, a discretionary payment of £15m was made to members of the Executive Committee and all employees of the Group to share some of the value arising on the sale. The Fibre Assets Business incurred an operating loss of £3m during the year prior to disposal.

Our significant multi-year network and IT transformation programme continued during the year incurring costs of £11m (2019: £15m) which will fundamentally restructure the Group's network, IT infrastructure and technology organisation. This programme is expected to run until 2022 and underpins the wider Group strategy.

The Group incurred £15m (2019: £22m) in relation to reorganisation programmes associated with the relocation of our head office to Salford. The costs of this programme have come in higher than the original plan as a result of greater dual running costs and retention payments in order to smooth the transition. The Group expects the finalisation of this fundamental reorganisation within 2020.

Non-Headline depreciation and amortisation largely relate to amortisation of acquisition intangibles. These acquisition intangibles are now fully amortised and therefore no further charge will be incurred in subsequent periods.

Earnings per share

	2020 £m	2019 £m
Headline earnings (£m) [1, 2]	**61**	69
Basic EPS	**5.3p**	6.0p
Diluted EPS	**5.3p**	6.0p
Statutory earnings (£m)	**153**	32
Basic EPS	**13.4p**	2.8p
Diluted EPS	**13.2p**	2.8p

1 IFRS 16 has been applied using the modified retrospective approach. Accordingly, the comparative information has not been restated. See note 1 of the consolidated financial statements for more information.

2 See note 1 of the consolidated financial statements for an explanation of APMs and non-Headline items and note 9 for a reconciliation of Statutory information to Headline information.

Basic Headline EPS was 5.3p (FY19: 6.0p), representing a small year on year decline as a result of a higher interest charge due to costs incurred as part of the bond re-financing and a lower tax credit in the year, offsetting higher operating profit. On a Statutory basis basic EPS was 13.4p (2019: 2.8p), with the year on year increase largely due to the disposal of our Fibre Assets Business, resulting in a profit on disposal recognised in non-Headline items.

Financial position

Net assets increased to £406m (2019: £288m), driven by the Group's profit after tax.

Non-current assets increased to £1,562m (2019: £1,359m), driven by the first time adoption of IFRS 16 giving rise to the recognition of right of use assets and an increase in deferred contract costs mainly as a result of the Group moving to an alternative customer acquisition and marketing model with different partners in the prior year. Current assets have remained relatively consistent at £267m (2019: £300m).

Current liabilities have decreased to £470m (2019: £556m) due to a decrease in trade payables driven by the timing of supplier payments. These decreases were partially offset by the recognition of additional lease liabilities under IFRS 16. Non-current liabilities have increased to £953m (2019: £855m). The increase is driven by additional lease liabilities recognised under IFRS 16.

Net debt and cash flow

	2020 £m	2019 £m
Opening net debt (pre-IFRS 16)[1,2]	**(781)**	(776)
IFRS 16 opening adjustment	**(179)**	–
Opening net debt (post-IFRS 16)[1,2]	**(960)**	(776)
Headline EBITDA[2]	**308**	237
Working capital	**(181)**	11
Capital expenditure	**(116)**	(113)
Interest and taxation	**(54)**	(50)
Non-Headline items[2]	**158**	(47)
Acquisitions and investments	**(13)**	(7)
Dividends	**(28)**	(28)
Non-cash movement in leases	**(68)**	(8)
Closing net debt[1]	**(954)**	(781)

1 IFRS 16 has been applied using the modified retrospective approach. Accordingly, the comparative information has not been restated. This alternative performance measure (APM) will be presented for one year only until the comparatives also include the adoption of IFRS 16. See note 1 of the consolidated financial statements for more information.

2 See note 1 of the consolidated financial statements for an explanation of APMs and non-Headline items and note 9 for a reconciliation of Statutory information to Headline information.

	2020 £m	2019 £m
Bond and bank debt	**(793)**	(809)
Finance leases	**(38)**	(39)
Cash at bank and in hand	**56**	67
Net debt (pre-IFRS 16)	**(775)**	(781)
Operating leases	**(179)**	–
Closing net debt (post-IFRS 16)	**(954)**	(781)

Total net debt after IFRS 16 is £954m. Before the impact of the application of IFRS 16, net debt was £775m (2019: £781m). Committed headroom at 31 March 2020 was £497m (2019: £306m).The Group had a significant net working capital outflow of £181m (2019: £11m inflow) predominantly due to settling a key supplier monthly invoice earlier than forecast (resulting in an additional payment year on year). In addition to this we saw outflows due to payments relating to a change in third party distribution agreements and the IFRS 15 impact of our accelerated investment in Fibre.

Capital expenditure for the year was £116m (2019: £113m), representing 7.5% (2019: 7.0%) of Headline revenues. Underlying expenditure of £97m represents 6.2% of Headline revenues and was primarily invested in the enhancement of our network capability and online systems. The remaining £19m was investment in the Group's Fibre Assets Business prior to the completion of the sale in March 2020.

Non-Headline items, excluding the sale of the Group's Fibre Assets Business, were £44m (2019: £47m) and relate to the move of our HQ to Salford, the final payment associated with exiting our MVNO operations and the ongoing network transformation programme. Including the net proceeds of the Fibre Assets Business sale (£206m consideration offset by £3m operating loss and £1m of transaction fees) non-Headline items saw an inflow of £158m.

Acquisitions and investments expenditure in the year of £13m (2019: £7m) relates to the YouView joint venture and investing activity in the Fibre Assets Business (including the acquisition of a 20% stake in Makehappen Group Limited).

Dividends

Dividends of £28m paid in the year (2019: £28m) comprised the final dividend for 2019 of 1.50p and the interim dividend for 2020 of 1.00p.

The Board is committed to improving profitability, cash generation and reducing leverage. In this context, the Board has recommended a final dividend of 1.50p (2019: 1.50p) taking the total dividend for the year to 2.50p (2019: 2.50p). Looking beyond 2020, the Board will re-assess the 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 FY20 will be paid on 7 August 2020, subject to approval at the AGM on 21July 2020 for shareholders on the register on 10 July 2020 (ex-dividend 9 July 2020).

Funding and capital structure

The Group is financed primarily through a combination of bank facilities, a bond and a receivables purchase facility, which have all been recently renewed.

In February 2020, the Group's £400m bond was replaced with a new bond of £575m maturing in 2025, providing the Group with a larger and lower cost form of financing. The Group's receivables purchase facility of £75m was renewed in September 2019 for a further two years. Soon after year end, in April 2020, following the issuance of the upsized bond and the receipt of the consideration from the disposal of the Group's Fibre Assets Business, the Group renewed its revolving credit facilities, reducing the facility size from £640m to £430m with this facility maturing in 2024. This refinancing activity has resulted in the Group's committed facilities reducing from £1,115m to £1,080m (though was £1,290m at 31 March 2020 prior to the refinancing of the RCF) and has ensured a significantly longer average tenor of the Group's facilities.

At 31 March 2020, £793m (2019: £809m) had been drawn under these facilities, leaving £497m (2019: £306m) of undrawn facilities. The Group was in compliance with the terms of all its facilities, including the financial covenants, at 31 March 2020.

Kate Ferry
Chief Financial Officer
11 June 2020

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. 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. This ensures the appropriate focus is placed on mitigating principal risks and significant net risks are assigned an Executive Committee owner and 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.

COVID-19

The Board acknowledges that the COVID-19 pandemic poses a variety of risks and uncertainties to all global businesses, including TalkTalk, and have included a new specific Principal Risk and Uncertainty this year. However, due to the uncertainty around the scale, timing and impact of COVID-19, it is impossible at this time to accurately quantify with certainty the risks associated with the pandemic. The Chief Executive's Review on pages 5-8 and Chief Financial Officer's statement on pages 16-19 outlines the impacts seen on operational and financial performance so far. Scenario planning is being worked through to understand how the pandemic will impact TalkTalk in the short, medium and long term. Specific COVID-19 commentary has been included in the individual Principal Risks and Uncertainties where relevant.

RISK MANAGEMENT FRAMEWORK

Strategic governance

Board

Audit Committee

Remuneration Committee

Nomination Committee

Compliance Committee and Security 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

STRATEGIC OBJECTIVES

Find our strategy on page 12

1. Investing in the UK's Fibre future
2. Creating the Fibre first challenger for Consumers
3. Strengthening position as Business data provider of choice
4. Leveraging our scale and network to further enhance customer experience
5. Continuing to deliver cost efficiencies
6. Operating as one TalkTalk team

COVID-19 1 2 3 4 5 6 FY20 ↗ FY19 n/a

Risk and impact

The COVID-19 pandemic is having wide-ranging impacts on the worldwide economy and could impact the Group's employees, operations, suppliers and customers, through lockdowns, disrupted supply chains, social distancing measures and wider impacts on the UK economy.

Further detail on the implications to the Group are provided in the Chief Executive Officer's review on pages 5-8.

Potential COVID-19 impacts:

- Continuing strong demand for the Group's services, but potential for a reduction in revenue/margin given the wider UK economic impacts;
- Lower new customer connections, but also lower customer churn;
- Adverse impact on trading cash generation;
- Financial and operational constraints could impact the delivery of change;
- Increase in bad debts, especially with small to medium enterprises due to financial distress;
- Reduction in operating costs primarily due to non-availability of third party customer service providers and changes to marketing activity; and
- An increase in volume and scale of financially motivated cyber attacks.

Mitigation

- Three governance workstreams have been set up to manage our overall COVID-19 response, led by members of our Executive Committee;
- Measures have been implemented to ensure the health and safety of our workforce and customers whilst we continue our provision of critical services;
- We continue to focus on our network resilience, constantly monitoring our network to forecast and respond to the ongoing demand, maintaining stability and minimising any congestion;
- The service of our vulnerable customers has been prioritised and our digital service channels have been enhanced for all customers;
- The change delivery plan is being closely reviewed and monitored by the Executive Committee to manage any COVID-19 impacts;
- We have worked closely with our supply chain to ensure we have adequate inventory coverage for our operations;
- Our well established information security controls have been enhanced and our Security Operations Centre has reduced the thresholds of existing monitoring; and
- We continue to closely monitor and forecast the financial impacts of COVID-19 to identify and manage any further risks and opportunities.

CUSTOMER TRUST AND BRAND REPUTATION 1 2 3 4 5 6 FY20 – FY19 –

Risk and impact

Customer confidence and trust are critical to TalkTalk's business, and the Group'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.

Damage to customer trust and our reputation could materially adversely impact our business, attracting new customer, churn, operations and financial condition.

Mitigation

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 across all touchpoints.

TalkTalk introduced their Fixed Low Price Plans (FLPP) in 2016 which continue to resonate strongly with customers and combined with the ongoing transformation of customer services, the Group has maintained the core business during the year with further attractive customer offerings. The organisation also continues to invest in the 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 which are designed to help customers protect themselves from the threat of scams. TalkTalk has also signed up to the Ofcom fairness charter which focuses on price transparency and supporting vulnerable customers.

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.

GROSS RISK

- ↗ Gross risk has increased
- ↘ Gross risk has decreased
- – Gross risk remains broadly the same

STRATEGIC OBJECTIVES

Find our strategy on page 12

1. Investing in the UK's Fibre future
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5. Continuing to deliver cost efficiencies
6. Operating as one TalkTalk team

Principal risks & uncertainties continued

PEOPLE CAPABILITY 1 2 3 4 5 6 FY20 – FY19 ↗

Risk and impact

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.

Throughout the year, the vast majority of our London roles were successfully moved to a single main campus in the current Salford site to reduce operational complexity and deliver a more efficient focused business.

The main focus continues to be attracting and retaining the required talent and competencies in a competitive local employment environment. Failure to do so may negatively impact our ability to deliver on performance targets and strategic objectives.

COVID-19 has resulted in nearly all our workforce working remotely which could lead to business continuity, health and safety issues.

Mitigation

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 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.

Due to COVID-19, further measures have been implemented to ensure the health and safety of our workforce and customers whilst we continue our provision of critical services. A specific charter is in place which, along with enhanced technical capabilities, has enabled nearly all of our workforce to successfully work from home. We are closely monitoring any potential impacts on our workforce through regular surveys with specific questions around our COVID-19 response.

Although the gross risk has been reduced as we successfully completed the relocation of London roles to our main Salford campus this is offset by the new COVID-19 risks.

COMPETITIVE LANDSCAPE 1 2 3 4 5 6 FY20 – FY19 –

Risk and impact

TalkTalk is established as a value for money connectivity provider in a highly competitive market.

Over the last year, significant competitor activity has continued from both existing and new entrants to the market. The future acceleration of FTTP rollout may also drive more new entrants to the market which will further increase the competitive landscape.

However, at present, the competitive activity remains largely unchanged with varying degrees of activity in most product channels. Therefore, the risk that this competitive backdrop makes it difficult for TalkTalk to maintain its value position differentiation remains consistent with prior year.

Mitigation

A clear pricing and promotional strategy is in place with ongoing monitoring of our 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 Fixed Low Price Plans (FLPP) continue to see strong customer take-up and TalkTalk has outperformed the market on Fibre and Ethernet growth, which is expected to continue in the new financial year and further attractive customer offerings are planned. 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 the new industry leading Wi-Fi Hub in 2018 is still driving great improvements in the 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 our simple, affordable, reliable and fair message and is committed to helping customers understand the best positioned package to meet their needs.

CHANGING MARKET STRUCTURE 1 2 3 4 5 6 FY20 – FY19 –

Risk and impact

The Government and Ofcom are committed to promoting investment in Full Fibre networks through infrastructure competition in the UK telecommunications market.

Government has sought to incentivise network competition, through the Future of Telecoms Infrastructure Review (FTIR), which included a range of measures to 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 Government's Barrier Busting Unit.

Since then, alternative networks have secured significant investment and have extensive FTTP build ambitions, primarily across urban areas in the UK.

The Conservative Party made a manifesto commitment to speed up nationwide gigabit capable networks, with a target date of 2025. We expect to see further details for a plan to subside rural network build in the coming months, with £5bn of funding available.

In light of Government's ambitions, Ofcom has proposed a considerably different regulatory structure for the next review period than the one which has been in place in the last decade, with prices set above costs in urban areas to encourage FTTP build by altnets, and a process of cross-subsidy proposed in rural areas to support Openreach FTTP rollout. These proposals, which are due to come into effect from April 2021, are currently under consultation.

Mitigation

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 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 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. TalkTalk signed a wholesale agreement with CityFibre to connect customers onto their network in their roll-out areas at a competitive price. This agreement demonstrates how TalkTalk can benefit from increased network competition. We continue to discuss potential commercial arrangements with other FTTP network owners.

TalkTalk is currently engaging with Ofcom on its Wholesale Fixed Telecoms Market Review proposals, and will respond in due course to these proposals in order to attempt to achieve the most appropriate outcomes from the review.

REGULATORY COMPLIANCE 1 2 3 4 5 6 FY20 – FY19 ↗

Risk and impact
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.

Although previous regulatory change risks around addressing the General Data Protection Regulation (GDPR) and the automatic compensation scheme have reduced year on year, the need to implement the enhanced consumer protection requirements in the European Electronic Communications Code leads to a stable overall risk assessment.

Failure to comply with regulatory obligations may result in negative customer impact and/or significant regulatory fines.

Mitigation
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 further regulatory changes which come into force over the next twelve months to eighteen 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 to ensure effective delivery.

DATA AND CYBER SECURITY 1 2 3 4 5 6 FY20 ↗ FY19 –

Risk and impact
Security of customer, commercial and colleague data poses increasing reputational and financial risk to all businesses and the gross risk remains high. In particular, cyber and data related threats and crime is consistent with prior years but this year we note an increased risk around key third party vendors that presents 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.

COVID-19 could see an increase in volume and scale of financially motivated cyber attacks.

Mitigation
TalkTalk has continued to invest in and focus on actively implementing an ongoing programme to build and mature its security capability, including to address the increasing risks around key third party vendors. Investment is also planned to continue in the new financial year and beyond leveraging an updated Security Strategy centred around five focus areas:

- Governance, Risk and Compliance;
- Protective Controls;
- Vulnerability & Patch Management;
- Visibility & Response Capabilities; and
- Network Resilience.

The strategy is underpinned by the widely adopted NIST Cyber Security Framework and is leveraged to continuously improve the security maturity of the organisation. This includes an annual security maturity controls assessment by an independent third party to validate the controls that we've implemented and to provide recommendations on the security roadmap to help us prioritise our work.

Over the last four years significant investment has been made in building out a bigger security function and capability including successfully establishing an in-house 24x7 Security Operations Centre, which launched late 2017. During subsequent years, further projects were delivered to improve and mature our security control environment and capabilities. These activities and investments are supporting continuous improvement of security and the management of security threats and risks

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.

In response to COVID-19, we have enhanced our well established information security controls and our Security Operations Centre has reduced the thresholds of existing monitoring.

GROSS RISK

↗ Gross risk has increased

↘ Gross risk has decreased

– Gross risk remains broadly the same

STRATEGIC OBJECTIVES

Find our strategy on page 12

1 Investing in the UK's Fibre future

2 Creating the Fibre first challenger for Consumers

3 Strengthening position as Business data provider of choice

4 Leveraging our scale and network to further enhance customer experience

5 Continuing to deliver cost efficiencies

6 Operating as one TalkTalk team

Principal risks & uncertainties continued

RESILIENCE AND BUSINESS CONTINUITY 1 2 3 4 5 6 FY20 ↗ FY19 –

Risk and impact

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, systems and also 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.

Due to COVID-19, there has been a significant uplift in daytime data and voice traffic, although peak traffic is still within usual demand. There is also an increased risk of business continuity issues due to our workforce working remotely.

Mitigation

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 Openreach for the last mile.

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 FY21 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.

Due to COVID-19, further measures have been implemented to ensure the health and safety of our workforce and customers whilst we successfully continue our provision of critical services.

We continue to focus on our network resilience constantly monitoring our network to forecast and respond to the ongoing demand, successfully maintaining stability and minimising any congestion.

FINANCIAL 1 2 3 4 5 6 FY20 – FY19 ↗

Risk and impact

As with many organisations, TalkTalk must actively manage its liquidity risk, ensuring the availability of sufficient long term funding and the Group's compliance with associated covenants and other terms of the funding arrangements. In addition the Group must manage other financial risks such as foreign exchange, interest rate and credit risk.

Mitigation

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 funding decisions. The Group's main financing facilities are typically renewed 18 to 24 months before expiry with new facilities based on the Group's forecast cash flow requirements and liquidity needs to ensure the Group has sufficient available cash. The Group Treasury function is also responsible for managing foreign exchange and interest rate risks in line with the Group's policy.

The Group has recently renewed all of its committed financing facilities which has ensured a longer average tenor and provided it with a lower cost of financing going forward. In addition, the sale of the Fibre Assets Business generated over £200m of consideration providing greater headroom in the Group's facilities. Whilst these developments have reduced the liquidity risk of the Group, given the uncertainty arising from COVID-19, the gross risk has been held stable until the effects of the pandemic are known with greater certainty or have materially passed.

CHANGE DELIVERY AND EXECUTION 1 2 3 4 5 6 FY20 – FY19 ↗

Risk and impact

Delivery of performance and strategic objectives and development of the business is 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.

COVID-19 impacts could result in financial and operational constraints impacting the delivery of change.

Mitigation

A formal change framework is in place for delivery of change projects which helps ensure appropriate process and governance is 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.

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 occurs 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.

The gross risk has been reduced due to the organisational re-set in which TalkTalk has aimed for further simplification by concentrating on fewer, more focused initiatives to support delivery of simplified, clear strategic objectives. However, this reduction is somewhat off-set by the potential impacts of COVID-19 on the delivery of change due to financial and operational constraints. The change plan is being closely reviewed and monitored by the Executive Committee to manage any COVID-19 impacts.

Emerging Risks

As with other companies, TalkTalk faces emerging risks and uncertainties that could potentially be significant to our long-term strategy but cannot be fully defined or managed at present.

The Executive Committee meets regularly to review both the currently identified risks and emerging risks which inform our strategic planning process and is reviewed by the Board. For example, emerging risks around the long-term implications of Brexit and climate change have been identified and are being monitored.

Brexit

The UK Government has been considering how Brexit will impact the future of telecoms regulation in the UK and final decisions will be subject to terms of the UK's future relationship with the EU. It is assessed that the Group has limited direct exposure to Brexit as it only provides services within the UK, has limited non-UK suppliers and contingency plans are in place for identified risks. Whilst a no-deal Brexit will likely affect business/consumer confidence and potentially drive customer churn across the wider market, the Group considers demand for our products would continue and as the largest value provider in the UK it may further enhance our relevance to customers.

However, the longer-term potential implications of a new relationship with the EU will depend on the outcome of the current trade negotiations and cannot be reliably identified at present.

In response, we continue to monitor and work closely with the Government and Ofcom and have attended several Government-led forums and hence, are well placed for early identification of any related risks.

Climate Change

Long-term climate change and environmental impacts may result in risks due to changes in UK market behaviours and government actions which cannot be fully defined. For example:

- Increased severity and frequency of extreme weather could significantly impact our operations and our ability to service our customers on-site; and
- Customer demand for more environmentally responsible products and government policy changes around end-of-life product obligations could lead to significant changes and costs to our operations.

Our response includes reducing our CO_2 per gigabit of bandwidth by 80% since 2010 and changing company car policy whereby all provided fleet vehicles must be petrol, hybrid or electric. We also used a 'cradle to cradle' lifecycle approach to developing our award-winning Wi-Fi Hub, examining how the product was created, ensuring that it was built to last, before being either re-used and/or recycled efficiently – see page 38 for further details.

We continue to actively review our operations to identify further improvements to protect the environment.

VALUING OUR STAKEHOLDERS

The success of our business is dependent on the support of all our stakeholders. As part of the Board's decision-making process, in line with their duties under s172 of the Companies Act 2006, the Board and its Committees consider the potential impact of decisions on relevant stakeholders and the likely consequences of these decisions in the long term.

Illustrations of how a number of s172 factors have been considered and applied by the Board can be found below. Other broader factors considered by the Board, including the impact of the Company's operations on the environment, adherence to responsible business practices and ethical values and expectations are covered elsewhere throughout the Strategic Report in the Corporate Social Responsibility (pages 37 to 39) and Corporate Governance sections (pages 42 to 47).

SHAREHOLDERS

Why they matter to us
Our shareholders are the providers of capital, and continued access to capital is of vital importance to the long term success of our business. Through our engagement activities, we strive to obtain investor buy-in into our strategic objectives and how we go about executing them.

What matters to them
Our investors are concerned with a broad range of issues including, but not limited to, TalkTalk's financial and operational performance, strategic execution, investment plans and capital allocation.

How we engage
- Communications such as quarterly trading updates, Annual Reports and notices of general meetings.
- Annual General Meeting, which provides the opportunity for all shareholders to ask questions.
- Stock Exchange announcements and press releases.
- Information on the investor section of our corporate website at www.talktalkgroup.com.
- Regular meetings with major shareholders.

How the Board engages
- Executive Director meetings with Investors to discuss TalkTalk's strategy.
- 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.
- Feedback to the rest of the Board on investor meetings held by the Chairman and Directors provided in regular Board papers.
- Board attendance at the AGM to provide the opportunity for all shareholders to ask questions regarding their areas of responsibility.
- Capital Markets days with presentations from, and Q&A with, Executive Directors.

How they influence the Board decision making
The Board receives periodic reports on investors' views on our performance. Investors' opinions are taken into account in the shaping of TalkTalk's strategy and operational performance, remuneration policy and capital structure.

COLLEAGUES

Read more on pages 30 to 33

Why they matter to us
Our colleagues are our biggest asset and strength. Our industry relies mainly on knowledgeable workers and our success depends on their commitment to the customer, their ability to collaborate and ultimately their productivity and discretionary effort. During the COVID-19 pandemic, many of our colleagues have been designated 'critical workers' given the vital role of telecommunications providers to keep Britain connected at the time they need it most.

What matters to them
Our colleagues want a sense of purpose, to know we are all committed to continually improving our products and services for customers and to be as affordable as possible. Colleagues want flexible ways of working, career development opportunities and to be rewarded with competitive pay and benefits. During the COVID-19 pandemic, they want to know that their employer is fulfilling its role as a provider of critical national infrastructure; keeping the country connected at such a critical time.

How we engage
- Providing ongoing clarity and openness on strategic priorities and business performance
- Creating and developing leadership communities for our People Leaders.
- Hosting a series of interactive activities for all colleagues in Autumn 2019 to establish our employer brand – being continued into 2020 with a range of external speakers during the period of working from home to help support, encourage and motivate colleagues.
- Rewarding and thanking our colleagues.
- Driving pride amongst our colleagues both internally and externally.
- Understanding employee views and measuring employee satisfaction via our employee engagement survey, Peakon.
- Listening to employees' concerns, views and needs via our colleague representative body, One Voice, with a Non-Executive Director appointed to lead the group.
- Meeting twice yearly with our Employee Voice forum, led by an appointed Non-Executive Director, to discuss matters such as Company strategy and remuneration decisions.
- Regular, enhanced communications with all colleagues about the business response to the COVID-19 pandemic and how working patterns may be changed.

How the Board engages
- Videos for staff on the TalkTalk intranet, 'The Wire', providing updates on and presentations on the Company strategy, monthly performance scorecard updates and quarterly performance updates by the CEO and CFO.
- Regular blogs from the CEO and CFO on Company performance and other activities.
- There is a 'People' section in Board papers, which has a keen focus on culture, including eNPS scores and other people survey results.

How they influence the Board decision making
The concerns, views and needs of our employees are regularly fed into the Board via our employee engagement survey and our colleague representative body. The Board regularly discusses these matters and takes them into consideration when making decisions and setting strategy, including during our annual Board strategy session.

CUSTOMERS

Why they matter to us

The demand for faster, more reliable connectivity has never been greater so it is vital that we engage with our customers to ensure we continue to provide great products and services that meet their changing needs. Particularly at this challenging time, we want to know what our customers are feeling and experiencing so we can support their needs.

What matters to them

What we offer has fast become an essential utility, with connectivity being a key part of day to day life for both consumers and businesses. As such our customers expect:

- A seamless experience, where if things do go wrong, they are resolved as soon as possible.
- A product to satisfy all needs, whether that be a reliable connection to work from home, or access to an array of TV content, or superfast connectivity for online gaming.
- The same quality of product as our competitors, in terms of speed and reliability, but at an affordable price.
- The freedom to choose what products and services they need, with transparent pricing and no hidden charges bundled in.

How we engage

- We focus on Consumer and B2B customers' needs and the issues they face and regularly report on performance.
- We conduct regular customer surveys and market research exercises in Consumer and B2B.
- We monitor and track CSAT and NPS scores for benchmarking purposes in Consumer and B2B.
- We have a highly active and engaged online community offering help to customers.
- We are investing in our social media presence to provide both proactive and reactive communications to customers.
- Our B2B partners enjoy access to our senior management team, with our CTO regularly engaging with the partner operational teams on service related challenges.
- During the COVID-19 outbreak we have sent regular customer communications from the CEO to explain what we are doing to keep Britain connected, how they can get the most out of their connection and to offer support.
- We have engaged with and supported business customers affected financially by COVID-19 so that they can maintain services in the long term even if struggling in the short term.

How the Board engages

- Reviews strategy and monitors performance during the year with the aim of meeting customers' needs more effectively.
- Receives regular competitor updates to understand TalkTalk's competitive performance and its strengths and weaknesses as regards meeting customer needs.
- The Executive Chairman sits in monthly review meetings covering the commercial and connectivity performance of the business and is highly engaged with customer metrics.
- Benchmarks TalkTalk's performance in relation to customers using research including CSAT and NPS scores.
- Executive Chairman and CEO meet regularly with key B2B customers to help maintain good relations and to understand and address their views, needs and concerns.

How they influence the Board decision making

- The Board uses the above engagement methods to help ensure that the customer's viewpoint is taken into account as part of its decision making process.
- The views, needs and concerns of our key B2B customers are regularly fed into the Board via our regular CEO reporting process and the Board discusses them and takes them into consideration when making decisions and setting strategy, including during our annual Board strategy session.

SUPPLIERS

Why they matter to us

- Our suppliers are fundamental to the quality of our products and services. Engagement with suppliers and maintaining good relationships is therefore critical to ensuring that as a business we meet the high standards we set ourselves.
- We spend over £1.4bn per annum with suppliers on goods and services, and therefore these relationships are vital to ensuring we get value for money and operate an effective supply chain, to guarantee that our customers get the best end user experience.
- 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.

What matters to them

- Understanding of TalkTalk's strategy and how their products and services feed into that.
- Ability to resolve potential issues in their relationship with TalkTalk.
- Building strong, collaborative and long term relationships.
- Adherence to contractually agreed payment terms, i.e. being paid promptly.
- Creating a trusting environment with TalkTalk, where both sides act with fairness and transparency.

How we engage

- Supplier relationship management – we partner with our key suppliers to ensure that we have common roadmaps and strategy, via a series of face to face meetings.
- Responsible procurement, trust and ethics – in addition to our Modern Slavery Statement we have the following policies:
  - 'Bribery, Corruption and Fraud Control';
  - 'Gift Accepting'; and
  - 'Code of Ethical and Business Conduct'
- Supply chain financing – to improve efficiency for the parties involved in our sourcing transactions.
- Living Wage – TalkTalk is now a Living Wage accredited organisation, we have legally binding minimum requirements for wage levels, and we apply this to new suppliers.

How the Board engages

- Board approval of Modern Slavery Statement.
- CEO and Executive Chairman meet with biggest suppliers regularly.
- Certain key suppliers are regularly discussed at Board meetings.
- Our supplier payment policy can be seen in our Director's Report on page 67.

How they influence the Board decision making

- The Board recognises that relationships with suppliers are vital to the Group's long-term success, so as a Board we carefully consider the selection of, and engagement and continued relationship with, our key suppliers.
- Supplier issues are regularly fed into the Board via our regular CEO reporting process and the Board discusses them and takes them into consideration when making decisions and setting strategy, including during our annual Board strategy session.

Section 172 continued

COMMUNITIES

Why they matter to us

TalkTalk values our communities and is committed to doing business the right way. We have a responsibility to ensure that we are contributing to society and, as a technology company, we particularly need to ensure that the growth of online services benefits society and communities. With extra pressures being placed on society due to the COVID-19 pandemic, we are especially committed to doing what we can to support those who are struggling at this difficult time.

What matters to them

We are proud of our Salford presence and want our Soapworks campus to be not just an office but a true community hub, so that local people get to know TalkTalk and benefit from having us as neighbours, including supporting local growth, creating employment and supporting skills development. More broadly, we know that many people want to see the online world evolve to embed the principles of safety and responsibility, with parents particularly concerned about ensuring their children are adequately protected online.

How we engage

- Support three major charity partners - Ambitious about Autism, the Internet Watch Foundation and Internet Matters – providing financial investment as well as support in kind.
- Employee offer of Give Something Back Day for volunteering opportunities.
- Engagement with local growth and skills initiatives through local schools and universities, including sponsorship of University Academy of 92 students and graduate recruitment.
- New employee-led networks to promote community engagement, including the Neurodiversity Employee Network and Women in Tech.
- Sponsorship of Salford City Football Club.
- We have supported a number of initiatives in light of the COVID-19 outbreak:
  - Providing financial support and making our premises available at Irlam for volunteers to make/pack PPE equipment for local medical facilities.
  - Donated equipment and food to local homelessness charities.

How the Board engages

- The Board actively supports our major charity partnerships.
- The Board launched the Employ Autism programme to offer work experience to young people with autism.
- The Board receives regular updates on internet safety and regulation landscape.
- The Board has endorsed a culture of volunteering and giving back.

How they influence the Board decision making

Our employees and other representatives meet regularly with our various communities to understand their views and the challenges they are facing. These views and challenges are fed into the Board via our regular CEO reporting process and the Board discusses them and takes them into consideration when making decisions and setting strategy, including during our annual Board strategy session.

GOVERNMENT

Why they matter to us

Digital infrastructure is a Government priority with a focus on ensuring nationwide access to gigabit capable broadband connections as soon as possible. Government policy will influence the roll-out and delivery of new services as well as the regulatory environment. During the COVID-19 pandemic we are working particularly closely with the Government on issues including network resilience and capacity – to ensure Britain stays connected at this critical time – and supporting vulnerable customers and the NHS.

What matters to them

Policy makers in Government want to see new digital services rolled out in a timely manner in a way which benefits consumers. It is also important to policy makers that adequate protections are in place for consumers in the broadband retail market, as well as responsible practices regarding online harms. At this time of increased demand, they want to know that communications providers must do all they can to keep customers connected; as well as being compassionate and understanding to those experiencing financial difficulties.

How we engage

- We engage with Government via formal mechanisms including responding to consultations and providing data to inform policy making. Submissions this year included responses to the consultation on the Statement of Strategic Priorities to Ofcom, on the draft Online Harms White Paper and on the Smart Data Review.
- We are members of a range of organisations through which we engage with Government alongside industry colleagues, including the Broadband Stakeholder Group and the UK Competitive Telecommunications Association.
- We are part of industry-wide regular meetings with DCMS at all levels of the business in relation to the industry response to the COVID-19 pandemic, network capacity and resilience and customer measures.

How the Board engages

The Board receives regular updates on the political and Government environment and engages with policy makers as appropriate.

How they influence the Board decision making

The political and governmental updates and views of policy makers are fed into the Board via our regular CEO reporting process and the Board regularly discusses them and takes them into consideration when making decisions and setting strategy, including during our annual Board strategy session.

REGULATORS

Read more on pages 34 to 36

Why they matter to us

Ofcom both determines (through Significant Market Powers regulation) the prices which we pay Openreach, which constitute a substantial proportion of TalkTalk's cost base; and (through consumer regulation) a variety of the elements of the industry's customer service proposition. Regulation is therefore the single most important driver of our cost to serve customers.

The ICO (Information Commissioner's Office) regulates compliance with the Data Protection Act (and GDPR), the Privacy and Electronic Communications Regulations and the Regulatory Investigatory Powers Act, and TalkTalk complies with all of these regulations.

What matters to them

Ofcom's duties are set out in the Communications Act 2003. Its primary duties are:

- to further the interests of citizens in relation to communications matters; and
- to further the interests of consumers in relevant markets, where appropriate by promoting competition.

When fulfilling these duties Ofcom also needs to have regard to a number of considerations which are of relevance to TalkTalk, including:

- the desirability of promoting competition in relevant markets;
- the desirability of promoting and facilitating the development and use of effective forms of self-regulation;
- the desirability of encouraging investment and innovation in relevant markets; and
- the desirability of encouraging the availability and use of high-speed data transfer services throughout the United Kingdom.

The ICO is responsible for enforcing several information related pieces of legislation. Its primary duties are:

- upholding information rights in the public interest including data privacy for individuals;
- promoting openness around data use; and
- where appropriate, taking enforcement action.

How we engage

TalkTalk continually engages with Ofcom at a variety of levels and in a variety of manners, both formal and informal. At a working level, most contact is via TalkTalk's regulation team, which both regularly meets with Ofcom and coordinates responses to Ofcom's statutory consultations and information requests. At a more senior level, TalkTalk's CEO regularly meets and talks with Ofcom's CEO, covering strategic-level issues. This engagement has increased in frequency during the COVID-19 pandemic both on an individual and industry-wide basis.

TalkTalk continually engages with the ICO at a variety of levels and in a variety of manners, both formal and informal. At a working level, most contact is via TalkTalk's Data Protection Officer, who both regularly meets and is in contact with the ICO. This engagement involves coordinating responses to ICO information requests and complaint responses. At a more senior level, TalkTalk's General Counsel and Company Secretary talks with senior ICO officials covering key topics and issues.

How the Board engages

The primary Board engagement with Ofcom is via TalkTalk's CEO and on some issues the Executive Chairman. Other than that, members of the Board are informed of developments at Board meetings, whilst having no systematic contacts with Ofcom.

Primary Board engagement with the ICO is via TalkTalk's General Counsel and Company Secretary. In addition to this, the Board is regularly updated on any developments.

How they influence the Board decision making

We have a PLC Board Compliance Committee chaired by an Independent Non-Executive Director that meets every quarter to discuss all regulatory and compliance issues impacting, or that may impact TalkTalk. The Chairman, the CEO and the Company Secretary report back to the Board after each Committee meeting. The Board then discusses the relevant issues and takes them into consideration when making decisions and setting strategy, including during our annual Board strategy session.

Case study: decision-making in practice

One of the major decisions made by the Group this year was to sell the Fibre Assets Business to CityFibre. This was a transformational transaction for the business and below are some examples of how the Board considered various s172 stakeholders in their decision making.

Shareholders

Our shareholders want us to maximise returns in a responsible way and have long been supportive of our strategic aims to simplify and streamline our business. The sale of our Fibre Assets Business is a continuation of this strategy, allowing us to focus on fewer things, reduce our capital intensity, lock in a highly competitive wholesale price, whilst also receiving an excellent return on our investment.

Customers

Our customers want propositions that work for them and are increasingly demanding faster, more reliable products. The sale of our Fibre Assets Business and our associated wholesale agreement will see CityFibre accelerate their roll-out plan, enabling us to bring FTTP to as many customers as possible, as fast as possible. The sale provides us with access to highly competitive wholesale pricing, which will mean we can migrate customers onto premium FTTP products for affordable prices.

Government

Policy makers in Government want to see new digital services rolled out in a timely manner in a way which benefits consumers. We have always been clear that we would not be funding the full FibreNation build from our own balance sheet and were looking for an infrastructure investor to partner with. Selling the Fibre Assets Business and signing a long-term wholesale agreement will enable CityFibre to accelerate their roll-out plan, helping the government reach their 2025 target for nationwide FTTP coverage.

Regulators

Ofcom, amongst other things, have regard for promoting competition and encouraging investment and innovation in the Telecoms market in the UK. When deciding to sell our Fibre Assets Business, the Board gave consideration to how the sale would impact competition and encourage investment and innovation. We have always been clear that competition is what will drive the fast, affordable roll-out of Full Fibre, and therefore the sale would help competition by providing a scale alternative network provider, whilst accelerating the availability of affordable next-generation FTTP services in the UK.

Environment

Whilst not one of our listed s172 stakeholders above, our Corporate Social Responsibility (pages 37 to 39) section highlights our commitments to our environmental responsibilities. The sale of our Fibre Assets Business will enable CityFibre to accelerate its Full Fibre roll-out which will have clear long-term environmental benefits given it requires no electrical charge and will enable us to optimise our exchange footprint – meaning we can drastically reduce the amount of energy required to deliver our products.

ONE TALKTALK TEAM

Daniel Kasmir,
Chief People Officer

GENDER DIVERSITY – ALL COLLEAGUES

- Female 32% (FY19: 33%)
- Male 68% (FY19: 67%)

GENDER DIVERSITY – SENIOR MANAGEMENT

- Female 31% (FY19: 27%)
- Male 69% (FY19: 73%)

GENDER DIVERSITY – DIRECTORS

- Female 20% (FY19: 33%)
- Male 80% (FY19: 67%)

At TalkTalk, we have a mission to be the UK's leading value provider of fixed connectivity. Throughout the year, we have focused on making sure we have the right resources and skills in place to enable us to continue delivering for our customers whilst working efficiently as One TalkTalk Team.

In November 2018, we announced our plans to relocate our headquarters from London to Salford to support our next phase of growth. We have always had a base in the North West and we have now built on that heritage and created a campus for the whole business. As part of the move, we recruited nearly 300 roles in the North West and have created an energised, engaged highly effective team of colleagues based on one primary site.

By creating our new campus and bringing activities together we have been able to further reduce complexity and improve efficiency in what we do and the way we work.

The success of our move to one campus site in Salford throughout FY20 has exceeded expectations, improving collaboration between teams, supporting a more flexible working environment, building on our already inclusive culture and improving our engagement score by 56 points since the relocation was announced. This has enabled us to attract and retain great talent.

Attraction strategy

In the early part of FY20 we launched '100% Human' a new employer brand campaign which focused on our intent to recruit a diverse team allowing colleagues to be themselves at work – an important part of our DNA. This campaign attracted many candidates across the North West and was subsequently shortlisted at the In-House Recruitment awards.

We also insourced the Talent Acquisition team to further improve quality and innovation whilst delivering significant cost savings. The Talent team secured over 300 new colleagues from a range of leading businesses in Manchester and the surrounding areas with a 96% acceptance rate. Existing colleagues were also encouraged to apply for new internal roles. Over 38% of roles were filled internally allowing our existing colleagues to grow personally and professionally.

We have improved all areas of the employee life cycle

Joining TalkTalk

We launched Enboarder – a best-in-class digital engagement tool for all new colleagues, allowing them to keep up to date and have regular check-ins with their new line manager ahead of their official start date. Our induction was completely overhauled with a new two day induction for all new colleagues so that they were able to find out as much as possible about the business and our unique culture and meet the wider teams and senior leaders. This ensured a successful early start for all new colleagues joining us.

Building communities

We believe that our differences make us stronger, more fun and a better place to work. Over the last year we have supported and encouraged new communities where colleagues can support each other, raise awareness and influence impactful change:

- Our Wellbeing Community supports mental, physical and financial wellbeing.
- Our TalkPride Community is our LGBTQ+ and allies employee group.
- Our Women In Tech Community exists to support and encourage gender balance across all areas of the business in the local community.
- Our new TalkNeurodiversity Community exists to raise awareness and support for those with neurodiverse conditions.
- New NetZero Heroes – our campaigners to improve climate change.
- We also have faith and multicultural networks that are in the process of being set up.

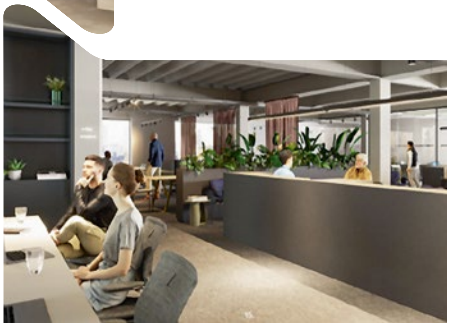
We have partnered with companies including Working Families, Inclusive Companies and the Business Disability Forum to help us better support and increase our diverse talent across the business. We have worked with the 30% Club for the third year running to put ten of our female colleagues onto its mentoring programme. The 30% Club champions gender balance on boards and in senior management to increase corporate performance for both companies and their shareholders.

An inclusive place to work

At TalkTalk we celebrate diversity and pride ourselves on being an inclusive place to work. We commit to ensuring that everyone is treated fairly and that there is diverse representation at all levels, and in all areas, of the business. We also ensure there are no barriers to progression or recruitment at TalkTalk and that appointments are based on merit.

Our equality policy outlines that it is unlawful to discriminate directly or indirectly in recruitment or employment because of age, disability, sex, gender reassignment, pregnancy, maternity, race (which includes colour, nationality and ethnic or national origins), sexual orientation, religion or belief, or because someone is married or in a civil partnership. This also extends to discrimination after employment, for example refusing to give a reference for a reason related to one of the protected characteristics. This policy is considered through processes across the people team to ensure equal opportunities.

We are working on targets for ethnicity and gender diversity at all levels of our business, with a particular focus on getting females into technology roles. This has seen gender diversity across our senior management team improve from 27% female to 31% female year on year, whilst equality is consistently one of the top scoring drivers in our engagement survey.



We have a positive approach to attracting, recruiting, and developing disabled talent. Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. 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.

Our Dignity at Work policy addresses issues of bullying and harassment on any ground, and how complaints of this type will be dealt with. We recognise our obligations not to discriminate for any reason and will not discriminate unlawfully against any of our employees, agency workers, self-employed persons, contract workers or customers using or seeking to use goods, facilities or services provided by us.

Learning and development

We launched LinkedIn Learning in June last year with over 12,000 pieces of learning, available for free to all colleagues, which we have now integrated into our core Workday platform offering.

All our employees regularly complete relevant training on subjects such as security, inclusive behaviours, health and safety and GDPR.

Leadership

Over 300 people leaders meet monthly to discuss Company performance and ways of working. Many of our people leaders have now been through our in-house two day 'Coaching for Performance' programme, and our new people leader induction.

We have made a step change across reward and benefits

It has been a year of significant, positive change in the reward and benefits space.

In addition to our annual pay award this year, we increased employer pension contributions by 1%. We also simplified our bonus approach, aligning colleagues onto one annual bonus scheme which focuses on collective delivery of the Group's goals. Bonus payment level is determined by financial performance and the bonus entry gate is driven by one clear monthly KPI scorecard. Despite strong KPI delivery through the year, which opened the annual bonus gate, the financial targets were not achieved. Therefore, there was no annual bonus payment for FY20.

We also launched our quarterly Be Outstanding recognition scheme, where colleagues who are nominated by managers can win up to £2,000 each quarter. The scheme has been very successful, with over 50 colleagues recognised so far. Exco members present top awards and winners' videos are published both internally and on LinkedIn. We also continued our Shout Out peer-to-peer recognition platform with colleagues giving each other 5,349 'Shout Out' referrals between 1 April 2019 and 31 March 2020.

We reviewed our policies this year and introduced a birthday day off for all colleagues, which has proved hugely popular. We also increased our fully paid maternity and paternity leave as part of our inclusion and family friendly approach. It was also pleasing to see the significant inclusion work across the business being reflected in a significant reduction in our gender pay gap with an improvement from 19.1% to 14.5%.

Lastly, we are looking to introduce new benefits in FY21 which are both attractive to colleagues and support our sustainability agenda. Amongst these is an electric vehicle scheme, which we expect to have in place by the end of the first half.

We have launched new and improved ways of working

We have taken a number of steps to improve our ways of working across the business:

- We have simplified governance and improved our decision making through the adoption of a new tool called RAPIDS, which provides greater clarity through the decision making process.
- We have adopted new tools to support agile, efficient ways of working such as Microsoft Teams.
- We have seen more agile and collaborative working through effective neighbourhood planning and break out areas as part of our move to one campus together with bringing the right teams and capabilities together to work on specific customer improvements.
- We have further embraced flexible working to ensure we have the right balance for both the business and the individual and adopted a more modern way of managing meetings – all aimed at driving improved productivity.
- We have adapted our ways of working to ensure our colleagues can work safely and securely from home during the UK lockdown period due to the COVID-19 outbreak.

We have improved our workplaces and consolidated our property portfolio

We continue to review and simplify our property footprint and have returned the majority of our London office to the landlord, enabling us to retain a small fit for purpose presence there.

We have invested in our new head office in the North West – our Soapworks campus – which has been overhauled to accommodate our new colleagues and create a modern, collaborative and great workspace.

Our Workplace and Colleague Systems teams review all colleagues feedback and are committed to making further improvements. We've seen a +14 improvement in our Environment score – a trend which we hope to see continue. FY20 was a year of significant change as we experienced lots of building work to accommodate our new colleagues at the Soapworks. These are some of the things we've achieved so far, with lots more to come:

- Enhanced the Soapworks environment by creating more collaboration spaces, meeting rooms, quiet working booths and our new reception, with more still to come.
- Commenced work with our new facilities provider to further improve our working environment.
- Launched our Laptop Refresh project with over 400 laptops replaced to date.
- Introduced new collaboration tool Microsoft Teams.
- Introduced new digital tools, such as being able to self-serve through Click Travel and our People Helpdesk.

The TalkTalk Together Series

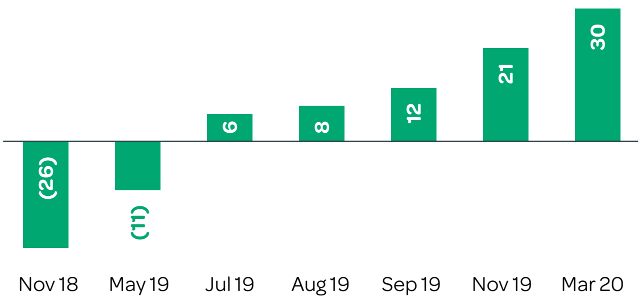
The TalkTalk Together Series was a combination of events, competitions, guest speakers and experiences all designed around our employer brand to help our colleagues understand the kind of employer we want to be and what we value here at TalkTalk. We ran the activity over eight weeks at the end of 2019.

Increased colleague engagement

As a result of all the efforts across the People team, our engagement score as of March 2020 is up to +30. This is a 56 point improvement since the move of our headquarters was announced in November 2018.

We are committed to being a fair, inclusive and diverse employer and therefore we are really pleased that colleagues have scored us exceptionally highly for Equality (+66) and Openness (+59).

Engagement score (%)



OUR EMPLOYER BRAND

We're for everyone
We're flexible in the way we work and have a truly inclusive culture. Everyone can be themselves here.

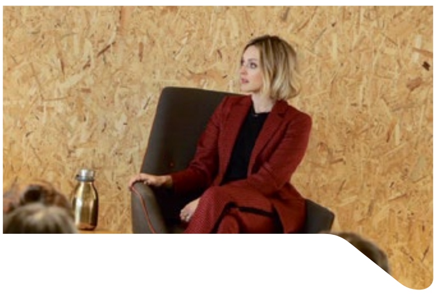
We stand for something
We're proud to be a value brand and love the difference we can make for our customers. We live by our values.

We create opportunities
We have tonnes of opportunities to learn and develop quickly for those who seize them.

We're fast and focused
We're one team, with one set of priorities. We're clear on what we need to do and collaborate to get there.

Looking forward

- We will continue to create a highly engaged organisation with strong leadership focused on employee engagement, cost leadership, improved performance and productivity all leading to an improved customer experience.
- Following the success of the TalkTalk Together Series, we will be delivering our TalkTalk Together Online Series for colleagues over the course of Q1 FY21 with a host of online speakers, webinars and competitions as our colleagues work remotely.
- Clear inclusion and diversity approach celebrating and protecting our unique culture and improving levels of diversity across the organisation.
- Enhancing core capabilities of leadership, digital, automation, data and insight to enable succession planning.
- We'll be ensuring that all colleagues have clarity on what's expected of their performance, and all goals will be aligned to our One Plan strategy.
- Embedding new ways of working that drive quicker decision making, clear accountability and joined up collaborative thinking that focuses on the customer experience and improving organisational efficiency.
- We will continue our journey of simplifying our business creating more long term savings and efficiency for the business.



COVID-19

As the COVID-19 pandemic developed and the nation entered lockdown, we have adapted how we work and communicate as a business. We have:

- Set up three governance workstreams led by members of our Executive Committee, which were initially discussed daily, for the first 5 weeks, before moving to every other day. The workstreams are as follows:
  - Workstream 1: People, Property & Continuity
  - Workstream 2: Customer Support
  - Workstream 3: Business Scenario Planning
- Kept staff informed with Group-wide communications, based on these three workstreams, in the form of an end of day email update.
- Enabled the vast majority of our 2,000+ colleagues to be able to work from home safely, providing guidance and couriering office equipment direct to their homes.
- Created a COVID-19 information hub for colleagues featuring links to Government advice, what you need to do if you are experiencing symptoms, videos and online resources with working from home tips, parental support, mental wellbeing support and an archive of all COVID-19 updates.
- Created a People Charter and encouraged teams to create their own versions to encourage them to have important conversations with their teams to agree on their own ways of working and ensure work/life balance in the process.
- Implemented a Shout Out Louder recognition scheme. Where we would usually award colleagues for going above and beyond in their roles on a monthly bases - we are now doing this weekly.
- Increased the frequency of our employee engagement survey (measuring eNPS) from bi-monthly to monthly and have included specific COVID-19 related questions. As of 30 April, our eNPS score sits at +40, an improvement of 40 points since March.
- Created a new TalkTalk Together Online Series, with virtual events based on our employer brand pillars, including guest speaker sessions, virtual workshops, competitions and giveaways to keep our colleagues united and engaged. To date, we've had guests including Olympic athlete Sally Gunnell OBE, resilience expert professor Damien Hughes and an all-company live workout with Mr. Motivator.

WORKING WITH OUR REGULATORS TO ENSURE BETTER OUTCOMES FOR OUR CUSTOMERS

Our business activities, and those of BT, 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;
- Directive 2002/22 on universal service and users' rights relating to electronic communications networks and services; and
- Directive 2018/1972 establishing the European Electronic Communications Code.

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. Post-Brexit, the UK remains required to adhere to these Directives during the transition period, which runs until December 2020.

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 BT 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 we currently rely on are LLU (the Copper connections into homes/ businesses), Generic Ethernet Access (GEA) (access to Openreach's FTTC network) and Ethernet (dedicated 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 through a number of market review processes which gives us reasonable certainty of future wholesale charges. From 2021 Ofcom will move to a five year review period and will conduct the reviews for major wholesale products such as MPF, GEA and Ethernet together to determine the regulations that will apply from April 2021-26.

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, made up of various members of the senior management team.

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 legal separation does not yield tangible consumer benefits.

Wholesale Local Access Market Review

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 resulted in significant real terms, 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 £85.38 in 2020/21, while the 40/10 GEA price will fall from £69.59 in 2018/19 to £59.97 with effect from 1 April 2020. The prices of 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 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, also saw meaningful price reductions.

The quality of service standards Openreach is required to provide will increase substantially. In particular, the proportion of fault repairs completed on time will rise to at least 88% in 2020/21, from 83% previously; in 2020/21 Openreach will be required to offer an installation date within ten days, rather than twelve days previously.

Business Connectivity Market Review

Ofcom concluded its Business Connectivity Market Review (BCMR) in June 2019. This statement continued the regulation of Openreach's Ethernet leased line products, and imposed charge controls set at fixed nominal prices. The charge controls represented a break in Ofcom's previous approach, which had been to regulate Openreach's leased line charges in line with Openreach's costs. In addition, Ofcom imposed a Dark Fibre access obligation for backhaul circuits between certain Openreach Exchanges, and introduced an obligation on BT to allow unrestricted physical infrastructure access, so that providers wishing to build networks offering leased line only networks can access Openreach's ducts and poles. TalkTalk, in conjunction with Vodafone, appealed a number of aspects of this BCMR decision to the Competition Appeal Tribunal. An oral hearing of certain aspects took place in January 2020. The judgement, handed down in March 2020, determined that we lost that part of the appeal. Subsequent to this ruling, and by agreement with Ofcom in the current exceptional circumstances, the remaining issues have been dropped and will no longer be heard by the Competition and Market's Authority (CMA).

Wholesale Fixed Telecoms Market Review

The current WLAMR and BCMR both end in March 2021 and Ofcom is currently consulting on a single review, Wholesale Fixed Telecoms Market Review (WFTMR) which will set regulation for both markets for a five year period from April 2021 to March 2026. Ofcom published its full proposals in January 2020 which were aimed at encouraging FTTP investment whilst also protecting customers. The proposals are a departure from the previous approach. For instance, in 70% of the country Ofcom is not imposing cost-based charge controls but rather allowing current Openreach MPF and FTTC prices to rise at CPI inflation. We consider Ofcom's proposals will result in many customers paying excessive prices whilst not benefiting from FTTP investment. After a brief suspension due to COVID-19, Ofcom has set out new timelines for the consultation, and reconfirmed that the review as a whole is intended to proceed on an unchanged timeline.

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 of Openreach's ducts and poles for leased lines as well as broadband; requiring Openreach to fix faults and relieve congestion to make its assets 'ready for use' to enable third party access; and reducing the rental prices of Openreach can charge. Effective duct and pole access could benefit us by reducing the cost and increasing the speed of the roll-out of non-Openreach FTTP networks which we will rely on in certain areas.

Universal Service Obligation

The Digital Economy Act 2017 gave the Secretary of State the power to introduce a new broadband Universal Service Obligation (USO). Secondary legislation came into force in April 2018, which provided residential and business customers with a legal right to request a broadband service of 10Mbps or more. Ofcom is responsible for implementing the USO and, following consultation, has designated BT and KCOM as the USO providers. It is due to confirm the funding regulations in spring 2020. The scheme opened for customers to request USO connections in March 2020.

FTTP policy

Following the 2019 General Election, the Government set a new and more ambitious goal of ensuring that there is nationwide coverage with 'gigabit capable' broadband by 2025. This term would cover both FTTP connections and Virgin Media's Data Over Cable Service Interface Specification (DOCSIS) network. As part of this goal, the Government is committed to promoting infrastructure competition and bringing down barriers to network deployment. 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 20% 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.

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 implemented the changes under the new regime with effect from April 2019. Ofcom has allowed operators to suspend paying automatic compensation due to COVID-19, provided customers are kept informed about the reasons for non-payment and are not charged for services they do not receive.

Television and video-on-demand regulation

As a provider of an 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.

Regulatory environment continued

Brexit and future UK-EU trade arrangements

On 31 January 2020, the UK left the European Union (EU), although it remains in a transitional arrangement with the EU until the end of 2020. Final decisions on future telecoms regulation are likely to be subject to terms of the UK's future relationship with the EU. We continue to work closely with the Government and Ofcom on the issue.

Since the 2016 vote on EU membership, TalkTalk has assessed the impact of a no-deal scenario. We 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 consider our UK stock holding to be appropriate to mitigate against this risk.
- **Limits to data sharing:** we have concerns about any potential 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.

The exact implications of a new relationship with the EU will depend on the outcome of the current trade 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. Any other trade deals are unlikely to have a significant impact on TalkTalk's operations.

We share the view of other infrastructure providers that companies must have the ability to recruit the necessary skills for major construction projects, including planned Full Fibre roll-out. However, as we no longer have a Fibre building business, we do not foresee any impact on our workforce.

Child online safety

The Government consulted on its Online Harms White Paper in 2019, setting out proposals for a new regulator to oversee industry response to online harms. In our response, we advocated a pragmatic 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. The Government published its initial response to the consultation in February 2020 in which it confirmed its preference for Ofcom to take on the new regulatory function and accepted many of our arguments about the need for a proportionate approach focused on platforms' processes, rather than individual pieces of content. The Government did not confirm its intentions regarding enforcement measures, and the possibility of ISPs being required to play an enforcement role on behalf of a regulator by blocking harmful content remains a possibility. We accept this principle but argue that any new system should be proportionate and set within a clear legal framework. The Government is expected to publish further details in the summer.

The Government has paused plans to introduce a new age verification process for online pornography and will instead consider this issue as part of the wider online harms agenda. Therefore, all internal work on this project has ceased.

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.

SUPPORTING ONLINE AND LOCAL COMMUNITIES

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

The past year has seen a marked increase in societal concerns about children's safety online. Research published by Ofcom in June found that 83% of adults expressed concern about harms to children on the internet, primarily regarding bullying, abusive behaviour and their exposure to inappropriate content including pornography and content promoting self-harm. We continue to support Internet Matters in providing guidance and support to parents, including by incorporating their information in our 'welcome booklets' and when parental controls are activated, as well as placing its logo and website link on our product packaging. We also hosted Internet Matters on Safer Internet Day in our Soapworks campus for a panel session to discuss parental concerns and best practice tips, with more than 200 attendees.

Internet Watch Foundation

TalkTalk is also a top-tier member of the Internet Watch Foundation (IWF), the not-for-profit entity whose vision is to eliminate child sexual abuse imagery online. We continue 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. TalkTalk is represented on the IWF Board of Trustees and we have also offered in-kind technical support and advice on its product development.

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. At 31 March 2020 2.1m customers were subscribed to SuperSafe or SuperSafe Boost.

Blocking scam and unwanted calls is another priority. 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. Over 250,000 customers have now activated the feature, blocking millions of scam and unwanted calls every month.

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

Our communities

Ambitious about Autism

We are delighted to continue providing support for Ambitious about Autism, the national charity for children and young people with autism. It provides pioneering education services and raises awareness and understanding, as well as campaigning 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 over £4m for children and young people with autism since 2006; this year's auction raised £420,000 for the charity. We also host regular fundraising activities to support the charity throughout the year.

This year we agreed to become the lead partner as Ambitious about Autism extends its Employ Autism project to the North West. The employability project connects businesses with young autistic people to provide high-quality, paid work placements to support the development of work-based skills. TalkTalk will identify roles within the business for several young autistic people to last up to three months. In addition, TalkTalk will review its processes to make them more inclusive and neurodiversity friendly, providing training to people managers. We are also supporting the North West project through publicity and other in-kind measures.

Local Salford community

As we expand our footprint in Soapworks, we have looked to see where we can engage with the local community. We are involved in several initiatives to promote social wellbeing and economic growth in the region, including sponsoring several students at the University Academy of 92, and a mentorship programme for at-risk young women. We have also led a series of skills workshops in response to local job losses, including the closure of Thomas Cook, to support local people to return to the workforce. We are also working closely with the University of Salford and other education organisations to expand our offer on digital skills.

Our communities continued

COVID-19

Our Corporate Social Responsibility strategy is evolving in response to the COVID-19 crisis. We are supporting local communities where possible and are in discussions with local schools, the local authority and the Greater Manchester Combined Authority about how we can best help. We have provided equipment and made offers of connectivity support. We have also provided financial support and office space to a local Personal Protection Equipment (PPE) production business, which produced around 35,000 visors as well as scrubs and coverings to NHS and care facilities across the North West. We are also supporting our traditional CSR (Corporate Social Responsibility) partners, including providing a donation to Ambitious about Autism's emergency appeal to help them transition to online learning, and supporting Internet Matters' resources about online safety during lockdown.

Protecting our environment

At TalkTalk we take our environmental responsibility seriously and we're committed to doing everything we can to step up and help meet the challenges of climate change reduction.

Our biggest environmental impact is from the CO_2 produced as a result of the energy we consume to operate our business (predominantly electricity), so in 2010 we set a target to reduce our tCO_2 intensity (measured in tons of CO_2/gigabit of bandwidth) by 80% by 2020, which we have achieved due to a 1,752% increase in bandwidth and a 58% reduction in tons of CO_2.

We are now working on new targets which include a commitment to join the Science Based Targets initiative (SBTi). These are externally benchmarked greenhouse gas reduction targets in line with climate science.

Over 80% of the electricity used within our internal estate is consumed by our network equipment and associated support systems within our data centres, so our major reduction efforts have been in this area. We have consolidated our data centre footprint and invested heavily in a range of energy efficient technology such as alternative cooling, low energy lighting, high efficiency power systems, removal of legacy IT hardware and the transfer of platforms and applications to cloud-based solutions.

Between 2010 and 2016 we consolidated many of our offices and in 2017 converged our two North West headquarters to one single campus in Salford, from which we're seeing an energy reduction of 31% over comparable periods.

Outside of our internal estate we consume a lot of energy delivering our product across other people's networks to the end user (i.e. our customers), so an area of major focus is Fibre to the Premise (FTTP), where we can drastically reduce the amount of energy required to deliver our product. On a like for like basis (FTTP vs Copper), we've estimated a potential net carbon reduction of up to 80% per year. More importantly, FTTP offers the opportunity to make a significant positive impact on the UK's carbon footprint, with a strong network enabling reduced commuting and increased remote work, telehealth solutions and smart technology to reduce emissions.

We also acknowledge that video streaming has become an incredibly popular pastime, representing 63% of total bandwidth traffic. As yet the environmental impacts of this is still not clear. We are working in a collaborative manner on a project called DIMPACT with leading UK broadcasters. This is bringing together leading UK companies across the video streaming landscape of BBC, ITV and Sky. The pioneering study, to be published in the summer, will seek to fully understand the full end-to-end carbon footprint of a video stream.

TalkTalk has successfully deployed the multi award-winning Wi-Fi Hub to market. Not only has this improved customer experience, it has enabled TalkTalk to use less materials and be more aware of its environmental impact.

A 'cradle to cradle' lifecycle approach was used, examining how the product was created, ensuring that it was built to last, before being either re-used and/or recycled efficiently. The Wi-Fi Hub was deemed to satisfy all of these criteria, as follows:

Design phase – does the design of the product consider sustainability?

- In the design phase, the team looked at the market for sustainability best practice and in doing so considered how good industrial design of the form factor enables simple cosmetic repairs later in life, prompting them to make the design simpler.

Use phase – does the product have longevity?

- Unlike some consumer electronic devices, the Wi-Fi Hub does not have inbuilt obsolescence, requiring users to upgrade and swap out equipment. Rather, the product was built to last, with one key metric – meantime between failure – set at five years.

Return phase – easy returns policy and guidance?

- The Wi-Fi Hub is easy to return owing to compartmentalising within the box, making it simple for customers to re-box, coupled with a free returns policy and a bag provided by TalkTalk.

Repair phase – can the device be easily repaired?

- The Wi-Fi Hub is modular – there are only twelve pieces. These are in turn easy to disassemble, for our trained warehouse operatives, making repair much simpler than many other consumer electronic devices.

End of life phase – when designing, is there design for eventual onwards resale of parts?

- The modular design of the parts makes disassembly and re-use of specific parts easier. Additionally, TalkTalk operates in an active market of re-selling consumer electronic equipment parts for re-use, and a safe disposal according to WEEE guidelines of any parts which are beyond any use.

In setting specific standards for connectivity performance, customer experience and minimising environment impacts, there were several challenges, from integrating a new hardware partner, to defining more focused and detailed SLAs and service management.

The results of improved performance, customer metrics and, in the long run, a product which has a longer lifecycle and long term use will provide both financial and environmental savings.

We continue to operate an energy management system in accordance with the internationally recognised energy management standard ISO 50001 and are certified by a UKAS registered assessment body. As well as ISO 50001 accreditation, we also hold Carbon Saver Gold certification and participate in the Carbon Disclosure Project which is a global system for investors, companies, cities, states and regions to manage their environmental impacts.

As a result of a number of the actions noted above, we have significantly reduced our total emissions, intensity and energy consumption, as evidenced by the tables below. These tables cover our mandatory reporting of greenhouse gas emissions pursuant to the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. All emissions refer to UK operations only.

Mandatory greenhouse gas emissions (scope 1 and 2)

Emissions source	**2020**	2019	2018
Fuel combustion: stationary	**214**	256	186
Fuel combustion: mobile	**523**	504	523
Facility operation	**129**	2,406	9,817
Purchased electricity	**7,016**	8,790	11,593
Total emissions (tCO_2e)	**7,882**	11,956	22,119
Bandwidth (Gb/sec)	**4,345**	3,535	2,805
Intensity (tCO_2e per Gb/sec)	**1.8**	3.4	7.9

34% reduction in scope 1 and 2 greenhouse gas emissions

Total greenhouse gas emissions (scope 1, 2 and 3)

As part of our overall commitment to reducing our carbon emissions, we also track specific scope 3 CO_2 emissions, including third party electricity, business travel (trains, planes and hotels), water and waste.

	2020	2019	2018
Total emissions (tCO_2e)[(1)]	**34,805**	40,249	59,831
Bandwidth (Gb/sec)	**4,345**	3,535	2,805
Total intensity (tCO_2e per Gb/sec)	**8**	11	21

(1) Scope 1, 2 and 3 emissions.

In-house energy consumption

Disclosure of in-house energy consumption in kilowatt-hour (kWh) is a legal requirement introduced with Streamlined Energy and Carbon Reporting.

Emissions source	**Consumption 2019/20 (kWh)**	Consumption 2018/19 (kWh)	Year on Year change %
Electricity	**25,301,403**	28,611,745	-12%
Natural gas for heating	**656,674**	827,153	-21%
Transport fuel	**517,521**	463,782	+12%
Gas oil for backup generation	**361,796**	376,207	-4%
Total	**26,837,394**	30,278,888	-11%

This information was collected and reported in line with the methodology set out in the UK Government's Environmental Reporting Guidelines, 2019. Emissions have been calculated using the 2019 conversion factors provided by Department of Business, Energy and Industrial Strategy. There are no material omissions from the mandatory scope 1 and 2 emissions. The reporting period is 1 April 2019 to 31 March 2020 coterminous with the financial statements.

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 used to solicit business advantage.

The anti-corruption and bribery policy offers advice and guidance on how colleagues should ask for advice or report concerns. Calls can either report concerns to HR, or use a confidential reporting helpline if they wish to remain anonymous. Calls 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 reviewed on a regular basis to ensure they remain fit for purpose.

Human rights and modern slavery

Ethical behaviour is at the heart of everything we do at TalkTalk. We are committed to identifying and addressing any human rights risks, such as 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 11 June 2020 and is signed on its behalf by:

T Harrison

T Harrison
Chief Executive Officer

K Ferry

K Ferry
Chief Financial Officer

Board of Directors and PLC Committee

EXECUTIVES

Sir Charles Dunstone
Executive Chairman

Sir Charles is the founder of The Carphone Warehouse Group Plc and created TalkTalk in 2002. He was appointed as 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 and joined the Board in 2014. Tristia joined The Carphone Warehouse Group Plc in 2000 and has held a number of senior management and executive positions at The Carphone Warehouse and TalkTalk Group. Tristia is an Independent 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 in 2017, Kate was a member of the Dixons Carphone Plc Executive Committee, after 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 a chartered accountant before moving to Merrill Lynch as a Director within the retail sector equity research team, where she spent the next ten years. Since June 2019, Kate has served as an Independent Non-Executive Director of Greggs PLC, where she is Chair of the Audit Committee.

NON-EXECUTIVES

Ian West
Senior Independent Director

Ian joined the Board in 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 is Deputy Chairman having joined the Board in 2010. John was formerly Chairman of British Land; Deputy Chairman and Senior Independent Director of Spire Healthcare Group Plc; Chair of The 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.

Sir Howard Stringer
Non-Executive Director

Sir Howard joined the Board as a Non-Executive Director in 2012. Sir Howard had a distinguished 30 year career as a journalist, producer and executive at CBS Inc.; previous appointments include: Chair of Sony Corporation and Atrium TV; 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 Chair between 2010 and 2012. From 1999, Roger served over 16 years as CEO, CFO and Deputy Chair of The Carphone Warehouse Group Plc and Dixons Carphone Plc. Roger is also a founding Partner in Freston Ventures Investments LLP, which invests directly in a number of private businesses including Five Guys Europe, in addition to various indirect private equity and investment funds.

SKILLS MATRIX

	Finance	Television	Telecoms	Security/IT	Broadband infrastructure
Charles Dunstone	☐	☐	☑	☐	☐
Tristia Harrison	☐	☐	☑	☐	☐
Kate Ferry	☑	☐	☑	☐	☐
Ian West	☐	☑	☑	☐	☐
John Gildersleeve	☐	☐	☑	☐	☐
Sir Howard Stringer	☐	☑	☑	☐	☐
Roger Taylor	☑	☐	☑	☐	☐
Nigel Langstaff	☑	☐	☑	☐	☐
Phil Jordan	☐	☐	☑	☑	☐
Paul Reynolds	☐	☐	☑	☐	☑

TENURE

Nigel Langstaff
Non-Executive Director

Nigel joined the Board in November 2017 and was appointed as Chair of the Audit Committee in June 2018. Nigel was at The 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. Nigel previously spent four years with Arthur Andersen, where he qualified as an ACA. He is a Trustee for a number of charities, including Renaissance Foundation, La Difference and the David Ross Education Trust.

Phil Jordan
Non-Executive Director

Phil joined the Board 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 J Sainsbury plc. 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.

Paul Reynolds
Non-Executive Director

Paul joined the Board in April 2020 having previously been the independent Chair of FibreNation Limited. He is Chairman of fintech company 9Spokes International and a Director of Computershare (Melbourne), leaders in financial administration. Paul has over 30 years of experience in telecommunications. He was a Director at BT from 2001-2007 and CEO of BT Wholesale, with responsibility for the company's network and global technology operations including the spin-out of Openreach. He was CEO of Telecom New Zealand 2007-2012, completing the world's first structural separation into independent retail and Fibre network companies. Paul is a past Director of Eircom (Dublin), eAccess (Tokyo) and AAPT (Sydney).

Tim Morris
Group General Counsel and Company Secretary

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

CREATING A CULTURE OF TRANSPARENCY

Chairman's introduction

An integral part of the Board's role is to promote the sustainable success of 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 Group 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 Group, to provide leadership of the Board and ensure Board agendas emphasise strategic, performance and core value matters. The Chairman ensures the Board receives 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 Executive Directors being present to facilitate the development of the Non-Executive Directors and their effective contribution along with addressing any issues and concerns they may have.

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 2018 UK Corporate Governance Code ('the 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 2020 the Company has complied with the provisions of the Code issued by the Financial Reporting Council (FRC) and available at www.frc.org.uk.

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 sections: 1. Board Leadership and Company Purpose; 2. Division of Responsibilities; 3. Composition, Succession and Evaluation; 4. Audit, Risk and Internal Control; and 5. Remuneration.

Board leadership and Company purpose

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.

The Company's employees have access to 'the Wire' 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 54.

Further detail on how the Board engages with stakeholders can be found under the Strategic Report on page 26.

The Company has operated a Whistleblowing service since 2017, provided by InTouch CRS, with details available to all colleagues on the Company intranet. The service provides a confidential phone and web based channel for colleagues to report any incident or activity which they believe should be raised.

The disclosure requirements of the corporate governance statement as required under Disclosure & Transparency Rule 7.2 are fulfilled in the Directors' Report which can be found on page 67.

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

Division of responsibilities

Taking into account the changes to the Board during the year, which are described below, at 31 March 2020, the Board had nine members, which comprised of three Executive Directors and six Non-Executive Directors.

The Company announced on 27 March 2020, that with effect from 1 April 2020, Paul Reynolds would be appointed as a new Independent Non-Executive Director of the Board taking the Board to ten members. Paul brings extensive global telecommunications experience and significant sector, leadership and technological expertise to the Board. Paul will also chair the Board's new Fibre to the Premise (FTTP) Committee which will start during FY21. Further detail on Paul's experience can be found with the Board biographies listed above.

During the period the following Board changes occurred: the Company announced on 17 July 2020 that John Allwood and Cath Keers stood down from their roles as Non-Executive Directors of the Company; following the departure of Cath and John from the Board, Sir Howard Stringer became a member of the Remuneration Committee and Phil Jordan became a member of the Audit Committee.

In accordance with Provision 10 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 Director), Sir Howard Stringer, Nigel Langstaff, Phil Jordan, Paul Reynolds (appointed 27 March 2020 with effect from 1 April 2020) and prior to their departure, Cath Keers and John Allwood. The Board considers John Gildersleeve and Ian West still to be independent even though they have served on the Board for over nine years because both satisfy all of the other tests of independence set out in the Code and each demonstrate a strong degree of independence in their interactions with the Board. Additionally, the Board believes their skills and experience of the Company far outweigh what the loss to the Company would be if their appointments ended at this current time. Roger Taylor, although a Non-Executive Director, is not considered to be independent as he was previously Deputy Chair of the Company from January 2010 to July 2012 and has other significant business interests with the Chairman.

As explained in the Company's prospectus in 2010, Sir Charles Dunstone was not considered to be independent on his initial appointment as Chairman in accordance with Provision 9 of the Code 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. In accordance with Provision 19 of the Code in respect of his tenure as Chairman now being beyond nine years and effective succession planning in order to develop a diverse board, the Board considers overall that the wealth and experience Sir Charles brings to the Board and his role as Chairman, along with fact that he continues to be the driving force behind the Company's development, means it is in the best interests of the Company for Sir Charles to continue as Chairman. Further, the Board also believes that the fact the Board as a whole has a strong element of independence means Sir Charles is not able to exercise any undue influence on the Company's decision making processes.

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); Ian West (8 February 2011); Sir Howard Stringer (26 July 2012); Roger Taylor (11 November 2015); Nigel Langstaff (15 November 2017); Phil Jordan (16 October 2018); and Paul Reynolds (1 April 2020). 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.

The Company Secretary holds registers of Directors' interests and external appointments, which include any situational and transactional conflicts of interest. Directors are required to report actual or potential conflicts of interest to the Board for consideration and, if appropriate, authorisation. If such conflicts exist, Directors excuse themselves from all discussions and decisions in connection with the relevant subject matter. No conflicts of interest were reported during the period.

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 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.

Corporate governance continued

Division of responsibilities continued

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. As stated above the Board also intends to establish a new FTTP Committee during the next financial year with Paul Reynolds as Chair, more details of which will be set out in next year's Annual Report.

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

Audit	Remuneration	Nomination	Compliance	Security
Nigel Langstaff (Chair)	John Gildersleeve (Chair)	John Gildersleeve (Chair)	John Gildersleeve (Chair)	Phil Jordan (Chair)
John Allwood(1)	Ian West	Ian West	Tristia Harrison	Charles Dunstone
Ian West	Roger Taylor	John Allwood(1)	Tim Morris	Tristia Harrison
Cath Keers(2)	John Allwood(1)	Sir Howard Stringer		
Phil Jordan(3)	Howard Stringer(4)			

(1) John Allwood stood down from the Board on 17 July 2019.

(2) Cath Keers stood down from the Board on 17 July 2019.

(3) Phil Jordan was appointed on 23 July 2019.

(4) Howard Stringer was appointed on 23 July 2019.

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

Committees required by the Code

Audit Committee

A detailed description of the Committee's remit and work during the period is contained in the Audit Committee Report on pages 48 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 Chair 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 66. Other Directors, including the Chief Executive Officer, the Chief Financial Officer, the Company Secretary, the Chief People Officer and advisers, attend by invitation of the Committee.

The Chair 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 supporting a diverse pipeline of succession planning at Board level, overseeing the selection and appointment of Directors, regularly reviewing the structure, diversity, 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, which were last used for the appointment of Phil Jordan to the Board and summarised in the FY19 Annual Report.

On appointment, Board members receive an induction pack which includes key contacts, Group structure, corporate calendar, key group policies and the Company's share dealing code. A number of governance matters are also outlined, including Directors' duties including conflicts of interests, the Code and further detail is provided on requirements under the Market Abuse Regulation. The Company Secretary takes each new Board member through the induction pack to ensure that duties and responsibilities are fully understood and thereafter is available to advise each Board member on any queries or concerns. In addition, new board members participate in a thorough induction process meeting with the Executive Committee and taking part in operational site visits.

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, ethnicity, 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.

Further detail on the Company's diversity policy, its objectives and linkage to company strategy and the gender balance of those in the senior management and their direct reports can be found in Our People section of the Strategic Report (pages 30 to 33).

The Chair 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.

Other committees

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	1
Sir Charles Dunstone	Executive Chairman	6/6			
Kate Ferry	Chief Financial Officer	6/6			
Tristia Harrison	Chief Executive Officer	6/6			
John Gildersleeve	Deputy Chairman	6/6		4/4	1/1
Ian West	Senior Independent Director	6/6	3/3	4/4	1/1
John Allwood(1)	Non-Executive Director	1/1	1/1	2/2	
Sir Howard Stringer(2)	Non-Executive Director	6/6		2/2	1/1
Roger Taylor	Non-Executive Director	6/6		4/4	
Cath Keers(3)	Non-Executive Director	1/1	1/1		
Nigel Langstaff	Non-Executive Director	6/6	3/3		
Phil Jordan(4)	Non-Executive Director	5/6	2/2		

(1) John Allwood stepped down from the Board on 17 July 2019.

(2) Sir Howard Stringer was appointed to the Remuneration Committee on 23 July 2019.

(3) Cath Keers stepped down from the Board on 17 July 2019.

(4) Phil Jordan was appointed to the Audit Committee on 23 July 2019 and was absent from the June Board meeting due to a prior arrangement.

As well as the formal meetings during the period, the Board met at other times as appropriate for specific matters including the sale of the Fibre Assets Business, the issue of the Company's new bond and approving trading announcements to shareholders.

Each year the Board meets specifically to review and monitor the progress of the Company's strategy. At this year's strategy session, focus remained with providing our customers the best value for money connectivity, whilst radically simplifying TalkTalk as a more efficient business, with fixed connectivity and narrowing our focus on higher bandwidth Fibre broadband. The Executive Committee joined the Board for the strategy session and the Non-Executives were able to share their own expertise and experience and help to progress the Board's discussion by providing independent oversight and challenge.

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, 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.

There is a clear division of responsibilities between the Chairman and the Chief Executive officer, details of which are set out on the Group's website (www.talktalkgroup.com).

The management of the Group's business activities is 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;
- provide a cross-functional forum for the discussion of opportunities and risks arising from business activities, as well as to communicate business performance; and
- manage the Group's COVID-19 response, through three governance workstreams; 'People, Property and Continuity', 'Customer Support' and 'Business Scenario Planning'.

During the period the Senior Independent Non-Executive Director took responsibility for 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).

Corporate governance continued

Composition, succession and evaluation

During FY20 and in compliance with Provision 21 of the Code, the Board was subject to an externally facilitated independent Board evaluation by NJMD Corporate Services Limited (NJMD). This type of external evaluation takes place every three years and next year the Board will undertake an internal review.

NJMD carried out an independent Board performance evaluation with each Board member by providing each of them with a questionnaire addressing all matters relating to the performance of the Board, its Committees and its Directors, taking into account and structured with regard to the Code.

The final report by NJMD including the results and comments of the Board members and NJMD were analysed by the Chairman, the Senior Independent Director and the Board as a whole against the broad criteria of overall Board effectiveness and individual contributions. This performance review also assessed the ability of each Director, in particular the Non-Executive Directors, to demonstrate the required time commitment to their respective roles.

NJMD concluded that there were not any areas of major concern and that the Board is currently effectively run and administered. In general, all Directors scored all questions highly positively indicating a high degree of satisfaction with the performance and operation of the Company and the Board. There were concerns highlighted in relation to the Board's succession plans and diversity in matters affecting the composition of the Board. As required under Principle J of the Code, the Board currently has the succession plan for both the Board and Executive Committee under review, including a review of the diversity on the Board.

The Senior Independent Non-Executive Director also met with the other Non-Executive Directors to assess the Chairman's effectiveness during the year, taking into account the views of Executive Directors. With support from the Company Secretary, the Senior Independent Director reviewed the Chairman's performance and effectiveness, all Non-Executives provided input into the process and it was felt that the questions were answered openly and honestly, with additional explanatory comments where appropriate. The evaluation considered the Chairman's leadership continued to be highly effective.

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 contained in the Strategic Report on page 20.

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.

Viability statement

The context for assessment

The objective of the viability statement is for the Directors to report on their assessment of the prospects of the Group meeting its liabilities over the assessment period, taking into account the Group's available financing facilities, business model, strategy, regulatory environment, principle risks and uncertainties, recent financial performance, outlook, and current financial position. The Group's Strategic Report on pages 1 to 39 provides further information on these matters. As part of this assessment the Directors have given due consideration to the Group's breadth of customer base, value for money proposition, position in the market, continuing improvements in operating efficiency, large unbundled network and its ability to operate and compete effectively in the UK telecoms sector.

The assessment period

The Directors have assessed the viability of the Group over the three year period to March 2023, 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 business planning cycle. A three year period is also in line with long-term management incentives and the outputs from the long term planning process.

Assessment of viability

The annual budget, together with the long term plan are used to make the viability assessment, reflecting the three year viability period until March 2023. The approach (including the methodology, key considerations, sensitivities, mitigations and reverse stress tests) described on pages 67 and 68 with reference to the assessment of going concern is consistent with the approach applied to the viability assessment.

The table below summarises the key scenarios considered and how they link to the Group's principle risks and uncertainties and what the potential impact could be:

Scenario	Associated principal risks and uncertainties	Description and potential impact
Material changes in competition and the market	COVID-19 Customer trust and brand reputation Competitive landscape Changing market structure Regulatory compliance Data and cyber security Input pricing/access to competitive input propositions	Failure to respond to adverse market conditions, a decline in customer demand/trust, a changing market structure, regulatory non-compliance or a cyber security event may potentially give rise to increased levels of churn, lower than forecast connections and/or higher bad debt. 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 may result in reduced revenue, profitability and cash generation.
Executing the Group's strategy of simplifying the business – reduction in cost savings or increased costs	COVID-19 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, or an adverse change in the regulatory environment/general market conditions may have a negative impact on the Group's cost base due to a failure to deliver and execute change. The potential impact of the above would result in reduced profitability and cash generation, notwithstanding that the Group's strategy would also offset some of this impact as the Group would expect to have better quality revenue and gross margin and lower operating costs and capital expenditure.

Viability statement

Based on this assessment using these severe but plausible scenarios, as well as the completion of a reverse stress test assessment, 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 the three year period to 31 March 2023.

ENSURING THE INTEGRITY OF OUR FINANCIAL REPORTING AND CONTROLS

On behalf of the Board, I am pleased to present the Audit Committee Report for the year ended 31 March 2020. This report provides you further information on the Committee's roles, responsibilities and key areas of focus during the year, and what we have done to ensure the integrity of the Group's annual report and the effective management of our risks and controls.

Following the introduction in the year ended 31 March 2019 of IFRS 15, which significantly changed the recognition of revenue and associated costs, the new standard for leases (IFRS 16) has been adopted which has had a significant effect on the Group's financial statements. The Group has adopted the modified retrospective approach meaning that prior year comparatives have not been restated; however to ensure comparability of information we have continued to provide key financial information for the current year on a pre-IFRS 16 basis. Further details can be found in the Group Accounting Policies section of the financial statements within note 1.

COVID-19 has had a dramatic effect across the world and highlights the importance of risk management, strong internal controls and business continuity planning. Management is responsible for implementing and maintaining appropriate internal control processes to ensure the appropriate management of risks and effective operation of the business. During the year, management commenced the implementation of a number of enhancements to strengthen controls and processes in areas identified as benefiting from improvement, and this process will continue into the new year as we seek to further strengthen our general IT controls and internal control framework. We have also considered carefully the impact of COVID-19 on the annual report and financial statements to ensure its impact is appropriately presented.

During the year John Allwood and Cath Keers resigned from the Board, and I would like to take this opportunity to thank John and Cath for their significant contribution to the Committee. I would also like to thank the management team at TalkTalk and the current Committee members for their input and support during the year.

Committee structure

During the year, the Committee comprised Nigel Langstaff, Phil Jordan (appointed 23 July 2019), Ian West, John Allwood (resigned 17 July 2019) and Cath Keers (resigned 17 July 2019).

The Committee is structured to provide a range of relevant financial, commercial and operation expertise to meet the responsibilities of the Committee. Nigel is the member of the Committee with relevant and recent financial experience (as recognised by the Consultative Committee of Accountancy Bodies) though all members of the Committee are expected to be financially literate and have an appropriate 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.

Meetings and responsibilities

The Committee updates the Board, following each Committee meeting, on any significant issues that may have arisen. 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. 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.

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;
- consider 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.

COVID-19

The Committee assessed the effect of COVID-19 on the Group, with specific consideration of:

- guidance provided by the FRC and other regulatory and government bodies on COVID-19;
- how the Group's operations were being affected;
- the effect on the Group's financial statements, especially in relation to the going concern assessment, viability statement, carrying value of assets and disclosures in the annual report;
- the impact on the Group's principal risks and uncertainties; and
- implications to the Group's internal control processes, including any increased risk of fraud.

Significant financial reporting matters

The significant financial reporting matters considered by the Audit Committee in the current year were as follows:

Significant issue considered by the Committee	How the issue was addressed by the Committee
The appropriateness of preparing the Group financial statements on a going concern basis and the viability statement.	The Committee considered and challenged management's papers, analysis and forecasts in relation to the Group's going concern assessment which took into account the Group's financing facilities and associated covenants, reasonably possible changes in trading performance, feasible mitigating actions, and specifically considered the potential impact of the UK's future trading relationship with the EU and COVID-19. The Committee also considered and challenged management's approach to the viability statement, including the period of review, sources of finance, risk factors, commitments, key judgements and estimates, sensitivities, feasible mitigating actions and a reverse stress test analysis. The Committee concluded that the conclusions reached and the external disclosure for both the going concern assessment and viability statement were appropriate.
The treatment and disclosure of non-Headline items and alternative performance measures	The Committee considered management's approach to and presentation of non-Headline items and alternative performance measures. The Committee assessed the appropriateness of each of the items recognised as non-Headline during the financial year, and as part of this assessment considered the views of the external auditor and Guidelines on APMs issued by the European Securities and Markets Authority (ESMA) and the Financial Reporting Council (FRC). At each meeting, the Committee reviewed a paper prepared by management on non-Headline items, including an assessment of the nature of all items, an update on the status of all items with a particular focus on any material changes (in the current year being items associated with the disposal of the Fibre Assets Business), whilst also considering the appropriateness of classification of other items included in Headline results. The Committee reviewed and agreed the conclusions reached and the disclosure made for non-Headline items and alternative performance measures.
Leases	During the year, the Group adopted IFRS 16 'Leases' and applied the modified retrospective approach. IFRS 16 had a significant impact on the Group's financial statements by bringing operating lease commitments onto the balance sheet and affecting the Group's EBITDA, depreciation, debt and operating profit as well as other measures. As part of applying the standard the Group was required to make significant judgements in assessing which arrangements fall under the scope of IFRS 16 including contractual arrangements for 'the last mile' and made significant estimates when assessing the useful economic life of the right of use assets recognised. The Committee reviewed and challenged management's papers documenting conclusions reached and judgements and estimates made. The Committee agreed with the conclusions reached, taking into account the findings and conclusions of the external auditors, as well as the reviews carried out by other advisers.

Audit Committee report continued

Significant financial reporting matters continued

Revenue recognition	The Group is required to make judgements in relation to the appropriate transaction price used, performance obligations, the probability of collectability of revenue, identification of material rights, agent vs principal in certain channels and determination of contract costs that are appropriate to be capitalised. The Group is also required 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's papers re-assessing the judgements made and estimates used and agreed with the conclusions. The recording of revenue is also dependent on the Group's IT systems, infrastructure and outsource providers and the Committee carefully considered relevant IT control weaknesses identified, related mitigating controls and programmes for process improvement and assessed that the revenue recognised was appropriately stated.
Supplier arrangements and income received in relation to service level related disputes	The Committee 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 were classified and measured appropriately and recognised in the correct period. This review required an understanding of the nature of the transactions and adherence to the Group's accounting policies. 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 capitalised internal costs incurred in relation to the development of software and other assets for internal use. During the year, management 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, including giving consideration to the balance of income and costs between Headline and non-Headline earnings. 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.

Regulators

The Board was informed last year that the FRC would carry out a review of the Group's disclosures that were included in the financial statements for the year ended 31 March 2019 in relation to the adoption of IFRS 15. The Committee is pleased to report that it was informed by the FRC that this review concluded with no further questions or queries. The review conducted by the FRC was based solely on the Group's published report and accounts and does not provide any assurance that the report and accounts are correct in all material respects.

During the year, the FRC's Audit Quality Review Team (AQRT) reviewed Deloitte's audit of the Group's financial statements for the year ended 31 March 2019 as part of their annual inspection of audit firms. The Committee Chairman received and reviewed the final report from the AQRT which indicated that there were no significant areas of concern.

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 2020, 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. Following the 2020 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 Group's external auditor since August 2002, prior to TalkTalk's demerger from Carphone Warehouse Group plc and this is Katie Houldsworth's third 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 currently 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 £0.1m is referred to the Committee and amounts above £50,000 are approved by 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:

	2020 £m	2019 £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	**1.1**	1.0
Audit services provided to all Group companies	**1.2**	1.1
Other non-audit services	**1.2**	0.1
Total Group auditor's remuneration	**2.4**	1.2

During the year, the Group incurred non-audit fees of £1.0m for reporting accountant services in relation to the disposal of the Fibre Assets Business, £0.1m regarding the issue of the new bond and £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.

Internal controls and risk management

The Committee has responsibility for overseeing internal control processes, including the internal audit function and the risk management framework.

The internal audit function provides independent assurance over the design and operating effectiveness of the Group's system of internal control through a risk based approach. The function comprises experienced team members and alongside this engages relevant professional service firms where additional specialist skills are required. The Committee reviews internal audit related matters which include; approving the annual audit plan, assessing the adequacy of resources available to the team, reviewing progress against the approved audit plan, the results of completed audits and that related issues are addressed by management within agreed timeframes.

The Group's risk assessment and management processes are an area of specific focus for the Committee. At each Committee meeting, the Group's key risks are reviewed along with the progress of mitigating actions and any change to the risk assessment. Further information on the Group's principal risks and uncertainties can be found on pages 20 to 25.

The Group is following an improvement programme around its system of internal control which is prioritised based on outputs from both the internal and external audits along with the assessment of higher inherent risk areas. During the year the primary areas of focus have been on strengthening the Group's financial internal control framework and its general IT controls work on which will continue into the next financial year. The Committee will continue to monitor these improvement programmes closely to ensure the effectiveness and efficiency of the financial reporting process.

Nigel Langstaff
Audit Committee Chair
11 June 2020

DELIVERING OUR ONE PLAN STRATEGY

"On behalf of the Board, I am pleased to present the Remuneration Report for FY20 in the Company's tenth year as a publicly listed company."

Introduction

In line with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) (the 'Regulations'), the Remuneration Report for FY20 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 has been effective for three years from this date. There have been no amendments to the Remuneration Policy in FY20. The Remuneration Policy has been updated for FY21 and will be put to a binding policy vote at this year's AGM; and
- The Annual Report on Remuneration, which explains how the Remuneration Policy was applied in relation to Executive Directors for FY20 and how it will be implemented for FY21.

Aligning the Remuneration Policy with the Group strategy and performance

During FY20, our focus has been on delivering our One Plan strategy for the Group – to accelerate our simplification and cost reduction journey, progress our Fibre For Everyone ambition, consolidate to one primary campus in Salford and reinforce our position as the value player of choice in the broadband market. Excellent progress has been made to date, with a successful transition to our Soapworks office in Salford, the sale of the Fibre Assets Business and subsequent debt re-financing, delivery of One Plan cost efficiencies and significant growth in our Fibre mix. There has also been considerable growth in our colleague engagement scores during this period of transition, which is particularly heartening. Colleague engagement has continued to grow during the COVID-19 national lockdown where, as a provider of critical national infrastructure, there have been no furloughed staff and no jobs have been lost as a result of COVID-19.

Over the course of FY20, the Remuneration Committee has reviewed the existing remuneration arrangements in order to ensure that the strong link between the Remuneration Policy and 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 53 of the report, this is clearly demonstrated in relation to performance against the annual bonus plan targets for the year, with the Company paying appropriately relative to the targets set out. We are also reporting our CEO pay ratio for the first time this year and this information can be reviewed on page 65 of the report.

The Company's remuneration approach applies throughout the Group 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 Group.

Board changes during FY20

Board resignations

Cath Keers left her role as Non-Executive Director of the Company and member of the Audit Committee on 17 July 2019.

John Allwood left his role as Non-Executive Director of the Company and member of the Audit, Nomination and Remuneration Committees on 17 July 2019.

Board appointments

Sir Howard Stringer, an independent Non-Executive Director of the Company, became a member of the Remuneration Committee on 23 July 2019. His fees were set in line with Company policy for Non-Executive Directors' remuneration.

Phil Jordan, an independent Non-Executive Director of the Company, became a member of the Audit Committee on 23 July 2019. His fees were set in line with Company policy for Non-Executive Directors' remuneration.

It was announced on 27 March 2020, that Paul Reynolds had been appointed as a Non-Executive Director of the Company with effect from 1 April 2020 and that he would also chair a new Board committee in respect of FTTP. His fees were set in line with Company policy for Non-Executive Directors' remuneration.

Remuneration Policy during FY20

In FY20 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 approved Remuneration Policy.

Key messages for FY20

- No changes have been made to the Remuneration Policy during FY20.
- We have reviewed and updated the Remuneration Report in line with the Regulations, to ensure that it continues to be simple and transparent for our shareholders.
- Executive Directors will not receive a bonus payment under the annual bonus plan for FY20 but did receive a Fibre Assets Business Transaction Payment.

Our priorities for FY21

- A successful binding vote for the revised Remuneration Policy at this year's AGM.
- 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.
- Real living wage accreditation.

FY20 annual bonus performance

The Remuneration Committee carefully considered performance against the annual bonus plan targets for FY20 taking into consideration the wider business performance in the year. Despite strong KPI delivery through the year to open the bonus gate, the Headline EBITDA and free cash flow financial targets, which underpin the annual bonus plan and govern the bonus quantum, were not achieved. Therefore, the Remuneration Committee determined that no annual bonus payment would be due to Executive Directors for FY20. Achievement against the financial measures determining the annual bonus is shown on page 61 of the report.

Fibre Assets Business Transaction Payment

A one-off Fibre Assets Business transaction payment was made to colleagues,including Executive Directors, in April 2020, following successful completion of the sale of the Group's Fibre Assets Business, which is shown within the Single Figure of Remuneration numbers on page 60 of this report ('Fibre Assets Business Transaction Payment'). This Fibre Assets Business Transaction Payment was entirely separate to the Company's annual bonus and was made to enable colleagues to share in the success of the transformational nature of the Fibre Assets Business transaction on the long-term future of the Company. The transaction was a one-off, exceptional event and, whilst major shareholders were consulted with prior to the Fibre Assets Business Transaction Payment being formally approved by the Remuneration Committee, the Remuneration Committee exercised its discretion in making the payment. Payments to Executive Directors are subject to the malus and clawback terms set out in the Remuneration Policy.

Remuneration Committee meeting attendance during FY20

Over the course of FY20, Remuneration 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	2	2
Sir Howard Stringer	2	2

Remuneration Policy for FY21

The Remuneration 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.

The Remuneration Policy, which has been reviewed and updated in parts, ahead of a three-year binding vote at this year's AGM, is set out on pages 54 to 59 and details how the Remuneration Policy will be implemented for FY21 are set out on pages 60 to 63, with the following key changes being highlighted:

- DSOP and SVP participation and future approach. The Remuneration Committee intends that, generally, in any one year, participants may only receive an award under the DSOP and no other long term incentive plan, unless exceptional circumstances apply, such as the recruitment of key individuals.
- Further clarification of situations where malus and clawback discretion may be applied by the Remuneration Committee; which may include, but is not limited to, misstatement of financial accounts, fraud and other gross misconduct and material failure of risk management.

I hope that you will find this Remuneration Report helpful and informative and agree that the determinations made by the Remuneration 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 our proposed Remuneration Policy and this Remuneration Report at this year's AGM. I will be available at the meeting to answer any questions that you may have regarding the work of the Remuneration Committee.

John Gildersleeve
Remuneration Committee Chair
11 June 2020

The 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.

Remuneration Policy

This section sets out the Company's policy on remuneration for Executive Directors. The Remuneration Policy in operation for FY20 was approved through a binding vote by shareholders at the 2017 AGM, receiving 92.99% support, and took immediate effect following that AGM and applies for a period of three years from that date. For FY20 there has been no change to that Policy which is available on the Company's website. The new proposed Policy for the next three years, which is stated below, reflects amendments in respect of malus and clawback and the long term incentive approach to using DSOP and SVP awards for Executive Directors. The Policy stated below will be proposed for approval for the next three years by way of a binding vote at this year's AGM.

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 Remuneration Committee. The Remuneration 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 Remuneration Policy in FY20. In reaching their decisions in relation to the application of the Remuneration Policy, the Remuneration 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 'Employee Voice' forum and 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 Group 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 FY20, 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 Director remuneration decisions. The views of the Employee Voice forum were a constructive and helpful factor in helping to shape the changes to the FY20 annual bonus plan entry gate, which are outlined in this report.

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 Remuneration 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 DSOP and the SVP. Updated rules for both of these plans are being proposed for approval at this year's AGM given each has reached its ten year life span. It is the intention that Executive Directors should not concurrently be granted awards under both of these plans.

The Remuneration Committee intends that, generally, in any one year, participants may only receive an award under the DSOP and no other long term incentive plan, unless exceptional circumstances apply such as the recruitment of key individuals or to incentivise exceptional performance.

The Remuneration 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 plan 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 Remuneration Committee's policy on the exercise of its discretion is set out in this Remuneration Policy. All future long-term incentive awards for Executive Directors will be subject to malus and clawback provisions.

In order to retain flexibility, the events under which this may apply are not formally stipulated in this Policy. However, such events may include, but are not limited to, misstatement of financial accounts, fraud and other gross misconduct and material failure of risk management.

Consideration of remuneration arrangements throughout the Company

The committee considers the pay and conditions of colleagues throughout the Company when determining the remuneration arrangements for Executive Directors and is provided with relevant information and updates by the Chief People Officer.

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.

On leaving the Company, Executive Directors are 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 Remuneration Committee decides otherwise in exceptional circumstances.

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 the Company's 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 6% base pay for Executive Directors. 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 6% base pay 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.
Fixed Voluntary benefits	Benefits may vary dependent on the role of the individual and the personal choices they make.	These voluntary benefits arrangements include the purchase of additional holiday and the ability to participate in all-employee share plans.	Reviewed periodically relative to the market.

Summary of remuneration components of Executive Directors continued

Component	Aim and link to strategy	Description of operation and any performance measures	Further detail on maximum opportunity and framework used to assess performance
Variable Annual performance bonus	Designed to focus Executive Directors 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 will link to the Company's strategic objectives and typically include customer satisfaction, Fibre penetration and network performance targets. 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. The measures and targets are considered commercially sensitive but will be disclosed retrospectively in the relevant Annual Report on Remuneration. 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, including one off transaction payments, but this would only be with major shareholder approval. The annual bonus plan pays at the following levels with the maximum bonus opportunity being 200%: • 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 Executive Directors over the longer term whilst aligning an individual's interests with those of shareholders.	Discretionary awards of typically nil-cost options are granted over the Company's 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 with the threshold vesting level being 50% of the award value. Awards are typically either exercisable at date of vesting or with a split exercise in the third and fourth year. Awards made to Executive Directors will be subject to post-vesting holding requirements with any award vesting in 3 years subject to a 2 year post-vesting holding period and a one year post-vesting holding period applied to awards with a 4 year vesting.	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 Rules, 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 plan.

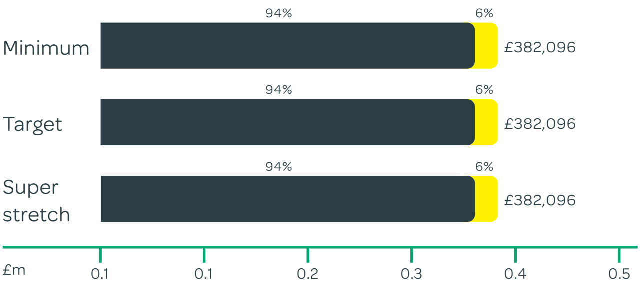
Component	Aim and link to strategy	Description of operation and any performance measures	Further detail on maximum opportunity and framework used to assess performance
Variable Share-based incentive plans SVP	Designed to reward and retain Executive Directors over the longer term whilst aligning an individual's interests with those of shareholders and in turn delivering significant shareholder value.	The SVP 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 an appropriate subsidiary company. The number of publicly traded shares in the Company issued to each participant is determined by the incremental value pool created above a hurdle and therefore returned 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 Remuneration 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 the Company 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 Group 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 typically 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 SVP Rules, 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.

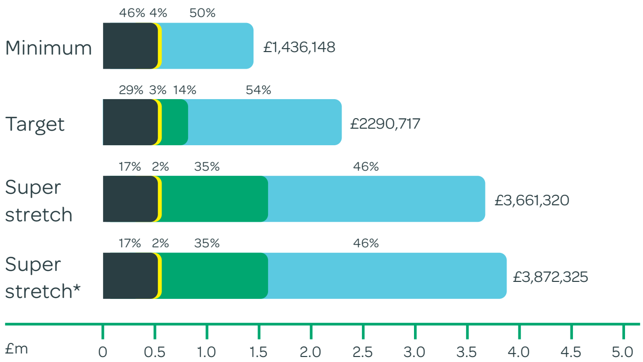
Remuneration scenarios

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.

Executive Chairman
Sir Charles Dunstone



Chief Executive Officer
Tristia Harrison



* +50% share price increase.

(1) Base pay is actual base pay for the FY20.

(2) Taxable benefits are at the level over the FY20.

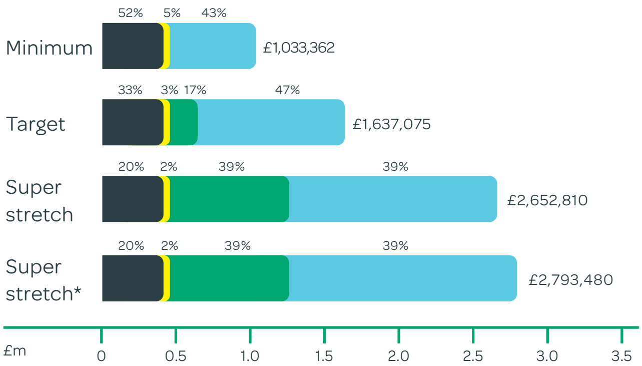
(3) Pension is based on a 6% Company contribution/cash for Tristia Harrison and Kate Ferry. Sir Charles Dunstone does not participate in the pension scheme.

(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) For these purposes, a DSOP award with a maximum value of 300% of salary for CEO and 250% for CFO have been used, with valuation reflecting the Company value and associated share price growth required for vesting at minimum, target and super stretch levels. The maximum DSOP award under our remuneration policy is 400%. Sir Charles Dunstone does not participate in any long-term incentive plan.

(6) Company DSOP awards are typically nil priced options which vest at the end of a three year performance period, subject to achieving a pre-determined compound annual growth rate in company market capitalisation. The maximum remuneration receivable, assuming 50% share price appreciation during the performance period, would be £2,295,000 for Tristia Harrison and £1,530,000 for Kate Ferry. This calculation reflects the DSOP award vesting at a maximum (13% CAGR) level and also any subsequent face value share price growth above maximum vesting level. Sir Charles Dunstone does not participate in any long term incentive plan.

Chief Financial Officer
Kate Ferry



* +50% share price increase.

■ Base pay ■ Benefits, pension and car allowance
■ Annual bonus ■ LTIP

Other share-based remuneration

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

The Company operates an all-employee, HMRC-certified, 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.

Share Match Plan ('SMP')

The Company operates an all-employee, HMRC-certified SMP scheme. The SMP 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 SMP Rules 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. Dividends accrue on shares, including matching shares, during any vesting period.

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, it may terminate the contract immediately and not require the Executive Director to work their notice and instead pay twelve months' contractual pay plus benefits. The Executive Directors' service contracts also include a twelve month non-compete period.

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

Recruitment policy for new hires

When hiring a new Executive Director, the Remuneration Committee will align the remuneration package with the Remuneration Policy, 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 Director 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 Executive Directors;

- the remuneration package of any exiting equivalent Executive 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, 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 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.

How the Remuneration Committee exercises discretion

The Remuneration 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 Remuneration Report. There may be exceptional circumstances under which the Remuneration Committee may use discretion or judgement in the interests of the Company 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 63 of this report.

The fees for Non-Executive Directors are set out on page 63 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 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 64 of this report. The Board has also agreed that the Executive Directors may retain their fees from such appointments.

Annual Report on Remuneration

The following sections set out how the Remuneration Policy was implemented in FY20 and how it will be implemented for FY21.

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 63 of this report.

FY20

Executive Director	Base pay(1) £000	Taxable benefits(2) £000	Pension(3) £000	Bonuses(4) £000	LTIP £000	SAYE gain £000	Other(5) £000	2020 total £000
Charles Dunstone	**360**	**22**	**–**	**–**	**–**	**–**	**–**	**382**
Tristia Harrison	**510**	**17**	**31**	**–**	**–**	**–**	**510**	**1,068**
Kate Ferry	**408**	**15**	**25**	**–**	**–**	**–**	**408**	**856**
Aggregate emoluments	**1,278**	**54**	**56**	**–**	**–**	**–**	**918**	**2,306**

(1) Value of base pay received in the year.

(2) Value of benefits received by the Executive 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) Other payment relates to the Fibre Assets Business transaction payment. Payment for both CEO and CFO was equivalent to 100% of salary as a one-off payment.

FY19

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	–	–	821	2,658

(1) Value of base pay received in the year.

(2) Value of benefits received by the Executive 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.

Appointments in FY20

Phil Jordan was appointed to the Audit Committee on 23 July 2019 and his fees were increased by £5,000 per annum to reflect his broader role and responsibility and in line with the Remuneration Policy.

Howard Stringer was appointed to the Remuneration Committee on 23 July 2019 and his fees were increased by £5,000 per annum to reflect his broader role and responsibility and in line with the Remuneration Policy.

In line with the Remuneration Policy, the Remuneration 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.

It was announced on 27 March 2020 that Paul Reynolds had been appointed as a Non-Executive Director of the Company with effect from 1 April 2020 and that he would also chair a new Board committee in respect of FTTP. His fees were set in line with Company policy for Non-Executive Directors' remuneration.

Leavers in FY20

Both Cath Keers and John Allwood stepped down from the Board and left employment with the Company on 17 July 2019.

Base pay

FY20

For FY20, the base pay of Tristia Harrison and Kate Ferry was increased by 2%, in line with the average base pay increases for other employees.

FY21

Given the impact of COVID-19 on the global and UK economy in 2020, the Company deferred any decision on base pay increases for Executive Directors and all other employees (which are typically applied from 1 April). Any pay awards must take due consideration of financial prudence, colleague motivation and fairness. With that in mind, the situation will be reviewed again in H2 of FY21.

The Company has allocated budget so 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*

FY20

During the course of the year, Executive Directors received Company pension contributions in line with the Remuneration Policy. There were no Executive 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 6% of their base pay for FY20. Charles Dunstone does not participate in the Company pension scheme.

FY21

In FY21, pension contributions for Tristia Harrison and Kate Ferry (and all other employees of the Company) will be capped at 6% of base pay. This contribution level will be reviewed periodically in order to ensure compliance with future statutory auto enrolment minimum thresholds.

Annual performance bonus

FY20

For FY20, an entry gate was applied to the annual bonus plan, which must be triggered for any bonus payment to be considered. The entry gate was a balanced scorecard of 11 measures including FTTP rollout, Fibre mix, Ofcom complaints, IT Incidents, Customer Lifetime Value and New Joiner Retention. The annual performance bonus was determined based on Headline EBITDA and free cash flow financial targets. Performance is as set out in the table below and, in line with the Remuneration Policy. Executive Directors 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 FY20, taking into consideration the wider business performance in the year and the ongoing impact of COVID-19. Despite strong KPI delivery through the year, which opened the annual bonus gate, the Headline EBITDA and free cash flow financial targets, which underpin the annual bonus plan and govern the bonus quantum, were not achieved. Therefore, the Remuneration Committee determined that no annual bonus payment would be due to Executive Directors for FY20.

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
Headline EBITDA(2)(3)	50%	260	275	>295	260	Miss	–
Free cash flow(4)	50%	45	70	>90	-43	Miss	–

(1) A balanced scorecard entry gate applied to the plan which had to be triggered for any bonus payment to be made.

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

(3) Headline EBITDA performance measures exclude the cost of the bonus scheme.

(4) Free Cash Flow is cash flow generated by the Group before non-Headline items, interest, taxation, dividends and investments.

FY21

A review of the annual bonus plan was conducted in FY20 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 FY21 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 roll-out, Fibre mix, Ofcom complaints, IT incidents and Customer Lifetime Value.

The Board has determined that the disclosure of performance targets for FY21 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 the Group's competitors to the detriment of business performance.

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

Directors' remuneration report continued

Share-based incentive plans*

FY20

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 Executive Directors. Details of the options for the Executive Directors who served during the year are as follows:

The TalkTalk Group 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 the Company 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 June 2020, with the remaining 40% vesting twelve months later. On vesting, all Participation Shares must be held for twelve months from the vesting date for Executive Directors and 50% of Participation 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 Executive Directors in FY20:

Executive Director	2020 % share of pool[1]	2020 Number of Participation Shares purchased	2020 Outstanding loan and interest[2] £000
Tristia Harrison[3]	**10%**	**200**	**160**
Kate Ferry[4]	**7%**	**140**	**87**
	17%	**340**	**247**

(1) SVP III Participation 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 Participation Shares were acquired on 9 October 2017 on her start date with the Company.

The remaining shares in the SVP pool were allocated to other senior management members of the Group.

There was no clawback in respect of SVP, SVP II or SVP III during FY20.

Outstanding DSOP share option awards at 31 March 2020*

Director	1 April 2019	Awarded/ granted[1]	Dividend reinvested	Vested	Total share options at 31 March 2020	Vesting date	Grant price
Tristia Harrison	0	1,451,613	0	0	1,451,613	12 September 2022	1.054
Kate Ferry	0	967,742	0	0	967,742	12 September 2022	1.054

(1) Nil priced unapproved options granted on 12 September 2019. The number of share options awarded was calculated using the average closing price of a TalkTalk Group share for the five days prior to the grant.

No Executives Directors exercised share options in FY20, nor do they currently hold any vested but unexercised share options.

FY21

SVP

The Company does not plan to make any awards in FY21 to any Executive Directors.

All-employee share plans*

SAYE scheme

The SAYE scheme is a share option scheme and is certified with HMRC. All UK Executive Directors and employees of participating companies within the Group are eligible to participate in the SAYE scheme as long as they have been employed for a qualifying period. To participate in the SAYE scheme an eligible employee must enter into a 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 shares in the Company under the SAYE scheme have an option price determined by the 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 2019 SAYE scheme.

No Non-Executive Directors participated in the SAYE scheme.

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

SMP

In June 2014, the Company introduced an all-employee, HMRC-certified SMP, 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 SMP was granted by shareholders at the AGM on 24 July 2013.

No Executive or Non-Executive Directors participated in the SMP scheme in FY20.

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 2020 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%	341,286,127	Yes	80,534%
Tristia Harrison	200%	2,127,628	Yes	354%
Kate Ferry(2)	200%	139,835	No	29%

(1) Share price on 31 March 2020 of £0.8495 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 Remuneration Policy.

There have been no changes to the shareholdings of Executive Directors between 31 March 2020 and 11 June 2020.

Whilst there are no shareholding requirements for Non-Executive Directors, this is encouraged within the Company. Current shareholdings as at 31 March 2020 are set out below for Non-Executive Directors:

Director	Ordinary shares of 0.1p		Date of contract
	31 March 2020	31 March 2019	
John Gildersleeve	**291,866**	291,866	20 January 2010
Ian West	**364,714**	364,714	8 February 2011
John Allwood(1)	**10,000**	10,000	20 January 2010
Howard Stringer	**–**	56,000	26 July 2012
Roger Taylor	**9,826,688**	9,826,688	11 November 2015
Cath Keers (1)	**–**	–	1 August 2016
Nigel Langstaff	**299,736**	299,736	15 November 2017
Phil Jordan	**42,750**	–	16 October 2018

(1) Stepped down from the Board on 17 July 2019 and the number of shares reflects the holding on that date.

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**	**2020 total £000**	Fees £000	Taxable benefits £000	2019 total £000
John Gildersleeve	**80**	**–**	**80**	80	–	80
Ian West	**80**	**1**	**81**	80	–	80
John Allwood(1)	**18**	**–**	**18**	62	–	62
Howard Stringer(2)	**53**	**–**	**53**	50	–	50
Roger Taylor	**50**	**2**	**52**	50	2	52
Cath Keers(3)	**15**	**–**	**15**	50	–	50
Nigel Langstaff	**60**	**–**	**60**	58	–	58
Phil Jordan(4)	**58**	**–**	**58**	25	–	25
Aggregate emoluments	**414**	**3**	**417**	455	2	457

(1) Stepped down on 17 July 2019.

(2) Appointed to the Remuneration Committee on 23 July 2019. A Non-Executive Director fee of £5,000 per annum was set, in line with other Non-Executive Directors of the Company.

(3) Stepped down on 17 July 2019.

(4) Appointed to the Audit Committee on 23 July 2019. A Non-Executive Director fee of £5,000 per annum was 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.

Additional information continued

Payments to past Executive Directors*

In FY20, there were no payments made to past Executive Directors not disclosed elsewhere in the report.

Payments for loss of office*

In FY20, there were no payments made to Executive Directors, past or present, in compensation for loss of office.

Non-Executive Directors' letters of appointment

The Committees that Non-Executive Directors serve(d) on and dates of appointment are set out below. Commentary on the length of service for Non-Executive Directors and where this has extended beyond a typical three term period is set out in the Corporate Governance section found on page 43 of this report:

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(3)	Nomination, Remuneration	26 July 2012	1 April 2016
Roger Taylor	Remuneration	11 November 2015	11 November 2015
Cath Keers(2)	Audit	1 August 2016	1 August 2016
Nigel Langstaff	Audit	15 November 2017	15 November 2017
Phil Jordan(4)	Security, Audit	16 October 2018	16 October 2018

(1) Stepped down on 17 July 2019.

(2) Stepped down on 17 July 2019.

(3) Appointed to the Remuneration Committee on 23 July 2019.

(4) Appointed to the Audit Committee on 23 July 2019.

Fees for external appointments

Director	Organisation	2020 £000
Tristia Harrison(1)	Next PLC	57
Kate Ferry(2)	Greggs PLC	44

(1) 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.

(2) Fees relate to the period 1 June 2019 to 31 March 2020. Annual fees are currently set at £52,815 including payment as Chair of the Audit Committee.

Advice and services provided to the Remuneration Committee

Except when matters concerning their own positions are being considered, the Chief Executive Officer, the 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 FY20, 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	2020 £000
Willis Towers Watson	Remuneration matters and long term incentive design	6

Relative importance of spend on pay

The difference in actual expenditure between FY19 and FY20 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)

+£nil

Total employee pay (£m)

-£7m

CEO pay ratio

The table below sets out the CEO pay ratio as at 31 March 2020. The report will build up over time to show a rolling ten year period.

The ratios compare the single total figure of remuneration of the CEO of £1,067,325 with the equivalent pay figures for 25th, median and 75th percentile employees.

	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2020 Ratio	Option B	30:1	21:1	14:1

The calculation methodology used reflects Option B, as defined under the relevant regulations. This uses our gender pay gap report data, with employees at the three quartiles identified from this data and their respective single figure values calculated. All colleagues were full time employees and as such no adjustments were required within the calculations to determine equivalent full time remuneration.

In calculating these figures, guidance has been followed to exclude any atypical variables that may, if included, lead to a misrepresentation of employee pay and benefits at the relevant percentile. Given this approach, the calculation excludes any one-off ex-gratia payments that are not performance related and the figures quoted align with the Company's wider policies and approach to pay and reward.

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(4)	2,810	23.5%	50%
2017 £000(5,6)	1,142	23.5%	20%
2018 £000(7)	541	–	–
2019 £000	542	–	–
2020 £000(8)	**1,068**	**–**	**–**

(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/SVP 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 May 2012.

(3) Maximum bonus for Executive Directors was 200% base pay for FY11 and FY12.

(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 information onwards relates to Tristia Harrison in the post of CEO where all prior years relate to Dido Harding.

(8) The 2020 single figure includes payment of a £510,000 Fibre Assets Business transaction payment to Tristia Harrison.

Directors' remuneration report continued

Additional information continued

Comparing pay to performance continued

The table below shows the percentage change in remuneration between 2019 and 2020 for the CEO and all other employees of the Group.

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

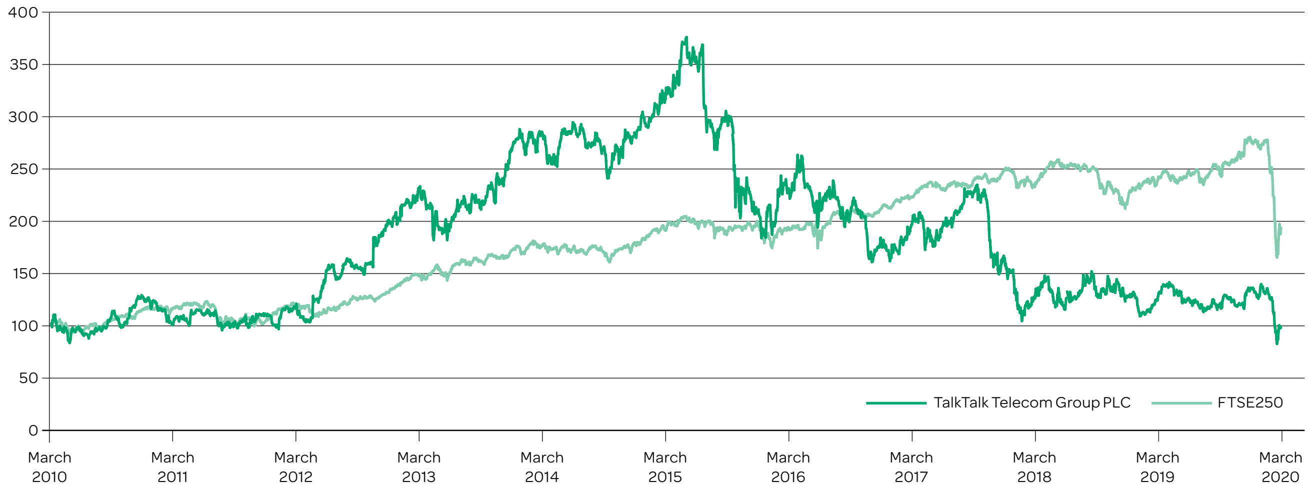
(1) There is no annual bonus payment due for Executive Directors for FY20.

(2) Annual pay award of 2% made to all eligible colleagues for FY20. There is no annual bonus payment to colleagues for FY20.

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 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 Remuneration Committee has given full consideration to the matters set out in Schedule A of the Code and the Regulations. As required by the Regulations, resolutions to approve the Remuneration Report will be proposed at this year's AGM. Voting regarding the 2019 Remuneration Report was as follows:

	Votes for	Votes against	Votes withheld	Total votes
Remuneration Report	959,915,967	54,143,598	128,157	1,014,187,722
	94.66%	5.34%		

John Gildersleeve
Remuneration Committee Chair
11 June 2020

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 39.

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 42 to 47 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 pages 10 to 11.
- 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 pages 38 to 39;
  - employees on pages 30 to 33;
  - social matters on pages 37 to 38;
  - anti-corruption and anti-bribery matters on page 39; and
  - human rights and modern slavery on page 39.
- Where principal risks have been identified in relation to any of the matters listed above, these can be found on pages 20 to 25, 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 14 to 15.
- The CEO (pages 5 to 9) and CFO (pages 16 to 19) sections include, 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, under which the liabilities continue to be recognised in trade payables. Including this supplier, the average credit period taken on trade payables was 45 days (FY19: 58 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.

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.

During the year, TalkTalk Telecom Holdings Employee Share Ownership Trust (the "ESOT"), purchased 1,129,008 Ordinary Shares of 0.1p each in the capital of the Company for a total consideration of £1m. The ESOT holds Shares for the benefit of the Company's employees, and in particular for satisfying the vesting of awards made under the Company's various employee share schemes. The Trustees of the ESOT decide whether to vote or abstain.

In addition, at the AGM in 2019, the company was granted the right to acquire 114,626,967 (being 10%) ISC shares. This right expires on the date of the 2020 AGM or 22 October 2020 (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

The Directors are required to satisfy themselves that it is reasonable for them to conclude that it is appropriate to prepare the financial statements on a going concern basis. This going concern assessment has given consideration to the Group's available financing facilities, business model, strategy, regulatory environment, principle risks and uncertainties, recent financial performance and outlook, which are detailed in the Strategic Report on pages 1 to 39.

Assessment of going concern

The going concern assessment has been carried out as follows:

- The assessment of going concern is carried out with reference to available financing facilities and the associated covenants.
- The Group's annual budget is used to calculate the net debt position, covenant compliance and available headroom over the going concern period.
- Severe but plausible scenarios are modelled to quantify the impact of an individual risk materialising over the going concern period. These are then combined to calculate the impact of multiple risks materialising over the period. These together provide the Group with its 'reasonable worst case scenario'.
- Mitigating actions which could be taken are identified, quantified and included in the assessment.
- The reasonable worst case scenario, along with mitigating actions, are then used to test that the Group would continue to have headroom in its available financing facilities and comply with the associated financial covenants over the going concern period.

Going concern continued

Key considerations

The Directors have also assessed the going concern position for the Group together with the prospects of the Company over a three year period for the purposes of the viability statement, the details of which are set out on pages 46 to 47. The going concern and viability assessments are closely linked and therefore the approach, considerations and conclusions of the going concern assessment are also directly relevant to and should be read in conjunction with the viability assessment. Both the going concern and viability assessments have given specific consideration to the potential implications of COVID-19 and Brexit, which are further detailed as part of the assessment of the Group's principal risks and uncertainties on pages 20 to 25.

Financing facilities

The Group has committed financing facilities at the date of this going concern assessment of £1,080m and further information is provided on page 120 and in notes 20 and 21 of the financial statements on the Group's borrowings, cash and financial risk management objectives. The majority of these facilities have maturity dates beyond both the going concern and viability assessment periods but it is expected that refinancing of facilities will be possible in future periods.

Long range forecasts, risks and uncertainties

The Group's long term forecasts being the annual budget combined with the annual three year plan, which are both approved by the Board, have been used to measure the going concern and future viability of the Group. These cash flow forecasts have taken into account typical cash cycles of the Group, timings of cash inflows and outflows and their effect on period end/covenant date net debt positions and cash management activities of the Group. Due to these factors net debt drawn under the Group's facilities fluctuates throughout the year and may be higher than the amount reported at 31 March 2020.

The going concern and viability positions of the Group have been assessed taking into account the potential impact of certain scenarios arising from the principal risks and uncertainties, which have the greatest potential impact on the going concern and viability positions of the Group in the periods under review. In particular, the Board has considered the potential impact of COVID-19 (see below) and Brexit on trading performance and the wider business, sustainability of the business model, the impact of customer trust and brand reputation on churn, how the market environment and competitive pressures may impact ARPU, the regulatory environment, advances in technology and the Group's ability to raise long term funding. These risks and their potential impacts reflect the Group's assessment of its principal risks and uncertainties – further information on these risks can be found on pages 20 to 25. The specific scenarios considered are set at a level to be considered to be sufficiently severe but reflect a reasonable downside scenario.

Given the unique conditions arising from COVID-19, specific consideration has been given to how the pandemic may affect the results of the Group as part of the going concern and viability assessments, and this scenario planning considered the following possible impacts:

- New connections being down against initial expectations pre-COVID-19 by 27% in Q1, 20% in Q2 and 18% across the year ending 31 March 2021. As this largely reflects a general market slowdown in new customer acquisitions, a reduction in churn, though to a lesser degree than new connections, has also been assumed;
- An over twofold increase in bad debt expense year on year due to an increased risk of financial distress of customers, especially small to medium enterprises; and
- A reduction in operating costs, primarily in relation to subscriber acquisition costs, marketing and third party customer service costs due to lower new connections, the more subdued customer acquisition market and lockdown restrictions.

Mitigating actions

If faced with the reasonable worst case scenario, the Board also considered possible mitigating activities would be available to the Group to maintain liquidity, such as utilising uncommitted facilities, short term cost reduction actions, reducing or delaying capital expenditure and reducing/suspending dividends.

Reverse stress test

In addition to the development of the reasonable worst case scenario, a reverse stress test was carried out by the Group to assess what combination of hypothetical scenarios could result in the Group no longer being in compliance with its financing facilities, which included combining multiple trading and operational sensitivities along with a significant one-off event such as a material cyber-attack. The Directors consider that such a combination of multiple possible risks occurring to such a material extent is not a reasonable scenario to adversely impact the going concern or viability assessments.

Going concern conclusion

Based on this assessment, as well as the completion of a reverse stress test assessment, the Directors have a reasonable expectation that the Group has sufficient resources to continue its operations for the foreseeable future, and accordingly, they continue to adopt the going concern basis in preparing these financial statements.

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 consolidated financial statements and the risks and uncertainties section of the Strategic Report on pages 20 to 25, which are incorporated by reference to this report.

Board of Directors

The Board of Directors are outlined within the Corporate Governance Report on pages 40 to 41.

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 2020 are set out in the consolidated income statement and note 8 on pages 81 and 104 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 and cash generation and reducing leverage. Looking beyond FY20, the Board will reassess the dividend policy once the business has reduced leverage towards the Group's mid term net debt/Headline EBITDA target of 2.0x.

Significant shareholdings

At 7 May 2020, the Company had been notified of the following interests in the Company's shares:

Name	Number of shares	% of share capital
Sir Charles Dunstone	341,286,127	29.77
Toscafund Asset Management	326,372,935	28.47
Mr David PJ Ross	127,885,730	11.16
Jupiter Asset Management	40,690,602	3.55
Capital Research Global Investors	35,153,100	3.07

The total interests of the Directors are detailed in the Directors' Remuneration Report on page 63.

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 62 to 63 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 39.

Charitable donations

Charitable donations paid during the year are disclosed on page 37 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. Furthermore, we have a clear Dignity at Work policy, setting out how we ensure that every employee is treated with respect at work. The policy also includes details of grievance procedures and what support (and, where appropriate, confidentiality) employees can expect.

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 third gender pay audit in the year ended 31 March 2020 and will continue to do so on an annual basis. We have also complied with the mandatory gender pay reporting regulations and published our second report in January 2020.

We value the involvement of employees and continue 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 blogs to all employees, 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 blogs by Executive Committee members. Employee representatives, known collectively as 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. We have a Sharesave scheme for employees and the vast majority are eligible for an annual bonus scheme related to the financial and operational performance of the Company.

Audit information

At the AGM we will propose a resolution to re-appoint Deloitte LLP as the Group's auditors.

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

TalkTalk Telecom Group PLC
Soapworks, Ordsall Lane,
Salford M5 3TT
11 June 2020

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, as taken as a whole, is fair, balanced and understandable and provides 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 11 June 2020 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

1. 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 2020 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with 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 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 financial statements 1 to 27; and
- the related 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.

2. 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. The non-audit services provided to the group and parent company for the year are disclosed in the Corporate Governance report and note 3 to the financial statements. 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.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • The going concern basis of accounting; • Management override of controls; • Disclosure of non-Headline items and the presentation of alternative performance measures in the financial statements; • Revenue recognition; • Capitalised time and the impairment of network assets; and • Judgements applied in the transition to IFRS 16 – Leases Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the group financial statements was £5.0 million (2019: £5.0 million) which was determined on the basis of considering a number of different measures including Statutory profit 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, including the sale of the Fibre Assets Business in March 2020.

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

Report on the audit of the financial statements continued

3. 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% (2019: over 99%) of the group's total revenues. Together with our audit of the group balances, our group audit scope covered 86% of statutory profit before taxation (2019: 89% of statutory profit before taxation) and 96% of net assets (2019: 97% of net assets).
Significant changes in our approach	Our audit report includes two new key audit matters as set out above. • We have identified a new key audit matter for the current year audit related to the going concern basis of accounting, as a result of the level of management judgement required to conclude there is not a material uncertainty related to going concern. • The Group has now transitioned from IAS 17 to IFRS 16 in the year, resulting in a material change to the treatment of leases held by the Group. We have therefore identified a new key audit matter for the current year audit, focused on the judgements made when determining the adjustments made under IFRS 16. Last year our report included complex supplier arrangements as a key audit matter. As there have been no material new complex supplier arrangements entered into in FY20, we no longer consider this to be a key audit matter as this has not had a significant effect on our audit strategy in the current year. In the current year, there have been a number of control deficiencies identified across the IT environment which has resulted in an inability to take a controls reliance approach to test the output of the billing systems. Consequently, we adopted a revised audit approach which had a significant impact on our audit approach to revenue.

4. Conclusions relating to going concern, principal risks and viability statement

4.1 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 the impact of the COVID-19 pandemic and 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.

Refer to section 5.1 for details of our work regarding going concern.

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.

Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.

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

4.2 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 20 to 25 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the directors' confirmation on pages 46 and 47 that they have carried out a robust assessment of the principal and emerging risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on pages 46 and 47 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.

Viability means the ability of the group to continue over the time horizon considered appropriate by the directors.

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

Report on the audit of the financial statements continued

5. 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.

5.1 The going concern basis of accounting

Key audit matter description

As stated in note 1 to the financial statements, the Directors' report on page 67 and the Audit Committee report on page 49, the consolidated financial statements have been prepared on a going concern basis. The Board of Directors has concluded that there are no material uncertainties which may cast significant doubt over the Group's and Company's ability to continue as a going concern for at least twelve months from the date of approval of the financial statements.

In undertaking their assessment of going concern for the Group, which is supported by the future cash flows of the Group, the Directors reviewed the forecast future performance and anticipated cash flows. In doing so they considered the committed financing available to the Group of £1,080 million, including the new bond issued in February 2020 and the renewal of the revolving credit facility in April 2020. The Directors also considered associated debt covenants, their planned strategic initiatives and cost saving actions and also the potential impacts caused by Brexit and by the Global pandemic of COVID-19 on the future operations of the business.

Sensitivities to these forecasts have also been determined, including a downside scenario of the impact of the Global pandemic of COVID-19 and also sensitivities around the ability to fully execute their strategic objectives and cost saving actions in the timeframe planned. The forecasts include the continued use of cash management activities in particular around reporting dates and also a number of mitigating actions that the Group would take if required including suspending a future bonus payment, suspending future dividend payments, reducing discretionary spend and reducing forecast capital expenditure. The Directors have also performed a reverse stress test of the Group's liquidity and considered the results in forming their conclusion.

Due to the ongoing COVID-19 pandemic there is significantly more judgement applied in developing cash flow forecasts including assumptions relating to churn, the level of new connections, pricing, recovery of trade receivables, the anticipated cost savings and also the ability to continue the use of certain cash management activities.

Taking into account the sensitivities and identified mitigating actions the Directors have concluded that the Group has sufficient resources available to meet its liabilities as they fall due and have concluded that there are no material uncertainties around the going concern assumption.

We have identified a key audit matter related to going concern as a result of the judgement required to conclude there is not a material uncertainty related to going concern. Further details of the Directors' assessment, including the sensitivities applied, are included within the the Directors' Report on pages 67 to 68 and in note 1 to the financial statements.

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

In responding to the identified key audit matter we completed the following audit procedures:

- obtained an understanding of key controls relating to the Group's forecasting process and the preparation of management's going concern models including the review and challenge of the key inputs and assumptions used in those models;
- obtained management's board approved three year cash flow forecasts and covenant compliance forecasts, including the impact of COVID-19 and the reverse stress-test;
- assessed the appropriateness of the forecast assumptions by:
  - reading analyst reports, industry data and other external information and comparing these with management's estimates to determine if they provided corroborative or contradictory evidence in relation to management's assumptions;
  - comparing forecast sales, gross margin and other costs with recent historical financial information to consider accuracy of forecasting;
  - enquiring of management regarding their forecast strategic objectives and actions to reduce costs and manage cash flows and challenging the quantum, timing and commitment of those actions with reference to supporting evidence;
  - testing the mechanical accuracy of the forecasts and the underlying data generated to prepare the forecast scenarios and determined whether there was adequate support for the assumptions underlying the forecast;
  - reviewing correspondence relating to the availability of the Group's financing arrangements, including the covenant compliance ratios and both the committed and uncommitted facilities;
  - reviewing management's sensitivity scenario and challenged management to run further downside scenarios in order to assess the possible impact;
  - assessing additional downside sensitivities and considered the impact on covenants and liquidity headroom;
  - challenging the level of identified mitigating actions to reduce costs and assessing whether the mitigating actions were within the Company's control;
  - assessing the use of cash management activities to reduce net debt at the reporting dates and that these were within management's control; and
  - considering the results of the reverse stress-tests performed.
- evaluated the Group's disclosures on going concern against the requirements of IAS1.

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

Report on the audit of the financial statements continued

5. Key audit matters continued

5.1 The going concern basis of accounting continued

Key observations	We are satisfied that the Directors' conclusion that the Group has sufficient financial resources over the going concern period. We consider the forecasts prepared by the Directors and their underlying assumptions to be reasonable. We have reviewed the disclosures prepared by the Directors set out on pages 67 to 68 and consider them to be appropriate.

5.2 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 period. We increased the level of focus in this area due to the quantum and nature of items occurring during prior years and the profit warnings in Q3 (2018 and 2019), including non-Headline items, revisions to accounting estimates, management forecasts and capitalised internal labour. The large number of areas requiring the application of judgement and estimation techniques creates additional risk of bias in accounting estimates. 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 and 50.
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, management forecasts (within the going concern key audit matter) and capitalised internal labour have been outlined 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 assessment of the carrying value of goodwill and non-current assets, utilising the same forecasts as used to support the going concern assumption. Details of our challenge of these forecasts is included in the key audit matter relating to the going concern assumption; and • completed journal entry testing, where data analytics tools were used to identify those postings that might be indicative of management override of controls. We have included new analytics in the year to identify any further journals of audit interest as a result of the risks brought by COVID-19 and the control deficiencies identified across the IT environment. 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 judgement 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 IFRS 15, the implementation of IFRS 16, accounting for significant unusual transactions such as the disposal of the FibreNation assets and the associated costs, and the subsequent treatment of costs and accounting estimates revisited in light of current data within the business. We concur with the judgemental items included within Statutory and Headline results and are satisfied that these have been appropriately disclosed in the financial statements.

Report on the audit of the financial statements continued

5. Key audit matters continued

5.3 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 recognised items classified as 'non-Headline items' amounting to an £82 million benefit prior to the impact on taxation (2019: £42 million adverse). The disclosure of non-Headline items and their presentation on the face of the consolidated 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 EBITDA, 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 all 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' actions and therefore should be recognised in arriving at Headline earnings. In FY20, the Group completed the sale of the Fibre Asset Business and recorded the resulting profit on disposal of £127m, the operating loss of £3m and a discretionary transaction bonus payment made to employees of £15m within non-Headline results. 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. In the current year, management has introduced a new Alternative Performance Measure ('APM'), 'Pre-IFRS 16' as disclosed in the accounting policies in note 1. Management note that in the absence of restating the prior periods for the impact of IFRS 16, the addition of this APM shows current year values under the same basis to aid the users of the financial statements to understand better the impact of applying IFRS 16. Detail of all Alternative Performance Measures used is included on page 134 and the Audit Committee's discussion of this matter is set out on page 49.
How the scope of our audit responded to the key audit matter	We obtained an understanding of key controls in relation to the disclosure of non-Headline items and presentation of alternative performance measures. 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. This focused around the areas of higher judgement such as dual running costs, the allocation of the losses from the sale of the Fibre Asset Business as well as the discretionary transaction payment 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 included 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 involved testing, on a sample basis, of items within the consolidated income statement to identify income and expenses which may be non-Headline by nature but not separately identified. This comprised consideration of credit balances within Headline results, including those in relation to billing disputes. We have also assessed the disclosure of the accounting policy for non-Headline items, description of the items classified as non-Headline and the reconciliations between statutory and non-Headline measures. This was performed in the context of the latest guidance published by the European and Securities Markets Authority ("ESMA") and the Financial Reporting Council ("FRC"), determining whether the purpose of using alternative performance measures was set out, that they were clearly defined, consistent over time and included appropriate reconciliations to statutory financial information.
Key observations	We have concluded that the items described as non-Headline in the consolidated income statement meet the requirements of IAS 1 and the Group's accounting policy, and that they are appropriately disclosed.

5.4 Revenue recognition

Key audit matter description	Revenue represents a significant balance of £1,557 million (2019: £1,609 million), consisting of a high volume of individually low value transactions across the TalkTalk Business and TalkTalk 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 together with the complexity of the IT landscape supporting the billing process across both the TalkTalk Business and TalkTalk Consumer operating units; • 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 • key judgements and a high level of estimation made for the purposes of the IFRS 15 adjustments and the accounting policy adopted thereon. These judgements include the identification of material rights, support for the recoverability of contract assets, assessment of average customer life over which contract costs are amortised, identification of costs to obtain and fulfil, and completeness of the IFRS 15 assessment for the TalkTalk Business operating unit. See note 1 to the financial statements for revenue recognition policy and the critical judgements and key sources of estimation uncertainty relevant to the implementation of IFRS 15 that has been applied by the Group and the Audit Committee report on page 50.

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

Report on the audit of the financial statements continued

5. Key audit matters continued

5.4 Revenue recognition continued

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, generating billed revenue data. Our tests assessed the controls in place to ensure services supplied to customers are input into and processed through the billing systems. Findings in relation to access controls resulted in an inability to take a controls reliance approach to test the output of the billing systems. Consequently, we adopted a revised audit approach: • We obtained an understanding of the business processes in place covering billing data through to cash receipt as well as obtaining an understanding of the mitigating business review controls; and • We disaggregated the population into distinct populations and tested each population by a combination of analytical and substantive sampling procedures. 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 processed by management. This included adjustments in relation to provisioning on customer credit balances and alternative revenue streams processed on top of the billing platform. Judgements made in relation to IFRS15 We challenged the completeness and appropriateness of the key judgements and estimates made together with their consistency with Group policy in the application of IFRS 15. This was done via reviewing new contracts entered into during FY20 to see if these were covered as part of the existing Group policy, reviewing the consolidated income statement to ensure all items impacted by IFRS 15 were captured appropriately per the conclusions made on the judgements, and performing substantive testing procedures. We involved subject matter experts on IFRS 15 to assess the conclusions drawn by management, particularly in relation to the complex accounting that follows contract modifications.
Key observations	In our testing of IT systems, we identified certain control findings which prevented us from taking a controls reliance approach on the billing system outputs across the TalkTalk Business and TalkTalk Consumer operating units. These deficiencies were mainly in relation to inappropriate access noted in the year, inadequate leavers controls and findings in relation to periodic reviews of access controls. 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 judgements applied. We note that estimates applied are sensitive in supporting the accounting applied in relation to IFRS 15 and refer to more detail outlined in relation to these in note 1.

5.5 Capitalised time and the impairment of network assets

Key audit matter description	The Group has significant network assets held on the balance sheet of £486m (2019: £420m) which is predominantly made up of £205m (2019: £227m) of operating intangibles and £281m (2019: £193m) of network equipment and computer hardware. Network assets include £33.3m (2019: £29.2m) of internally capitalised time recorded in FY20. 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 continuation 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 matters discussed in the Audit Committee report on page 50.
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 tested the operating effectiveness of the manual controls in place over the approval of capital programmes and the review of time recorded to each programme. In addition, we performed our substantive testing procedures on a sample of time capitalised in the year. This was performed via corroborative enquiry 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 2020, focusing on those areas under the 'Network Transformation' programme by 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 within the key audit matter around the going concern assumption.

Report on the audit of the financial statements continued

5. Key audit matters continued

5.5 Capitalised time and the impairment of network assets continued

Key observations	We are satisfied with the carrying value of the network assets held on the balance sheet as at 31 March 2020 and that the nature of capital additions in the year are in line with the requirements of IAS 38.

5.6 Judgements applied in the transition to IFRS 16

Key audit matter description	This is the first financial year where the Group is reporting under IFRS 16 – Leases (“IFRS 16 ”). The transition to IFRS 16 has had a material impact on the Group financial statements, with recognition of a right of use asset of £150m and corresponding lease liabilities of £218m and increasing net debt by £179m as at 1 April 2019 and increasing Headline EBITDA by £48m for the year ended 31 March 2020. We identified key judgements applied in the transition to IFRS 16 in the year as a key audit matter, where these are deemed to have the most material impact when determining the adjustments made to the financial statements. The key judgements identified are the treatment of the ‘Last Mile’ and as to whether it contains a lease, and determination of the lease term for network assets. See note 1 to the financial statements for the critical judgements and key sources of estimation uncertainty and sensitivities relevant to the transition to IFRS 16 along with the transition note. See notes 12 and 20 for the right of use asset recognised and corresponding lease liabilities and matters discussed in the Audit Committee report on page 49.
How the scope of our audit responded to the key audit matter	‘Last Mile’ We reviewed the treatment of the ‘Last Mile’, comprising the copper and fibre lines between the exchange and the customer/business premise, against the Leases standard (“IFRS 16”). We obtained an understanding of the nature of the systems and hardware used and reviewed the contractual arrangements in place with regards to the ‘Last Mile’ arrangement. We involved IFRS 16 subject matter experts and considered any contradictory evidence to assess the conclusions drawn by management. Lease Term The Group’s network assets include rolling contracts and only specify a minimum term with no specified end date. We challenged management’s assessment of the network asset lease term of between five and seven years by obtaining a sample of network asset circuits in order to assess the historic lease term and sought audit evidence to any adjustments made to the historic lease term experienced where the impact of future technology has been considered.
Key observations	We concur with the treatment of the ‘Last Mile’ and are satisfied the arrangement does not contain a lease. We concur with the two network asset portfolios recognised and are satisfied with the determination of the lease term regarding each portfolio.

6. Our application of materiality

6.1 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 (2019: £5.0m)	£4.7m (2019: £4.7m)
Basis for determining materiality	Materiality has been determined by considering a number of different measures including statutory profit before taxation, headline profit before taxation, EBITDA and statutory revenue.	1% of net assets (2019: 1% of net assets)
Rationale for the benchmark applied	There continues to be significant volatility in the results of the Group due to the roll out of programmes such as Network Transformation and the group reorganisation, including the sale of the Fibre Assets Business in March 2020. As such, we have considered a range of metrics when determining our materiality. The materiality applied equates to 0.3% of revenue (2019: 0.3%), 1.3% of EBITDA (2019: 2.3%) and 0.3% of total assets (2019: 0.3%).	We consider the net assets to be an appropriate benchmark for the measure of the materiality of the parent company on the basis that 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

Report on the audit of the financial statements continued

6. Our application of materiality continued

6.2 Performance materiality

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 2020 audit (2019: 50%). In determining performance materiality, we considered the following factors:

a. the quality of the control environment and whether we were able to rely on controls given control deficiencies identified; and

b. the significant changes in the group as they focus on simplifying the strategy which has impacted results.

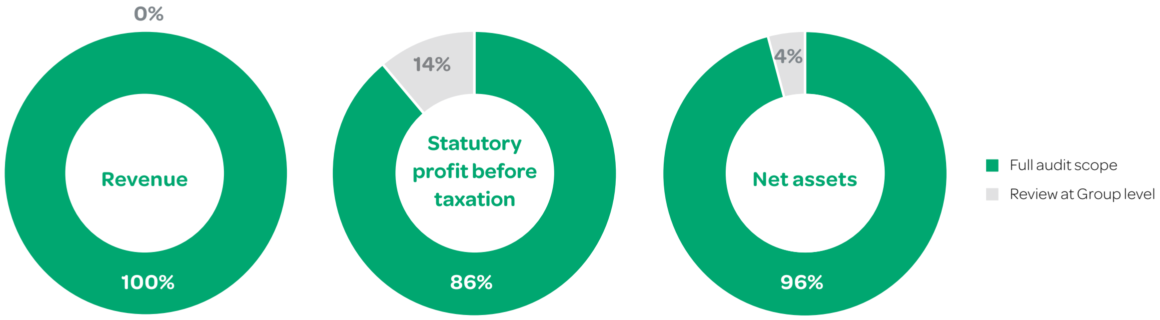
6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £250,000 (2019: £250,000), 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.

7. 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% (2019: 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 86% of statutory profit before taxation (2019: 89% of statutory loss before taxation) and 96% of net assets (2019: 97%). Our audit work at each division was executed at levels of materiality which were lower than Group materiality and ranged from £4.0m to £3.5m (2019: £4.25m to £3.5m).

All work was performed by the group engagement team.



8. Other information

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.

We have nothing to report in respect of these matters.

Report on the audit of the financial statements continued

9. 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.

10. 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 and non-compliance with laws and regulations 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.

11. 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.

11.1 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, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their 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 of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit 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 a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: going concern, management override of controls, disclosure of non-Headline items and the presentation of alternative performance measures in the financial statements, revenue recognition, complex supplier arrangements and recognition of capitalised time and the impairment of network assets. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the group's compliance with Ofcom regulation.

11.2 Audit response to risks identified

As a result of performing the above, we identified the going concern basis of accounting, management override of controls, disclosure of non-Headline items and the presentation of alternative performance measures in the financial statements, revenue recognition, recognition of capitalised time and the impairment of network assets and judgements applied in the transition to IFRS 16 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 provisions of relevant laws and regulations described 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; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; considering completeness of new complex supplier arrangements and the appropriate accounting; 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

12. 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.

13. Matters on which we are required to report by exception

13.1 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.

13.2 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.

14. Other matters

14.1 Auditor tenure
Deloitte LLP was appointed auditor of Carphone Warehouse Group plc for the year ended 31 March 2002 and subsequent financial periods. Following TalkTalk Telecom Group plc's demerger from Carphone Warehouse Group plc in 2009, Deloitte LLP were retained as auditors at the recommendation of the audit committee. 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. The period of total uninterrupted engagement with TalkTalk Telecom Group plc, covering the years ending 31 March 2010 to 31 March 2020 is 11 years, and as auditor with Carphone Warehouse Group plc before that is 19 years.

14.2 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).

15. 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
11 June 2020

Consolidated income statement
For the year ended 31 March 2020

	Notes	2020 Headline[3] £m	2020 Non-Headline (note 9)[3] £m	2020 Statutory £m	2019[1] Headline[3] £m	2019[1] Non-Headline (note 9)[3] £m	2019[1] Statutory £m
Revenue	2	**1,557**	**12**	**1,569**	1,609	23	1,632
Cost of sales		**(763)**	**(4)**	**(767)**	(759)	(11)	(770)
Gross profit		**794**	**8**	**802**	850	12	862
Operating expenses[2]		**(486)**	**82**	**(404)**	(613)	(46)	(659)
EBITDA[3]		**308**	**90**	**398**	237	(34)	203
Depreciation and amortisation	3	**(185)**	**(8)**	**(193)**	(138)	(8)	(146)
Share of results of associates and joint ventures	14	**(8)**	**–**	**(8)**	(10)	–	(10)
Operating profit	3	**115**	**82**	**197**	89	(42)	47
Net finance costs	6	**(66)**	**–**	**(66)**	(52)	–	(52)
Profit/(loss) before taxation		**49**	**82**	**131**	37	(42)	(5)
Taxation	7	**12**	**10**	**22**	32	5	37
Profit for the year attributable to the owners of the Company		**61**	**92**	**153**	69	(37)	32
Earnings per share							
Basic (p)	10			**13.4**			2.8
Diluted (p)	10			**13.2**			2.8

(1) The year ended 31 March 2019 has not been restated for the adoption of IFRS 16 'Leases' – see note 1 for further information.

(2) Operating expenses includes £13m (2019: £11m) 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 Statutory information to Headline information.

There is no other comprehensive income or expenses recognised in either period other than shown in the income statement; consequently no statement of comprehensive income has been presented.

The accompanying notes 1 to 27 are an integral part of this consolidated income statement. All amounts relate to continuing operations.

Consolidated balance sheet

Company number: 07105891

As at 31 March 2020

	Notes	2020 £m	2019[1] £m
Non-current assets			
Goodwill	11	**495**	495
Other intangible assets	11	**205**	235
Property, plant and equipment[2]	12	**339**	199
Investment in joint venture and associates	14	**–**	2
Trade and other receivables	17	**5**	2
Contract costs	18	**383**	308
Deferred tax assets	7	**135**	118
		1,562	1,359
Current assets			
Inventories	16	**25**	34
Trade and other receivables	17	**136**	160
Contract assets	18	**49**	39
Derivative financial instruments	21	**1**	–
Cash and cash equivalents	20	**56**	67
		267	300
Assets classified as held for sale	15	**–**	47
Total assets		**1,829**	1,706
Current liabilities			
Trade and other payables	19	**(377)**	(491)
Contract liabilities	18	**(24)**	(20)
Lease liabilities	20	**(59)**	–
Borrowings	20	**–**	(10)
Provisions	22	**(10)**	(35)
		(470)	(556)
Liabilities classified as held for sale	15	**–**	(7)
Non-current liabilities			
Trade and other payables	19	**–**	(5)
Borrowings	20	**(793)**	(838)
Lease liabilities	20	**(158)**	–
Provisions	22	**(2)**	(12)
		(953)	(855)
Total liabilities		**(1,423)**	(1,418)
Net assets		**406**	288
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	**298**	180
Total equity		**406**	288

(1) The year ended 31 March 2019 has not been restated for the adoption of IFRS 16 'Leases' – see note 1 for further information. Lease liabilities for finance leases under IAS 17 'Leases' were previously disclosed as part of borrowings but following the application of IFRS 16 have been reclassified to lease liabilities.

(2) Right of use assets are included within property, plant and equipment.

The accompanying notes 1 to 27 are an integral part of this consolidated balance sheet.

These financial statements were approved and authorised for issue by the Board on 11 June 2020. They were signed on its behalf by:

TAHarrison CE Ferry

T Harrison
Chief Executive Officer

K Ferry
Chief Financial Officer

Consolidated cash flow statement
For the year ended 31 March 2020

	Notes	2020 £m	2019[1] £m
Operating activities			
Operating profit		**197**	47
Share-based payments	4	**3**	3
Depreciation of property, plant and equipment	12	**114**	71
Amortisation of other operating intangible assets	11	**71**	67
Amortisation of acquisition intangibles	11	**8**	8
Share of losses of joint venture and associates	14	**8**	10
Reversal of cost of inventories previously written down		**–**	(2)
Gain on disposal of customer base		**(4)**	(2)
Gain on disposal of subsidiary undertakings	13	**(127)**	–
Decrease in provisions		**(26)**	(12)
Operating cash flows before movements in working capital		**244**	190
Decrease in trade and other receivables		**27**	76
Increase in contract assets		**(85)**	(99)
Decrease/(increase) in inventory		**9**	(3)
(Decrease)/increase in trade and other payables		**(120)**	25
Increase in contract liabilities		**4**	4
Cash flows generated from operating activities		**79**	193
Income taxes paid		**–**	(1)
Net cash flows generated from operating activities		**79**	192
Investing activities			
Investment in joint ventures and associates		**(13)**	(9)
Disposal of subsidiary undertakings	13	**206**	–
Disposal of customer bases		**–**	2
Investment in intangible assets		**(67)**	(67)
Investment in property, plant and equipment		**(49)**	(37)
Cash flows generated from/(used in) investing activities		**77**	(111)
Financing activities			
Settlement of Group ESOT shares		**1**	1
Purchase of own shares		**(1)**	–
Repayments of obligations under leases		**(57)**	(9)
Repayments of borrowings		**(590)**	(27)
Drawdown of borrowings		**577**	55
Interest paid		**(40)**	(43)
Interest paid in respect of lease obligations		**(12)**	–
Other finance costs		**(17)**	(6)
Equity dividends paid	8	**(28)**	(28)
Cash flows used in financing activities		**(167)**	(57)
Net (decrease)/increase in cash and cash equivalents		**(11)**	24
Cash and cash equivalents at the start of the year		**67**	43
Cash and cash equivalents at the end of the year	20	**56**	67

(1) The year ended 31 March 2019 has not been restated for the adoption of IFRS 16 'Leases' – see note 1 for further information.

The accompanying notes 1 to 27 are an integral part of this consolidated cash flow statement.

Consolidated statement of changes in equity
For the year ended 31 March 2020

	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 2018		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]		1	684	(64)	(513)	180	288
Change in accounting policy in respect of IFRS 16 (net of tax)	1	–	–	–	–	(10)	(10)
At 1 April 2019		**1**	**684**	**(64)**	**(513)**	**170**	**278**
Profit for the year		**–**	**–**	**–**	**–**	**153**	**153**
Total comprehensive income		**–**	**–**	**–**	**–**	**153**	**153**
Transactions with the owners of the Company							
Share-based payments	4	**–**	**–**	**–**	**–**	**3**	**3**
Purchase of own shares		**–**	**–**	**–**	**–**	**(1)**	**(1)**
Settlement of Group ESOT shares		**–**	**–**	**–**	**–**	**1**	**1**
Equity dividends	8	**–**	**–**	**–**	**–**	**(28)**	**(28)**
Total transactions with the owners of the Company		**–**	**–**	**–**	**–**	**(25)**	**(25)**
At 31 March 2020		**1**	**684**	**(64)**	**(513)**	**298**	**406**

(1) The year ended 31 March 2019 has not been restated for the adoption of IFRS 16 'Leases' – see note 1 for further information.

The accompanying notes 1 to 27 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 it is a public limited company. The registered office of the Company is Soapworks, Ordsall Lane, Salford Quays, Manchester M5 3TT. 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 (unless otherwise stated), because that is the currency of the principal economic environment in which the Group operates.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company, entities controlled by the Company (its subsidiaries) and entities which are joint ventures or associates which are accounted for using the equity method up to 31 March each year.

Control is achieved where the Company has:

- the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affects its returns.

The Company reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in profit or loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries and joint ventures to bring the accounting policies used in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

When the Group loses control of a subsidiary, the gain or loss on disposal recognised in profit or loss is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests or amounts previously recognised in other comprehensive income in relation to that subsidiary. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 when applicable, or the cost on initial recognition of an investment in an associate or a joint venture.

Alternative performance measures (APMs)

The consolidated financial statements include APMs as well as Statutory measures. The 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, IFRS 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 and reported to the Board, and 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 2019 except for the addition of pre-IFRS 16 values which, due to the prior periods not being restated, have been provided to allow users of the financial statements to better understand the impact of the new standard and to enable like for like analysis. See note 9 for a reconciliation of Statutory information to Headline information. Pre-IFRS 16 APMs will not be presented for periods after 31 March 2020 as the current and prior year values will be prepared on the same basis.

The Group often measures performance based on Headline EBITDA. EBITDA is defined as operating profit or loss before depreciation, amortisation, share of results of joint ventures, net finance costs and taxation. Headline EBITDA is defined as EBITDA excluding non-Headline items, as presented to the Chief Operating Decision Maker (CODM).

See page 134 for listing and definitions of all APMs used.

Going concern

The financial statements have been prepared on a going concern basis. In adopting the going concern basis the Directors have given consideration to the Group's available financing facilities, business model, strategy, regulatory environment, principle risks and uncertainties, recent financial performance and outlook, which are detailed in the Strategic Report on pages 1 to 39.

The Group has committed financing facilities at the date of this going concern assessment of £1,080m and further information is provided in notes 20 and 21 of the financial statements on the Group's borrowings, cash and financial risk management objectives.

The Group's long range forecasts, being the annual budget combined with the annual three year plan, which are both approved by the Board, have been used to carry out the assessment of going concern. These cash flow forecasts have taken into account typical cash cycles of the Group, timings of cash inflows and outflows and their effect on period end/covenant date net debt positions and cash management activities of the Group. Due to these factors net debt drawn under the Group's facilities fluctuates throughout the year and may be higher than the amount reported at 31 March 2020.

Notes to the consolidated financial statements continued

1. Accounting policies and basis of preparation continued

Going concern continued

The assessment has been carried out taking into account the potential impact of certain scenarios arising from the principal risks and uncertainties, which have the greatest potential impact on the Group in the period under review. In particular, the Board has considered the potential impact of COVID-19 (see below) and Brexit on trading performance and the wider business, sustainability of the business model, the impact of customer trust and brand reputation on churn, how the market environment and competitive pressures may impact ARPU, the regulatory environment, advances in technology and the Group's ability to raise long term funding. These risks and their potential impacts reflect the Group's assessment of its principal risks and uncertainties – further information on these risks can be found on pages 20 to 25.

Given the unique conditions arising from COVID-19, specific consideration has been given to how the pandemic may affect the results of the Group as part of the going concern assessment, and this scenario planning considered the following possible impacts:

- new connections being down against initial expectations pre-COVID-19 by 27% in Q1, 20% in Q2 and 18% across the year ending 31 March 2021. As this largely reflects a general market slowdown in new customer acquisitions, a reduction in churn, though to a lesser degree than new connections, has also been assumed;
- an over twofold increase in bad debt expense year on year due to an increased risk of financial distress of customers, especially small to medium enterprises; and
- a reduction in operating costs, primarily in relation to subscriber acquisition costs, marketing and third party customer service costs due to lower new connections, the more subdued customer acquisition market and lockdown restrictions.

If faced with the reasonable worst case scenario, the Board also considered possible mitigating activities would be available to the Group to maintain liquidity, such as utilising uncommitted facilities, short term cost reduction actions, reducing or delaying capital expenditure and reducing/suspending dividends.

Based on this assessment, as well as the completion of a reverse stress test assessment, the Directors have a reasonable expectation that the Group has sufficient resources to continue its operations for the foreseeable future, and accordingly, they continue to adopt the going concern basis in preparing these financial statements.

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 measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product 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 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. Hardware is billed as part of the monthly charge to the customer and therefore paid for on a monthly basis over the length of the contract.
- 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 level of variable consideration in the form of tiered pricing arrangements and the impact of any financing component within contracts with customers has been assessed and concluded to be immaterial. The Group does not have any material obligations in respect of returns, refunds or warranties.

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

1. Accounting policies and basis of preparation continued

Foreign currency translation and transactions

In preparing the financial statements of the Group's entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for exchange differences on transactions used to hedge certain foreign currency risks (see below under derivative financial instruments and hedge accounting).

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

	Average		Closing	
	2020	2019	**2020**	2019
Euro	**1.15**	1.13	**1.13**	1.16
United States Dollar	**1.27**	1.31	**1.24**	1.30

Financial instruments

Financial assets and financial liabilities, in respect of financial instruments, are recognised in the consolidated 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.

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

Impairment of financial assets

The Group recognises lifetime expected credit losses for trade receivables, contract assets and lease receivables where relevant. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. Under the 'expected credit loss' model, the Group analyses the risk profile of these financial assets based on past experience and an analysis of the receivables' 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.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. None of the trade receivables that have been written off is subject to enforcement activities.

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.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

Financial liabilities at amortised cost

Trade payables

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

Supply chain financing

Where 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. Various factors are considered in assessing whether such liabilities are more appropriately classified as trade payables or borrowing, including whether an extension of credit terms has been provided, the contractual relationship, any obligation to provide such facility, who bears the cost of the facility, any additional credit enhancements and any impact on other lines of credit held with the relevant banks.

Financial liabilities

Financial liabilities are generally 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 the profit and loss. Financial liabilities are derecognised when they are extinguished.

1. Accounting policies and basis of preparation continued

Financial instruments continued

Financial liabilities at amortised cost continued

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 and are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Equity instruments

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 equity instruments are set out below.

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 Employee Share Ownership Trust (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.

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. 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.

Cash flow hedges

The Group may use derivative instruments to manage foreign exchange and interest rate risks and these may be designated 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 are then recycled to the income statement in the period the hedged item will affect profit and loss. Any gain or loss on the hedging instrument relating to any ineffective portion of the hedge is recognised immediately in the income statement.

Measurement

The financial instruments included on the consolidated 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. These are listed below except for new significant judgements and key sources of estimation uncertainty related to the application of IFRS 16 (outlined below in application of significant new or amended EU-endorsed accounting standards).

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 including the impact of COVID-19 and Brexit. 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 and reported to the Board, and 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. The decision to classify items as either Headline or non-Headline is judgemental and requires careful consideration to ensure that the accounts provide a true and fair reflection of the performance of the Group.

1. Accounting policies and basis of preparation continued

Critical accounting judgements and key sources of estimation uncertainty continued

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 the receipt or payment of bonuses, commissions or items of a similar nature. 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 assessment.

Capitalisation of customer premise equipment

During the year ended 31 March 2019, the terms and conditions offered to the Group's residential customers were updated to reflect that where replacement hardware is issued to customers, it remains the property of the Group and should be returned to the Group once the customer contract term has been completed. Judgement has been applied in concluding this hardware remains an asset of the Group and as at 31 March 2020 such assets had a net book value of £10m and are recognised within property, plant and equipment. The key factors in determining this treatment are the enforceability of the contractual provisions in place per the amended terms and conditions evidenced by return rates in respect of customers that have churned and the ability to de-mobilise hardware not returned.

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 lifetime value analysis
  Contract costs are deferred and recognised over the expected duration of the customer relationship. At 31 March 2020, deferred contracts costs totalled £383m (2019: £308m). 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.
- Service level related credits
  The Group continues to recognise certain service level related credits from suppliers to compensate the Group where the supplier has not operated within the contractual terms of these arrangements. At 31 March 2020, a receivable of £11m (2019: £3m) existed in relation to claims where the supplier has not operated within contractual terms, 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.

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 17 'Insurance Contracts'
- IFRS 10 and IAS 28 'Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture'
- Amendments to IFRS 3 'Definition of a Business'
- Amendments to IAS 1 and IAS 8 'Definition of Material'
- Conceptual Framework 'Amendments to References to the Conceptual Framework in IFRS Standards'

These IFRSs are not expected to have a material impact on the Group's consolidated 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

The following amended standards and interpretations were also effective during the year, however, they have not had a material impact on our consolidated financial statements.

- IFRIC 23 Uncertainty over Income Tax Treatments.
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28).

During the year, the Group has adopted IFRS 16 'Leases'. The date of the initial application of IFRS 16 for the Group is 1 April 2019.

IFRS 16 introduces new or amended requirements for lease accounting. Under IFRS 16 both lessor accounting and the Group's accounting for existing finance leases will remain unchanged unless a finance lease includes in the future a residual guarantee which will now be measured as an expected amount payable opposed to the maximum amount payable as required under IAS 17. However, IFRS 16 introduces significant changes to accounting where the Group is a lessee and the lease was previously classified as an operating lease under IAS 17. It removes the requirements under IAS 17 to initially define a lease as either an operating lease (which is off balance sheet) or a finance lease and instead requires all leases to be recognised on the balance sheet creating a right of use asset and a lease liability (unless an exemption is taken for leases that are either short term leases or leases of low value assets).

The lease liability recognised at the inception of a lease represents the present value of the consideration the Group will pay over the lease term with the right of use asset being set to an equivalent value plus any initial directly attributable costs. The lease liability is discounted at the interest rate implicit in the lease or in absence of this, an incremental borrowing rate based on the underlying asset. The right of use assets are depreciated over the shorter period of the lease term or the useful economic life of the underlying asset and are then tested for impairment in accordance with IAS 36 'Impairment of Assets' rather than the previous requirement under IAS 37 to recognise a provision for any onerous lease contracts.

In concluding whether a contract contains a lease, the Group considers whether there is an identified asset, whether the Group has the right to obtain substantially all the economic benefits of this asset, 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 the 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.

Following the above assessment the Group has concluded the below items, formerly classed as operating leases under IAS 17, contain a lease and have therefore been recognised in accordance with IFRS 16:

- property, including offices, data centres and car parks;
- 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 rented from third parties;
- the Group's interconnect network, being primarily ISI circuits and ducts;
- IT equipment leases, including printers; and
- motor vehicles.

The Group has also concluded the below arrangements do not contain a lease under IFRS 16 based upon the specific network circumstances:

- the footprint the Group rents from Openreach 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; and
- the copper and fibre lines the Group rents in the 'last mile', comprising copper between the exchange and the 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 fully.

The impact of adopting IFRS 16 has been to reduce the Group's operating expenses as lease rentals are no longer recognised straight line as operating expenses and to increase the Group's depreciation and finance costs as the Group depreciates the right of use assets and unwinds the time effect of the related lease liabilities. The overall profile of the expense recognised in the income statement has changed as a higher level of finance costs are recognised earlier in the lease term. The recognition of the lease liabilities has increased the Group's net debt; however, the cash position of the Group and the headroom on financing facilities remains unchanged. The cash flows in the consolidated cash flow statement are split between a principal portion and a finance portion, which are both presented under financing activities; previously under IAS 17 the operating lease payments were presented as operating cash flows.

Details of the Group's accounting policies under IFRS 16 are listed below:

- Lease liabilities are initially measured at the present value of the future lease payments discounted using the interest rate implicit in the lease or if this cannot be readily determined using an incremental borrowing rate calculated by the Group. Lease payments include fixed lease payments less lease incentives, variable lease payments that are dependent on an index or rate measured at the index or rate at the commencement date of the lease, the amount expected to be payable at the end of lease under residual value guarantees, the exercise price of purchase options if the lessee is reasonably certain to exercise the option and payments of penalties for terminating the lease if the lease term reflects the exercise of an option to terminate the lease. The lease liabilities are subsequently measured by increasing the value to reflect the unwind of interest and reducing the value to reflect the lease payments made by the Group.
- The Group remeasures the lease liability when either the lease term changes, the lease payments change due to a change in an index or rate or the lease is modified and the modification does not result in a separate lease. Where a lease liability is remeasured a corresponding entry is made to the right of use asset.
- The right of use assets are valued initially at an equivalent value to the lease liability with the addition of any directly attributable costs. The value of the right of use asset is increased and a provision is recognised for any costs to dismantle/remove an asset or restore the asset to a condition required under the terms of the lease when the Group incurs the obligation. The assets are subsequently measured at cost less accumulated depreciation and impairments.

1. Accounting policies and basis of preparation continued

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

- The right of use assets are depreciated over the shorter of the lease term or the useful economic life of the underlying asset. Where the Group expects to retain the asset for a period greater than the minimum non-cancellable period management estimates the period it expects it will use the assets using a portfolio approach and reviews this annually. The right of use assets are presented as part of Property, plant and equipment within the same line item as that with which the corresponding underlying assets would be presented if they were owned.
- The Group has used the exemption for leases of low value assets resulting in an expense being recognised straight line in operating expenses. The Group has applied this exemption to tie cables and laptops leading to an expense of £6m being recognised in operating expenses.
- The Group has entered into lease agreements as a lessor with respect to property which it leases (the Group subleases some property). As the Group is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right of use asset arising from the head lease. Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease. Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases.

Transition approach and practical expedients

IFRS 16 has been applied by the Group using the modified retrospective approach. Therefore the Group has not restated prior period balances and has recognised a one-off cumulative debit in opening reserves on 1 April 2019 of £10m including the recognition of a £1m deferred tax asset. In applying the modified retrospective approach, the Group has valued right of use assets on a lease by lease basis using either the approach that IFRS 16 had always been applied (but using the incremental borrowing rate at the date of the application which ranges from 4.2% to 6.8% dependent on the term and underlying asset) or setting the asset at an amount equal to the lease liability on transition. The Group has included initial directly attributable costs as part of the right of use assets on transition remeasuring at an equivalent amount as if it had always been unwinding over the allocated IFRS 16 lease term.

The Group has utilised the below one-off practical expedients allowed by the standard in applying IFRS 16 for the first time:

- the Group has applied a single discount rate to portfolios of leases with reasonably similar characteristics;
- the Group has utilised hindsight in determining the lease term;
- the Group has utilised its assessments under IAS 37 to determine if leases are onerous immediately before the date of initial application and adjusted the right of use assets by the carrying amount of the onerous lease provisions at 1 April 2019 opposed to performing an impairment review under IAS 36; and
- the Group has applied on a lease by lease basis the short term lease exemption for those leases with less than twelve months remaining at the date of transition. The expense relating to these leases was £3m for the period ended 31 March 2020.

The difference between the operating lease commitments disclosed under IAS 17 in the Group's accounts for the year ended 31 March 2019 and the lease liabilities recognised on the date of transition can be explained as follows:

	Total £m
Operating lease commitments disclosed under IAS 17 at 31 March 2019	116
Effect of discounting	(42)
Change in contractual lease terms under IFRS 16	95
Finance leases under IAS 17	39
Other(1)	10
IFRS 16 lease liabilities recognised at 1 April 2019	218

(1) Includes other items such as assets under low value and short term exemptions and revision of lease payments on transition.

The change in contractual lease terms of £95m is as a result of applying a five year lease term for network assets. Under IAS 17 the committed term for these assets was usually less than twelve months.

Critical accounting judgements and key sources of estimation uncertainty

The Group has concluded that applying IFRS 16 has given rise to the below new critical accounting judgements and key sources of estimation uncertainty. These are in addition to the existing judgements and estimates described on page 88 and 89.

The Group has made a critical accounting judgement in determining the scope of applying IFRS 16 and has concluded that the 'last mile' does not contain a lease.

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 continued

Critical accounting judgements and key sources of estimation uncertainty continued

The adoption of a five to seven year lease term for network assets is assessed to be a key accounting estimate. In reaching this conclusion the Group has considered historical data and its expectation of future changes in the network landscape and the technologies used. Existing technologies have been assessed as having a five year lease term and newer technologies that have been utilised in the network for the first time in the year ended 31 March 2020 have been determined as having a seven year lease term as there is less risk of these assets being replaced through obsolescence. At 31 March 2020, the Group held network assets utilising these lease terms with a combined value of £121m. Sensitivities of these estimates are shown below:

- an increase from five to six years and seven to eight years would impact the balance sheet by increasing the right of use assets by £22m and £2m respectively and increasing the lease liabilities by £18m and £2m respectively at 31 March 2020;
- an increase from five to six years and seven to eight years would impact the income statement by decreasing depreciation by £4m and £nil respectively and increasing finance costs by £1m and £nil respectively for the year ended 31 March 2020;
- a reduction from five to four years and seven to six years would impact the balance sheet by increasing and decreasing the right of use assets by £nil and by £2m respectively and decreasing the lease liabilities by £3m and £2m respectively at 31 March 2020; and
- a reduction from five to four years and seven to six years would impact the income statement by decreasing depreciation by £9m and £nil respectively and decreasing finance costs by £nil and £nil respectively for the year ended 31 March 2020.

Summary of financial impact on consolidated financial statements

The following tables summarise the financial impacts of adopting IFRS 16 on the Group's consolidated income statement for the year ended 31 March 2020 and on the Group's consolidated balance sheet at the date of application (1 April 2019):

Consolidated income statement and other comprehensive income

	Headline Year ended 31 March 2020			Statutory Year ended 31 March 2020		
	Pre-IFRS 16 £m	IFRS 16 adjustments £m	As reported £m	Pre-IFRS 16 £m	IFRS 16 adjustments £m	As reported £m
Revenue	1,557	–	1,557	1,569	–	1,569
Cost of sales	(763)	–	(763)	(767)	–	(767)
Gross profit	794	–	794	802	–	802
Operating expenses	(534)	48	(486)	(452)	48	(404)
EBITDA	260	48	308	350	48	398
Depreciation and amortisation	(132)	(53)	(185)	(140)	(53)	(193)
Share of results of associates and joint ventures	(8)	–	(8)	(8)	–	(8)
Operating profit	120	(5)	115	202	(5)	197
Net finance costs	(56)	(10)	(66)	(56)	(10)	(66)
Profit before taxation	64	(15)	49	146	(15)	131
Taxation	12	–	12	22	–	22
Profit for the period attributable to the owners of the Company	76	(15)	61	168	(15)	153
Total comprehensive income			61			153

1. Accounting policies and basis of preparation continued

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

Summary of financial impact on consolidated financial statements continued

Earnings per share

	2020		
	Pre-IFRS 16 £m	IFRS 16 adjustments £m	As reported £m
Statutory profit	168	(15)	153
Headline earnings	76	(15)	61
Weighted average number of shares (million)			
Shares in issue	1,146	–	1,146
Less weighted average holdings by Group ESOT	(1)	–	(1)
For basic EPS	1,145	–	1,145
Dilutive effect of share options	11	–	11
For diluted EPS	1,156	–	1,156

	Pre-IFRS 16 pence	IFRS 16 adjustments pence	As reported pence
Basic earnings per ordinary share			
Statutory	14.7	(1.3)	13.4
Headline	6.6	(1.3)	5.3

	Pre-IFRS 16 pence	IFRS 16 adjustments pence	As reported pence
Diluted earnings per ordinary share			
Statutory	14.5	(1.3)	13.2
Headline	6.6	(1.3)	5.3

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 continued

Summary of financial impact on consolidated financial statements continued

Consolidated balance sheet

	As previously reported at 31 March 2019 £m	IFRS 16 adjustments £m	As restated at 1 April 2019 £m
Non-current assets			
Goodwill	495	–	495
Other intangible assets	235	–	235
Property, plant and equipment	199	150	349
Investment in joint venture	2	–	2
Trade and other receivables	2	3	5
Contract costs	308	–	308
Deferred tax assets	118	1	119
	1,359	154	1,513
Current assets			
Inventories	34	–	34
Trade and other receivables	160	–	160
Contract assets	39	–	39
Cash and cash equivalents	67	–	67
	300	–	300
Assets classified as held for sale	47	–	47
Total assets	1,706	154	1,860
Current liabilities			
Trade and other payables	(491)	6	(485)
Contract liabilities	(20)	–	(20)
Borrowings	(10)	10	–
Lease liabilities	–	(57)	(57)
Provisions	(35)	2	(33)
	(556)	(39)	(595)
Liabilities classified as held for sale	(7)	–	(7)
Non-current liabilities			
Trade and other payables	(5)	–	(5)
Borrowings	(838)	29	(809)
Lease liabilities	–	(161)	(161)
Provisions	(12)	7	(5)
	(855)	(125)	(980)
Total liabilities	(1,418)	(164)	(1,582)
Net assets	288	(10)	278
Equity			
Share capital	1	–	1
Share premium	684	–	684
Translation reserve	(64)	–	(64)
Demerger reserve	(513)	–	(513)
Retained earnings and other reserves	180	(10)	170
Total equity	288	(10)	278

1. Accounting policies and basis of preparation continued

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

Summary of financial impact on consolidated financial statements continued

Of the total right of use assets of £150m recognised at 1 April 2019, £52m related to leases of property and £98m to leases of network equipment and computer hardware.

Right of use asset movements in the year ended 31 March 2020 is as follows:

	Land and buildings £m	Network and customer premise equipment and computer hardware £m	Total £m
Opening balance at 1 April 2019 as previously reported	–	61	61
IFRS 16 adjustments	52	98	150
Opening balance at 1 April 2019 as restated	52	159	211
Additions	5	60	65
Disposals	–	(3)	(3)
Depreciation	(5)	(62)	(67)
Closing balance at 31 March 2020	52	154	206
Cost (gross carrying amount)	57	216	273
Accumulated depreciation and impairment charges	(5)	(62)	(67)
Closing balance at 31 March 2020	52	154	206

The Group's outstanding liability can be further analysed as follows:

	2020[1] £m	2019 £m
Less than 1 year	59	–
2 to 5 years	121	–
Greater than 5 years	37	–
	217	–

(1) The year ended 31 March 2019 has not been restated for the adoption of IFRS 16 'Leases'. Lease liabilities for finance leases under IAS 17 'Leases' were previously disclosed as part of borrowings but following the application of IFRS 16 have been reclassified to lease liabilities.

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.

	2020 £m	2019 £m
Statutory revenue	1,569	1,632
Less MVNO revenue (note 9)	(12)	(23)
Headline revenue[1]	1,557	1,609

(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.

	2020 £m	2019 £m
Headline EBITDA[1]	308	237
Depreciation of property, plant and equipment	(114)	(71)
Amortisation of operating intangibles	(71)	(67)
Share of results of joint ventures	(8)	(10)
Non-Headline items – gross profit	8	12
Non-Headline items – operating expenses	82	(46)
Non-Headline items – depreciation and amortisation	(8)	(8)
Statutory operating profit (note 9)	197	47

2. Segmental reporting continued

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.

	2020 £m	2019 £m
On-net	**1,243**	1,263
Corporate	**303**	333
Off-net	**11**	13
Headline revenue(1)	**1,557**	1,609
Less Carrier	**(28)**	(52)
Less Off-net	**(11)**	(13)
Headline revenue (excluding Carrier and Off-net)(1)	**1,518**	1,544

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

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.

Corporate revenue is further analysed as:

	2020 £m	2019 £m
Carrier	**28**	52
Data	**181**	173
Voice	**94**	108
Corporate revenue	**303**	333

Total Statutory revenue can be disaggregated as below:

	2020 £m	2019 £m
Equipment	**82**	66
Services	**1,487**	1,566
Total Statutory revenue	**1,569**	1,632

3. Operating profit

Operating profit is stated after charging/(crediting):

	2020 £m	2019 £m
Depreciation of property, plant and equipment (note 12)	**47**	71
Depreciation of right of use assets (note 12)	**67**	–
Amortisation of other operating intangible assets (note 11)	**71**	67
Amortisation of acquisition intangibles (note 11)	**8**	8
Expected credit loss recognised on financial assets (note 17)	**13**	11
Employee benefit expense (note 4)	**117**	124
Cost of inventories recognised as expense	**54**	56
Reversal of cost of inventories previously written down	**–**	(2)
Rentals under operating leases	**–**	97
Lease expenses under the low value exemption	**6**	–
Supplier rebates	**(1)**	(5)
Service level related disputes(1)	**(13)**	(11)
Gain on disposal of customer base	**(4)**	(2)
Auditor's remuneration – audit fees	**1**	1
Auditor's remuneration – non-audit fees	**1**	–
Non-Headline items (note 9)	**(90)**	34

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

4. Employee costs

Accounting policy

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service. Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. A liability for a termination benefit is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

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

	2020 Number	2019 Number
Administration	**1,531**	1,625
Sales and customer management	**583**	562
	2,114	2,187

The aggregate remuneration recognised in respect of these employees excluding non-Headline costs of £26m (2019: £21m – see note 9) comprised:

	2020 £m	2019 £m
Wages and salaries	**97**	104
Social security costs	**12**	12
Pension costs (defined contribution plans)	**5**	5
	114	121
Share-based payments (note 5)	**3**	3
	117	124

Compensation earned by key management personnel including non-Headline costs is analysed below. The key management personnel comprised the Board of Directors (see the Directors' Remuneration Report on pages 52 to 66) and the Group's executive committee.

	2020 £m	2019 £m
Salaries and fees	**3.6**	4.0
Bonuses	**3.3**	0.8
Benefits	**0.2**	0.2
Pension costs	**0.2**	0.2
Share-based payments	**0.8**	1.1
Compensation for loss of office	**1.2**	1.2
	9.3	7.5

Relevant members of the Board of Directors and key management personnel have been advanced interest bearing 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.

5. Share-based payments continued

Accounting policy continued

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

The long term incentive schemes of the Group 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.

The dilutive effect on EPS of each scheme is presented below. This has been calculated using an average share price for the financial year of £1.10 (2019: £1.17).

Summary of share schemes

Year ended 31 March 2020	**IFRS 2 charge £m**	**Dilutive effect number million**	**Options outstanding at the end of the year number million**
SVP III – participation shares*	**–**	**–**	**–**
DSOP – 2019 grant 2020	**1**	**6**	**12**
DSOP – 2018 grant 2019	**–**	**3**	**3**
DSOP – 2017 grant 2018	**–**	**–**	**3**
DSOP – 2016 grant 2017	**1**	**1**	**2**
DSOP – 2012 grant 2013	**–**	**–**	**–**
SAYE	**–**	**1**	**7**
Share Match Plan	**1**	**–**	**–**
	3	**11**	**27**

Year ended 31 March 2019	IFRS 2 charge £m	Dilutive effect number million	Options outstanding at the end of the year number million
SVP III – participation shares*	–	–	–
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	–	–
	2	13	23

* SVP III - participation shares denominated in hundreds.

(i) SVP

The SVP III is a growth plan and not a share option plan operating under the Value Enhancement Scheme (VES) rules previously approved by shareholders. 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 condition is measured over an initial performance period from 21 June 2017 to the date of announcement of the Group's 2020 annual results, after which a total of 60% of the options will vest. The remaining options are measured over a performance period from 21 June 2017 to the date of announcement of the Group's 2021 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.

5. Share-based payments continued

TalkTalk Telecom Group PLC schemes 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.

A fair value exercise was conducted for the award using the Monte Carlo method with the total fair value of the participation shares granted totalling £5m in SVP III.

A summary of the schemes is shown below:

	Participation shares	
SVP III – 2017 grant	**2020 Number**	2019 Number
Outstanding at the beginning of the year	**900**	1,300
Granted during the year	**–**	–
Forfeited during the year	**(300)**	(400)
Outstanding at the end of the year	**600**	900
Exercisable at the end of the year	**–**	–

(ii) DSOP

During the year ended 31 March 2020 the Group granted 13 million nil-priced share options (the '2019 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 years.

The options are measured as follows:

- a performance period from 24 May 2019 to 28 June 2022 vesting on announcement of the Group's 2022 annual results. Options are forfeited if an employee leaves the Group before the options vest, subject to the DSOP scheme rules.

During the prior year, 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.

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.

On the announcement of the Group's 2019 annual results it was determined the 2016 grant achieved 50% of the necessary performance conditions and subsequently 50% of all remaining options under the scheme lapsed on this date.

Options are forfeited if an employee leaves the Group before the options vest.

Notes to the consolidated financial statements continued

5. Share-based payments continued

TalkTalk Telecom Group PLC schemes continued

Summary of share schemes continued

(ii) DSOP continued

The following table summarises the number of options, weighted average exercise price (WAEP) and valuation assumptions of each grant.

	2019 grant		2018 grant		2017 grant		2016 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 2018	–	–	–	–	11	–	9	–	1	–
Granted during the year	–	–	5	–	–	–	–	–	–	–
Exercised during the year	–	–	–	–	–	–	–	–	–	–
Lapsed during the year	–	–	(1)	–	(6)	–	(3)	–	(1)	–
Closing balance at 31 March 2019	**–**	**–**	**4**	**–**	**5**	**–**	**6**	**–**	**–**	**–**
Granted during the year	**13**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Exercised during the year	**–**	**–**	**–**	**–**	**–**	**–**	**(2)**	**–**	**–**	**–**
Lapsed during the year	**(1)**	**–**	**(1)**	**–**	**(2)**	**–**	**(2)**	**–**	**–**	**–**
Closing balance at 31 March 2020	**12**	**–**	**3**	**–**	**3**	**–**	**2**	**–**	**–**	**–**
Number of share options exercisable										
At 31 March 2019	–	–	–	–	–	–	–	–	–	–
At 31 March 2020	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

Valuation assumptions	2019 grant	2018 grant	2017 grant	2016 grant	2012 grant
Valuation method	Monte Carlo	Monte Carlo	Monte Carlo	Monte Carlo	Monte Carlo
Share price (p)	112	105	174	240	122
Exercise price (p)	nil	nil	nil	nil	nil
Expected volatility	36.66%	38.26% and 34.78%	31.95% and 30.94%	28.75%	30.0%
Expected exercise (60%/40%)	3 years	3 and 4 years	3 and 4 years	3 and 4 years	3 and 4 years
Risk free rate (3 years/4 years)	0.52%	0.73% and 0.87%	0.24% and 0.39%	0.44% and 0.64%	0.60%
Expected dividend yield	2.14%	3.14%	4.73%	5.65%	3.50%
Fair value of options granted (£m)	3	1	5	10	3
Weighted average remaining contractual life	9.4 years	6.2 years	7.3 years	6.1 years	n/a

Expected volatility is calculated by reference to the Group's historical returns over a period commensurate with the awards.

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	6.6 years

5. Share-based payments continued

TalkTalk Telecom Group PLC schemes continued

Summary of share schemes continued

(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 between £5 and £500 per month. 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:

2019 grant	94p per share
2018 grant	93p per share
2017 grant	145p per share
2016 grant	209p per share
2015 grant	307p per share

	2020		2019	
	Number million	**WAEP £**	Number million	WAEP £
Outstanding at the beginning of the year	**8**	**1.19**	5	1.74
Granted during the year	**2**	**0.94**	6	0.93
Forfeited during the year	**(3)**	**1.39**	(3)	1.43
Outstanding at the end of the year	**7**	**1.04**	8	1.19
Exercisable at the end of the year	**–**	**–**	–	–

	SAYE – 2019 grant
Valuation method	Black Scholes
Share price (p)	1.18
Exercise price (p)	0.94
Expected volatility	27%
Expected exercise (years)	3.1
Risk free rate	0.29%
Expected dividend yield	2.26%
Fair value of options granted (£m)	nil
Weighted average remaining contractual life	3.0 years

(iv) Share Match Plan

The Group's HMRC-approved Share Match Plan (SIP) 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.

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 2020, the impact of the SIP on the Group's results was not material.

6. Net finance costs

Net finance costs are analysed as follows:

	2020 £m	2019 £m
Interest on Senior Notes, bank loans and overdrafts	**41**	41
Interest on lease liabilities	**12**	2
Amortisation of deferred facility fees	**5**	3
Other finance costs	**8**	6
Finance costs	**66**	52

In the year ended 31 March 2020, the Group issued new Senior Notes and repurchased the existing Senior Notes, resulting in the write-off of deferred facility fees of £3m. Fees of £8m were paid in relation to the issue of the new Senior Notes and are being amortised over its life.

The average interest rate in the year was 4.8% (2019: 5.0%).

7. Taxation

Accounting policy

Taxation represents current tax and deferred tax.

Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Group supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

Deferred tax
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the reporting date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Tax – income statement

The tax credit comprises:

	2020 £m	2019 £m
Current tax		
Current year	**–**	–
Adjustments in respect of prior years:	**–**	–
Total current tax credit	**–**	–
Deferred tax		
Origination and reversal of timing differences	**(1)**	(12)
Recognition of deferred tax losses	**–**	(26)
Effect of change in tax rate	**(13)**	(3)
Adjustments in respect of prior years – deferred tax charge	**(8)**	4
Total deferred tax credit	**(22)**	(37)
Total tax credit	**(22)**	(37)

The tax credit on Headline earnings for the year ended 31 March 2020 was £12m (2019: £32m credit), representing an effective tax rate on pre-tax profits of -24% (2019: -86%). The tax credit on Statutory earnings for the year ended 31 March 2020 was £22m (2019: £37m credit), representing an effective tax rate on pre-tax profits of -17% (2019: 740%). The reconciliation between the Statutory and Headline tax charge is shown in note 9.

Following the Government's announcement in March 2020 that the corporation tax rate would remain at 19% from 1 April 2020, rather than reduce to 17%, the Group has now recognised all deferred tax assets and liabilities at 19%.

7. Taxation continued

Tax – income statement continued

The principal differences between the tax charge and the amount calculated by applying the standard rate of UK corporation tax of 19% (2019: 19%) to the loss before taxation are as follows:

	2020 **£m**	2019 £m
Profit/(loss) before taxation	**131**	(5)
Tax at 19% (2019: 19%)	**25**	(1)
Items attracting no tax relief or liability[1]	**(26)**	3
Effect of change in tax rate	**(13)**	(3)
Adjustments in respect of prior years	**(8)**	4
Movement in unrecognised tax losses during the year	**–**	(40)
Tax credit through income statement	**(22)**	(37)

(1) Includes gain on the disposal of the Fibre Assets Business that is non-taxable under Substantial Shareholdings Exemption (note 13).

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 16 £m**	**IFRS 9 £m**	**Short term timing differences £m**	**Total £m**
At 1 April 2019 as previously reported	**2**	**39**	**71**	**–**	**5**	**1**	**118**
Change in accounting policies in respect of IFRS 16	**–**	**–**	**–**	**1**	**–**	**–**	**1**
At 1 April 2019	**2**	**39**	**71**	**1**	**5**	**1**	**119**
Credit/(charge) to the income statement	**–**	**4**	**21**	**–**	**(3)**	**–**	**22**
Disposal of subsidiary (note 13)	**–**	**(6)**	**–**	**–**	**–**	**–**	**(6)**
At 31 March 2020	**2**	**37**	**92**	**1**	**2**	**1**	**135**

	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	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

The application of IFRS 16 on 1 April 2019 has resulted in the recognition of a £1m deferred tax asset. This asset will be utilised over an average lease period.

7. Taxation continued

Tax – balance sheet continued

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:

	2020 £m	2019 £m
Deferred tax assets	135	118
Deferred tax liabilities	–	–
Total deferred tax	135	118

At 31 March 2020, the Group had unused tax losses of £504m (2019: £447m) available for offset against future taxable profits. A deferred tax asset of £92m (2019: £71m) has been recognised in respect of £480m (2019: £415m) of such losses, based on expectations of recovery in the foreseeable future.

No deferred tax asset has been recognised in respect of the remaining £24m (2019: £32m) 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 2020 of £1m (2019: £1m) relate to costs arising on non-Headline reorganisation programmes.

A deferred tax asset as at 31 March 2020 of £2m (2019: £1m) has not been recognised in respect of R&D expenditure credits 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:

	2020 £m	2019 £m
Ordinary dividends		
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
Final dividend for the year ended 31 March 2019 of 1.50p per ordinary share	17	–
Interim dividend for the year ended 31 March 2020 of 1.00p per ordinary share	11	–
Total ordinary dividends	28	28

The proposed final dividend for the year ended 31 March 2020 of 1.50p per ordinary share on 1,146 million ordinary shares (approximately £17m) was approved by the Board on 11 June 2020 and will be recommended to shareholders at the AGM on 21 July 2020. The dividend has not been included as a liability as at 31 March 2020. 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.

9. Reconciliation of Statutory information to Headline 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

Non-Headline items are items that based on their size, nature and/or incidence are assessed to warrant separate disclosure to provide supplementary information to support the understanding of the underlying trading results and performance of the Group. Non-Headline items reflect specific adjusting items, the operating results of discontinued operations or material businesses to be exited and the amortisation of acquisition intangibles. Adjusting items typically comprise discontinued operations, material exited businesses, costs/profits/losses on material acquisitions/disposals/business exits, transformational reorganisation programmes and other material exceptional events. Certain transformation and rationalisation programmes are so fundamental they may impact a number of years. In the event that other items meet the non-Headline criteria, which are applied consistently from year to year, they are also treated as adjusting items. Items that do not have these characteristics are reported within Headline results.

9. Reconciliation of Statutory information to Headline information continued

The following table includes details of non-Headline items and reconciles Statutory information to Headline information:

Year ended 31 March 2020	Revenue £m	Gross profit £m	EBITDA £m	Depreciation, amortisation and results of joint ventures £m	Operating profit £m	(Loss)/profit before taxation £m	Taxation £m	Profit for the year £m
Statutory results	**1,569**	**802**	**398[1]**	**(201)**	**197**	**131**	**22**	**153**
Network transformation (a)	**–**	**–**	**11**	**–**	**11**	**11**	**(2)**	**9**
OneTeam operating model (b)	**–**	**–**	**15**	**–**	**15**	**15**	**(3)**	**12**
Fibre Assets Business (c)	**–**	**–**	**(109)**	**–**	**(109)**	**(109)**	**(4)**	**(113)**
MVNO operations (d)	**(12)**	**(8)**	**(7)**	**–**	**(7)**	**(7)**	**1**	**(6)**
Amortisation of acquisition intangibles (e)	**–**	**–**	**–**	**8**	**8**	**8**	**(2)**	**6**
Headline results	**1,557**	**794**	**308**	**(193)**	**115**	**49**	**12**	**61**

(1) EBITDA is defined as operating profit or loss before depreciation, amortisation and share of results of joint ventures. See table below for reconciliation of EBITDA to Statutory operating profit.

Year ended 31 March 2019	Revenue £m	Gross profit £m	EBITDA £m	Depreciation, amortisation and results of joint ventures £m	Operating profit £m	(Loss)/profit before taxation £m	Taxation £m	Profit for the year £m
Statutory results	1,632	862	203	(156)	47	(5)	37	32
Network transformation (a)	–	–	15	–	15	15	(2)	13
OneTeam operating model (b)	–	–	22	–	22	22	(3)	19
MVNO operations (d)	(23)	(12)	(3)	–	(3)	(3)	1	(2)
Amortisation of acquisition intangibles (e)	–	–	–	8	8	8	(1)	7
Headline results	1,609	850	237	(148)	89	37	32	69

	2020 £m	2019 £m
Operating profit	**197**	47
Share of results of joint ventures	**8**	10
Depreciation and amortisation	**193**	146
EBITDA	**398**	203

During the year ended 31 March 2020, cash adjusting items were an inflow of £158m (2019: outflow of £47m).

The above tables show 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 2020, 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 be completed in the year ending 31 March 2022.

This programme has incurred costs of £11m (2019: £15m) including project management, consultancy, dual-running costs and decommissioning costs.

A taxation credit of £2m has been recognised on these costs in the year ended 31 March 2020 (2019: £2m).

(b) OneTeam operating model

Net costs of £15m (2019: £22m) have been incurred in relation to the Group's material restructuring programme to exit the Group's head office in London, relocate the majority of roles to the new head office located in Salford and in turn simplify the Group's organisational structure.

The costs include redundancy payments, dual-running costs, recruitment costs, retention payments and other consultancy costs. The Group expects the finalisation of this fundamental reorganisation within 2020.

A taxation credit of £3m has been recognised on these costs (2019: £3m).

9. Reconciliation of Statutory information to Headline information continued

Accounting policy – non-Headline items

(c) Fibre Assets Business
On 27 March 2020, the Group completed the planned disposal of its Fibre Assets Business resulting in a profit on disposal of £127m. See note 13 for further detail.

Following the successful completion of the disposal, a discretionary payment of £15m was made to employees to share some of the value arising on the sale of the Fibre Asset Business. This one-off incentive is directly associated with the disposal and separate to the annual bonus programme of the Group and therefore classified as non-Headline.

Following the completion of the sale, the operating results of the Fibre Assets Business for the year ended 31 March 2020 have been classified as non-Headline consistent with it being a material exited business and all other income statement items associated with the Fibre Assets Business being classified as non-Headline. The business reported an operating loss of £3m (2019: £nil). The Fibre Assets Business incurred an operating loss of £6m in the year ended 31 March 2019 and this continues to be recognised in Headline items as the disposal occurred in the year ended 31 March 2020.

A taxation credit of £4m has been recognised on these costs (2019: £nil).

(d) MVNO operations
Following the Group's announcement in May 2017 to reassess the Group's mobile strategy and exit its MVNO operations, the Group is now progressing with its alternative mobile distribution strategy. Operating profits of £7m (2019: £3m) associated with the legacy MVNO operations have been earned and treated as non-Headline, as the business is assessed to be a material exited business. 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 (2019: £1m).

(e) Amortisation of acquisition intangibles
An amortisation charge in respect of acquisition intangibles of £8m was incurred during the year (2019: £8m).

A taxation credit of £2m has been recognised on these costs (2019: £1m).

10. Earnings per ordinary share

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

	2020 £m	2019(1) £m
Statutory earnings	**153**	32
Headline earnings (note 9)	**61**	69
Weighted average number of shares (million)		
Shares in issue	**1,146**	1,146
Less weighted average holdings by Group ESOT	**(1)**	(3)
For basic EPS	**1,145**	1,143
Dilutive effect of share options (note 5)	**11**	13
For diluted EPS	**1,156**	1,156

(1) The year ended 31 March 2019 has not been restated for the adoption of IFRS 16 'Leases' – see note 1 for further information.

	2020 Pence	2019 Pence
Basic earnings per ordinary share		
Statutory	**13.4**	2.8
Headline	**5.3**	6.0

	2020 Pence	2019 Pence
Diluted earnings per ordinary share		
Statutory	**13.2**	2.8
Headline	**5.3**	6.0

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.

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.

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.

At the commencement of the year, the Group had five CGUs, of which four had 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

On 27 March 2020, the Group completed the planned sale of its FibreNation CGU which comprises of the Fibre Assets Business (note 13), leaving the Group with four CGUs from the sale transaction date.

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 20 years based on the UK's long term growth rate, where a terminal value is then included. 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.

	2020 £m	2019 £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:

	2020 £m	2019 £m
TalkTalk Consumer	**347**	347
TalkTalk Business	**88**	88
TalkTalk Business Direct	**60**	60
MVNO operations	**–**	–
	495	495

The goodwill associated with the FibreNation CGU of £2m has been included in the calculation of the profit on disposal and in the prior year was included in assets held for sale.

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 1.2% (2019: 1.6%).
- Discount rate
  The underlying discount rate for each CGU is based on the UK 20 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 5.3% (2019: 7.6%) is used to discount the forecast pre-tax cash flows, this discount rate incorporates the impact of the additional debt following the application of IFRS 16. 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 new connections, churn, ARPU, direct costs including acquisition costs, and changes in product mix. These key assumptions are based on the Group's budget and three year plan, and reflect management's expectations base on the Group's operational plans, customer and competitor behaviour, historical trends and other available external information on expected trends in future market developments.
- Profitability
  Forecast profitability over a three year period to March 2023 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, lower than expected cost savings or the failure to deliver strategic initiatives. Management have also reflected their expectation of how COVID-19 would impact these forecasts. 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.

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.

11. Goodwill and other intangible assets continued

(b) Other intangible assets continued

Other intangible assets are analysed as follows:

	Operating intangibles £m	Acquisition intangibles £m	Total other intangibles £m
Opening balance at 1 April 2019	**227**	**8**	**235**
Additions	**49**	**–**	**49**
Amortisation	**(71)**	**(8)**	**(79)**
Closing balance at 31 March 2020	**205**	**–**	**205**
Cost (gross carrying amount)	**731**	**–**	**731**
Accumulated amortisation	**(526)**	**–**	**(526)**
Closing balance at 31 March 2020	**205**	**–**	**205**

	Operating intangibles £m	Acquisition intangibles £m	Total other intangibles £m
Opening balance at 1 April 2018	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
Operating intangibles include internally generated assets with a net book value of £115m (2019: £113m), which are amortised over a period of up to eight years. This includes additions of £27m (2019: £28m) and an amortisation charge of £25m (2019: £21m) in the year ended 31 March 2020.

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.

12. Property, plant and equipment

Accounting policy

Plant, machinery, fixtures and fittings are stated at cost less accumulated depreciation and accumulated impairment loss.

Depreciation is recognised so as to write off the cost or valuation of assets (other than assets under construction) less their residual values over their useful lives, using the straight line method, on the following bases:

Fixtures and fittings and short leasehold improvements	10–20% per annum or lease term if shorter
Network and customer premise equipment and computer hardware	12.5–67% per annum
Right of use network equipment	14.3-20% per annum
Right of use land and buildings	3.5-100% per annum

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Right of use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right of use asset reflects that the Group expects to exercise a purchase option, the related right of use asset is depreciated over the useful life of the underlying asset.

The right of use assets are presented within the same line item as that with which the corresponding underlying assets would be presented if they were owned.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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.

12. Property, plant and equipment continued

	Land and buildings £m	Short leasehold improvements £m	Network and customer premise equipment and computer hardware £m	Fixtures and fittings £m	Total £m
Opening balance at 1 April 2019 as previously reported	–	2	193	4	199
IFRS 16 adjustments	52	–	98	–	150
Opening balance at 1 April 2019 as restated	52	2	291	4	349
Additions	5	–	99	2	106
Disposals	–	–	(2)	–	(2)
Depreciation	(5)	–	(107)	(2)	(114)
Closing balance at 31 March 2020	52	2	281	4	339
Cost (gross carrying amount)	57	8	1,140	12	1,217
Accumulated depreciation and impairment charges	(5)	(6)	(859)	(8)	(878)
Closing balance at 31 March 2020	52	2	281	4	339

	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	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

Right of use assets as disclosed in note 1 are pledge as security for liabilities.

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.

Non-current asset investments at 31 March 2020 related to a 7.3% (2019: 7.3%) interest in Shared Band Limited, a telecommunications technology provider. The cost of the investment is not material.

13. Non-current asset investments continued

(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	Soapworks[2]	Holding company	100
TalkTalk Brands Limited	England & Wales	Soapworks[2]	Telecommunications	100
TalkTalk Group Ltd	England & Wales	Soapworks[2]	Holding company	100
CPW Broadband Services (UK) Ltd	England & Wales	Soapworks[2]	Telecommunications	100
Future Office Communications Limited	England & Wales	Soapworks[2]	Telecommunications	100
TalkTalk Broadband Services (Ireland) Limited	Ireland	39/40 Upper Mount Street[3]	Non-trading	100
TalkTalk Business (2CCH) Limited	England & Wales	Soapworks[2]	Telecommunications	100
TalkTalk Communications Limited	England & Wales	Soapworks[2]	Telecommunications	100
CPW Network Services Limited	England & Wales	Soapworks[2]	Telecommunications	100
TalkTalk Corporate Limited	England & Wales	Soapworks[2]	Holding company	100
Core Telecommunications Limited	England & Wales	Soapworks[2]	In liquidation	100
CPW UK Group Limited	England & Wales	Soapworks[2]	Dormant	100
TalkTalk RB Limited (formerly Ratebuster Ltd)	England & Wales	Soapworks[2]	Dormant	100
TalkTalk Technology Limited	England & Wales	Soapworks[2]	Dormant	100
Telco Global Limited	England & Wales	Soapworks[2]	Dormant	100
Vartec Telecom Europe Limited	England & Wales	Soapworks[2]	Dormant	100
Video Networks Limited	England & Wales	Soapworks[2]	Dormant	100
World Online Telecom Limited	England & Wales	Soapworks[2]	Dormant	100
GIS Telecoms Limited	England & Wales	Soapworks[2]	Dormant	100
TalkTalk Direct Limited	England & Wales	Soapworks[2]	Dormant	100
Opal Connect Limited	England & Wales	Soapworks[2]	Dormant	100
Opal Business Solutions Limited	England & Wales	Soapworks[2]	Dormant	100
UK Telco (GB) Limited	England & Wales	Soapworks[2]	Dormant	100
TalkTalk UK Communications Services Limited	England & Wales	Soapworks[2]	Dormant	100
Onetel Telecommunications Limited	England & Wales	Soapworks[2]	Dormant	100
V Networks Limited	England & Wales	Soapworks[2]	Dormant	100
Green Dot Property Management Limited	England & Wales	Soapworks[2]	Non-trading	100
Executel Ltd	England & Wales	Soapworks[2]	Dormant	100
Greystone Telecom Limited	England & Wales	Soapworks[2]	Dormant	100
Pipex Internet Limited	England & Wales	Soapworks[2]	Dormant	100
Pipex Communications Services Limited	England & Wales	Soapworks[2]	Dormant	100
Pipex UK Limited	England & Wales	Soapworks[2]	Dormant	100
TalkTalk Telecom Limited	England & Wales	Soapworks[2]	Telecommunications	100
Telco Holdings Limited	England & Wales	Soapworks[2]	Telecommunications	100
Telco Global Distribution Limited	England & Wales	Soapworks[2]	Dormant	100
Tele2 Telecommunication Services Limited	Ireland	39/40 Upper Mount Street[3]	Non-trading	100
Tiscali UK Limited	England & Wales	Soapworks[2]	Telecommunications	100
Toucan Residential Ireland Limited	Ireland	39/40 Upper Mount Street[3]	Non-trading	100
TalkTalk TV Entertainment Limited	England & Wales	Soapworks[2]	Telecommunications	100
tIPicall Limited	England & Wales	Soapworks[2]	Telecommunications	100
Nottingdale Receivables Limited[4]	England & Wales	6 St Andrew Street[5]	Receivables financing	–
Adventure Telecom Limited	England & Wales	Soapworks[2]	Telecommunications	100
Treetop Telecom Limited	England & Wales	Soapworks[2]	Telecommunications	100
TalkTalk Business Direct Limited	England & Wales	Soapworks[2]	Telecommunications	100

(1) Directly held subsidiary.

(2) Full address: Soapworks, Ordsall Lane, Salford Quays, Manchester M5 3TT.

(3) Full address: 39/40 Upper Mount Street, Dublin 2, Ireland.

(4) Consolidated on the grounds of substance (see note 20).

(5) Full address: 5th Floor, 6 St Andrew Street, London EC4A 3AE.

13. Non-current asset investments continued

(a) Investments continued

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

The Group has made no acquisitions of investments during the current or prior year.

(ii) Disposals

During the year ended 31 March 2020, the Group completed the planned disposal of its Fibre Assets Business for consideration of £206m.

The disposal included its wholly owned subsidiary FibreNation Limited and the Group's controlling interest in Bolt Pro Tem Limited. The assets and liabilities disposed of were as follows:

	2020 £m
Property, plant and equipment	(16)
Intangible assets	(36)
Goodwill	(2)
Investment in joint ventures and associates	(2)
Inventories	(11)
Loans and other receivables	(6)
Bank balances and cash	(1)
Deferred tax asset	(6)
Deferred tax liability	1
Trade and other payables	7
Net assets disposed of (1)	(72)
Consideration	206
Transaction costs	(7)
Gain on disposal (note 9)	127
Satisfied by:	
Cash and cash equivalents	208
Other payables	(2)
Net consideration	206

(1) The net assets disposed of were disclosed as held for sale prior to the completion of the sale (note 15).

Transaction costs comprise amounts paid to external advisers.

Further details of the impact of the disposal to the consolidated income statement are detailed in note 9.

In addition to the above, during the year ended 31 March 2020 the Group disposed of a customer base for consideration of £4m, this resulted in a gain on disposal of £4m which has been included in Headline results.

14. Investment in associates and joint ventures

Accounting policy

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Interests in joint ventures and associates 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 for the year.

In the Group consolidated balance sheet, the Group's interest in joint ventures and associates 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).

On 2 April 2019, the Group acquired 20% of the issued share capital of the company Makehappen Group Limited for £2m. This investment was subsequently disposed of as part of the disposal of the Fibre Assets Business (note 13).

YouView TV Limited 'YouView'

The Group holds 14.3% (2019: 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. All seven original partners (together 'Tier 1' funders) contribute approximately £1m per annum to fund basic operational and technology costs of YouView and the Group, together with BT as 'Tier 2' funders, contributes 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 2020 was £6m (2019: £9m).

All seven partners share overall control under this agreement, having equal share ownership and equal voting rights. 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 2020, the Group recognised an £8m share of losses (2019: £10m).

Internet Matters Limited

The Group is a joint venture with BSkyB, BT and Virgin Media. The joint venture is a not-for-profit company set up as an industry-led body to promote and educate parents about internet safety for children. All four partners share overall control under this agreement, having equal ownership rights.

Interest in joint ventures is analysed as follows:

	2020 £m	2019 £m
Opening balance at 1 April	**2**	3
Additions	**6**	9
Share of results	**(8)**	(10)
Closing balance at 31 March	**–**	2

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

Group share of results of joint ventures	**2020 £m**	2019 £m
Expenses	**(8)**	(10)
Loss before taxation	**(8)**	(10)
Taxation	**–**	–
Loss after taxation	**(8)**	(10)

Group share of net assets of joint ventures	**2020 £m**	2019 £m
Non-current assets	**–**	2
Net assets	**–**	2

15. Assets held for sale

Accounting policy

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment in an associate, or a portion of an investment in an associate, the investment, or the portion of the investment in the associate, that will be disposed of is classified as held for sale when the criteria described above are met. The Group then ceases to apply the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate that has not been classified as held for sale continues to be accounted for using the equity method.

The major classes of assets and liabilities classified as held for sale are as follows:

	2020 £m	2019 £m
Assets classified as held for sale		
Goodwill	–	2
Fixed assets	–	31
Inventory	–	13
Trade and other receivables - current	–	1
Total assets classified as held for sale	–	47
Liabilities associated with assets classified as held for sale		
Trade and other payables – current	–	(7)
Total liabilities associated with assets classified as held for sale	–	(7)

The assets and liabilities of the Fibre Assets Business were classified as held for sale in the year ended 31 March 2019 and during the year ended 31 March 2020, the Group completed the disposal of this business (see note 13).

16. Inventories

Accounting policy

Inventories are stated at the lower of cost and net realisable value. Cost comprises purchase price of the inventory and, where applicable, any costs that have been incurred in bringing the inventories to their present location and condition. Cost is calculated on a FIFO basis. Net realisable value represents the estimated selling price, less all estimated costs to be incurred in marketing, selling and distribution.

A provision is made for obsolete items where appropriate, taking into account technical obsolescence and the level of technical supplier support.

The inventories consist primarily of set top boxes, power line adaptors and routers.

	2020 £m	2019 £m
Goods for resale	**25**	34

The carrying value of inventory expected to be recovered or settled after more than twelve months at 31 March 2020 is £5m (2019: £5m).

17. Trade and other receivables

Trade and other receivables comprise:

	2020 £m	2019 £m
Non-current – trade and other receivables		
Other receivables	**5**	2
Current – trade and other receivables		
Trade receivables – gross	**71**	105
Less expected credit losses	**(12)**	(22)
Trade receivables – net	**59**	83
Other receivables	**34**	34
Prepayments	**22**	20
Accrued income	**21**	23
Total current trade and other receivables	**136**	160
Total trade and other receivables	**141**	162

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 16 days (2019: 20 days).

Expected credit losses in respect of trade and other receivables have been assessed for the impact of COVID-19 and an additional provision of £3m has been recognised.

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.

At 31 March 2020, a receivable of £11m (2019: £3m) existed in relation to claims where the supplier has not operated within contractual terms, 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:

	2020 £m	2019 £m
UK Sterling	**68**	97
Other	**3**	8
	71	105

The ageing of gross trade receivables is as follows:

	2020 £m	2019 £m
Not yet due	**42**	56
0 to 2 months	**11**	16
2 to 4 months	**7**	9
Over 4 months	**11**	24
	71	105

Notes to the consolidated financial statements continued

17. Trade and other receivables continued

The ageing of the expected credit losses of trade receivables is as follows:

	2020 £m	2019 £m
Not yet due	**(3)**	(2)
0 to 2 months	**(2)**	(3)
2 to 4 months	**(3)**	(2)
Over 4 months	**(4)**	(15)
	(12)	(22)

The following table details the risk profile of trade receivables:

	2020 %	2019 %
Not yet due	**7**	4
0 to 2 months	**18**	19
2 to 4 months	**43**	22
Over 4 months	**36**	63
	17	21

Movements in the expected credit losses of trade receivables are as follows:

	2020 £m	2019 £m
Opening balance	**(22)**	(32)
Changes in loss allowance due to new trade and other receivables	**(28)**	(38)
Derecognised due to settlement	**15**	7
Receivables written off as irrecoverable	**23**	41
Closing balance	**(12)**	(22)

The following tables explain how significant changes in the gross carrying amount of the trade receivables contributed to changes in the loss allowance:

	2020 £m	2019 £m
Settlement in full by customers that are over 4 months due	**15**	14
Increase/(decrease) in receivables that are past 2 months due	**(16)**	(13)

Trade receivables of £20m (2019: £29m) 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 expected rates of recoverability and all unprovided amounts are considered to be recoverable. The ageing analysis of these trade receivables is as follows:

	2020 £m	2019 £m
0 to 2 months	**9**	13
2 to 4 months	**4**	7
Over 4 months	**7**	9
	20	29

18. Contract balances

Accounting policy

Contract assets and liabilities

The recognition of revenue 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 (50–120 months depending on product) 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 lifetime value analysis.

The contract assets and liabilities from contracts with customers were as follows:

	2020 £m	2019 £m
Contract assets	**49**	39
Contract liabilities	**(24)**	(20)
Net contract asset	**25**	19

The movement on contract assets can be explained as below:

	2020 £m	2019 £m
Opening balance	**39**	20
Additions	**52**	44
Disposals	**(9)**	(6)
Amortisation	**(49)**	(28)
Contract modifications	**16**	9
Closing balance	**49**	39

The movement on contract liabilities can be explained as below:

	2020 £m	2019 £m
Opening balance	**(20)**	(16)
Additions	**(35)**	(22)
Amortisation	**31**	18
Closing balance	**(24)**	(20)

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 prior year end and year ended 31 March 2020 is driven by the Group's increased dispatches of its Wi-Fi Hub which was launched in the prior year. The Wi-Fi Hub has a higher stand-alone selling price compared to hardware previously provided to customers.

Revenue expected to be recognised in future periods for performance obligations that are not complete (or are partially complete) as at 31 March 2020 is £24m (2019: £20m). This relates to service contracts and equipment and will substantially be recognised as revenue within three years.

Revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period was £16m (2019: £11m).

18. Contract balances continued

The movement on contract costs can be explained as follows:

	Costs to obtain £m	Costs to fulfil £m	Total £m
Opening balance at 1 April 2019	**80**	**228**	**308**
Additions	**99**	**92**	**191**
Amortisation	**(39)**	**(77)**	**(116)**
Closing balance at 31 March 2020	**140**	**243**	**383**

	Costs to obtain £m	Costs to fulfil £m	Total £m
Opening balance at 1 April 2018	13	215	228
Additions	87	92	179
Amortisation	(20)	(79)	(99)
Closing balance at 31 March 2019	80	228	308

The increase in contract costs is as a result of the Group moving to an alternative customer acquisition and marketing model with different partners in the prior year.

19. Trade and other payables

Trade and other payables comprise:

	2020 £m	2019 £m
Non-current – trade and other payables		
Trade and other payables	**–**	5
Current – trade and other payables		
Trade payables	**183**	279
Other taxes and social security costs	**12**	9
Other payables	**15**	20
Accruals	**108**	125
Deferred income	**59**	58
	377	491
Total trade and other payables	**377**	496

The Group has agreed longer commercial credit terms of up to 300 days with certain suppliers, under which the liabilities continue to be recognised within trade payables. Including these suppliers, the average credit period taken was 45 days (2019: 58 days). Included in trade payables are payables relating to capital expenditure amounting to £29m (2019: £28m).

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, bears 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 on the original invoice due date. The supplier will manage the timing profile of when it receives funds directly with the sponsoring bank independently of TalkTalk; if election to receive payment early is made, it 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. Given there is no impact on Group cash flows from such arrangements there are no concentrations of liquidity risk which could arise from losing access to this facility. At 31 March 2020, the Group recognised an amount of £40m (2019: £50m) within trade payables, where the supplier had elected to utilise the supply chain facilities. As the liabilities are not classified as borrowings they have not been included within net debt or any associated key performance indicators.

20. Cash and cash equivalents and borrowings

Cash and cash equivalents comprise:

	2020 £m	2019 £m
Cash at bank and in hand	**56**	67

The effective interest rate on bank deposits and money market funds was 0.6% (2019: 0.5%).

(a) Lease liabilities comprise:

	Maturity	2020 £m	2019 £m
Current lease liabilities		**59**	–
Non-current lease liabilities		**158**	–
		217	–

(b) Borrowings comprise:

	Maturity	2020 £m	2019 £m
Current			
Finance leases[1]		**–**	10
Non-current			
£400m Senior Notes	2022	**–**	400
£575m Senior Notes	2025	**575**	–
£640m revolving credit facility	2022	**155**	348
Finance leases[1]		**–**	29
£75m receivables purchase agreement facility	2021	**63**	61
Total borrowings		**793**	848

(1) The year ended 31 March 2019 has not been restated for the adoption of IFRS 16 'Leases' – see note 1 for further information. Lease liabilities for finance leases under IAS 17 'Leases' following the application of IFRS 16 have been reclassified to lease liabilities.

Net debt comprises:

	2020 £m	2019 £m
Cash at bank and in hand	**(56)**	(67)
Leases liabilities	**217**	–
Borrowings	**793**	848
Net debt	**954**	781

Undrawn available committed facilities are as follows:

	Maturity	2020 £m	2019 £m
Undrawn available committed facilities (excluding leases)	2021, 2022, 2025	**497**	306

The book value and fair value of the Group's borrowings and lease liabilities are as follows:

	2020 £m	2019 £m
Less than 1 year	**59**	10
1 to 2 years	**112**	71
2 to 3 years	**194**	406
3 to 4 years	**22**	359
4 to 5 years	**586**	2
>5 years	**37**	–
Total borrowings	**1,010**	848

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

At 31 March 2020, the Group's committed facilities were £1,290m (2019: £1,115m). The Group's uncommitted facilities were £70m (2019: £90m) giving headroom on committed facilities and uncommitted facilities of £497m (2019: £306m) and £70m (2019: £90m) 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. The Group was in compliance with its covenants throughout the current and prior year.

Details of the Group's borrowing facilities as at 31 March 2020 are set out below:

£575m Senior Notes

In February 2020, TalkTalk Telecom Group PLC issued the £575m Senior Notes due 2025. 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 and pay dividends subject to compliance with a net debt to EBITDA ratio. 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 3.875% payable semi-annually. The notes have been used to redeem the aggregate amount of the 2022 £400m notes outstanding including redemption premium and unpaid interest. The remaining funds have been used to reduce borrowings in the £640m RCF.

£400m Senior Notes

In February 2020, the £400m Senior Notes due to mature in 2022 were redeemed using the funds raised from the £575m Senior Notes due 2025.

£640m revolving credit facility (RCF)

In 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 with the actual margin dependent on the ratio of net debt to EBITDA calculated in respect of the most recent accounting year.

In April 2020, the Group refinanced its RCF agreement reducing the commitment to £430m and extending the maturity date to November 2024.

£75m receivables purchase agreement

In September 2019, the Group extended its receivables purchase agreement (£75m committed and £5m on an uncommitted basis) to mature in September 2021. Under this arrangement 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 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 2020 the Group reduced the uncommitted line associated with the receivables purchase agreement from £25m to £5m.

Leases

The Group has applied IFRS 16 for the first time in the year ending 31 March 2020, more information on first time adoption can be found in note 1. The value of the Group's lease arrangements at 31 March 2020 was £217m. Leases recognised on the balance sheet in the year ended 31 March 2019 were those classified as finance leases under IAS 17 and following the application of IFRS 16 have been reclassified to lease liabilities.

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:

	2020 £m	2019 £m
Cash and cash equivalents	**56**	67
Contract costs	**383**	308
Current trade and other receivables[1]	**136**	160
Non-current trade and other receivables	**5**	2
Contract assets	**49**	39
Financial assets at amortised cost	**629**	576
Derivative financial instrument	**1**	–
Fair value through profit and loss	**1**	–
Contract liabilities	**(24)**	(20)
Current trade and other payables	**(377)**	(491)
Non-current trade and other payables	**–**	(5)
Non-current borrowings	**(793)**	(809)
Financial liabilities at amortised cost	**(1,194)**	(1,325)
Total financial instruments	**(564)**	(749)

(1) Accrued income has been included within the other receivables.

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. Other products, such as interest rate swaps and 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 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 (2019: 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 2020 is £1m (2019: £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 the purchase of inventory, 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. Foreign exchange derivatives had no impact on borrowings in the current or prior year.

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. 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, with the exception of the Senior Notes, 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 UK Sterling, being the currency in which almost all of the Group's cash and borrowings are denominated. 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.

	2020 £m	2019 £m
100 basis points movement in the UK Sterling interest rate		
Income statement movement	**2**	4

(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 debt facilities, 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 previously used invoice discounting lines with its banks which allowed it to sell receivables on a non-recourse basis and were derecognised on sale. At 31 March 2020 £nil (2019 £36m) 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.

21. Financial risk management and derivative financial instruments continued

(e) Liquidity risk continued

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. Lease cash flows have increased in the year ended 31 March 2020 following the application of IFRS 16, further detail of the application of IFRS 16 can be found in note 1.

	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
2020							
Borrowings	**(32)**	**(91)**	**(188)**	**(22)**	**(595)**	**–**	**(928)**
Leases	**(62)**	**(52)**	**(41)**	**(24)**	**(15)**	**(80)**	**(274)**
Trade and other payables	**(377)**	**–**	**–**	**–**	**–**	**–**	**(377)**
	(471)	**(143)**	**(229)**	**(46)**	**(610)**	**(80)**	**(1,579)**

	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)
Leases	(12)	(11)	(10)	(8)	(2)	(43)
Trade and other payables	(491)	(5)	–	–	–	(496)
	(538)	(111)	(444)	(364)	(2)	(1,459)

(f) Credit risk

The Group's exposure to credit risk is regularly monitored against a reasonable approximation of future changes. 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.

At 31 March 2020, the Group's maximum exposure to credit risk arises from the carrying amount of the trade receivables as stated in the consolidated statement of financial position.

(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, 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

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

22. Provisions continued

The tables below analyse the Group's provisions:

	2020 £m	2019 £m
Current	10	35
Non-current	2	12
	12	47

	Property £m	Contract and other £m	Total £m
2020			
Opening balance as previously reported	15	32	47
IFRS 16 adjustment	(9)	–	(9)
Opening balance restated	6	32	38
Charged to income statement	4	2	6
Released to income statement	(1)	(1)	(2)
Utilised in the year	(2)	(28)	(30)
Closing balance	7	5	12

	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

Provisions are categorised as follows:

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 five 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 following the Group relocation to one main site at the Soapworks in Salford.

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 in the prior year include 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

	2020 million	2019 million	2020 £m	2019 £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.

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.

24. Reserves continued

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 Group PLC on demerger.

Retained earnings

Retained earnings are made up of accumulated reserves.

Other reserve – Group ESOT

The Group ESOT held nil shares at 31 March 2020 (2019: two 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 £nil (2019: £2m).

25. Analysis of changes in net debt

	Opening £m	Net cash flow £m	IFRS 16 transition adjustment £m	Non-cash movements £m	Closing £m
2020					
Borrowings	**(809)**	**13**	**–**	**3**	**(793)**
Lease liabilities	**(39)**	**69**	**(179)**	**(68)**	**(217)**
Total borrowings	**(848)**	**82**	**(179)**	**(65)**	**(1,010)**
Cash and cash equivalents	**67**	**(11)**	**–**	**–**	**56**
Net debt	**(781)**	**71**	**(179)**	**(65)**	**(954)**

	Opening £m	Net cash flow £m	Non-cash movements £m	Closing £m
2019				
Borrowings	(788)	(28)	7	(809)
Lease liabilities	(31)	9	(17)	(39)
Total borrowings	(819)	(19)	(10)	(848)
Cash and cash equivalents	43	24	–	67
Net debt	(776)	5	(10)	(781)

For the year ended 31 March 2020, non-cash movements relate to leases entered totalling £56m (2019: £15m) and an interest expense of £12m (2019: £2m). For the year ended 31 March 2020, non-cash movements of £3m (2019: £7m) on borrowing costs relate to the deferral of facility fees partially offset by the amortisation of such costs.

26. 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. The Group has also entered into agreements to provide funding to its joint ventures. As at 31 March 2020, expenditure contracted but not provided for in these financial statements amounted to £79m (2019: £134m). Of this amount, £22m (2019: £82m) related to supply for core network, IT and customer equipment, £51m (2019: £52m) related to capital commitments and £6m (2019: £6m) to fund its joint ventures. Of the capital commitments £44m (2019: £10m) related to intangible assets.

27. 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, is set out in the Directors' Remuneration Report on pages 52 to 66. The remuneration of all key management personnel, which includes Directors, is disclosed in note 4.

During the prior 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 2020

	Notes	2020 £m	2019 £m
Non-current assets			
Investments in subsidiaries and joint ventures	4	**1,202**	1,199
		1,202	1,199
Current assets			
Cash and cash equivalents	7	**35**	29
Trade and other receivables	5	**591**	676
Derivative financial instruments		**1**	–
		627	705
Total assets		**1,829**	1,904
Current liabilities			
Trade and other payables	6	**(25)**	(43)
Non-current liabilities			
Borrowings	7	**(730)**	(748)
Total liabilities		**(755)**	(791)
Net assets		**1,074**	1,113
Equity			
Share capital	9	**1**	1
Share premium	10	**684**	684
Retained earnings and other reserves(1)	10	**389**	428
Total equity		**1,074**	1,113

(1) The Company's loss for the year was £14m (2019: £9m).

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 11 June 2020. They were signed on its behalf by:

TA Harrison

T Harrison
Chief Executive Officer

K Ferry

K Ferry
Chief Financial Officer

Company cash flow statement
For the year ended 31 March 2020

	Notes	2020 £m	2019 £m
Operating activities			
Operating loss		**(14)**	(9)
Share-based payments		**–**	1
Impairment loss	4	**6**	9
Operating cash flows before movements in working capital		**(8)**	1
Decrease in trade and other receivables		**137**	154
Decrease in trade and other payables		**(22)**	(128)
Cash flows generated from operating activities		**107**	27
Net cash flows generated from operating activities		**107**	27
Financing activities			
Repayments of borrowings		**(590)**	–
Drawdown of borrowings		**575**	55
Interest paid		**(41)**	(42)
Other finance costs		**(17)**	–
Dividends paid	3	**(28)**	(28)
Cash flows used in financing activities		**(101)**	(15)
Net increase in cash and cash equivalents		**6**	12
Cash and cash equivalents at the start of the year		**29**	17
Cash and cash equivalents at the end of the year		**35**	29

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 2020

	Notes	Share capital £m	Share premium £m	Retained earnings and other reserves £m	Total equity £m
At 1 April 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
Loss for the year		**–**	**–**	**(14)**	**(14)**
Total comprehensive expense		**–**	**–**	**(14)**	**(14)**
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 2020		**1**	**684**	**389**	**1,074**

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.

There has been no impact to the Company in applying IFRS 16.

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 £14m for the year ended 31 March 2020 (2019: £9m).

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 66 and should be regarded as an integral part of this note.

The Company has no employees other than Directors.

3. Dividends

Accounting policy

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

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

	2020 £m	2019 £m
Ordinary dividends		
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
Final dividend for the year ended 31 March 2019 of 1.50p per ordinary share	**17**	–
Interim dividend for the year ended 31 March 2020 of 1.00p per ordinary share	**11**	–
Total ordinary dividends	**28**	28

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.

	2020 £m	2019 £m
Subsidiaries	**1,179**	1,176
Joint venture	**23**	23
	1,202	1,199

	2020 £m	2019 £m
Opening net book value	**1,199**	1,197
Additions	**9**	11
Impairment	**(6)**	(9)
Closing net book value	**1,202**	1,199

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:

- £3m relating to share-based payment schemes issued by the Company (2019: £2m); and
- £6m relating to the YouView joint venture (2019: £9m), settled by intercompany.

Impairment

The impairment in the year comprises:

- £6m relating to the YouView joint venture (2019: £9m) to align with its recoverable amount based on its fair value less cost to sell following additional investment during the year. The fair value measurement used has been categorised as level 3 within the fair value hierarchy. The valuation is based on the costs and time required to recreate an equivalent asset. Key valuation assumptions include consideration of the decay in technology over time, the opportunity cost of deploying resources to recreating the asset and cost inflation. More detail on the Groups impairment assessment policy can be found in note 11.

5. Trade and other receivables

	2020 £m	2019 £m
Amounts owed by Group undertakings	**591**	676

Amounts owed by Group undertakings comprise amounts due from the following entities:

	2020 £m	2019 £m
TalkTalk Brands Limited	**379**	376
TalkTalk Communications Limited	**209**	239
TalkTalk Group Limited	**3**	61
	591	676

Amounts owed by Group undertakings arise on the provision of funding to subsidiary undertakings. Movements in amounts receivable are driven by costs borne by the Company settled by other Group undertakings, cash balances generated by the Group's pooling arrangements with subsidiary undertakings and interest charged on amounts receivable.

No interest is charged on intercompany trading balances generated by TalkTalk's accounts payable function and bank sweeping arrangements, these balances are repayable on demand. Interest charged on certain intercompany loan balances is calculated at the Group's borrowing cost plus a margin.

During the year ended 31 March 2020, an amount receivable from the Group ESOT of £2m was provided against in full giving rise to a charge to the Company income statement of £2m.

Notes to the Company financial statements continued

6. Trade and other payables

	2020 £m	2019 £m
Amounts owed to Group undertakings	**19**	38
Accruals and deferred income	**6**	5
	25	43

Amounts owed by Group undertakings comprise amounts due from the following entities:

	2020 £m	2019 £m
TalkTalk Telecom Limited	**13**	32
Tele2 Telecommunications Ireland Limited	**2**	2
Toucan Residential Ireland Limited	**4**	4
	19	38

Amounts owed to Group undertakings arise in respect of cash balances generated by the Group's pooling arrangements with subsidiary undertakings.

No interest is charged on intercompany trading balances generated by TalkTalk's accounts payable function and bank sweeping arrangements, these balances are repayable on demand. Interest charged on certain intercompany loan balances is calculated at the Group's borrowing cost plus a margin.

7. Cash and cash equivalents and borrowings

(a) Cash and cash equivalents comprise:

	2020 £m	2019 £m
Cash at bank and in hand	**35**	29

The effective interest rate on bank deposits and money market funds was 0.6% (2019: 0.5%).

(b) Borrowings comprise:

	2020 £m	2019 £m
Non-current		
Loans	**730**	748

The movement in borrowings is the same as described in note 25 of the Group consolidated financial statements with the exception of the £2m cash inflow relating to the Group's £75m receivables purchase agreement facility (note 20).

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
2020							
Borrowings	**(31)**	**(28)**	**(188)**	**(22)**	**(595)**	**–**	**(864)**
Trade and other payables	**(25)**	**–**	**–**	**–**	**–**	**–**	**(25)**
	(56)	**(28)**	**(188)**	**(22)**	**(595)**	**–**	**(889)**

	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)

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.

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:

	2020 £m	2019 £m
Financial assets		
Cash and cash equivalents	**35**	29
Trade and other receivables[1]	**591**	676
Fair value through the profit and loss		
Derivative financial instruments	**1**	–
Financial liabilities		
Trade and other payables	**(25)**	(43)
Borrowings	**(730)**	(748)
	(128)	(86)

(1) Prepayments and accrued income have been included within the other receivables.

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

	2020 million	2019 million	2018 million	**2020 £m**	2019 £m	2018 £m
Allotted, called up and fully paid						
Ordinary shares of 0.1p each	**1,146**	1,146	1,146	**1**	1	1

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 nil shares at 31 March 2020 (2019: two 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 £nil (2019: £2m).

Notes to the Company financial statements continued

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 2020.

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
CPW Network Services Limited	05408812
TalkTalk Brands Limited	05840856
TalkTalk Corporate Limited	06755322
Telco Holdings Limited	04219971

TalkTalk Telecom Group plc will guarantee all outstanding liabilities that these subsidiaries are subject to as at the financial year ended 31 March 2020 in accordance with section 479C of the Act, as amended by the Companies and Limited Liability Partnerships (Accounts and Audit Exemptions and Change of Accounting Framework) Regulations 2012.

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 66. The remuneration of all key management personnel is disclosed in note 4 to the consolidated financial statements.

Four year record (unaudited)

	2020 £m	2019(1) £m	2018(1) £m	2017(1),(2) £m
Headline results				
Revenue	**1,557**	1,609	1,605	1,720
Profit/(loss) for the year attributable to the owners of the Company	**61**	69	(7)	154
Net assets				
Non-current assets	**1,562**	1,359	1,294	1,126
Net current liabilities excluding provisions	**(193)**	(181)	(226)	(79)
Non-current liabilities excluding provisions	**(951)**	(843)	(729)	(871)
Provisions	**(12)**	(47)	(59)	(36)
Net assets	**406**	288	280	140
Headline earnings per share				
Basic (p)	**5.3**	6.0	(0.7)	16.2
Diluted (p)	**5.3**	6.0	(0.7)	16.1
Statutory earnings per share				
Basic (p)	**13.4**	2.8	(10.3)	6.1
Diluted (p)	**13.2**	2.8	(10.1)	6.0

(1) Prior years have not been restated for the adoption of IFRS 16 'Leases' – see note 1 of the Group consolidated financial statements for further information.

(2) The year ended 31 March 2017 is not restated for the impact of IFRS 15 'Revenue recognition' and IFRS 9 'Financial Instruments'.

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 and reported to the Board, and the basis of financial measures for senior management's compensation schemes, and provide 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. The purpose of this APM 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 9 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. The purpose of this APM 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.
Pre-IFRS 16	Various	Excludes the impact of applying IFRS 16	Note 1 to the consolidated financial statements	In the absence of restating the prior periods for the impact of IFRS 16, shows current year values under the same basis to aid the users of the financial statements better understand the impact of applying IFRS 16. This APM will be presented until the year ending 31 March 2021 when the current and prior year values will be presented under the same basis.
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
Altnets	Alternative network providers
ARPU	Average revenue per user on a monthly basis
BT	BT Group Plc
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
COVID-19	An infectious global disease, discovered in 2019 and spread globally in 2020, caused by the most recently discovered coronavirus
CPW	The Carphone Warehouse Group plc, its subsidiary companies, joint ventures and investments
CSAT	Customer satisfaction
DCMS	Department for Digital, Culture, Media & Sport
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
Fibre Assets Business	Means, together, FibreNation Limited and Bolt Pro Tem Limited
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
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 and 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

Glossary continued

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
NPS	Net Promoter Score
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
RCF	Revolving credit facility
SVP	Shareholder Value Plan
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	9 July 2020
Record date	10 July 2020
AGM	21 July 2020
Dividend payment date	7 August 2020

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