Final Results

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TalkTalk Telecom Group PLC

19 May 2011

Thursday 19 May 2011

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Preliminary results for the 12 months to 31 March 2011

- **Strong EBITDA, earnings and cashflow growth**
- **Integration completed - £55m synergies run rate achieved**
- **Reiterating medium-term revenue growth and 20% margin targets**
- **Dividend policy from FY 2012 enhanced to 50% payout of headline EPS**(1)

FY 2011 financial headlines

- Headline EBITDA(1) up 25% to £276m (FY 2010: £221m)
- Headline EBITDA(1) margin 15.6% (FY 2010: 13.1%)
- Total revenue £1,765m (FY 2010: £1,686m)
- Operating free cashflow up 31% to £156m (FY 2010: £119m)
- Headline earnings per share(1) up 24% to 13.5 pence (FY 2010: 10.9 pence(2))
- Statutory profit before tax £57m (FY 2010: £11m)
- Final dividend 3.9 pence per share, taking full-year dividend to 5.6 pence

Q4 2011 operating headlines

- On-net customers base up 497k year-on-year, 36k in Q4, to 3.607m (86% of base)
- Total broadband base reduced by 25k in Q4 to 4.199m
- Broadband ARPU in Q4 up 6% year-on-year to £25.0 (Q4 2010: £23.6)

Financial guidance for FY 2012

- Revenue broadly flat
- Headline EBITDA(1) margin 17.0% to 18.0%
- Capex flat year-on-year (6% of revenue) and operating free cashflow 10-11% of revenue
- Headline earnings per share 15.5 to 16.5 pence

(1) Headline excludes exceptional items and amortisation of acquisition intangibles - Notes 3 & 6.

(2) Prior year calculated on a "proforma standalone" basis as discussed in Finance Review

(3) Operating free cashflow is stated before exceptional costs

Charles Dunstone, Chairman of TalkTalk commented:

"During this first year since our demerger we have seen the benefits of our growth and scale being delivered in the form of strong earnings and cashflow growth. From FY 2012 our dividend policy will reflect our progress and the strength of our cash generation, and we aim to distribute 50% of our headline earnings per share as regular dividends.

It has been a year of intense activity for TalkTalk, as we successfully completed the integration of the former Tiscali business, re-focused our strategy, extended our network coverage, and launched a major restructuring to make our business more efficient. These far-reaching changes will enable us to offer a better experience for all our customers, and will build a strong base on which we can continue to grow our revenue and profitability."

Dido Harding, Chief Executive of TalkTalk commented:

"This was a strong all-round performance in a year of major change across the business. We delivered EBITDA growth of 25% and grew operating free cashflow by 31%. We ended the year with 3.6m customers on our own network, 86% of our total broadband base, and with broadband ARPU 6% higher than at the same time last year, at £25/month.

All the major elements of our programme to integrate the former Tiscali business were completed by the year-end, and we achieved our target of £55m of synergies. During this process a number of customers suffered disruption, which caused higher levels of complaints and churn. We have worked hard to mitigate the impact of this disruption, and we are confident that we are now making major progress in improving the experience for our customers, which will lead to lower churn.

We launched a new strategy in November and have made good progress putting this into effect. We are pushing ahead rapidly with plans to unbundle a further 700 exchanges and get at least 93% of our customers onto our network. We have carried out a major restructuring to create a leaner, simpler organisation, which will generate £25m of operating efficiencies and is the first step towards our target of £40-50m of annual savings.

TalkTalk is all about giving customers consistently the best value-for-money experience in the market, and we are reinforcing this commitment today by cutting the price for all our Essentials and Plus customers to £6.50 and £14.50 respectively, and including our unique, free HomeSafe service in these products.

We exited the year with momentum, and we intend to build this further through the year and make major progress towards our medium-term targets of 20% EBITDA margin and 2% revenue CAGR. In the year ahead, our continuing focus on unbundling and restructuring, and on giving our customers best value-for-money services, will enable us to grow our EBITDA margin to 17-18%".

Headline Profit & Loss (1)	**12 months ended 31 March 2011**	12 months ended 31 March 2010	% growth
Revenue (£m)	**1,765**	1,686	4.7%
EBITDA (£m)	**276**	221	24.9%
EBITDA margin (%)	**15.6%**	13.1%	-
EBIT (£m)	**192**	151	27.2%
Profit after tax(2) (£m)	**122**	98	24.5%
Earnings per share(2) (p)	**13.5**	10.9	23.9%
Dividend per share (p)	**5.6**	na	na
Statutory Profit before Tax (£m)	**57**	11	-

Headline Cashflow (£m)	**12 months ended 31 March 2011**	12 months ended 31 March 2010	% growth
EBITDA (1)	**276**	221	24.9%

Working capital	**(10)**	(2)	-
Capital expenditure	**(110)**	(100)	10.0%
Operating free cashflow	**156**	119	31.1%
Integration exceptionals	**(43)**	-	-
Demerger and other items	**(9)**	-	-
Interest and Tax	**(19)**	-	-
Dividends	**(15)**	-	-
Net Debt	**(438)**	(508)	-13.6%

(1) Excludes exceptional charges and amortisation of acquisition intangibles - see Notes 3 & 6.

(2) Prior year calculated on a "proforma standalone" basis as discussed in Finance Review

OUTLOOK

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

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

FY 2012 Financial guidance

- **Revenue: broadly flat**

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

We expect to add 200 - 250k on-net broadband customers during the year and to see a similar level of off-net customer loss. Momentum is expected to build through the year as churn comes down, and we expect to exit the year with positive broadband customer net additions, leaving the base broadly flat over the year, with further unbundling improving the customer mix and driving higher ARPU.

- **EBITDA margin: 17.0% - 18.0%**

The EBITDA margin will benefit from customer mix improvements, a full year of Tiscali integration synergies (adding £15m to the £40m synergy benefit delivered in FY 2011), and over half of the £25m operating efficiencies generated by the restructuring programme, partially offset by additional investment in customer growth.

The increase in our EBITDA margin is expected to be weighted towards the second half of the year, mainly reflecting the phasing of the restructuring programme.

- **Earnings per share: 15.5 to 16.5 pence**

- **Capex: 6% of total revenue**

Capital expenditure is expected to be broadly flat year-on-year, equivalent to approximately 6% of total revenue, as we continue to invest in our LLU roll-out and in the network and systems capabilities needed to scale new products and services.

- **Operating free cashflow: 10% - 11% of total revenue**
- **Exceptional cash spend: £25 - 30m**

MEDIUM-TERM TARGETS

We are re-iterating the medium-term financial targets we announced in November 2010:

- Revenue growth: 2% CAGR
- EBITDA margin: 20%

BUSINESS REVIEW

Our focus during the year was on completing the integration of the former Tiscali business, delivering value-for-money for our customers, and implementing a new strategy to enable us to sustain a 2% revenue CAGR in the medium-term and expand our EBITDA margin to 20%.

One Company integration

At the end of the year we had completed substantially all of the major elements in the integration of the former Tiscali business, and our year-end EBITDA run-rate reflected the full £55m of integration synergies that we were targeting. A total of £40m of synergy benefits were captured in FY 2011, higher than previously expected due to our acceleration of the network build-out and customer migration programme during the second half.

The integration process included transferring all former Tiscali customers onto TalkTalk branded price plans, moving them onto the TalkTalk e-mail platform, migrating a substantial majority of them onto TalkTalk's extended unbundled network, and moving their billing details onto TalkTalk's upgraded billing system. The integration was a complex operation affecting all areas of our business, and whilst unfortunately causing disruption to some of our customers, the programme was completed on schedule, and has delivered greater financial benefits than we had targeted at the time of the acquisition.

During the year we also migrated the AOL customer base onto the TalkTalk network and billing system. We therefore ended the year with 86% of our broadband customers on our own network, and substantially all of our customers on our own billing and customer management systems. This gives us a strong, integrated platform from which to drive our new strategy forward.

Strategy

Our new strategy was launched in November and comprises five core elements:

1. Extending our network and its benefits to 700 more exchanges
2. Increasing efficiency by simplifying our operating systems and processes
3. Developing compelling new value-for-money services for consumers
4. Using our network to expand our range of advanced data services for businesses
5. Offering customers faster broadband based on new fibre connections

1. Largest unbundled UK network

We unbundled 265 exchanges during the year, taking our total network coverage to 2,007 exchanges, by some distance the largest unbundled estate in the UK. Our plans to extend our unbundled footprint further, to around 2,700 exchanges and 93% population coverage, are well advanced, with 16 new exchanges on track to go live during the first quarter of FY 2012. More than 450 further exchanges are currently scheduled to come on stream before the end of FY 2012.

We unbundled 497k customers during the year and ended the year with 3.607m customers on our network, accounting for 86% of our total broadband customer base, compared to 74% at the end of last year. Of these 2.751m were fully unbundled customers, taking both phone and broadband services delivered through our MPF equipment. The remaining 856k broadband customers were partially unbundled, taking only broadband, served through our SMPF equipment. Unbundling and the resulting customer mix improvement was a key driver of our ARPU growth during the year, to £25.0 from £23.6 at the same time last year.

Unbundling delivers major benefits for our customers, such as optimised broadband speed and service quality, and access to our growing range of additional products and services, such as HomeSafe and Boosts.

Investment in unbundling delivers significant financial benefits, including higher ARPU and lower churn across the base, access to inbound call termination revenue, lower regulated charges (MPF and SMPF), and lower back-haul costs due to our investment in a highly efficient, high-capacity Next Generation Network.

2. Operating efficiencies

In November 2010 we announced our target to deliver a total of £40-50m of operating efficiencies over the medium-term. We aim to achieve this by simplifying our business processes, eliminating significant duplication, and creating a leaner operational structure.

In January we initiated a major restructuring that will generate annual cost savings of around £25m. The restructuring included integrating all our technology and IT capabilities into one organisation, and streamlining our non-customer facing business operations. The employee consultation processes were completed on schedule and the new organisation was introduced just after the year-end. The programme is expected to be largely complete by the end of the first half of FY 2012.

These changes will also significantly improve the quality of the end-to-end experience we deliver to our customers, which will enable us to address customer services issues and also start to reduce our overall customer service costs. We are already seeing lower customer call volumes in some areas as a result of improvements we have made in certain customer processes, such as enabling customers to better manage their accounts on-line.

3. Value-for-money quad play

Our firm commitment to consistently provide clear, value-for-money services for our customers was reflected in our holding the prices of our two core broadband propositions steady through the whole of FY 2011: Essentials at £6.99 per month and Plus at £14.99 per month. This consistent value-for-money approach was reinforced by a series of short and deep promotions, which successfully maintained our momentum in the market and reinforced the TalkTalk brand's credentials.

Our customer mix improved substantially during the year, with more customers taking both broadband and voice services and more of these opting for our higher-value Plus product. This was reflected in the 540k increase in the number of fully unbundled customers on our network, and the improved customer mix was one of the main drivers of our ARPU growth.

We added further to our product range during the year by offering great value mobile services to our existing customers. We launched three SIM-only propositions, two for voice and one for data, aimed mainly at families seeking to reduce the costs of calling between family members, and wanting to bring all their telecoms spending together into one account. We ended the year with around 22k active mobile subscribers, and plan to extend the range of our mobile propositions later in FY 2012.

We increased our tariffs in some areas, such as line rental and out-of-bundle call charges and call connection fees, in line with the wider market, and launched new products, such as 100 and 500-minute calls-to-mobile Boosts, which give customers extra value and provide billing certainty for the services they cover. We are now rebalancing our tariff structure further, and reinforcing our value-for-money leadership in the market, by reducing our Essentials and Plus prices to £6.50 and £14.50.

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

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

YouView will bring to our customers all of the "plug-in-and-watch" simplicity of Freeview, plus the UK's leading Internet catch-up and video on-demand services, all instantly available through one simple, intuitive set-top box. Our customers' on-screen programme guide will go backwards in time as well as forwards, for the first time allowing them to discover and watch great programmes whenever they want, including a choice of pay-TV channels and on-demand programmes.

Starting the year as Project Canvas, during the course of FY 2011 the joint-venture satisfied all the necessary regulatory requirements, including reviews by the BBC Trust, Ofcom and the OFT, and was then incorporated and branded YouView. Towards the end of the year the partners and venture management carried out a review of YouView's launch plans, and confirmed that a product will be in trial by the end of calendar year 2011, with a full consumer launch of the service planned for Spring 2012.

4. TalkTalk Business services

Taking full advantage of the UK's most extensive Next Generation Network, the re-branded TalkTalk Business is a leading player in developing and delivering converged voice and data services to small and medium-sized enterprises (SME) in the UK. In particular our network provides the flexibility, reliability, capacity and geographic coverage required to meet our customers' growing demand for high quality data services. Our product range extends from simple business broadband propositions for sole traders and home-workers, through to complex, integrated connectivity solutions for larger organisations.

During the year we launched a new fibre-based Ethernet connectivity service aimed at large carriers and systems integrators. Ethernet is starting to displace high-cost legacy products and our network's reach, with more Ethernet points of presence than any of our competitors, and its capacity and cost-effectiveness, strongly positions us to provide Ethernet connectivity to larger operators providing integrated solutions for the enterprise market. By the year-end contracts were signed with Global Crossing, Fujitsu and other major players and more than 1,000 orders received.

We also launched our "Ethernet in the First Mile" (EFM) solution into our partner channel at the end of the year. This product captures the advantages of both Ethernet technology and the underlying copper-based broadband service, delivering guaranteed symmetrical connectivity up to 10mbps across bonded copper pairs. EFM bridges the gap between ADSL and fibre-based Ethernet, and presents a major growth opportunity as a compelling low-cost, business-grade alternative to both SDSL and leased lines. At launch over 120 orders had been received with a further 50 in the pipeline.

Shortly after the year-end we acquired Executel, a regional unified communications solutions business with a strong presence in North-East England. Executel is a long-standing TalkTalk Business channel partner, and the acquisition will strengthen our position in the region and is expected to contribute around £7m of revenue in FY 2012.

5. Fibre access

We are making delivery of our services future proof, and meeting potential customer demand for high-speed broadband, by developing our "Next Generation Access" capabilities. We expect initial demand for NGA to be modest, as our current copper-based ADSL technology delivers average download speeds of 8.5mbps (per Ofcom report published in March 2011), which satisfies most customers' present requirements. However we expect demand for NGA to grow in the medium-term, in particular when High Definition channels are being offered on YouView, and we are ensuring now that we are positioned to meet our customers' future requirements.

Early in FY 2012 we launched our first NGA product, a fibre optic Boost that delivers download speeds of 15-40mbps for our customers who are located within the Openreach fibre network footprint. Priced at £10 per month, plus a one-off connection fee, this product delivers a value-for-money, high-speed broadband service.

We are working with Openreach to develop the NGA product further, and in particular to improve the customer connection experience and reduce both the initial set-up and ongoing provisioning costs. Currently all new fibre connections necessitate a visit by an Openreach engineer and supply of separate new access and inter-connection equipment within the home. This experience must become more flexible, and its end-to-end costs reduced, before NGA products can gain mass-market customer acceptance.

To better understand the technical and commercial aspects of the next stage of Openreach's fibre roll-out, which will be based on fibre-to-the-home (FTTH), we are undertaking a shared research and development project with BSkyB to deploy a small-scale FTTH network to 3,600 homes in North-West London. This project will give us insights into potential FTTH service offerings, set-up processes, usage patterns and costs to deliver.

We are supporting plans by Fujitsu to deliver NGA services to five million homes in rural Britain. Fujitsu is seeking access to a portion of the £530m fund earmarked by the government for investment in superfast broadband in rural communities, to build an open access FTTH network. Fujitsu's investment is also dependent on fair, reasonable and non-discriminatory access to Openreach ducts and poles. We intend to use Fujitsu's NGA network to market TalkTalk's value-for-money broadband services to customers in remote areas who did not previously have access to competitive broadband offers.

Q4 OPERATIONS REVIEW

Broadband

Broadband revenue of £316m was flat quarter-on-quarter, with higher ARPU off-setting a net reduction of 25k in the broadband customer base. Broadband revenue growth was also moderated by several one-off factors, including our decision not to pass on to customers all of the VAT increase in January, which would have added 20 pence/month to broadband ARPU, and higher credits to customers arising from our resolution of the specific customer issues that were subject to the Ofcom investigation.

The net loss of broadband customers reflected the continuing churn caused by the migration of customers onto our own network and billing system, which disrupted the services some customers received. We focused hard on mitigating the impact on customers of these migrations, and to address specific issues identified by Ofcom. We believe that with the migration processes largely complete the effects will start to recede, and with more of our customers on our own network, and almost all of them on our own billing system, the customer experience will stabilise and churn will start to reduce steadily.

The migration of customers onto our own network slowed substantially in the fourth quarter, with 36k on-net customer additions compared to an average of around 150k in each of the previous three quarters. This was due to completion of the previous phase of network expansion earlier than planned, which enabled us to accelerate the customer migration schedule. The next wave of new unbundled exchanges will start to come on stream during the first quarter of FY 2012 and the pace of migrations will accelerate again.

Churn was highest among our off-net customers and our on-net broadband only customers, reflected in the net loss of 61k off-net customers and 29k SMPF customers in the quarter, resulting in a total net loss of 25k customers.

We added 65k fully unbundled broadband and voice customers in the quarter, reflecting our good customer acquisition performance in the market, as well as lower churn across this base. Our momentum in the market accelerated through the course of the quarter, and our competitive promotion successfully confirmed TalkTalk as offering the most attractive straightforward, value-for-money broadband and voice propositions in the market.

Broadband ARPU in the fourth quarter grew to £25.0 (Q3: £24.9) at the top of the range we guided at the start of the year. An important driver of underlying ARPU growth is our improving customer mix. As well as having more MPF customers overall within the mix, we also ended the quarter with our higher value Plus product accounting for around 14% of our total broadband base, up from 11% at the end of the previous quarter.

Non-broadband

Non-broadband revenue fell by £10m in the quarter to £38m (Q3: £48m), resuming the downward trend seen during the first half of the year. The non-broadband base declined by 77k in the quarter, in line with the quarterly 8-10% reduction in the non-broadband base experienced since the Tiscali acquisition in FY 2010.

Non-broadband ARPU declined to £17.7, from £20.1 in the third quarter, and back to the level reported in the second quarter. ARPU in the third quarter was inflated by higher minutes of use seen during the exceptional weather conditions in December, reinforced by price rises put through at the start of the quarter. Usage in the fourth quarter was in line with previous trends, and offset the impact of the price rises in the third quarter.

TalkTalk Business

Our B2B revenue of £80m was flat quarter-on-quarter, reflecting reduced revenue from voice services, in line with recent trends and with the UK market as a whole, offset by continuing growth in revenue from data services. Business broadband and higher-value data solutions products performed well, and our carrier-grade Ethernet sales accelerated substantially through the quarter.

FINANCE REVIEW

Overview

The Group delivered a strong performance in its first year as a standalone entity generating material growth in profitability (headline EBIT up 27%) and cash generation (Operating free cash flow up 31%).

Substantially completing the integration programme has delivered significant margin improvement in the second half of the year and we exit the year with the full benefit of £55m integration synergies included in our EBITDA run rate. As this increase in profitability flows through to operating cash flow we continue to deliver on our commitment to cash growth.

Income Statement

	FY 2011	FY 2010	% Growth
	£m	£m	
Revenue	**1,765**	**1,686**	**4.7%**
Headline EBITDA	**276**	**221**	**24.9%**
Exceptional items - One Company (2)	(36)	(47)	
Exceptional items - Operational Efficiency (2)	(12)	-	
EBITDA	**228**	**174**	**31.0%**
Depreciation & amortisation - operating (1)	(84)	(70)	
Depreciation & amortisation - exceptional (2)	(7)	(5)	
Non operating amortisation (2)	(62)	(83)	
EBIT	**75**	**16**	**>100%**
Finance costs	(18)	(5)	
Profit before tax	**57**	**11**	**>100%**
Taxation - headline	(52)	(41)	

Taxation - exceptional	30	27	
Profit (loss) after tax	**35**	**(3)**	**>100%**

(1) Includes share of results of JV

(2) Excluded from headline results

Revenue

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

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

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

Revenue from our B2B services was broadly flat at £329m (FY10 : £327m) as the reduction in fixed line usage in our voice products has been offset by growth in both data services and carrier services, and the full year effect of Tiscali.

Exceptional items

Investment in our One Company integration programme was £43m for the year and consisted of network integration costs principally in relation to the decommissioning of the legacy Tiscali network and consolidation and replacement to create a higher capacity network, certain costs relating to the migration of TalkTalk, AOL and Tiscali customers onto our core billing system and the integration project teams responsible for delivery.

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

Amortisation of Acquisition Intangibles

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

Profit

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

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

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

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

Interest and Taxation

Net interest costs charged to the income statement were £18m (FY 2010: £5m) reflecting the capital structure of the Group post demerger. The blended interest rate charge on the debt was 3.07%.

The effective headline tax rate for the year was 30% (FY 2010: 28%) representing a tax charge of £52m (FY 2010: £41m) on headline profit before tax of £174m (FY 2010: £147m). Although the Group had minimal disallowable expenses in the year, the rate is slightly ahead of the statutory corporation tax rate as the tax charge reflects the impact of the reduction in corporation tax rates enacted in the year on our deferred tax assets.
The reduction in corporation tax rate from 28% to 26% created a charge through the income statement of £9m resulting from the downward revaluation of deferred tax assets. This has been partly offset by a prior year adjustment of £5m relating to the recognition of additional tax losses and capital allowances.

Cash Flow and Net Debt

	FY 2011	FY 2010	% Growth
	£m	£m	

Headline EBITDA	**276**	**221**	**24.9%**
Working capital	(10)	(2)	
Capex	(110)	(100)	
Operating Free Cash Flow	**156**	**119**	**31.1%**
Exceptionals - One Company	(43)	(20)	
Exceptionals - Demerger	(16)	-	
Acquisitions and disposals*	7	(239)	
Dividends paid	(15)	(251)	
Interest and Taxation	(19)	(5)	
Cash flow relating to demerger	-	(54)	
Net cash flow	**70**	**(450)**	
Opening net debt**	(508)	(58)	
**Closing net debt ** **	**(438)**	**(508)**	

* Includes sundry items of £2m, including foreign exchange on net debt.

** Including loans to related parties, net debt was £436m (FY 2010: £505m).

The Group grew operating free cash flow in the year to £156m (FY 2010: £119m) an increase of 31% on prior year reflecting the significant improvement in EBITDA in the year.

Capital expenditure

Capital expenditure in the year was £110m (FY2 010: £100m), representing 6.2% of revenue. During the year we grew our network by unbundling a further 265 exchanges and building out partial unbundling into our entire estate to allow us to migrate the Tiscali broadband only customers onto our own network. We expanded our internal billing capability to be able to manage all residential customers on one core billing system during the year and migrated substantially all of our customers during the year, with the Pipex customer base planned for migration during FY 2012.

Working capital

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

Exceptional and demerger costs

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

Acquisitions and disposals

Total cash inflow in relation to acquisitions was £5m comprising a £14m adjustment for the Tiscali acquisition offset by small strategic B2B acquisitions and a payment of £5m in relation to our investment in the YouView joint venture. The sale of our Irish and Belgian fixed line operations resulted in the receipt of proceeds of £4m in the year.

Interest and taxation

Net interest paid in the year increased to £17m (FY 2010: £3m) broadly in line with the charge in the income statement.

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

Earnings per share

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

	FY 2011	FY 2010	Growth
Headline earnings on a "proforma standalone" basis (£m)	**122**	**98**	**24.5%**
Basic EPS	**13.5p**	**10.9p**	**23.9%**
Diluted EPS	**12.8p**	**10.3p**	**24.3%**
Statutory earnings (£m)	**35**	**(3)**	
Basic EPS	**3.9p**	**(0.3)p**	
Diluted EPS	**3.7p**	**(0.3)p**	

Headline earnings per share on a "proforma standalone" basis grew by 23.9% to 13.5 pence (FY 2010: 10.9p) broadly in line with the growth in Headline EBITDA. Statutory EPS was 3.9p (FY 2010: (0.3)p) reflecting the Group's statutory profit for the year. Basic EPS was calculated based on a weighted average number of shares of 907 million (FY 2010: 898 million). Dilution of 45 million shares (FY 2010: 50 million shares) has been applied for the purposes of calculating diluted EPS resulting from share option plans.

Funding

The Groups committed bank facilities comprise a £550m revolving credit facility used for working capital purposes and a term loan of £100m. The revolving credit facility matures in March 2013 whilst the term loan matures in March 2015. The terms of both the facilities are similar and the covenants are identical. The Group was in compliance with the covenant conditions on both facilities at the year end. As at 31 March 2011, £395m had been drawn down on these combined facilities. It is the Group's policy to re-finance its facilities significantly in advance of maturity dates.

Going Concern

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

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in this preliminary statement in the Business Review. The financial position of the Group, its cash flows and borrowing facilities are described within this Finance Review.

Whilst the current economic climate remains uncertain, the breadth of our customer base, our value for money proposition, improved operating efficiency and the largest unbundled network in the UK together with our development of a competitive quad play offering means that the Directors are confident of the Group's ability to continue to compete effectively in the UK telecommunications sector.
The Group has £650m of committed credit facilities and as at 31 March 2011 the headroom on these facilities was £255m. The Group's forecasts and projections, taking into account reasonably possible changes in trading performance, indicate that there is sufficient headroom on our facilities and that this, together with our market positioning, means that the Group is well placed to manage its business risks successfully and has adequate resources to continue in operational existence for the foreseeable future. The Directors have therefore adopted the going concern basis of accounting in preparing the financial statements.

Dividends

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

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

To reflect the cash generation profile of the Group, our dividend policy from FY 2012 will be to return to our shareholders 50% of our headline earnings per share in the form of ordinary dividends.

Presentation

A presentation for investors and analysts will be held at Andaz, 40 Liverpool St, EC2M 7QN starting at 9.00am.

The dial-in details (listen-only) are as follows:
UK/International : +44 (0)20 7136 2055
USA : +1 718 247 0883
Confirmation Code : 8465512

A replay will be available until midnight on 26 May 2011
UK/International : +44 (0)20 7111 1244
USA : +1 347 366 9565
Confirmation Code : 8465512#

The event will also be audio webcast at **www.talktalkgroup.com**

Next Trading Update

The Group will announce its first quarter trading update on 28 July 2011.

For Further Information

For analyst and institutional investor enquiries:
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APPENDIX 1 : QUARTERLY METRICS

BROADBAND	FY 2009/10				FY 2010/11			
	Q1(1)	Q2(2)	Q3	Q4	Q1	Q2	Q3	Q4
On-net adds ('000)	-	-	-	-	+157	+174	+130	**+36**
Off-net adds ('000)	-	-	-	-	-124	-156	-155	**-61**
Total Net Adds ('000)	+47	+15	+36	+42	+34	+18	-25	**-25**
On-net base (m)	-	-	-	3.110	3.267	3.441	3.571	**3.607**
Of which:								
MPF base ('000)	-	-	-	2.211	2.434	2.607	2.686	**2.751**
SMPF base ('000)	-	-	-	0.899	0.833	0.834	0.885	**0.856**
Off-net base ('000)	-	-	-	1.087	0.964	0.808	0.653	**0.592**
Total Base (m)	2.853	4.119	4.155	4.197	4.231	4.249	4.224	**4.199**
On-net (%)	79%	72%	72%	74%	77%	81%	85%	**86%**
ARPU (£)	23.3	23.7	23.8	23.6	23.9	24.7	24.9	**25.0**
New LLU exchanges	-	-	-	-	112	149	4	**0**
Total LLU exchanges	-	-	-	1,742	1,854	2,003	2,007	**2,007**

NON-BB								
Total Base ('000)	1,061	1,199	1,097	999	910	838	755	**678**
ARPU (£)	20.8	17.8	20.1	21.8	19.3	18.1	20.1	**17.7**

REVENUE (£m)	340	449	446	451	444	443	444	**434**
Of which:								
Broadband (£m)	200	296	294	296	301	314	316	**316**
Non-BB (£m)	64	71	71	67	56	47	48	**38**
B2B (£m)	76	82	81	88	87	82	80	**80**

(1) Prior to acquisition of Tiscali

(2) Included acquisition of Tiscali and customer base adjustment

Consolidated income statement for the year ended 31 March 2011

	Notes	Before amortisation of acquisition intangibles and exceptional items	Amortisation of acquisition intangibles and exceptional items *	After amortisation of acquisition intangibles and exceptional items	Before amortisation of acquisition intangibles and exceptional items	Amortisation of acquisition intangibles and exceptional items *	After amortisation of acquisition intangibles and exceptional items
		2011	**2011**	**2011**	**2010**	**2010**	**2010**
	Notes	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Revenue	2	1,765	-	1,765	1,686	-	1,686
Cost of sales		(877)	-	(877)	(838)	-	(838)
Gross profit		**888**	**-**	**888**	**848**	**-**	**848**
Operating expenses excluding amortisation and depreciation		(612)	(48)	(660)	(627)	(47)	(674)
EBITDA		**276**	**(48)**	**228**	**221**	**(47)**	**174**
Depreciation		(57)	(3)	(60)	(46)	(1)	(47)
Amortisation		(26)	(66)	(92)	(24)	(87)	(111)
Share of results of joint venture		(1)	-	(1)	-	-	-
Operating profit		**192**	**(117)**	**75**	**151**	**(135)**	**16**
Finance costs		(18)	-	(18)	(10)	(1)	(11)

Investment revenue		-	-	-	6	-	6
Profit before taxation		**174**	**(117)**	**57**	**147**	**(136)**	**11**
Taxation	4	(52)	30	(22)	(41)	27	(14)
Profit (loss) for the year		**122**	**(87)**	**35**	**106**	**(109)**	**(3)**
Attributable to the equity holders of the parent company		**122**	**(87)**	**35**	**106**	**(109)**	**(3)**
Earnings per share							
Basic (pence)	6	13.5		3.9	11.8		(0.3)
Diluted (pence)	6	12.8		3.7	11.2		(0.3)

* A reconciliation of Headline information to Statutory information is provided in note 3.

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

Consolidated statement of comprehensive income for the year ended 31 March 2011

	2011	2010
	£m	£m
Net profit (loss) for the year[1]	35	(3)
Exchange differences on translation of foreign operations[1]	1	-
Cash flow hedges and currency translation[2]	(1)	(1)
Taxation of items relating to components of other comprehensive income[1]	2	(1)
Total recognised income (expense) for the year	**37**	**(5)**
Attributable to the equity holders of the parent company	**37**	**(5)**

Note 1: recognised within retained earnings and other reserves

Note 2: recognised within translation reserve

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

Consolidated statement of changes in equity for the year ended 31 March 2011

	Notes	Share capital	Share premium	Translation reserve	Demerger reserve	Retained earnings and other reserves	Total
		£m	£m	£m	£m	£m	£m
At 1 April 2010		**1**	**586**	**(60)**	(513)	**378**	**392**
Total comprehensive income for the year		-	-	(1)	-	38	37
Recycling of translation reserve		-	-	(4)	-	-	(4)
Settlement of Group ESOT shares		-	-	-	-	1	1
Net cost of share-based payments	7	-	-	-	-	4	4
Equity dividends	5	-	-	-	-	(15)	(15)

At 31 March 2011		**1**	**586**	**(65)**	(513)	**406**	**415**

		Share capital	Share premium	Translation reserve	Demerger reserve	Retained earnings and other reserves	Total
	Notes	£m	£m	£m	£m	£m	£m
At 1 April 2009		-	-	(59)	529	232	702
Total comprehensive income for the year		-	-	(1)	-	(4)	(5)
Issue of share capital		1	986	-	(987)	-	-
Capital reduction		-	(400)	-	-	400	-
Net cost of share-based payments	7	-	-	-	-	4	4
Share-based payments reserve debit		-	-	-	-	(3)	(3)
Equity dividends	5	-	-	-	-	(251)	(251)
Movements in demerger reserve		-	-	-	(55)	-	(55)
At 31 March 2010		1	586	(60)	(513)	378	392

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

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

Consolidated balance sheet as at 31 March 2011

	Notes	2011	2010
			As restated*
	Notes	**£m**	**£m**
Non-current assets			
Goodwill		471	470
Other intangible assets		255	316
Property, plant and equipment		290	262
Non-current asset investments		1	1
Investment in joint venture		4	-
Deferred tax assets		116	155
		1,137	**1,204**
Current assets			
Cash and cash equivalents		1	1
Inventories		3	2
Trade and other receivables		155	180
Loans to related parties		2	3
		161	**186**
Total assets		**1,298**	**1,390**
Current liabilities			
Trade and other payables		(376)	(400)
Corporation tax liabilities		(22)	(42)
Loans and other borrowings		(44)	(19)
Provisions		(32)	(29)
		(474)	**(490)**
Non-current liabilities			
Loans and other borrowings		(395)	(490)
Provisions		(14)	(18)
		(409)	**(508)**
Total liabilities		**(883)**	**(998)**
Net assets		**415**	**392**
Equity			
Share capital	8	1	1
Share premium	8	586	586
Translation reserve	8	(65)	(60)
Demerger reserve	8	(513)	(513)
Retained earnings and other reserves	8	406	378
Funds attributable to equity shareholders		**415**	**392**

* The prior year balance sheet has been restated to reflect the finalisation of the Tiscali UK and UK Telco acquisition purchase prices (note 11).

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

Consolidated cash flow statement for the year ended 31 March 2011

	Notes	2011 £m	2010 £m
Operating activities			
Operating profit		75	16
Adjustments for non-cash items:			
Share-based payments	7	4	4
Depreciation		60	47
Amortisation		92	111
Share of losses of joint venture		1	-
Recycling of translation reserve		(4)	-
Fair value gain on step acquisition		(1)	-
Operating cash flows before movements in working capital		**227**	**178**
Decrease in trade and other receivables		11	35
Increase in inventory		(1)	(1)
(Decrease) increase in trade and other payables		(28)	2
Decrease in provisions		(4)	(13)
Cash generated by operations		**205**	**201**
Income taxes paid		(2)	(2)
Net cash flows generated from operating activities		**203**	**199**
Investing activities			
Interest received		-	6
Acquisition of subsidiaries and joint venture, net of cash acquired		5	(240)
Disposal of subsidiaries, net of cash disposed		4	-
Acquisition of intangible assets		(27)	(35)
Acquisition of property, plant and equipment		(83)	(67)
Disposal of property, plant and equipment		-	1
Cash flows used in investing activities		**(101)**	**(335)**
Financing activities			
Settlement of Group ESOT shares		1	-
Repayment of borrowings		(72)	(425)
Drawdown on borrowings		-	500
Interest paid		(17)	(9)
Cash flows relating to movements in demerger reserves		-	(54)
Net decrease in loans to related parties		1	394
Dividends paid		(15)	(251)
Cash flows (used) in from financing activities		**(102)**	**155**
Net increase in cash and cash equivalents		**-**	**19**
Cash and cash equivalents at the start of the year		(8)	(27)
Cash and cash equivalents at the end of the year		**(8)**	**(8)**
Cash and cash equivalents for the purposes of this statement comprise:			
Cash and bank balances	9	1	1
Bank overdrafts*	9	(9)	(9)
		(8)	**(8)**

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

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

1. Basis of preparation and accounting policies

a) Directors' responsibilities

The Directors of TalkTalk Telecom Group PLC are responsible, in accordance with the listing rules of the Financial Services Authority, for preparing and issuing this preliminary announcement, which was approved on 18 May 2011.

b) Basis of preparation

The financial information is extracted from the Group's full financial statements for the year ended 31 March 2011, which were approved by the Directors on 18 May 2011 and which received an unqualified audit opinion. Deloitte LLP did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under s498(2) or (3) Companies Act 2006. This financial information is abridged and does not constitute statutory accounts for the year ended 31 March 2011. Full financial statements for the year ended 31 March 2011 will be filed with the Registrar of Companies in due course. The Non-Statutory Financial Statements of TalkTalk Telecom Group PLC for the year ended 31 March 2010 (the 'Non-Statutory Financial Statements'), on which the auditors gave an unqualified report can be found on the Group's corporate website www.talktalkgroup.com.

The financial information is prepared on the basis of the accounting policies set out in the Group's Non-Statutory Financial Statements for the year ended 31 March 2010, except in relation to the new standards which have been adopted in the year (see below).

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

On 26 March 2010 TalkTalk Telecom Holdings Limited (formerly The Carphone Warehouse Group PLC) (the 'Carphone Warehouse Group') demerged (the 'Demerger') into Carphone Warehouse Group PLC and the Group. The Company and Carphone Warehouse Group PLC were separately listed on the London Stock Exchange.

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

Changes in accounting policy

In the current financial year, the Group has adopted:
- IFRS 1 (Revised) 'First-time Adoption of International Financial Reporting Standards';
- IFRS 3 (2008) 'Business Combinations';
- IAS 24 (2009) 'Related party disclosures';
- IAS 27 (2008) 'Consolidated and Separate Financial Statements';
- IAS 28 (Revised) 'Investments in Associates';
- IFRIC 17 'Distribution of Non-cash Assets to Owners'; and
- Improvements to IFRS (April 2009).

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

IFRS 3 (2008) 'Business Combinations' and IAS 27 (2008) 'Consolidated and Separate Financial Statements'.

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

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

Any adjustments to contingent consideration of acquisitions made prior to 1 January 2010 which result in an adjustment to goodwill continue to be accounted for under IFRS 3(2004) and IAS 27(2005), for which the accounting policies can be found in the Non-Statutory Financial Statements.

IAS 24 (2009) 'Related party disclosures'

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

Group PLC are no longer considered related parties of the Group.

2. **Segmental reporting**

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

During the previous financial year the Group incurred costs in respect of the former Carphone Warehouse Group ('CPW costs'). These costs are not reflective of the ongoing costs of the Group and have been disclosed separately, the costs of the Demerger (note 3) are also shown within CPW costs.

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

	Operations	CPW costs	Total
Year ended 31 March 2010	**£m**	**£m**	**£m**
Revenue	1,686	-	1,686

Headline EBITDA	230	(9)	221
Depreciation	(46)	-	(46)
Amortisation of operating intangibles	(24)	-	(24)
Headline operating profit	**160**	**(9)**	**151**
Amortisation of acquisition intangibles and exceptional amortisation*	(87)	-	(87)
Exceptional items - Operating expenses (note 3)	(29)	(18)	(47)
Exceptional items - Depreciation (note 3)	(1)	-	(1)
Operating profit	**43**	**(27)**	**16**

* Comprises £62m of amortisation on acquisition intangibles (FY2010: £83m) and £4m of exceptional amortisation (FY2010: £4m) (note 3).

The Group's revenue is presented split by Broadband, Non-Broadband and Corporate. Broadband and Non-Broadband comprise residential customers and business customers that receive similar products.

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

The Group entered into an agreement to sell its operations in Belgium and Ireland on 31 March 2010 and 19 April 2010 respectively. These operations contributed revenue of £16m in the year ended 31 March 2010 to the Non-Broadband channel.

3. **Reconciliation of headline information to statutory information**

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

	EBITDA	Operating profit	Profit before taxation	Profit (loss) for the year
Year ended 31 March 2010				
Headline results	**221**	**151**	**147**	**106**
Exceptional items - Operating expenses (b)	(29)	(29)	(29)	(24)
Exceptional items - Operating expenses (c)	(18)	(18)	(18)	(17)
Exceptional items - Depreciation (b)	-	(1)	(1)	(1)
Exceptional items - Amortisation (b)	-	(4)	(4)	(3)

Amortisation of acquisition intangibles (d)	-	(83)	(83)	(63)
Exceptional items - Interest (c)	-	-	(1)	(1)
Statutory results	**174**	**16**	**11**	**(3)**

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

(a) Operating efficiencies

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

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

(b) One Company integration

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

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

Operating reorganisation costs of £40m were incurred during the year ended 31 March 2011, principally comprising redundancies and site closures, an integration project team and consulting costs (FY2010: £29m). Costs of £7m were incurred in respect of redundant software and fixed asset write downs (FY2010: £5m).

A total taxation credit of £10m has been recognised in respect of these costs (FY2010: £6m).

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

3. **Reconciliation of headline information to statutory information (continued)**

(c) Demerger and other separation costs

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

(d) Amortisation of acquisition intangibles

A tax credit at 28% has been recognised in both years in respect of the amortisation of acquisition intangibles, net of any adjustments in respect of prior periods, this was £17m for the year ended 31 March 2011 (FY2010: £20m).

4. **Taxation**

The tax charge for continuing operations comprises:

	2011	**2010**
	£m	**£m**
Current tax:		
UK Corporation tax	-	13
Overseas tax	-	1
	-	14
Adjustment in respect of prior years:		
UK Corporation tax	(18)	(2)
Total current tax	(18)	12
Deferred tax:		
Origination and reversal of timing differences	18	5
Effect of change in tax rate	9	-

Adjustment in respect of prior years - reclassification from current tax	18	-
Adjustment in respect of prior years - deferred tax recognised	(5)	(3)
Total deferred tax	40	2
Total tax charge	**22**	**14**

The tax charge on Headline earnings for the year ended 31 March 2011 is £52m (FY2010: £41m) representing an effective tax rate on pre-tax profits of 30% (2010: 28%). The tax charge on statutory earnings for the year ended 31 March 2011 is £22m (FY2010: £14m). The reconciliation between the Headline and Statutory tax charge is shown in note 3.

There has been a reclassification in the year from current tax to deferred tax to better reflect expected utilisation of losses of £18m (FY2010: nil).

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

5. Dividends

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

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

During the year ended 31 March 2010 dividends of £251m were paid by TalkTalk Telecom Holdings Limited (formerly 'The Carphone Warehouse Group PLC'), including £69m of dividends paid to its Shareholders and an intercompany dividend of £182m paid as part of the demerger.

6. Earnings per share

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

	2011	2010

Headline earnings (£m) (note 3)	**122**	**106**
Statutory earnings (£m)	**35**	**(3)**
Weighted average number of shares (millions)		
Shares in issue	914	914
Less average holding by Group ESOT	(7)	(16)
For basic earnings per share	**907**	**898**
Dilutive effect of share options	45	50
For diluted earnings per share	**952**	**948**
Basic earnings (loss) per share		
Headline (pence)	13.5	11.8
Statutory (pence)	3.9	(0.3)
Diluted earnings (loss) per share		
Headline (pence)	12.8	11.2
Statutory (pence)	3.7	(0.3)

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

7. Share-based payments

In accordance with IFRS 2, a charge of £4m (FY2010: £4m) in respect of equity-settled share based-payments has been charged to the income statement.

During the year the Group introduced a Discretionary Share Option Plan ('DSOP') which uses share options to provide long-term incentives to senior management of the Group. Awards made under the DSOP are subject to TSR performance targets and are measured over an initial performance period to 29 March 2013 and a subsequent performance period to 29 March 2014. Total options awarded were 29m, with an exercise price set at market price at the date of grant, £1.27.

During the year the Group offered its employees a Save-As-You-Earn scheme with the option to enter into a three year or a five year contract. A total of 7m and 1m options were granted respectively with an exercise price of £1.02.

The total dilutive effect of share options in the year was 45m (FY2010: 50m) of this, the TTG VES constituted 22m (FY2010: 28m) and new schemes during the year of 1m. The remainder represents the CPW TTG VES and other legacy schemes.

8. Reserves

	Share capital	Share premium	Translation reserve	Demerger reserve	Retained earnings and other reserves	Total
	£m	£m	£m	£m	£m	£m
At 1 April 2010	**1**	**586**	**(60)**	**(513)**	**378**	**392**
Net profit for the year	-	-	-	-	35	35
Exchange differences on translation of foreign operations	-	-	-	-	1	1
Currency translation and cash flow hedges	-	-	(1)	-	-	(1)
Tax on items recognised directly in reserves	-	-	-	-	2	2
Recycling of translation reserve	-	-	(4)	-	-	(4)
Settlement of Group ESOT shares	-	-	-	-	1	1

Share-based payment reserve credit	-	-	-	-	4	4
Equity dividends	-	-	-	-	(15)	(15)
At 31 March 2011	**1**	**586**	**(65)**	**(513)**	**406**	**415**

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

At 31 March 2010	**1**	**586**	**(60)**	**(513)**	**378**	**392**

9. Analysis of changes in net debt

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

	Opening	Net cash flow	Exchange movements	Closing
	£m	£m	£m	£m
2010				
Cash and cash equivalents	6	(5)	-	1

Bank overdrafts	(33)	24	-	(9)
	(27)	19	-	(8)
Current loans and other borrowings	-	(10)	-	(10)
Non-current loans and other borrowings	(425)	(65)	-	(490)
	(425)	(75)	-	(500)
Total net debt	**(452)**	**(56)**	**-**	**(508)**
Loans to related parties	397	(394)	-	3
Total net debt including loans to related parties	**(55)**	**(450)**	**-**	**(505)**

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

10. Contingent liabilities

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

11. Restatement of comparative information

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

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

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

Balance sheet at 31 March 2010	**As previously reported**	**Restatement of Tiscali goodwill**	**Restatement of UK Telco deferred consideration**	**As restated**
	£m	**£m**	**£m**	**£m**
Non-current assets				
Goodwill	485	(14)	(1)	470
Other intangible assets	316	-	-	316
Property, plant and equipment	262	-	-	262
Non-current asset investments	1	-	-	1
Investment in joint venture	-	-	-	-
Deferred tax assets	155	-	-	155
	1,219	**(14)**	**(1)**	**1,204**
Current assets				
Cash and cash equivalents	1	-	-	1
Inventories	2	-	-	2
Trade and other receivables	166	14	-	180
Loans to related parties	3	-	-	3

	172	**14**	**-**	**186**
Total assets	**1,391**	**-**	**(1)**	**1,390**
Current liabilities				
Trade and other payables	(401)	-	1	(400)
Corporation tax liabilities	(42)	-	-	(42)
Loans and other borrowings	(19)	-	-	(19)
Provisions	(29)	-	-	(29)
	(491)	**-**	**1**	**(490)**
Non-current liabilities				
Loans and other borrowings	(490)	-	-	(490)
Provisions	(18)	-	-	(18)
	(508)	**-**	**-**	**(508)**
Total liabilities	**(999)**	**-**	**1**	**(998)**
Net assets	**392**	**-**	**-**	**392**
Equity				
Share capital	1	-	-	1
Share premium	586	-	-	586
Translation reserve	(60)	-	-	(60)
Demerger reserve	(513)	-	-	(513)
Retained earnings and other reserves	378	-	-	378

Funds attributable to equity shareholders	**392**	**-**	**-**	**392**