Annual Report 2015

TalkTalk Telecom Group PLC

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

In this report

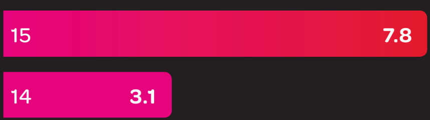
Strategic report: Overview

Financial highlights

Headline revenue (£m) +3.9%

Headline EBITDA (£m) +15.0%

Statutory earnings per share (p) +151.6%



Dividend per share (p) +15.0%

Our year at a glance

"We have delivered on our revenue growth guidance as planned, and have exited the year with our strongest ever quarterly revenue growth of 6%, and our lowest ever level of churn. British consumers and businesses increasingly appreciate TalkTalk's value for money products, and we are focused on improving our customers' experience still further and growing our already flourishing quad play business."

– Dido Harding, CEO

Chairman's statement

In a year during which we actively broadened our trading strategy, we have made strong progress in growing our customer base and revenues in both our consumer and B2B businesses.

As a result we reported revenue growth of over 4%* and saw an improvement in profitability which allowed us to grow the dividend by the 15% to which we committed. I am pleased to report, therefore, that for FY15 the Board has declared a final dividend of 9.2p that, in addition to our interim dividend of 4.6p, gives a total pay-out for the year of 13.8p.

These are significant achievements that highlight the sustainable power of leveraging our network to deliver value for money products to consumers and businesses across the UK, while also creating value for shareholders. We are excited about the potential for the business to continue saving customers money and at the same time, growing against the background of a rapidly changing sector. It has been another year of significant change and challenge for our employees, and the Board and I would like to thank them for their efforts and for their continuing commitment to TalkTalk and to our customers.

* Statutory revenue after £5m exceptional VAT adjustment in FY14.

Sir Charles Dunstone
Chairman

Strategic report: Strategy

Our business model

Our network

Our business model is based on leveraging our extensive and cost-efficient next-generation network assets to offer consumers and businesses value for money products and services.

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

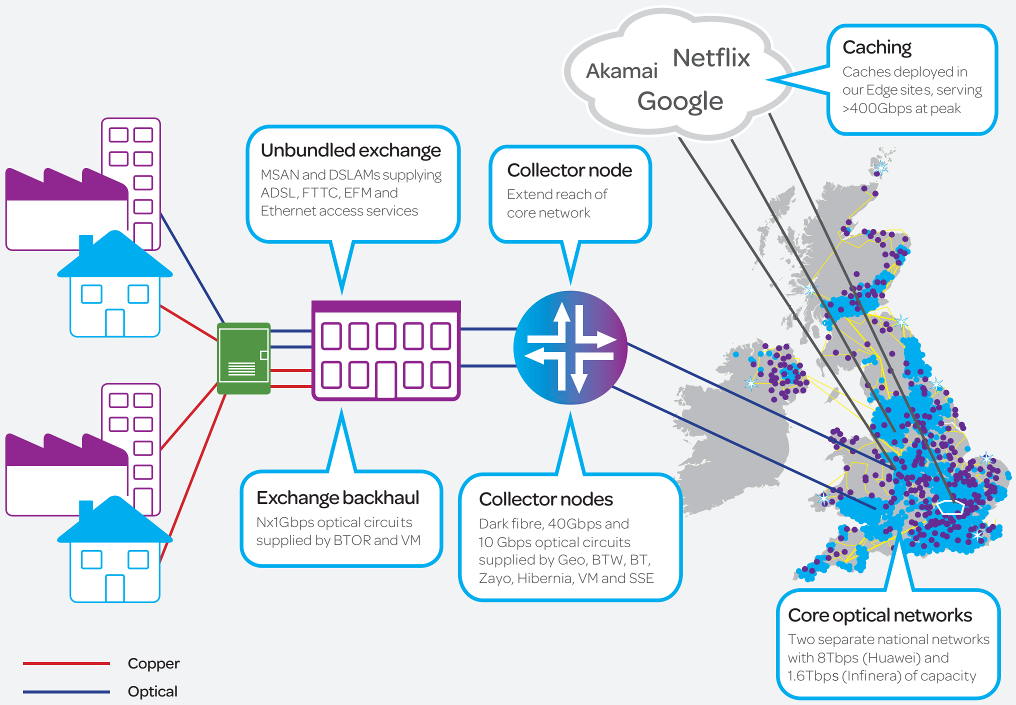
Access to the copper infrastructure that connects UK premises to BT's nationwide exchange footprint is price regulated by Ofcom, while we lease the fibre backhaul (to connect exchanges to our core network) and dark fibre (that comprises our collector ring and core network) on long term contracts with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

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

We have leveraged this cost advantage to build a sustainable broadband market share at the value end of the UK fixed line market and, since 2012, have further leveraged our network with fast-growing IPTV (for consumers) and Ethernet products (for businesses). The size and all-IP nature of our network also allows us to scale it very efficiently for growing usage. Over the next five years we plan to expand the bandwidth capacity on our network 50–100 times at falling marginal operating costs. This will allow us to support growing customer demand for high speeds and greater data consumption, with longer term opportunities to build fibre to the premise (FTTP) and an inside-out mobile network using our in-home 4G spectrum and femtocells.

Our network coverage

Over the past ten years, we have built one of the UK's largest broadband and voice customer bases, attracting those looking for significant bill savings. FY15 saw us continue to grow significantly as we successfully delivered our quad-play strategy with strong growth in phone and broadband, TV and mobile. The breadth of our network coverage and product offer also enabled us to acquire phone and broadband bases from Virgin Media and Tesco, customers to whom we are now able to offer a far broader service than they were able to access previously.



Our network gives us a strong value for money advantage

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

Our NGN covers approximately 96% of UK homes, operating in over 3,000 exchanges. These exchanges are connected via our own high-speed, high-capacity all-IP national network, enabling us to carry all of our customers' voice and data traffic efficiently and cost effectively. Our customers benefit through optimised broadband speeds and quality, and access to our growing range of lower cost, value add products and services. For example, our all-IP Content Delivery Network, which runs over our NGN, puts content closer to the end user to increase the quality of experience for our TV customers.

Our customers

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

Services to consumers

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

In 2012 we successfully launched our TV proposition, which included a free YouView set top box. TalkTalk is one of seven partners behind YouView including the BBC, ITV and BT. YouView is a broadband-based television service with differentiated catch-up and on-demand services and an open platform for future application-driven innovation. Our TV offering has enjoyed strong growth during FY15 as it represents a powerful proposition for mass market value seekers who want flexible access to premium content without the need to enter into costly long term subscriptions. In FY15 we acquired blinkbox, one of the UK's leading providers of multi-device, multi-platform video content. This will enable us to accelerate the development of a number of key features for our TV products.

We also grew TalkTalk Mobile during FY15. Available exclusively to TalkTalk customers, TalkTalk Mobile offers simplicity, range and some of the most competitive prices in the market for both SIM-only and handsets. As a result, our mobile offering continues to gain strong traction amongst our base and, following the year end, we launched our All-In SIM that offers unlimited calls, texts and data for just £12 per month – the lowest price unlimited SIM in the UK.

Services to businesses

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

In January 2013, we began offering an Ethernet over Fibre service that delivers high-speed symmetrical services at a significantly lower price point than traditional Ethernet technologies. We also launched an 80Mbps product with generous data allowances and network prioritisation targeted at small and medium-sized businesses. The year also saw us launch a very competitive Next Generation voice service for businesses requiring high performance data and voice services, which we have made widely available to channel partners.

Market overview

Household internet access continued to rise in FY15, accompanied with an increase in the number of different types of internet-enabled devices. This is driving strong growth in people accessing the internet from mobile-enabled devices. Significant scope for growth remains, however, amongst specific demographic groups; nearly 20% of households remain offline, rising to nearly 50% of those aged 65–74 and two-thirds of those aged 75 and over.

On-net base (million)

On-net customers (%)

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

Traditionally, BT Retail and Virgin Media are positioned at the premium end of the market, with significantly higher price points. They focus on speed and reliability of broadband connections. BSkyB's focus is on content, cross-selling broadband and voice to its pay TV base, providing discounts to customers who take all three products with them. BT Retail also now competes with BSkyB on pay TV content rights, specifically sports, and has announced that it is to acquire EE, the UK's largest mobile operator.

Within this context, TalkTalk is clearly positioned as an asset light business, capable of delivering customers a value based package of voice, broadband, TV and mobile, without inherent conflict associated with defending historical asset investments or market share. We believe this reputation for value for money puts TalkTalk in a strong position that will only improve further as the UK market consolidates and converges.

Strategic report: Strategy

UK telecoms regulation

The UK telecoms market is regulated by Ofcom, which sets the charges and other terms for wholesale access to infrastructure and associated services provided by BT Openreach (Openreach), where Openreach is deemed to enjoy 'Significant Market Power'. Ofcom's objective is to ensure that these wholesale products enable effective retail competition in the market, so that consumers and businesses benefit from a choice of services and retail service providers. TalkTalk's compliance with regulation is monitored internally by the Regulatory Compliance Committee as detailed on page 18.

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

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

LLU Charge Control and service standards

In June 2014 Ofcom published its Fixed Access Market Review (FAMR), which included the new LLU Charge Control for the period to 31 March 2017. MPF charges will rise at CPI+0.3% up to March 2017. The FAMR also established new minimum standards on BT for provisioning and repair of copper access lines, as well as a new requirement for BT to report a range of key performance indicators. Ofcom is expected to begin consulting shortly on the next FAMR and LLU Charge Control which will be effective from April 2017.

Next Generation Access

Openreach provides wholesale access to its NGA infrastructure (predominantly FTTC), on an equivalent basis to all communication providers. The current Openreach wholesale product is GEA. TalkTalk uses GEA to provide its fibre broadband products. Whilst the price of GEA is not regulated, TalkTalk had called for Ofcom to introduce margin squeeze regulation establishing the minimum margin between GEA and BT's retail price. In March 2015 Ofcom confirmed that margin squeeze regulation would come into effect from April 2015, with the first compliance report published in June 2015. Ofcom's next FAMR will consider regulation of GEA from April 2017.

Wholesale Must Offer for sports channels

Ofcom currently imposes a Wholesale Must Offer (WMO) obligation on Sky, requiring it to offer Sky Sports 1 and 2 on a wholesale basis to other retailers at regulated prices. Ofcom is reviewing whether the current WMO obligation is still appropriate in light of changes in the TV market, particularly BT's entry into the premium sports market. Ofcom published a consultation on the issue in December 2014 and an additional consultation is expected later in 2015 setting out Ofcom's proposed approach and remedies.

Ofcom strategic review of digital communications

On 12 March 2015 Ofcom announced an overarching review of the UK's digital communications markets. The review will examine competition, investment, innovation and the availability of products in the broadband, mobile and landline markets. Ofcom will publish a discussion document in summer 2015, with initial conclusions by the end of 2015.

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

Appeals framework

The new Government may consider whether to introduce changes to the framework of how Ofcom decisions can be appealed and, in particular, whether the current 'merits-based' standard should be changed. TalkTalk has supported reform of the appeals regime to enable more robust regulatory decisions.

European Commission Digital Single Market

The EC is currently formulating a Digital Single Market strategy. On 25 March 2015 the Commission set out areas for action. If implemented this could have a number of impacts on the mobile and fixed telecommunications market. The full strategy is expected in May 2015, with major changes unlikely to come into force before 2018.

Data Retention and Investigatory Powers Act

The Data Retention and Investigatory Powers Act (DRIPA) was introduced in July 2014 and governs the retention and sharing of communications data. DRIPA expires in 2016 and new legislation is expected to replace it. This is expected to maintain a clear legal framework for the system governing how ISPs store and share data.

Illegal file sharing

TalkTalk, along with other major ISPs has voluntarily agreed to send educational notifications to customers whose accounts have been identified as being used for illegal Peer to Peer (P2P) filesharing. The first notifications are expected to be sent in 2016. At the moment, there are no plans to implement the Digital Economy Act, which could have imposed similar though more severe measures. Pursuant to various court orders, TalkTalk is required to block access to certain sites that are used for illegal file sharing.

Voluntary measures on parental controls

In June 2013, following a formal Government consultation into parental controls, the Prime Minister announced that the other three major ISPs would introduce whole home filtering systems – similar to TalkTalk's HomeSafe™ service. He also announced that from December 2012 all providers had voluntarily agreed to ask every new customer if they want to use parental controls. This requirement was extended to include all existing customers by the end of December 2014. TalkTalk has delivered its commitment to the Government and along with the other major ISPs continues to support Internet Matters, a not-for-profit online child safety organisation. As a board member of the UK Council for Child Internet Safety, TalkTalk continues to engage actively with the Government about its policy for protecting children online.

Glossary

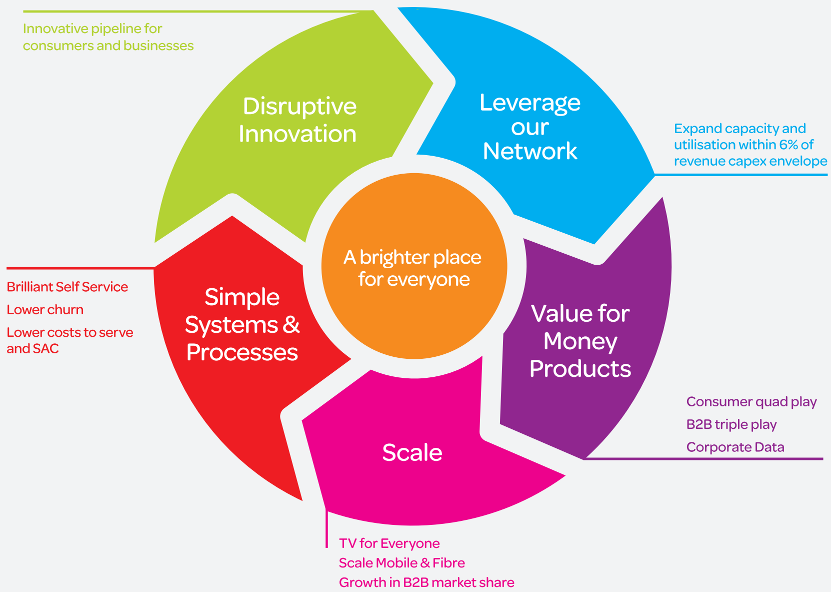
CPI: Consumer Price Index
FTTC: Fibre to the Cabinet
GEA: Generic Ethernet Access
ISP: Internet Service Provider
LLU: Local Loop Unbundling
MPF: Full unbundling
NGA: Next Generation Access
NGN: Next Generation Network
RPI: Retail Price Index
SMPF: Partial unbundling
WLR: Wholesale Line Rental

Strategic report: Strategy

Our strategy

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

Our strategy revolves around six main principles



1 Leveraging the TalkTalk Network

TalkTalk has the UK's most extensive all-IP Next Generation Network (NGN), covering c.96% of all UK homes with advanced, proprietary equipment located in over 3,000 exchanges. By investing in next-generation switching and data transmission technology we have been able to further extend our network and cost advantage. The declining marginal cost of bandwidth allows substantial increases in capacity without compromising margins or capital expenditure limits. To accommodate expected future growth, we plan to expand network capacity by 50–100 times over the next five years and to increase resilience and flexibility whilst reducing network downtime. This investment will be within our long standing capex guideline of 6% of revenues.

2 Value for money products

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

3 Scale

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

4 Simple systems and processes

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

5 Disruptive innovation

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

6 A brighter place for everyone

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

Strategic report: Strategy

Chief Executive Officer's statement

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

FY15 business review

Summary

We delivered full year revenue growth of 4.2%*, in line with our guidance. Full year EBITDA of £245m grew by 15% (FY14: £213m) after increased SAC investment in growing broadband, mobile and fibre volumes, and absorbing the operating losses from our acquisition of blinkbox in Q4. Headline Earnings Per Share grew by over 20% and Dividend Per Share by 15%, in line with our commitment.

Our strategic goal is to cement our position as the leading value for money, integrated fixed and mobile telecom and TV provider in the UK. In doing so, we will deliver our FY17 financial targets of 5% revenue CAGR (raised from 4%) and 25% EBITDA margin. Beyond FY17 we expect to continue to grow revenues by at least 5% per annum, and deliver strong free cash flow growth. We will deliver these objectives by:

- Leveraging the scale of our network
- Scaling our integrated quad play products for consumers
- Doubling the market share of TalkTalk Business
- Making TalkTalk Simpler and transforming our customers' experience
- Trialling and then rolling out an Ultrafast fibre network
- Building an Inside Out mobile network

We see significant long term opportunities to deliver growth and investor returns within this strategic framework, underpinned by an increasingly supportive regulatory background, changes in the structure of the UK market and growing demand from consumers and businesses for value for money quad play and data propositions.

We have made significant progress in each of these during FY15.

* Statutory revenue after £5m exceptional VAT adjustment in FY14.

1. Leveraging the scale of our network

FY15 progress

The scale and breadth of our unbundled network has enabled us to increase network capacity at falling unit costs while holding capex at c.6% of revenues. These scale economics mean we are the only provider in the UK market to offer totally unlimited fixed line data products.

The economics of our network also enable us to grow the base of connected customers through acquisition. In November we announced the acquisition of Virgin Media's off-net broadband base and migrated the bulk of this base onto our network through Q4, while at the same time offering these customers an expanded service (fibre and TV) and saving them money.

At the beginning of Q4 we announced the acquisition of Tesco's phone, broadband and home phone bases, which will begin migration onto our network through the summer. These customers too will enjoy the opportunity to take an expanded set of services and save money on their total connectivity bills.

Outlook

We anticipate continued strong growth in bandwidth usage on our network as customers' ownership of multiple devices grows and as they consume more video content, both from our own TV platform and from other OTT providers. We plan to scale the capacity on our network significantly over the next five years and to invest in resilience, all within our capex budget of 6% of revenue. This operating leverage sits at the core of the long term economics of our business.

2. Integrated quad play

FY15 progress

We delivered strong growth across all our products, driven by a compelling value for money pricing strategy and a re-balanced trading approach that contrasted with our strong focus on TV during FY14. The broader trading strategy also enabled us to invest additional SAC at lower costs per add than in FY14, driving broadband, fibre and mobile volumes during H2. As a result, we saw strong annual growth in revenue generating units (RGUs), with over 1m new RGUs added. We exited the year with 1.56 RGUs per customer, 16% higher than at the end of FY14.

All our customer bases grew strongly during the year, with phone and broadband up 6%, TV up 54%, mobile up 63% and fibre up 131%. In addition to a rational pricing strategy with value for money at its heart, we continued to develop key propositions to allow our customers to save even more money.

TalkTalk is now firmly established as the No.3 pay TV platform in the UK, with 1.4m customers. We renewed our commitment to YouView during the year, ensuring another five years of access to the platform and its development pipeline. Customers who take TV generate significantly higher NPS and lower churn than dual play phone and broadband customers. Consequently triple play customers are significantly more valuable. We continued to develop our content offer on YouView during the year and built upon our existing wholesale relationship with Sky.

We reached a new multi-year agreement to broaden and extend the distribution of Sky's premium movies and sport content to our TV customers. In addition to the linear channels, this includes the right to offer customers catch up content for both Sky Movies and Sky Sports, access to Sky Sports 5 (Champions League and European football) and Sky Sports Box Office on a pay-per-view basis. This built on our existing relationship to offer Sky entertainment content and access to live sports on NOW TV on a day-pass basis.

We launched Netflix to TalkTalk customers in January. The agreement with Netflix allows us to share in the revenues generated, further demonstrating the appeal of the TalkTalk platform to a growing number of content providers.

We also added 16 further new channels during the year, including Premier Sports, two Brazilian and eight African channels, and a number of unique TV boosts not available on any other UK Pay-TV platform, including TV Box (Universal Studios), and Collections from ITV (a boxset proposition offering a great range of comedy, drama and entertainment classics).

As a result of these developments in our content proposition, we saw material increases in the take-up of pay content boosts and TVOD volumes. Customers watching and purchasing Sky boosts grew particularly strongly during the year, with Sky Sports take-up growing 46% year on year driven by the success of Sky Sports F1 and the introduction of Sky Sports 5; and Sky Movies Boost take-up growing 49% year on year driven by the success of Sky Movies on Demand.

Overall content revenues showed strong progress with growth of over 45% year on year.

In January we announced the acquisition of blinkbox from Tesco. blinkbox is one of the leading on-demand providers of pay content in the UK and works across multiple platforms and devices – both inside and outside the home. blinkbox's established technical expertise in multi-platform, multi-device content delivery and incremental content relationships are highly complementary to our strategy of being the best value for money TV provider in the UK.

In mobile, we reached agreement with Telefonica for O2 to be our new MVNO partner and launched the first integrated quad play bundle in the UK in November, which allows Plus customers to take a mobile SIM as part of their package. As a result we grew our share of the SIM only market to 13% in March from 4.2% a year ago – a larger share of the market than either Tesco Mobile or Vodafone. Following the end of the year we launched our market-beating All-In SIM offering unlimited data, texts and minutes for just £12 a month, representing a saving of £270 in comparison to mobile operator Three's equivalent package over 18 months. All our mobile products are available exclusively to TalkTalk broadband customers and therefore drive significantly improved NPS and churn.

Our fibre proposition saw the strongest growth of all products during the year, albeit from a modest base in FY14, driven by increasing requirements for higher bandwidth and an easier, self-install proposition.

Outlook

The UK fixed line space remains an attractive and rational market in which we see multiple opportunities to continue scaling our value for money quad play propositions. For us, quad play is an offensive strategy. Our customers save money by taking additional products, driving increased penetration of TV, fibre and mobile. The next two years will see us continuing to scale our TV, mobile and fibre businesses within the framework of our existing wholesale relationships.

37% of our fully unbundled customers currently take TV and we expect the continuing development of the platform will drive the vast majority of our customers to take TV over time. With the integration of blinkbox now substantially complete, we expect to accelerate the development of our TV to Go App, expand our range of pay per view content, drive greater engagement, higher content ARPU and lower churn. The first example of the benefits blinkbox will bring to TalkTalk is our recent agreement with HBO to make available Game of Thrones (seasons 1–4), one of the world's most famous TV shows, to buy and own digitally from early June. Customers will also be able to stream their purchased episodes on TalkTalk's TV2Go companion App.

In mobile, moving from our current thin MVNO with Vodafone to O2 will initially deliver improved reseller economics that reflect the scale and growth of our mobile base. The access to 4G that we will have under the new MVNO will allow us to expand our range of mobile products and build on our competitive market position. Over the course of the next two years we will also be able to take full advantage of the unbundled economics (similar to fixed line LLU) that our agreement with O2 offers, by building our own core mobile network systems and taking full control of SIM sourcing, pricing and proposition. As a result, we see headroom to significantly grow penetration of mobile within our base from the current 12%.

We expect demand for high speed superfast broadband to continue to grow as the number of connected devices in our customers' homes grows and more customers find their copper speeds insufficient and as a result are willing to pay for faster connections. We do not however, expect particularly strong growth unless or until the wholesale price of fibre to the cabinet comes down and we are able to pass on these cost savings to our customers. Whilst Ofcom's margin squeeze test protects us from potential abuse from BT's vertically integrated business model, and should drive prices down in the long term, we do not expect this imminently.

Strategic report: Strategy

Chief Executive Officer's statement continued

3. Scaling TalkTalk business

FY15 progress

TalkTalk Business ('TTB') has delivered another year of strong revenue performance with 40% growth in Data and 41% in Carrier more than offsetting the continuing decline in legacy voice (-13%). We connected 9,000 new Ethernet and EFM circuits in the year, taking our total base to over 26,000, a year on year increase of over 50%.

In addition we launched our first ever above-the-line marketing campaign for Business Broadband aimed at the SoHo and SME markets, highlighting our compelling price proposition versus BT (£10.50 per month for unlimited data and calls, including unlimited to mobile numbers, compared to £27 per month for the equivalent product from BT). We also launched a free voice app called Talk2Go which allows customers to use existing fixed line minutes on their mobile free of charge as well as free app to app calls, delivering even further value to our Business Broadband proposition. We have seen a strong response which underpins our confidence in the substantial opportunity for TTB to grow share in the Business Broadband market.

Outlook

Scaling TalkTalk Business is a key component of our longer term growth plan. The UK B2B market remains much more fragmented than the consumer market for telecoms services. TTB's share in its key SME and data markets, whilst having grown strongly in the last two years, remains far below our c.18% share of the consumer market. We see an opportunity to double TTB's market share over time, driven by continuing strong growth in its suite of Data products, further growth in the SME phone and broadband market, and deepening relationships in the partner channel for the provision of wholesale services.

The acquisition of tIPicall in April 2015, which will allow us to give increased value to our data customers through a converged voice offer, illustrates the potential TTB has to leverage its existing infrastructure in data products through complimentary investments.

4. Making TalkTalk simpler and transforming the customer experience

We launched our Making TalkTalk Simpler (MTTS) programme in FY13. At the time we expected the combined initiatives under this programme to drive incremental savings of £30m to £50m over three–five years, by making TalkTalk simpler to operate, improving our customers' experience and reducing our costs, through driving process and efficiency improvements. MTTS is driving transformational change in the way we operate and will deliver significant ongoing customer experience and financial benefits.

FY15 progress

We made considerable progress in simplifying our tariffs during FY15, including the disposal of our off-net broadband base, rebranding AOL customers and eliminating over two-thirds of legacy tariffs in TTB. This has allowed us to begin simplifying the supporting infrastructure and operational systems including the decommissioning of third party systems and support. We introduced billing system upgrades and new fault diagnostic tools in Consumer and implemented a new CRM system in TTB.

We continued to expand our self-service provision during the year. Nearly 475,000 customers have downloaded our service centre App since launch, allowing them to view their package details and bills on the go, check their mobile allowance and diagnose faults remotely. Over 35% of our customers self-served during Q4 allowing them the convenience of managing their account online at a time and place that suits them. Our new online welcome centre, which helps new customers through the process of joining TalkTalk, has reduced early life calls and improved customer satisfaction.

MTTS delivered material improvements for customers evidenced by a reduction in churn and fall in complaints to Ofcom. However, call volumes fell by less than we had planned as we reprioritised some of our teams to focus on integration activities. We also redesigned a number of programmes such as our Consumer CRM system for which we changed suppliers in H2. As a result cost savings of £17m in the year were some £15m lower than we had planned.

Outlook

While we are pleased with the progress we have made in improving customers' experience and the resulting reduction in churn, there is much more to do to drive a step change in our customers' experience and our brand reputation, and therefore to deliver materially higher savings.

This will be our key priority over the next two years and requires ongoing systems transformation that will deliver material financial benefits in the form of significantly lower call volumes, lower leakage between sales and connection, lower bad debt from right first time bills and easier payment processes, lower operating costs from fewer engineer visits and router replacements, and lower retention and churn costs from happier customers.

As a result we expect to deliver operating cost savings greater than the £30–50m we were originally targeting. Having delivered £15m and £17m of savings in FY14 and FY15 respectively we now expect an incremental £40m+ over the next two years with cumulative savings by FY17 now expected to be in excess of £70m.

5. Ultrafast fibre

The scale of our broadband base and the breadth of our network infrastructure (over 3,000 unbundled exchanges) underpin our ambition in fibre, which we are testing through our joint venture with Sky and CityFibre in York. Build costs of under £500 per premise passed and speed of take-up from our combined market share of 30%–40% are the key variables that will determine the opportunity for a scale national roll-out of fibre to the premise.

FY15 progress
We have made good progress on the groundworks for our York Fibre to the Premise ('FTTP') trial, with 1,200 homes passed in the first dig area, and are on track to launch our proposition soon and begin connecting customers in the autumn.

Early indications of build costs are proving to be in line with our target of under £500 per home passed.

Outlook
Based on our experience to date, we remain confident about the potential to roll out FTTP in scale. At a build cost of under £500 per premise passed and 30%–40% take-up, we believe it will be possible to build a c.10 million household network across the UK. We see ultrafast as an opportunity to build a mass market, value for money proposition that delivers value for consumers and shareholders through keen pricing and rapid scaling.

Our preliminary discussions on financing such a scale roll out have been positive, underscoring our confidence in the opportunity for building an economically viable, alternative and superior fibre infrastructure to that available today.

6. Inside out mobile

FY15 progress
In Q3 we reached agreement with Telefonica UK to provide full MVNO services (including 4G) and we have begun the process of building a core network that will integrate with O2's network.

Outlook
Through the course of 2015 we shall transition customers onto the O2 network. This will allow us to offer 4G services, fully integrated quad play and deliver much improved economics compared to our current arrangement with Vodafone, under which we offer mobile primarily as an add-on. Over the course of the next two years, our economics will improve further as we integrate our core network with that of O2, and thereby also building our own mobile asset.

We shall also begin deploying femtocells (through a router upgrade programme) which will allow us to offload mobile traffic onto our fixed line network via our in-home 4G network (delivering a superior in-home voice experience). This capacity to offload mobile traffic onto our fixed network will not only deliver significantly reduced costs, for both voice and data usage but also give customers much improved in home mobile reception.

The construction of ultrafast fibre and an inside out mobile network will enable us to offer a completely seamless, value for money consumer quad play and high speed business data service which will drive growth for the foreseeable future.

Guidance

FY16
Revenue and EBITDA
We expect FY16 revenues to grow by at least 5%, driven by continuing growth in customer numbers and ARPU, and growth in TalkTalk Business revenues. We expect strong growth in EBITDA and free cash flow as we make progress towards our FY17 target, whilst reinvesting cost savings from Making TalkTalk Simpler ('MTTS').

Net debt
Capex to maintain and expand the network is expected to be within our guideline of 6%–6.5% of revenue. In addition we expect to spend an additional 1%–2% of revenues on capex to support our inside out mobile and fibre innovation projects.

Cash exceptional items related to MTTS, the integration of acquisitions and mobile migration activity are expected to be c.£40m–£45m.

Dividend
We plan to grow the FY15 dividend by 15%.

FY15 – FY17
In November 2013, we raised our FY14-FY17 revenue CAGR target from 2% to 4% and set our medium term EBITDA margin target of 25% to be achieved by FY17. With revenue momentum accelerating through FY15, we are now targeting CAGR in revenue of at least 5% over the next two years and remain on track to achieve our FY17 EBITDA margin target of 25% in FY17.

Dido Harding

Dido Harding
Chief Executive Officer
13 May 2015

Strategic report: Strategy

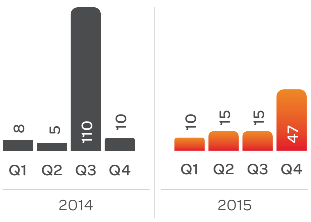
Measuring our performance

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

NON-FINANCIAL METRICS

Broadband net adds
('000)

PERFORMANCE

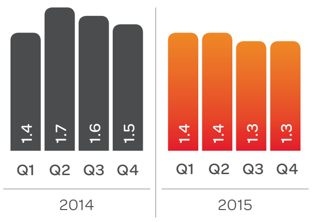


DEFINITION
The net of new broadband customers joining TalkTalk and those leaving TalkTalk.

COMMENT
We have delivered positive net adds growth in FY15. This is in line with our stated objective of modest base growth. In Q4 we saw an increase as customers acquired from Virgin Media joined the base.

On-net churn
(%)

PERFORMANCE

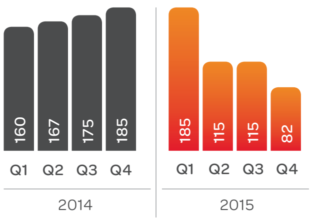


DEFINITION
The percentage of our on-net customer base leaving TalkTalk each month.

COMMENT
Since Q2, FY14 churn has steadily declined, consistent with improving leading indicators such as reduced complaints to Ofcom and greater penetration of triple and quad play.

TV net adds
('000)

PERFORMANCE

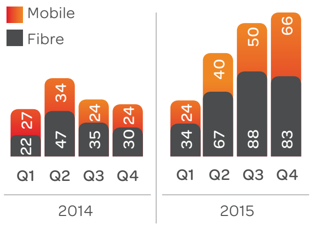


DEFINITION
The net of new customers joining TalkTalk TV and those leaving TalkTalk TV.

COMMENT
We have continued to grow our TV base to 1.4m by March 2015. We have rebalanced our trading strategy to also focus on mobile and fibre.

Fibre and mobile net adds
('000)

PERFORMANCE



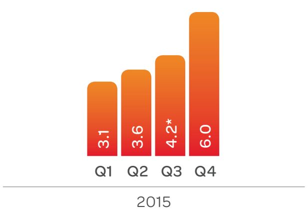
DEFINITION
The net of new customers connecting to fibre and mobile and those disconnecting from fibre and mobile.

COMMENT
We have accelerated growth in mobile and fibre in H2, with mobile supported by the bundling of a SIM with our Plus TV package.

FINANCIAL METRICS

Revenue growth
(%)

PERFORMANCE



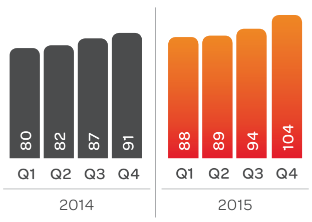
DEFINITION
Total revenue growth on same period in the prior year.

COMMENT
Acceleration in revenue growth in FY15 driven by the upsell of our customers onto TV, mobile and fibre along with base growth and price inflation.

* Statutory revenue after £5m exceptional VAT adjustment in FY14.

Corporate revenue
(£m)

PERFORMANCE

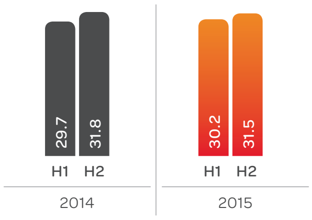


DEFINITION
Revenue from our corporate products including voice, data and carrier services.

COMMENT
Acceleration in corporate revenues due to growth in data products and carrier revenue.

Pre-SAC and Marketing EBITDA margin
(%)

PERFORMANCE

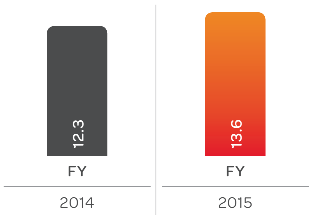


DEFINITION
Pre-SAC and Marketing EBITDA as a percentage of revenue.

COMMENT
Improvement in margin in H2 FY15 due to acceleration of revenue growth and reduction in opex.

EBITDA margin
(%)

PERFORMANCE



DEFINITION
EBITDA as a percentage of revenue.

COMMENT
EBITDA margin improvement includes increased revenue, opex efficiencies and lower acquisition rates.

Strategic report: Performance

Chief Financial Officer's statement

Overview

We entered the year with a plan to grow revenue by 4% and TV net additions by a similar level to FY14. As the year progressed we broadened our trading strategy to align with market demand, investing further in fibre and mobile customer growth in H2. This supported ARPU acceleration during the year, driving Q4 to our ninth successive quarter of revenue growth at 6.0% and full-year revenue growth of 4.2%*, in line with our guidance.

In the second half of the year we leveraged our network through the acquisition of broadband bases from Virgin Media and Tesco. We also expanded our TV capability by acquiring blinkbox, one of the leading on-demand providers of pay content in the UK. These transactions will contribute to revenue growth in FY16 and beyond.

Gross profit increased by 2.3% supported by customer growth and the impact of price changes. This was partly offset by a change in mix from the continued reduction in consumer voice revenues and growth in fibre, TV content and the increased scale of our B2B wholesale business.

We continued to focus on Making TalkTalk Simpler (MTTS), including reducing the complexity which arose through past acquisitions and overall have delivered£17m of recurring benefits. This was partly offset by increased investment in the network, costs to serve and innovation. In H2 we agreed the sale of our off-net broadband base to Fleur Telecom, part of the Daisy Group, which will further simplify our tariffs and enable future systems savings.

SAC and marketing costs reduced by 2.8% year on year reflecting efficiencies in TV and broadband costs per add from lower unit costs and self-install and the decision to lower TV volumes. As announced at the interim results we increased our investment in driving higher customer volumes in the second half.

Overall EBITDA margin increased to 14.6% in H2 from 12.6% in H1, giving an average for the year of 13.6% (FY14: 12.3%).

EPS increased 21% to 8.2p (FY14: 6.8p) and the proposed dividend for the full year FY15 of 13.8p (FY14: 12.0p) represents growth of 15% in line with our commitment.

Operating cash flow improved from £76m in FY14 to £114m in FY15. Net debt increased to £589m primarily as a result of the investment in growth and acquisition activity during the year.

* Statutory revenue after £5m exceptional VAT adjustment in FY14.

Headline financial information

	2015 £m	2014 £m	Change
On-net	1,333	1,259	5.9%
Off-net	87	128	(32.0)%
Corporate	375	340	10.3%
Revenue	1,795	1,727	3.9%
Gross margin	980	958	2.3%
%	54.6%	55.5%	
Operating expenses excluding amortisation and depreciation	(426)	(427)	(0.2)%
EBITDA pre-SAC and Marketing	554	531	4.3%
SAC and Marketing	(309)	(318)	(2.8)%
Headline EBITDA	245	213	15.0%
%	13.6%	12.3%	
Exceptional items	(46)	(22)	109.1%
Statutory EBITDA	199	191	4.2%
Depreciation and amortisation	(120)	(112)	7.1%
Non-operating amortisation	(17)	(21)	(19.0)%
Share of joint ventures	(8)	(7)	14.3%
Operating profit	54	51	5.9%
Finance costs	(22)	(20)	10.0%
Profit before tax	32	31	3.2%
Tax	40	(3)	
Profit after tax	72	28	157.1%

Strategic report: Performance

Chief Financial Officer's statement continued

Revenue

Revenue grew 4.2%* to £1,795m (FY14: £1,722m*) with Q4 delivering a ninth successive quarter of revenue growth at 6.0%.

Over the last twelve months we have focused on diversifying our revenue and building scalable quad play, including introducing a free mobile SIM as part of the Plus TV bundle, and have increased RGUs by 16%. We have also implemented price changes, the impact of which has been partly offset by continued lower voice usage, mix and promotional investment. As a result, on-net revenue increased by 6.3%* to £1,333m (FY14: £1,254m*).

Corporate revenues delivered another strong year of growth, increasing 10% to £375m (FY14: £340m). Data revenues grew 40% year on year. This has been driven by the continued growth in our EFM and Ethernet products with 9k net additions in FY15. Carrier revenue grew 41%, including higher usage of 118 numbers. Together, this growth more than offset the continued decline in legacy voice revenues driven by a move from premium rate numbers and the decrease in regulated call termination rates.

Off-net revenues continued to decline this year as expected, reducing by 32% to £87m (FY14: £128m) as a result of the continued decline in our voice-only and off-net broadband bases.

* Statutory revenue after £5m exceptional VAT adjustment in FY14.

Gross profit

Gross profit increased by 2.3% to £980m (FY14: £958m) supported by customer growth and the impact of price changes. This was partly offset by a change in mix from the continued reduction in voice revenues, growth in fibre and TV content and increased scale of our B2B wholesale business.

Operating expenses

Our focus remains on MTTS and driving improved customer experience from our core network. We accelerated MTTS during the second half with a dedicated leadership resource for the project and investment in IT and system changes. As part of this we changed suppliers of our Consumer CRM system in H2. Overall we delivered£17m of benefits from MTTS in FY15 driving greater efficiency through our systems and supply chain including procurement savings and supplier rebates. These have been partly offset by costs from scaling the business including customer service, network capacity and resilience. We also invested in our innovation projects (ultrafast in York and mobile), and incurred incremental TV operating costs from the blinkbox acquisition. As a result total operating costs were £1m lower at £426m (FY14: £427m).

SAC and Marketing

We reduced the cost of acquiring broadband and TV customers through the year by increasing the proportion of customers who self-install their broadband and fibre (in March), and improving the channel mix to lower cost online channels. Churn also decreased from an average of 1.6% in FY14 to 1.4% in FY15 supported by improved customer service and the increased penetration of TV, mobile and fibre in the base. These efficiency savings were partly reinvested in driving higher mobile and fibre growth as part of our broader trading strategy with total SAC and marketing £9m lower to £309m (FY14: £318m).

EBITDA

EBITDA increased 15% to £245m (FY14: £213m) reflecting an EBITDA margin of 13.6% (FY14: 12.3%) driven by revenue growth and operating cost and SAC efficiencies.

Depreciation and amortisation

Depreciation and amortisation charges increased to £120m (FY14: £112m) as a result of continued capital investment in the network and IT systems.

Finance costs

Net finance costs of £22m (FY14: £20m) comprised the blended interest rate on debt of 3.00% (FY14: 3.39%), which benefited from new refinancing terms (see below) and the amortisation charges in relation to both the new and old facility fees of £3m (FY14: £3m).

Net interest paid in the year increased to £19m (FY14: £17m), principally driven by higher interest payments as a result of higher average net debt.

Amortisation of acquisition intangibles and exceptional items

The amortisation and depreciation charge of £17m (FY14: £21m) includes £6m related to the amortisation of acquisition intangibles (FY14: £21m). The balance of £11m (FY14: nil) relates to the accelerated depreciation of legacy systems as we progress with MTTS and the planned migration of mobile customers.

The net exceptional charge in the year increased to £46m (FY14: £22m) of which £30m was cash (FY14: £23m):

- Making TalkTalk Simpler efficiency programme: £29m (FY14: £22m).
- Migration, reorganisation and integration costs from the Virgin Media and Tesco customer base and blinkbox acquisitions: £14m (FY14: nil)
- Costs relating to the planned migration of mobile customers to the new 4G MVNO agreed with Telefonica in November: £8m (FY14: nil)
- The sale of our off-net broadband base to Fleur Telecom, part of the Daisy Group for a £5m (FY14: nil) benefit.
- A net revenue impact of £nil (FY14: -£5m) from the treatment of prompt payment discounts and the settlement of certain discussions regarding historic termination charges with Mobile Network operators

The treatment of credits and charges as exceptional items involve judgements made by management as set out in note 1 to the financial statements.

Profit before tax

Profit before tax increased £1m year on year to £32m (FY14: £31m), reflecting the increase in EBITDA and lower amortisation charges, offset by net exceptional charges.

Taxation

Our effective Headline tax rate for the year was 20% (FY14: 18%), representing a tax charge of £19m (FY14: £13m), broadly in line with the statutory rate of 21%.

The Group recognised tax credits of £40m (FY14: nil) including two exceptional tax credits comprising £29m in respect of VNL tax losses as the now well established TV business enables us to recognise losses over a longer time period and £16m for the resolution of legacy items.

Earnings per share

	2015	2014	Change
Headline earnings (£m)	76	61	24.6%
Basic EPS	8.2p	6.8p	20.6%
Diluted EPS	8.1p	6.6p	22.7%
Statutory earnings (£m)	72	28	157.1%
Basic EPS	7.8p	3.1p	151.6%
Diluted EPS	7.7p	3.0p	156.7%

EPS on a Headline basis is provided alongside our statutory measures to allow easier comparison year on year, due to the impact of exceptional items. A full reconciliation to statutory results can be found in note 9 to the financial statements.

Headline EPS increased to 8.2p (FY14: 6.8p), driven by the increase in EBITDA, with the profile during the year showing a significant improvement from 2.9p in H1 to 8.2p full year. The basic number of shares increased to 922 million (FY14: 901 million), driven by a higher weighted average.

Statutory EPS increased to 7.8p (FY14: 3.1p).

Cash flow and net debt

	2015	2014	Growth (decline)
Headline EBITDA	245	213	15%
Working capital	(19)	(30)	(37)%
Capex	(112)	(107)	5%
Operating free cash flow	114	76	50%
Exceptional items – BES	–	3	
Exceptional items – VAT	–	(5)	
Exceptional items – acquisitions	(3)	–	
Exceptional items – Operating efficiencies	(27)	(21)	29%
Acquisitions and disposals	(38)	(8)	375%
Dividends paid	(116)	(99)	17%
Interest and tax	(24)	(17)	41%
Net purchase of own shares	2	(33)	(106)%
Net cash flow	(92)	(104)	(12)%
Opening net debt	(497)	(393)	26%
Closing net debt	(589)	(497)	19%

Working capital

Working capital outflow of £19m (FY14: £30m) reflects the combined effect of the Group's trading profile during the year and the ongoing reductions in the cost base.

Capital expenditure

Capital expenditure was once again focused on meeting the forecast demands for our network and on driving efficiency through MTTS. In FY15 we spent 6.2% of revenues on capex, in line with our long term trend of 6%. In FY16 we once again expect network related capex of c.6% of revenues but in addition expect to incur one-off capex of 1.0%–2.0% of revenues on our innovation projects (fibre to the premise and mobile).

Acquisitions

Acquisition expenditure in the year of £38m (FY14: £8m) represents £6m in respect of the YouView joint venture (FY14: £5m), £3m in respect of the York FTTP joint venture (FY14: £nil) and £29m in respect of the initial consideration for the Virgin Media off-net broadband base and the Tesco broadband base and blinkbox.

Dividends

Our dividend policy is to return to shareholders 50% of basic Headline earnings per share in the form of ordinary dividends. With Headline results impacted by our investment in growth, we committed to dividend growth at a minimum of 15% for FY15.

Dividends of £116m paid in the year (FY14: £99m) comprised the final dividend for FY14 8.0p and the interim dividend for FY15 of 4.6p.

The Board has declared a final dividend of 9.2p which will be paid on 3 August 2015, subject to approval at the AGM on 22 July 2015 for shareholders on the register on 10 July 2015 (ex-dividend 9 July 2015). The total declared dividend for the year was 13.8p, a year on year increase of 15%, with dividend cover improving to 0.59x (FY14: 0.57x).

Funding, net debt and capital structure

Operations are financed with committed bank facilities, retained profits and equity. During the year we re-financed our banking facilities and were able to both extend the term and diversify our sources of finance by successfully accessing the US Private Placement market. We also renewed our revolving credit facility and term loans, enabling us to reduce our cost of funding.

Strategic report: Performance

Chief Financial Officer's statement continued

Funding

At 31 March 2015, the Group's sources of finance were:

- **$185m US Private Placement Notes (USPP):** in July 2014 The Group issued $185m of USPP notes maturing in three tranches. The USPP proceeds were swapped to £109m and the net debt includes retranslation of the USPP funds at the rates achieved where hedged by cross currency swaps.
- **£560m revolving credit facility (RCF) and £50m bilateral agreement:** the Group has a £560m RCF, which matures in July 2019. In addition to the RCF, the Group also has a £50m bilateral agreement which matures in July 2019.
- **£100m term loan:** the Group has a committed term loan of £100m (2014: £75m), with a final maturity date of July 2019, this loan amortises during the term with repayments of £25m in January 2017 and £25m in January 2018.

At 31 March 2015, the Group's facilities total £819m. The Group was in compliance with its covenants throughout the current and prior year. At 31 March 2015 £599m (FY14: £490m) had been drawn down under these facilities with £220m of undrawn facilities.

Net debt and capital structure

Net debt in the year increased by £92m (FY14: increase of £104m) to £589m (FY14: £497m) driven by investment in growth and the acquisitions of blinkbox, Tesco phone and broadband Virgin Media broadband bases. As a result the net debt to EBITDA ratio increased modestly from 2.3x in FY14 to 2.4x in FY15. The Board regularly reviews the capital structure of the Group and we expect to return to below two times net debt to EBITDA in the medium term.

Accounting developments

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

Going concern

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

Our business activities, together with the factors likely to affect our future development, performance and position are set out in the Business Review. Our financial position, cash and borrowing facilities are described within this Chief Financial Officer's statement.

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

We have £819m of committed credit facilities and as at 31 March 2015 the headroom on these facilities was £220m. Our forecasts and projections, taking into account reasonably possible changes in trading performance, indicate that there is sufficient cash and covenant headroom on our facilities and that this, together with our market positioning, means that we are well placed to manage our business risks successfully and have adequate resources to continue in operational existence for the foreseeable future. The Directors have therefore adopted the going concern basis of accounting preparing the financial statements.

Strategic report: Performance

People

We have an ambitious approach to engaging with our colleagues and continue to foster and develop our unique culture, founded on our mission to 'make Britain better off' through our values, the 'Brighter Basics'.

Customer
We know our customers have a choice

Innovate
We zig when the world zags

Value
We always save our customers money

People
We can be ourselves here

Community
We know it's not just about the money

Colleague engagement

In 2015, we have seen an increase in our engagement levels for the fourth year in a row, a key contributor to our business success.

Our annual engagement survey helps us to uncover how our people are feeling about working for TalkTalk, whether they are proud to work here and feel able to recommend us as a place to work. Last year, the feedback informed our Great Place to Work strategic priority and saw us commit to delivering improvements across four key areas: working environment, career development, our systems and processes and reward and recognition. Key deliverables have included:

- working environment refreshes at a number of sites and the introduction of more collaborative working areas;
- a Careers Festival to help our people develop their skills at TalkTalk and explore new opportunities;
- the launch of Workday, our new HR information system, providing our colleagues with a consumer grade 'one-stop shop' where they can manage their lives at TalkTalk, and our People Managers with real-time people data that empowers them to make better management decisions; and
- launch of the TalkTalk Share Match Plan – TalkTalk's first Share Incentive Plan (SIP).

In our 2015 survey, we have once again driven an increase in colleague engagement, from 73% up to 76%. We have now seen a 20 percentage point increase in engagement since our first survey in 2011 (56%) and remain committed to continuing this journey. Levels of participation also remain very high, with 92% of our people taking part.

Leadership development

The quality of our management is vital to our future success and we have continued to develop our leaders through our ongoing programme 'Leading a Brighter Business'. This year we evaluated the success of the programme so far and, of the 550+ employees who have completed all four parts of the modular programme, 86% report having made positive changes as a result of what they have learnt and 68% report having seen changes in our leaders.

Colleague performance and development

In addition to our Careers Festival, we have continued to invest in our colleague development tools. In particular, this year we have made navigation improvements to TalkTalkU, our online learning hub. We also continue to offer our people mentoring and coaching sessions to support their development. Our annual performance management process provides a mechanism to drive achievement, with all colleagues participating in a performance related variable bonus pay scheme.

Colleague benefits and share ownership

We continue to offer a comprehensive range of voluntary benefits, so colleagues can make choices to suit their lifestyle. We evaluate these on an annual basis to provide the best possible suite of options.

Share ownership remains an important part of our culture and a key indicator of employee engagement. Over 65% of our people currently participate in our Sharesave and Share Match Schemes, and this year we were very proud to win the ifs ProShare Annual Award for 'Best overall performance in fostering employee share ownership for companies with 1,001 to 15,000 employees', which recognises innovation and strength of communication in the design of company share programmes in the UK.

Having so many of our people as shareholders creates great engagement and alignment with the interests of our investors.

We believe in our colleagues being advocates for our products and continue to offer free home phone, broadband, fibre and TV to all colleagues, as well as half-price mobile packages.

Colleague consultation – One Voice forum

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

Strategic report: Performance

People continued

Colleague communications and events

In May 2014 we launched a new intranet site, The Wire, which has become a critical communication and collaboration tool for the business. The tool supports blogging at all levels of the organisation, so colleagues can continue to enjoy Dido Harding's weekly blog, as well as regularly hear from members of the senior management group and their colleagues.

The tool also supports news sharing, social updates from our people and document sharing, so it plays a key role in helping us to work more easily with one another across the Company. All of our colleagues in the UK have access to The Wire and this summer we are taking cross-company collaboration even further when we bring 5,000+ of our partners onto the platform as well.

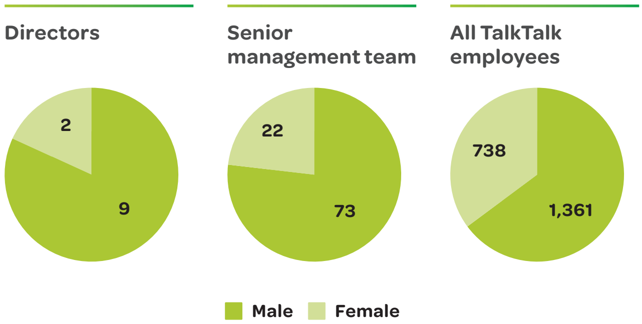
For the last three years we have brought all of our UK-based colleagues and partners together for a one-day conference, All Hands, where we communicate our strategic priorities for the year ahead. This took place in April 2015 in Manchester for all UK-based colleagues and partners, followed by a tour in which our Executive committee will share the same content with our partners overseas. We also host an annual off-site festival called the Great Getaway, where colleagues and their families come together for a day out filled with fun activities and musical acts.

Colleague recognition

Celebrating colleagues who champion our culture is very important to us and we continue to recognise the individuals who are actively living our Brighter Basics through our On The Spot award scheme. Once a year at our All Hands event we also recognise the 'Superheroes' amongst our colleagues and partners who have made an outstanding contribution to the business over the past year. Last year, our 14 Superheroes were rewarded with a trip to London where highlights included a dinner with Dido Harding at the Gherkin.

Gender and diversity

Our people come from different backgrounds and cultures, creating a vibrant working environment that thrives on new ideas and fresh thinking. The importance of diversity, equality and non-discrimination is highlighted in our Equality Policy and underpinned by our People Brighter Basic – 'We can be ourselves here', which guides the respectful way we behave towards each other. Through our engagement survey we know that over 80% of our people agree they can be themselves at work – a value we hold dearly and one we believe gives us a competitive advantage. A breakdown by gender of the number of persons who were Directors of the Company, senior managers and other colleagues as at 31 March 2015 is set out below.



Strategic report: Performance

Principal risks and uncertainties

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

1. Regulatory environment	**Potential impact:** Changes in BT's regulated wholesale prices for copper and fibre products can significantly impact the Group's performance. Mergers can change the competitive landscape of markets we buy in or sell into.	**Mitigation:** We have continued to actively participate in Ofcom's consultations impacting on wholesale prices, especially this year the debate around applying a margin test to fibre products. In particular, we have provided Ofcom with evidence, argument and expert opinion to support the case that competition, consumers' interests and the development of a mass market for super-fast broadband will be best served by reductions in wholesale prices or, in the case of fibre, a wider margin between wholesale and retail prices. Ofcom commencing its Strategic Review of the telecoms industry is a positive step, with TalkTalk fully engaged in the consultation process. We have also engaged with the Competition and Markets Authority ('CMA') on regulatory assessment of the proposed merger between BT and EE.
2. Customer experience	**Potential impact:** Failure to deliver a seamless and positive end to end experience of TalkTalk's products and services or to deal with customers' queries and complaints effectively could damage our brand and lead to increased churn.	**Mitigation:** We are committed to continuously reviewing and improving the level and quality of customer service we provide. This financial year, we have continued to develop and deliver a number of major initiatives under Making TalkTalk Simpler to i) reduce the likelihood of customers experiencing service issues; ii) improve the ability of our customers to self-help online; and iii) deliver better training and tools to our Customer Service teams so that queries and complaints can be handled more effectively.
3. Technology innovation and change management	**Potential impact:** In order to deliver high value and market-disruptive products and services, at competitive prices, we need to continuously innovate, whilst sustaining our focus on simplifying our systems and processes. In FY16 and beyond we will be delivering a number of major product innovation initiatives alongside a significant IT change agenda. Failure to manage this level of innovation and change successfully could have an adverse impact on the services we provide to our customers and on our financial performance.	**Mitigation:** A new Group Change Director reporting directly to the CEO has been appointed. The Group Change Director has established a new central Project Management Office (PMO), responsible for overseeing the governance of change across the organisation. The Executive Committee regularly monitors the progress of significant change programmes and associated risks through the Group PMO.
4. Data and cyber security	**Potential impact:** Failure to prevent the loss or exploitation of personally identifiable or commercially sensitive information could result in loss of competitive advantage, regulatory fines, damage to the brand, and ultimately, churn.	**Mitigation:** The Group continually reviews and seeks best practice external guidance on its data and cyber security capability and invests in and implements new solutions, both to prevent and detect incidents. TalkTalk continues to adopt the Ten Steps to Cyber Security as a control framework for mitigating key areas of risk. Progress is monitored via the in house Data Council, which convenes monthly and is chaired by the Chief Technology Officer (CTO). In FY15, key initiatives including the encryption of hardware and removable media, a data loss prevention solution, vulnerability scanning and penetration testing have been completed. A new Head of Security has also been appointed to establish and oversee the new Security Operations Centre, the activities of which have been outsourced to cyber security experts BAe systems.

Strategic report: Performance

Principal risks and uncertainties continued

5. Infrastructure stability and resilience	**Potential impact:** Failure to maintain sufficient and acceptable levels of network and system performance for the Group's Consumer and Business customers could lead to complaints and, ultimately, churn.	**Mitigation:** There has been significant focus during the year on ensuring optimum levels of capacity are delivered and maintained to avoid network congestion for customers. In FY16 we will continue to invest in our infrastructure and deliver a number of IT change programmes which will improve stability and resilience.
6. Regulatory compliance	**Potential impact:** Failure to operate effective processes and controls across the Group may have an adverse impact on the services we deliver to our customers, leading to churn and non-compliance with regulatory requirements. The fines that Ofcom can impose on the Group and the associated negative publicity could adversely impact our brand, reputation and profitability.	**Mitigation:** There has been continued focus this year on improving processes and controls and clarifying lines of accountability both in first line operations and in our second line assurance function. There has been significant progress with delivering improvements in our complaints handling processes during the period. This has resulted in a reduction in market share of Ofcom complaints from our customers and in our market share of complaints for the sector. The Group's Regulatory Compliance Committee has continued to convene throughout the year to monitor the mitigation of operational risks which could give rise to customer complaints and regulatory breaches. The Director of Quality and Compliance has chaired weekly operational compliance meetings throughout the year, attended by senior executives.
7. Growth in a highly competitive and consolidating industry	**Potential impact:** With BT's planned acquisition of EE, Three's planned acquisition of O2 and with the move towards triple and quad play bundles, the medium to long term industry structure is less certain. There is a risk that industry consolidation creates fewer larger and lower cost competitors and weakens TalkTalk's ability to remain competitive in a triple and quad play market.	**Mitigation:** Our focus remains on: i) engaging with the CMA and Ofcom to put in place appropriate remedies in support of fair completion when mergers and acquisitions take place; ii) delivery of our commercial priorities designed to strengthen our market position as a leading and disruptive quad play provider; and iii) implementing our 'Making TalkTalk Simpler' initiatives.
8. Key suppliers	**Potential impact:** TalkTalk relies on a number of key suppliers to provide network, equipment and services. A failure in their people, systems or processes or to act in an ethically responsible manner could significantly affect TalkTalk's reputation and financial performance.	**Mitigation:** We continue to review and improve our processes and controls around supplier selection and in-life risk management. In FY15 there has been significant focus on establishing a robust governance framework for our strategic suppliers in particular. This helps to reduce the likelihood and potential impact of business interruption due to supplier failure.
9. Scaling TV	**Potential impact:** Now that TalkTalk has successfully established its TV proposition, the business must ensure that it can continue to build scale effectively. Failure to innovate, deliver high quality content at competitive prices or continuously monitor and improve the quality of our TV service could adversely impact our brand and reputation, leading to churn.	**Mitigation:** Service quality remains a key area of focus and we have been working closely with our strategic partners to improve the speed and performance of the set-top box and remote control. We run an extensive customer feedback programme and conduct benchmarking tests and field research. We continually develop and renew our partnerships with content providers to ensure a broad range of family entertainment as we build scale including a new deal with Netflix. In Q4 FY15 we also announced the acquisition of Tesco's blinkbox business, which will help accelerate our product innovation and TV growth plans.

Strategic report: Performance

Sustainability review

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

We believe that it is not just about the money: digital connectivity, coupled with digital skills, can transform our economy, society and environment, and make Britain better off. We believe that, by harnessing our people, customers and supply partners, we can help make our community a brighter place.

Digital inclusion

TalkTalk was a founding partner of Go ON UK in 2012, when we pledged to work with the Government to help make the UK the world's most digitally capable nation. We provide funding, our expertise on online safety and digital inclusion, and general support to the Go ON UK programme.

This year we have focused on supporting Go ON UK's pathfinder scheme in the North West. TalkTalk partnered with Tinder Foundation to run a tailored programme called Internet Start in the North West, designed for digitally excluded senior citizens to help them get online at home with a bespoke broadband package that suits their needs and to provide support with digital skills training through UK Online Centres. Our employees have also been encouraged to become digital champions and support Internet Start by volunteering at participating UK Online Centres in the North West.

The TalkTalk Digital Heroes Foundation

Since 2011 TalkTalk has supported and celebrated various projects, charities and individuals who use digital technology at a very local level to make a positive social impact. Last year we formed the TalkTalk Digital Heroes Foundation, which has enabled us to support our community initiatives, including the TalkTalk Digital Heroes Awards, our Digital Heroes Auction as well as a number of elected hero projects.

Our people also support the work of the Foundation, giving up their time to take part in volunteering opportunities as part of our Give Something Back employee scheme.

TalkTalk Digital Heroes Awards 2014

Once again we ran our flagship annual awards, in conjunction with Go ON UK, the charity Citizens Online, and the Daily Mirror. The awards encourage local communities to nominate individuals who use digital technology in a socially positive way at a very local level.

In FY15 we introduced nine new categories covering themes such as Employment, Education, Sustainability, Healthy Living and Volunteering and Fundraising. We awarded over £70,000 in grants and prizes.

The judges were our Chairman, Sir Charles Dunstone; the UK's Digital Champion, Baroness Lane Fox; the editor of the Daily Mirror, Lloyd Embley; and a new guest judge, 2012 Digital Hero winner Clare Sutcliffe from Code Club. They crowned Andrew Mulholland of Northern Ireland, who was winner of the Next Generation category, as the national TalkTalk Digital Hero 2014 and awarded him the overall £10,000 prize. Andrew was recognised for his outstanding work in developing courses and leading workshops teaching hundreds of children across Northern Ireland about computer science. His prize money will go towards designing his trial to teach secondary school teachers how to use Raspberry Pi computers in the classroom.

Ambitious about Autism

This year we continued to support our long term charity partner Ambitious about Autism, the national charity for children and young people with autism. They raise awareness, support specialist schools and campaign for change. We raise funds to support their online community, Talk about Autism, where families can share their experiences, get support and help others to understand the condition. Our main fundraising event was the TalkTalk Digital Heroes Auction in November; FY15 saw a tremendous £360,000 generated (FY14: £300,000). Our people also support Ambitious about Autism through various Give Something Back initiatives.

Apps for Good

For the second year running we have supported Apps for Good as one of our Digital Heroes Foundation hero projects. Apps for Good is an open source education movement that works with schools to enable young people to create mobile and social apps to solve problems that matter to them – like us, they believe in the power of digital technology to make our communities a better place. As part of our partnership, we provide the funds for four schools near our headquarters in London to run the Apps for Good course. These schools are also supported by volunteers from TalkTalk.

We also sponsor the Connected Communities category in the Apps for Good annual awards, where over 6,000 students enter to compete in six categories.

Code Club

Code Club, our other Foundation hero project, connects volunteers with primary schools that would like to run an after school coding club for nine and ten-year olds. Code Club provides the lesson structures for the volunteers and the aim is that after two years of the course, every child will be able to build a website or an app themselves. Our people also volunteer to run coding clubs (ScratchAthons) at local schools in the North West.

TalkTalk Digital Champions

We launched a Digital Champions programme in 2013 under the wider auspices of Give Something Back, our scheme that gives all of our employees paid time off to allow them to volunteer and fundraise for good causes. Since launch, we have worked with Tinder Foundation and their UK Online Centres to turn over 150 of our employees into Digital Champions.

Once trained, the TalkTalk Digital Champions are then matched with their local UK Online Centre so they can help others learn basic digital skills and enjoy all the benefits the internet can offer.

As well as providing volunteering support, local centres such as the Mercy Foundation Centre in London and the Hamilton Davies Trust in Irlam, have received financial benefit to help continue their Get Online programmes and services to our communities. Since the programme was launched we have now fulfilled over 100 volunteering opportunities in UK Online Centres across Britain.

Strategic report: Performance

Sustainability review continued

Child internet safety

TalkTalk understands that all ISPs play a very important role in helping to keep children safe online, and that there is much we can do to help our customers take an active role and protect them and their families from security risks and inappropriate content.

We offer all of our residential customers a free service, called HomeSafe™, which quickly and easily protects all the devices on a TalkTalk broadband connection. It is built into our network and stops users from accessing content in categories they have indicated are inappropriate. We also have a similar service specifically for Business customers called WorkSafe, which is free with all Business Broadband and Superpowered Fibre Business Broadband services.

We have now set up HomeSafe™ in such a way that new customers have to make a conscious choice about whether or not to enable it on their home network, and all of our existing customers have now also been prompted to consider whether to opt into the system. We will remind all of our customers about the service once a year, so that they can adjust their settings if their needs or usage have changed.

As well as offering our customers the safety they deserve online, we train colleagues on internet safety so they can help their local communities. In FY14 we supported Safer Internet Day through our partnerships with Internet Matters, the UK Council for Child Internet Safety and F-Secure.

In FY15 we continued to support Internet Service Matters, an independent not-for-profit organisation that provides information, support and advice on child internet safety. It is the first of its kind in the world and we hope the Internet Matters online portal becomes the single most authoritative tool for parents to get quick and easy access to the best available resources. TalkTalk has supported Internet Matters campaigns such as cyber bullying to inform parents about whole-home parental controls like HomeSafe™, helping them make the right choices for their household.

Environmental sustainability

Greenhouse gas emissions

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

Reporting year

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

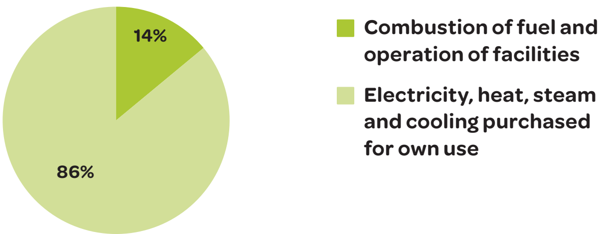
Global greenhouse gas emissions data

For the year ended 31 March 2015:

Emissions from:	Tonnes of CO_2e
Combustion of fuel and operation of facilities	2,550
Electricity, heat, steam and cooling purchased for own use	15,863
Company's chosen intensity measurement: Emissions reported above, normalised to tonnes of CO_2e per average gigabit of bandwidth* (tCO_2e/Gb)	16

* Average gigabit of bandwidth for the year ended 31 March 2015 is 1,182Gb/s.

Total CO_2e by emission type



Organisation boundary and responsibility

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

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

Methodology

We have used the main requirements of the Department for Environment Food & Rural Affairs (Defra) updated greenhouse gas reporting guidance, Environmental Reporting Guidelines, issued by Defra in June 2013; data gathered to fulfil our requirements under the CRC Energy Efficiency Scheme; and emission factors from the Department of Energy & Climate Change/Defra's 2014 update.

The Group's journey to improve carbon efficiency began in 2011 when our Chief Executive Officer set our objective: to reduce our CO_2 emissions intensity, in tonnes of CO_2 equivalent per gigabit (tCO_2e/Gb), by 25% by April 2021, relative to FY11.

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

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

tCO_2e/Gb	2015	2014	2011
Energy(1), transport(2) and hotels	61	91	317

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

Sustainable forestry

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

Community investment

During the year, the employees and the Group were responsible for generating £725,000 (FY14: £640,800) of income for registered charities. Of this, £365,000 was direct cash donations from the Group (FY14: £340,800).

The Group did not make any political donations in the current or prior year.

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

Engaging with our supply partners

In November 2014, TalkTalk hosted our fifth annual fundraising auction on behalf of Ambitious about Autism. This year our focus was the TalkTalk Digital Heroes Auction: an evening to celebrate TalkTalk Digital Heroes and benefit Ambitious about Autism's digital projects and new college, continuing the event's alignment to our CSR strategy. Our supply partners were invited to attend, with many donating unique lots for the auction.

Engaging with our customers

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

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

Engaging with our colleagues

The Group's Give Something Back initiative includes Company donations for our people who raise funds for a registered charity of their choice. Hundreds of our people took part in fundraising over the year supporting charities such as Cancer Research UK, BBC Children in Need and Band Aid.

Other achievements in the year

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

Governance

Board of Directors

Chairman:

Sir Charles Dunstone

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

Deputy Chairman:

John Gildersleeve

John is Deputy Chairman, having joined the Board in January 2010. He is also currently Chairman of The British Land Company PLC, Non-Executive Deputy Chairman and Senior Independent Director of Spire Healthcare PLC, Non-Executive Director of Dixons Carphone PLC and Non-Executive Director of Pick n Pay Stores Limited, a company listed on the Johannesburg Stock Exchange in South Africa. Previously, he was an Executive Director of Tesco PLC.

Executives:

Dido Harding, Baroness Harding of Winscombe

Dido has been Chief Executive Officer of TalkTalk since February 2010. Prior to that, Dido was Sainsbury's Convenience Director, having been appointed to Sainsbury's operating board in March 2008. Dido joined Sainsbury's from Tesco PLC where she held a variety of senior roles. Dido is also a Non-Executive Member of the Court of the Bank of England, a member of the House of Lords, and a Trustee of Go On UK. She was previously a Non-Executive Director of The British Land Company PLC.

Iain Torrens

Iain was appointed Chief Financial Officer of TalkTalk Group in January 2015. Prior to joining TalkTalk, Iain served as Group Finance Director of ICAP plc between November 2010 and December 2014, having previously held a number of senior finance roles for ICAP plc, CP Ships Limited and Cookson Group plc. Iain is a fellow of the Institute of Chartered Accountants in Ireland.

Tristia Harrison

Tristia is the Managing Director of TalkTalk's consumer business. Tristia joined The Carphone Warehouse Group in 2000 and has since held a number of senior management and executive positions in The Carphone Warehouse and TalkTalk Group. Tristia is also a Trustee at Comic Relief and national charity Ambitious about Autism.

Charles Bligh

Charles is the Managing Director of TalkTalk Business, joining the Group in November 2011. Previously Charles worked at IBM for 22 years where he held a number of senior executive and board roles working in large product and service businesses. Charles has worked internationally in Australia, US, UK and emerging markets in Asia. Charles is also a Trustee of the National Children's Orchestras of Great Britain.

Non-Executives:

Ian West

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

John Allwood

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

James Powell

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

Brent Hoberman

Brent joined the Board of TalkTalk in January 2010. Brent co-founded lastminute.com in 1998, and was its Chief Executive Officer until it was sold in 2005. He has subsequently co-founded and is Chairman of made.com and Founders Forum, and also co-founded PROfounders Capital. Brent is a Non-Executive Director of Guardian Media Group and Shazam. Brent also sits on the UK Government Digital Advisory Board, Prime Minister's Business Trade Ambassador and a Fellow (Governor) of Eton College. Brent was awarded a CBE in the 2015 New Year's Honour's List.

Sir Howard Stringer

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

Company Secretary:

Tim Morris

Governance

Corporate governance

Introduction

The Board is committed to the highest standards of corporate governance and in accordance with the Listing Rules of the UK Listing Authority, the Board confirms that the Company has throughout the year and as at the date of this Annual Report, complied with the provisions set out in the UK Corporate Governance Code (the 'Code').

This section of the Annual Report, together with the Strategic Report, provides details of how the Company has applied the principles and complied with the provisions of the Code and its five key principles: leadership, effectiveness, remuneration, accountability and relations with shareholders.

Board balance and independence

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

Therefore, at least half of the Board (excluding the Chairman) are independent and, notwithstanding the changes to the Board composition during the period, this has been the situation for all of FY15.

The following changes to the Board have been announced during the year:

3 June 2014	Tristia Harrison and Charles Bligh joined the Board as Executive Directors
22 July 2014	Joanna Shields stepped down as Non-Executive Director
13 November 2014	Steve Makin stepped down as Chief Financial Officer
5 January 2015	Iain Torrens joined the Board as Chief Financial Officer

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

The Non-Executive Directors are expected to serve for an initial period of three years, albeit that either party may terminate the appointment on three months' notice with no compensation for loss of office. These initial three year periods commenced on 20 January 2010, with the following exceptions: Ian West (8 February 2011); Sir Howard Stringer (26 July 2012); and James Powell (26 July 2012). After three years, the contracts automatically renew. All Directors in any event stand for re-election every year.

Leadership

How the Board operates

The Board has reserved certain matters, and delegated others to a committee of the Board. Day to day management rests with the Group's Executive Committee, which comprises Dido Harding (Chief Executive Officer), Iain Torrens (Chief Financial Officer), Tristia Harrison (Managing Director, Consumer), Charles Bligh (Managing Director, TalkTalk Business), Tim Morris (Group General Counsel and Company Secretary) and other senior employees drawn from across the Group. Reserved matters include approving the Group's strategy, annual budgets and other longer term planning.

Board Committees

The Board has established the four committees below, to which it has delegated certain matters; the first three are as required by the Code, and the fourth is to ensure the compliance of the Group within the consumer regulatory environment in which it operates.

Audit*	Remuneration**	Nomination	Compliance
John Allwood (Ch)	John Gildersleeve (Ch)	John Gildersleeve (Ch)	John Gildersleeve (Ch)
Ian West	Ian West	Ian West	Dido Harding
James Powell	Brent Hoberman	John Allwood	Tim Morris
		Sir Howard Stringer***	

* John Gildersleeve stepped down on 1 June 2014.
** Sir Howard Stringer stepped down on 1 June 2014 and Joanna Shields on 22 July 2014.
*** Sir Howard Stringer was appointed on 1 June 2014.

The work of each committee is described in more detail in the section relating to it below.

Audit Committee

A detailed description of the Committee's remit and work during the period is contained in the Audit Committee Report on pages 26 to 27. Other Directors and senior management including the Company Secretary, the Chief Financial Officer and advisers attend by invitation of the Committee.

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

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

Remuneration Committee

A detailed description of the Committee's remit and work during the period is contained in the Directors' Remuneration Report on pages 29 to 46. Other Directors including the Chief Executive Officer, the Company Secretary, the Group Human Resources Director and advisers attend by invitation of the Committee.

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

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

Governance

Corporate governance continued

Leadership continued

Board Committees continued

Nomination Committee

The Committee is responsible for succession planning at Board level, overseeing the selection and appointment of Directors, regularly reviewing the structure, size and composition of the Board and making its recommendations to the Board. It assists in evaluating the commitments of individual Directors and the balance of skills, knowledge and experience on the Board.

The Committee has overseen the appointment of Tristia Harrison and Charles Bligh as Executive Directors and also the appointment of Iain Torrens as Chief Financial Officer during the period.

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

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

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

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

Number of meetings attended

	Board	Audit	Remuneration	Nomination
Number of meetings	6	3	4	1

Director	Board	Audit	Remuneration	Nomination
Sir Charles Dunstone, Chairman	6/6	–	–	–
Dido Harding	6/6	–	–	–
Stephen Makin	3/3	–	–	–
Iain Torrens	2/2	–	–	–
Tristia Harrison	6/6	–	–	–
Charles Bligh	6/6	–	–	–
John Gildersleeve	6/6	1/1	3/3	1/1
Ian West(1)	5/6	2/3	3/3	1/1
John Allwood	6/6	3/3	–	1/1
Brent Hoberman(2)	4/6	–	2/3	–
Sir Howard Stringer(3)	4/6	–	1/1	1/1
James Powell	6/6	3/3	–	–
Joanna Shields	2/2	–	1/1	–

(1) Ian West was unable to attend one Board meeting and one Audit Committee, being held on the same day, due to a prior business commitment.
(2) Brent Hobermann was unable to attend two Board meetings and one Remuneration Committee due to overseas business commitments.
(3) Sir Howard Stringer was unable to attend two Board meetings due to overseas business commitments.

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

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

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

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

Performance evaluation and continued development

Each Board member has been subject to an internal performance review during the year, where the balance of skills, knowledge and experience of each Director was reviewed. This was undertaken by each member of the Board completing detailed questionnaires.

The results of these were analysed by the Chairman, Senior Independent Director and the Board as a whole against the broad criteria of overall Board effectiveness and individual contributions. As part of the performance review the ability of each Director, in particular the Non-Executive Directors, to demonstrate the required time commitment to the role was assessed. As a result of this performance evaluation the Chairman confirms that each of the Directors seeking re-election at the AGM continues to be effective and has demonstrated the appropriate commitment to the role.

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

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

Diversity

The Board understands the importance of having a diverse membership and recognises that diversity encompasses not only gender but also background and experience. The Board does not have a formal diversity policy and is generally opposed to the idea of stated quotas for females.

Our equality policy applies equally to all appointments in the Company, and the Board believes that appointments should be made solely on merit, the key criterion being whether or not the appointee can add to or complement the existing range of skills and experience on the Board.

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 are 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 each Board meeting 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.

The systems of internal control are supported by the Business Assurance and Internal Audit 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. 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.

Relations with shareholders

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

Governance

Corporate governance continued

Relations with shareholders continued

The Chief Executive Officer and Chief Financial Officer have lead responsibility for investor relations. They are supported by an Investor Relations Director who, amongst other matters, organises presentations for analysts and institutional investors. There is a full programme of regular meetings and dialogue with major institutional shareholders, fund managers, analysts, retail brokers and credit investors, upon which the Chairman ensures the Board receives regular updates at Board meetings. The Board also receives periodic reports on investors' views of the performance of the Company. All the Non-Executive Directors and, in particular, the Chairman and Senior Independent Director are available to meet with major shareholders, if such meetings are required.

The Company plans also to communicate with shareholders through the AGM, at which the Chairman will give an account of the progress of the business over the last year, and a review of current issues, and provides the opportunity for shareholders to ask questions. The Company's AGM provides all shareholders with the opportunity to vote on the resolutions put to shareholders. Information relating to votes cast will, following the AGM, be available on the Company's website (www.talktalkgroup.com).

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

Audit Committee

During the year, the Committee comprised the following independent Non-Executive Directors: John Allwood (Chairman), Ian West and James Powell. John Gildersleeve was a member of the Committee until he stepped down on 1 June 2014.

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

The Group's Chief Financial Officer as well as representatives of the Company's external auditor and other members of senior management from Finance, Tax and Treasury, Legal and Business Assurance also attend these meetings by invitation of the Committee. The external and internal auditors have direct access to the Committee during formal meetings and time is set aside for them to have private discussion with the Committee, in the absence of management attendees.

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

- the principles of, contents of and developments in financial reporting, accounting standards and statements of recommended practice;
- key aspects of the Company's operations;
- matters that influence or distort the presentation of accounts and key financial information;
- the principles of, and developments in, key applicable company law and other legislation relevant to the Company;
- the role of internal and external auditing and risk management;
- the regulatory framework of the Company's business; and
- environmental and social responsibility best reporting practices.

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

- monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance, including reviewing significant financial reporting judgements contained in them;
- disclose the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed;
- confirm that the consolidated financial statements, taken as a whole, are fair, balanced and understandable, to ensure that the narrative sections of the report are consistent with the financial statements and accurately reflect the Group's performance;
- review the Company's internal financial controls and its internal control and risk management systems and to make recommendations to the Board;
- review the Company's arrangements by which employees may raise concerns in confidence;
- monitor and review the effectiveness of the Company's internal audit function;
- make recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditor and to approve its remuneration and terms of engagement;
- review the Company's policy on the engagement of the external auditor to supply non-audit services;
- review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements; and
- disclose how the Committee has assessed the effectiveness of the external audit process and provide information on the length of tenure of the current audit firm.

The Committee's remit requires it to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and to make recommendations as to the steps to be taken.

Significant judgements

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

Significant issue considered by the Committee	How the issue was addressed by the Committee
The appropriateness of preparing the Group financial statements for the half year and full year on a going concern basis	The Committee considered papers prepared by management and, taking into account management's assumptions and the external auditor's review of these papers, concluded that management's recommendation to prepare accounts on a going concern basis was appropriate.
The treatment of exceptional items and their presentation within the Group's financial statements	The Committee considered management's presentation of separately disclosed items. The Committee also considered the views of the external auditor both on management's policy and its application in FY15. At each meeting the Committee reviews a paper prepared by management on actual and forecast levels of exceptional items including the nature of all the items and the balance of income and cost between exceptionals and underlying. The disclosure for inclusion in the consolidated financial statements has been reviewed and agreed by the Audit Committee. In addition the Audit Committee has reviewed the Group's position in relation to the treatment of prompt payment discounts and the historic termination charge settlement discussion with the mobile network operators, challenged management assumptions and concurs with the provision made.
Carrying value of goodwill and other intangibles	The judgements exercised in relation to goodwill impairment testing concern the assumptions used in calculating the value in use of the operating companies being tested for impairment. The key assumptions applied in the calculation relate to the future performance expectations of the business, which are driven by the Group's calculation of its weighted average cost of capital (WACC) and its assessment of long term growth rates. The business plan used in the calculation is the five year plan, which is approved by the Group's Executive Committee and the Board. The Committee has reviewed and challenged management's paper on the outcome of the impairment review and concurs with the conclusion.
Revenue recognition	The key area of judgement in recognising revenue is the identification of revenue arrangements with multiple deliverables. When the Group sells a number of products within a bundled transaction, the total consideration from the arrangement is allocated to each element based on their relative fair values and limited to the amounts billed for that element. The Committee reviewed management's papers on the proposed accounting treatment for new products and customers credits and concurs with the conclusion. In addition, the Committee also considers the detailed reports of the external auditor before agreeing on any potential changes to the Group's accounting policies.
Supplier rebate income	The Committee reviewed the recognition of supplier rebate income during the year, an area of inherent risk due to the complexity of the arrangements and the judgement applied by management to ensure that rebates are recognised over the appropriate financial period. This review required an understanding the nature of any significant transactions and adherence to the Group's accounting policies. As a result of the review, the Committee concluded that supplier rebate income had been appropriately recorded within the financial year.
Taxation	The key judgement in relation to taxation relates to the assumptions made in recognising deferred tax assets. The taxation forecasting model prepared by management is based on the five year plan, which is approved by the Group's Executive Committee and the Board. The Committee has reviewed and challenged management's paper, which outlines the key principles and judgements used in the calculation, and concurs with the recognition of the asset accordingly.

Governance

Corporate governance continued

Statement of Directors in respect of the Annual Report and Accounts

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

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

External audit

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

Deloitte was appointed as auditor in 2010 when the Group demerged from Carphone Warehouse Group PLC. In the year to 31 March 2014, Sharon Thorne was newly appointed as the Senior Statutory Auditor. Deloitte has confirmed its independence to the Audit Committee. The Audit Committee considers the appointment of the external auditors annually and has a policy of formally tendering the audit every ten years.

In the year to 31 March 2015, the Audit Committee discussed the effectiveness of the external audit process and audit quality with the others members of the Audit Committee. An auditor assessment tool will be completed after the year end audit by each member of the Audit Committee, the Chief Financial Officer and other members of senior management who are invited to attend the Audit Committee meetings. The assessment tool covers all aspects of the audit process from the audit partner's interaction with the Audit Committee through to the planning and delivery of the audit. The feedback from this process will be considered by the Audit Committee and is provided to both the auditor and to senior management. The results reviewed at the next Audit Committee meeting. In the current year, the Committee believes the external auditor is performing as expected. However, if this situation should change in the future, management will agree an action plan with the external audit partner, which the Audit Committee will keep under review.

The policy relating to the provision of non-audit services by the external auditor specifies the types of work from which the external auditor is excluded; for which the external auditor can be engaged without referral to the Committee; and for which a case-by-case decision is required. In order to safeguard the auditor's objectivity and independence, the ratio of non-audit fees to audit fees is monitored by the Committee. Any work proposed in excess of 50% of the audit fee is referred to the Committee. Amounts below this are discussed with the Chairman of the Committee.

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

	2015 £m	2014 £m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	0.1	0.1
Audit of the Group and its subsidiaries pursuant to legislation	0.4	0.4
Audit services provided to all Group companies	0.5	0.5
Taxation and other services	0.2	0.2
Total Group auditor's remuneration	0.7	0.7

In the current year, the Group incurred non-audit fees of £0.2m. Fees relating to tax services of £0.1m principally comprised technical advice associated with relevant UK regulations. Other fees of £0.1m mainly represented advisory support on implementation of new system. Having undertaken a review of the non-audit related work, the Committee has satisfied itself that the services undertaken during the year did not prejudice the external auditor's independence.

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

In light of the assessments and review undertaken, the Committee recommended to the Board that Deloitte LLP be retained as the auditor of the Company. This recommendation was endorsed by the Board. Deloitte LLP has expressed its willingness to continue in office as auditor and a resolution to re-appoint Deloitte LLP will be proposed at the forthcoming AGM.

Governance

Directors' Remuneration Report

On behalf of the Board, I am pleased to present the Directors' report on remuneration for FY15 in TalkTalk Telecom Group's fifth year as a publicly listed company.

Introduction

In line with the Large and Medium-sized Companies and Group (Accounts and Reports) (Amendment) Regulations 2013 ('the Regulations'), the Remuneration Report for the year ended 31 March 2015 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 2014 AGM and is now effective for three years from this date. There have been no amendments to the Remuneration Policy in the year ended 31 March 2015 and the unchanged policy will remain in effect for the year ending 31 March 2016.
- The Annual Report on Remuneration, which explains how the Remuneration Policy was applied in relation to Executive Directors for the year ended 31 March 2015 and how it will be implemented for the year ending 31 March 2016.

Aligning the Remuneration Policy with Company strategy and performance

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

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

Board changes during FY15

Board resignations

Joanna Shields stepped down from the Board in her role of Non-Executive Director, effective from 22 July 2014.

Steve Makin stepped down from the Board in his role of Chief Financial Officer effective 13 November 2014 and left the Company on 31 December 2014.

Board appointments

Tristia Harrison and Charles Bligh were appointed to the Board as Managing Director, Consumer and Managing Director, TalkTalk Business respectively, effective from 3 June 2014. These appointments were approved at the 2014 AGM. In recognition of their Board appointment and in line with our pay policy, the Remuneration Committee set the base pay for both Tristia Harrison and Charles Bligh at £335,000 effective from 1 July 2014.

Iain Torrens joined the Company on 1 January 2015 and was appointed to the Board as Chief Financial Officer on 5 January 2015.

Remuneration Policy during FY15

In the year ending 31 March 2015 and in line with the binding shareholder vote at the 2014 AGM, the Remuneration Committee have reviewed the Remuneration Policy for Executive Directors and have determined that it continues to remain appropriate and fit for purpose. All remuneration arrangements for Executive Directors and Non-Executive Directors have been operated in line with the shareholder-approved Remuneration Policy.

The Annual Bonus scheme pay-out for Executive Directors and members of the Executive Committee this year has been determined by the Remuneration Committee to be paid at 80.5% of base pay as a result of 10% of the Annual Bonus scorecard achieving minimum performance and 45% of the scorecard achieving maximum performance against the targets set.

Governance

Directors' Remuneration Report continued

Remuneration Policy for FY16

The Group strives to achieve its objectives of a simple and transparent approach to remuneration. The Remuneration Policy is set out on pages 31 to 37 and details of how this policy will be implemented for the financial year ahead are set out on pages 38 to 46, with the following key changes being highlighted:

- Increases in the base pay award for Tristia Harrison and Charles Bligh effective from 1 July 2015, to reflect both their past and future contribution to the Company;
- commitment that from 1 April 2015, no employee of the Company will be paid below the living wage, which is currently set at £7.85 per hour outside London and £9.15 per hour within London;
- a further award under the Shareholder Value Plan (SVP) for new entrants to the Company, although no Executive Director is expected to receive such an award.

John Gildersleeve
Remuneration Committee Chairman
13 May 2015

Highlights of FY15

- No changes have been made to the Remuneration Policy during the year ended 31 March 2015
- We have reviewed the Directors' Remuneration Report in line with the Regulations, to ensure that it continues to be simple and transparent for our shareholders
- The Company continued its focus of encouraging employee share ownership with the launch of a new Share Match Plan in June 2014 and celebrated winning the ifs ProShare Award for 'Best Overall Performance in Fostering Employee Share Ownership for companies with 1,001 to 15,000 employees' in November 2014. In 2014, over 65% our people were shareholders in the Company

Our priorities for FY16

- To review the performance metrics for our short term incentive plans to ensure they remain aligned with both shareholder interests and the strategic growth plans of the Company
- Launch the 2015 Sharesave Scheme to further encourage employee share ownership
- To make a further awards under the SVP for a small number of senior management (either newly recruited or newly promoted), aligned to delivering significant shareholder value
- Our commitment that no employee of the Company will be paid below the Living Wage for the year ending 31 March 2016
- To review the Company's Group Personal Pension Plan to ensure that it is market competitive and that all employees of the Company are aware of the recent changes to 'at retirement' pension options

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

Governance

Directors' Remuneration Report continued

Remuneration Policy

This section sets out the Company's policy on remuneration for Executive Directors. Following approval by shareholders and the binding vote at the 2014 AGM, the Remuneration Policy took immediate effect following the AGM and will apply for a period of three years from this date. There has been no change to the Remuneration Policy following shareholder approval in 2014. The Policy is restated below for reference purposes, with minor amendments (such as reference to page numbers), for ease of reading. The definitive version of last year's report is available for review on the Company's website.

Throughout this year's report, naming conventions of both the TalkTalk Sharesave Scheme and the TalkTalk Shareholder Value Plan (SVP), which operate under the rules of the Value Enhancement Scheme (VES) have altered slightly from last year's report, but the underlying Policies and Plans have not changed.

Remuneration Committee

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

Remuneration approach

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

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

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

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

Employee and shareholder consultation

The Remuneration Committee did not formally consult with employees of the Company on the details of the Directors' Remuneration Policy in the year ended 31 March 2014 when reviewing in line with the new Regulations. In reaching this decision the Committee is mindful that with its strong culture of employee share ownership, with over 65% of employees holding shares in the Company, employees have the opportunity to comment and vote on all elements of this report and policy in their capacity as shareholders. Employees are also given the opportunity to share their views through regular employee surveys and the all-employee consultation body 'One Voice'.

The Remuneration Committee is committed to consultation with major shareholders when setting the Remuneration policy. If any of these shareholders are opposed to the policy or any proposed amendments to the policy, the Committee will endeavour to meet with them, as appropriate, to understand and respond to any issues they may have.

Remuneration components

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

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

In addition, for Executive Directors, Executive Committee members and other key senior management, there are two long term incentive plans – the Discretionary Share Option Plan (DSOP) and the SVP, operating under the rules of the VES. These plans do not run concurrently.

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

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

Malus and clawback

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

Governance

Directors' Remuneration Report continued

Remuneration Policy continued

Executive Director shareholding requirement

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

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

Summary of remuneration components of Executive Directors

Component	Aim and link to strategy	Description of operation and any performance measures	Further detail on maximum opportunity and framework used to assess performance
Fixed Base pay	To attract and retain talent by ensuring base pay is competitive in the market. Set at a level which incentivises Executive Directors to implement and deliver our business strategy.	Paid monthly in cash.	Reviewed annually. Benchmarked against external market data from external specialists. Takes into account the individual's skills, experience and performance. The Remuneration Committee considers the level of the all-employee pay review when making recommendations and decisions on pay for Executive Directors. Any increase typically takes effect from 1 July annually. Under normal circumstances no Executive Director will receive an increase in excess of 10% of their base pay in any given financial year.
Fixed Core benefits	Designed to be competitive in the market.	Core benefits typically include: o a defined contribution pension scheme, or a cash payment in lieu of a pension contribution in certain circumstances; o private medical insurance for Executive Directors and their immediate family; and o 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: o four times base pay life assurance; o income protection; and o annual leave.	Reviewed annually relative to the market. Pension contributions are made through salary sacrifice, with the Company making a contribution of 10% of base pay for the CEO and CFO, which is made as a cash payment in lieu of pension and 5% base pay for all other Executive Directors. If cash is paid in lieu of a pension contribution this will be subject to normal tax and NI deductions. Although the levels of Company contributions vary, all employees have the ability to join the Company's defined contribution pension scheme.
Fixed Voluntary benefits	Benefits may vary dependent on the role of the individual and the personal choices they make.	These voluntary benefits arrangements include the purchase of additional holiday and the ability to participate in all-employee share plans.	Reviewed periodically relative to the market.

Summary of remuneration components of Executive Directors continued

Component	Aim and link to strategy	Description of operation and any performance measures	Further detail on maximum opportunity and framework used to assess performance
Variable Annual performance bonus	Designed to focus Executives on the business priorities for the financial year ahead and to align the individual's remuneration with the delivery of superior business performance.	The bonus scheme is based on a 'balanced scorecard' that is comprised of financial and non-financial measures, which are reviewed annually. Such measures include Group EBITDA, Group revenue and innovation measures. The measures and targets are set annually by the Remuneration Committee, to ensure they are appropriately stretching for the delivery of 'on target', 'stretch' and 'super stretch' performance. At least 40% of the 'balanced scorecard' will be based on financial measures.	Payment is typically made in June. The Remuneration Committee retains the ability to exercise discretion to adjust payments up or down in exceptional circumstances, where they feel this course of action is appropriate. The bonus scheme pays at the following levels: o on target awards for Executive Directors are equivalent to 60% of base pay; o stretch awards for Executive Directors are equivalent to 110% of base pay; and o super stretch (maximum) awards are equivalent to 170% of base pay.
Variable Share-based incentive plans Discretionary Share Option Plan (DSOP)	Designed to reward and retain Executives over the longer term whilst aligning an individual's interests with those of shareholders.	Discretionary awards of nil-cost options are granted over TalkTalk Telecom Group PLC shares. Level of vesting is dependent on achievement of performance targets, usually over a three year performance period from the date of grant. For awards up to 2013, the performance measures were 50% EPS and 50% TSR. In 2014, the performance measure was a TSR CAGR measure with a FTSE 250 tracker underpin. Awards vest after three years from grant. 60% of the total vested options are exercisable in the third year with the remaining 40% being eligible for exercise from the fourth year. There is no intention to award DSOP awards to those Executive Directors participating in the Shareholder Value Plan (SVP). However, this plan is included in the Remuneration Policy to give the Remuneration Committee flexibility to make an award in the case of a new hire.	Awards do not vest until the third anniversary of the date of grant and may have a deferral element. If employment ceases during the vesting period, awards will by default lapse in full, unless the Remuneration Committee exercises its discretion. The maximum level of award is a 200% base pay multiple, unless the Board determines that exceptional circumstances exist, which justify exceeding this limit, in which case options will not exceed 300% of base pay. The DSOP scheme rules were approved by shareholders in March 2010 as part of the demerger from Carphone Warehouse.

Governance

Directors' Remuneration Report continued

Remuneration Policy continued

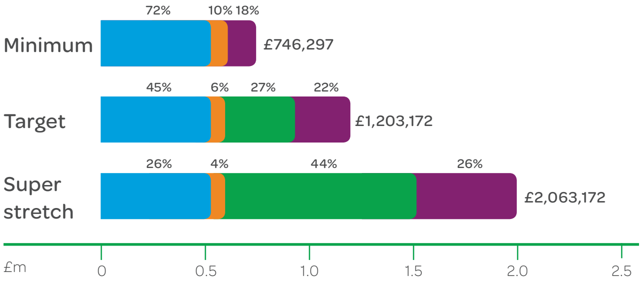
Summary of remuneration components of Executive Directors continued

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

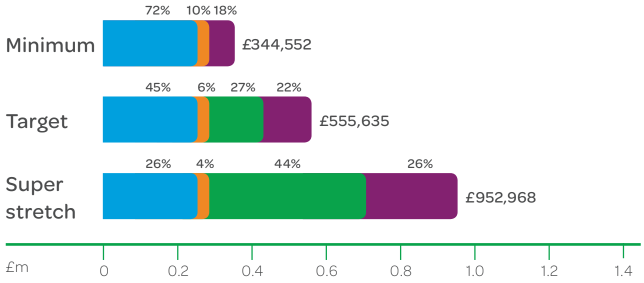
Remuneration scenarios

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

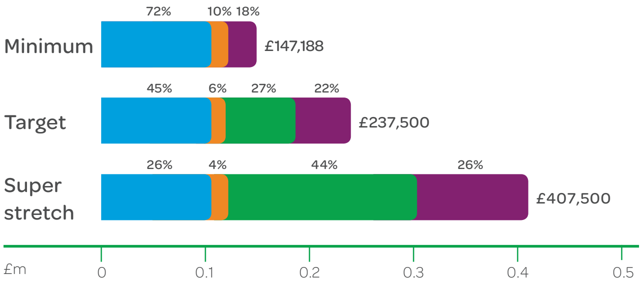
Chief Executive Officer
(D Harding)



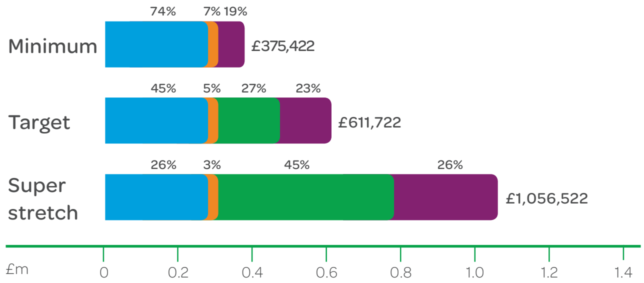
Chief Financial Officer
(S Makin)



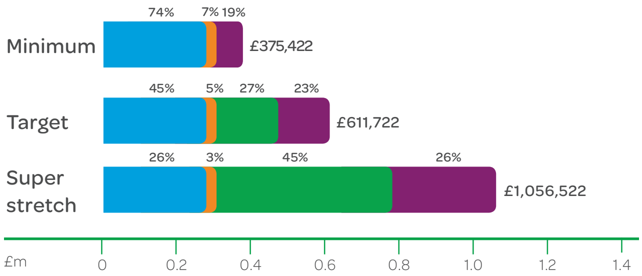
Executive
(I Torrens)



Executive
(C Bligh)



Executive
(T Harrison)



Base pay Benefits, pension and car allowance Annual bonus LTIP

Notes

(1) Base pay is actual base pay in the year ended 31 March 2015.
(2) Taxable benefits are at the level over the year ended 31 March 2015.
(3) Pension is based on a 10% Company contribution/cash in lieu for D Harding, S Makin and I Torrens and a 5% Company contribution for T Harrison and C Bligh.
(4) Annual performance bonus is at 60% of base pay for target performance, 110% of base pay for stretch performance and 170% of base pay for super stretch performance.
(4) SVP outcomes include assumed share price increases over the four year performance term.
(5) As SVP is a 'block award' over a four year term rather than an annual award, we have annualised the potential pay-out over a four year period.

Governance

Directors' Remuneration Report continued

Remuneration Policy continued

Other share-based remuneration

TalkTalk Sharesave Scheme (SAYE)

The Company operates an all-employee, HMRC-approved, Sharesave scheme, which all eligible employees and Executive Directors are able to participate in. All eligible employees are invited to join the scheme on an annual basis, subject to maximum participation levels, 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 Remuneration section of this report.

TalkTalk Share Match Plan (SIP)

The Company launched its first all-employee, HMRC-approved Share Match Plan in June 2014, following the Remuneration Committee approval of this scheme in the year ending 31 March 2014. Approval for the TTG Share Match was granted by shareholders at the AGM on 24 July 2013.

TTG Share Match 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 Company provides one matching share for each partnership share purchased by participating employees or Executive Directors.

Service contracts and remuneration packages

Service contracts for Executive Directors

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

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

Recruitment policy for new hires

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

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

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

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

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

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

Service contracts and remuneration packages continued

Relocation packages

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

Expatriate packages

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

Remuneration policy for internal promotions

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

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

Exit payments

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

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

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

Fees for Non-Executive Directors

The Non-Executive Directors do not take part in discussions on their remuneration. Each of the Non-Executive Directors has a letter of appointment substantially in the form suggested by the Code, and each has a three month notice period with no compensation for loss of office. The Company has no age limit for Directors. The dates of each contract are set out on page 44.

The fees for Non-Executive Directors are set out on page 43 of this report. These fees are reviewed (but not necessarily increased) on an annual basis, taking into account the responsibilities of the role and their participation in the various governance committees of the Company.

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

External appointments

The Board supports Executive Directors holding Non-Executive Directorships of other companies and believes that any such appointments are part of the continuing development of the Executive Directors from which the Company will ultimately benefit. The Board has reviewed all such appointments and those appointments that the Board believes require disclosure pursuant to the Code are set out on page 44. The Board has also agreed that the Directors may retain their fees from such appointments.

Governance

Directors' Remuneration Report continued

Annual Report on Remuneration

The following sections set out how the Company's Remuneration Policy was implemented in the year ended 31 March 2015 and how it will be implemented for the year ending 31 March 2016.

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 43.

Year ended 31 March 2015

Executive Director	Base pay(1) £000	Taxable benefits(2) £000	Pension(3) £000	Bonuses(4) £000	LTIP £000	SAYE gain(5) £000	2015 total £000
D Harding	538	16	58	432	–	3	1,047
S Makin(6,9)	248	9	25	241	–	–	523
I Torrens(7)	106	4	11	85	–	–	206
C Bligh(8)	278	14	14	224	–	–	530
T Harrison(8)	278	14	14	224	–	–	530
Aggregate emoluments	1,448	57	122	1,206	–	3	2,836

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

(3) Value of pension contribution or cash in lieu made by the Company in the year.
(4) Value of annual bonus payable in respect of the year and based on performance for the financial year.
(5) Under the 2014 SAYE D Harding was granted 3,750 options on 13 June 2014 at an option price of £2.40.
(6) The figures in this table are for the period S Makin was a Director to 13 November 2014. The Bonus figure for S Makin includes the period from 14 November 2014 to 31 December 2014, when he was not a Director.
(7) The figures in this table are for the period I Torrens was a Director from 5 January 2015.
(8) The figures in this table are for the period C Bligh and T Harrison were Directors from 3 June 2014. C Bligh and T Harrison's base pay was set at £335,000 on their appointment to the Board, effective from 1 July 2014.
(9) The figures in this table are for the period S Makin was a Director to 13 November 2014. The base pay, taxable benefits and pension received for his employment not as a Director up to 31 December 2014 amounted to £68,348, which included £9,576 in lieu of accrued annual holiday, not taken by his exit date on 31 December 2014.

Year ended 31 March 2014

Executive Director	Base pay(1) £000	Taxable benefits(2) £000	Pension(3) £000	Bonuses(4) £000	LTIP(5) £000	SAYE gain(6) £000	2014 total £000
D Harding	500	16	50	320	5,955	1	6,842
S Makin(7)	373	15	37	239	–	1	665
Aggregate emoluments	873	31	87	559	5,955	2	7,703

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

(3) Value of pension contribution or cash in lieu made by the Company in the year.
(4) Value of annual bonus payable in respect of the year and based on performance for the financial year.
(5) Value of VES and DSOP awards which vested during the year and any dividend payments due on these vestings.
(6) Under the 2013 SAYE scheme both D Harding and S Makin were granted 4,687 options on 14 June 2013 at an option price of £1.92.
(7) S Makin's base pay was £375,000 from his start date to 30 September 2013. It was increased to £400,000 effective 1 October 2013.

Appointments in the year ended 31 March 2015

Tristia Harrison and Charles Bligh were appointed to the Board in the roles of Managing Director Consumer and Managing Director TalkTalk Business, respectively, on 3 June 2014 and their base pay was set at £335,000, effective 1 July 2014.

Iain Torrens joined the Company on 1 January 2015 and was appointed to the Board in the role of Chief Financial Officer on 5 January 2015. Iain's base pay on joining the Company was set at £425,000.

A special discretionary award was made to Iain Torrens on 3 February 2015 in compensation for long term incentives forfeited from his previous employer on joining the Company. The exercise of these options is subject to continuing employment and the award vests in February 2018. Detail of this one-off discretionary award can be found on page 41.

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

Leavers in the year ended 31 March 2015

Steve Makin stepped down from the Board in his role as Chief Financial Officer on 13 November 2014 and left the Company on 31 December 2014. No severance payments were made in relation to his exit.

In line with the Company's treatment of leavers as set out in the Policy above, the award made under the DSOP 2013 were lapsed and the Participation shares purchased under the SVP in June 2014 were forfeited for the value of the outstanding loan plus accrued interest on Steve's exit from the Company on 31 December 2014.

Base pay

Year ended 31 March 2015

As previously disclosed in last year's report, following the Committee's review of Executive remuneration in the year ended 31 March 2014, it was agreed that the base pay of the CEO would be increased to £550,000, which was a 10% uplift and was effective from 1 July 2014. As previously disclosed, the CEO had received no pay increase since joining the Company in 2010. On appointment to the Board, the base pay for both Tristia Harrison and Charles Bligh was set at £335,000 effective from 1 July 2014. Remuneration increases for Executive Directors were reviewed in line with market trends, peer group benchmarking and current internal practices. Peer group analysis was conducted by Towers Watson, comparing against FTSE-listed companies with comparable revenue and market capitalisation.

For the year ended 31 March 2015, average base pay increases for all other employees was 3%.

Year ending 31 March 2016

Following the Committee's review of Executive remuneration during the year ended 31 March 2015, it was decided to increase the base pay of Tristia Harrison and Charles Bligh, under an exceptional base pay award, to £375,000 effective from 1 July 2015, which is an uplift of 12%. In line with the Remuneration Policy, under normal circumstances no Executive Director will receive an increase in excess of 10% of their base pay in any given financial year. In determining these pay levels , the Committee has taken into consideration the contribution the Managing Director, Consumer and the Managing Director, TalkTalk Business have made since their appointment to the Board and the increased responsibilities that these positions carry, as well as the ongoing contribution that they will continue to make to the business. The Committee does not anticipate any substantial base pay increases for either Tristia Harrison or Charles Bligh in the foreseeable future.

For the year ending 31 March 2016, average base pay increases for all other employees will be 1.5%. This is applied as a 1.5% all employee increase. In addition, adjustments were made in order to ensure that no employee of the Company is in receipt of base pay lower than the Living Wage from 1 April 2015.

Pension contributions*

Year ended 31 March 2015

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

Dido Harding had previously left the pension scheme at the end of February 2014 and therefore a cash payment in lieu of pension, equivalent to 10% of base pay, was made for the year ending 31 March 2015.

Stephen Makin received a 10% of base pay contribution (pro-rata) into his private pension plan up to his exit date of 31 December 2014.

Iain Torrens chose not to join the Company pension scheme on his appointment and therefore a cash payment in lieu of pension, equivalent to 10% of base pay, was made for the year ended 31 March 2015.

Pension contributions for Tristia Harrison and Charles Bligh were made by the Company of 5% of their base pay for the year ended 31 March 2015.

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

Year ending 31 March 2016

In the year ending 31 March 2016, pension contributions from the Company for Dido Harding and Iain Torrens will continue to be capped at 10% of base pay, in line with the Remuneration Policy, and will be paid as a cash payment in lieu.

Annual performance bonus

Year ended 31 March 2015

For the year ended 31 March 2015, the annual performance bonus was based on a 'balanced scorecard' blend of financial and non-financial measures as set out in the table below.

Executives had an incentive opportunity in the range of 0% to 170% of base pay. Performance for the year was 134.1% of the target bonus potential, with 10% of the scorecard achieving minimum performance and 45% of the scorecard achieving maximum performance against the targets set, resulting in a bonus payment of 80.5% of base pay.

Performance against each of the measures is set out below:

Measure	Weighting	Achievement
Headline Group EBITDA	15%	Missed
Group operating free cash flow	10%	Minimum
Consumer revenue	10%	Missed
TalkTalk Business revenue	10%	Super stretch
On-net churn	25%	Super stretch
TV net adds and NPS	10%	Missed
NPS	10%	Missed
Innovation	10%	Super stretch

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

Governance

Directors' Remuneration Report continued

Annual Report on Remuneration continued

Annual performance bonus continued

Year ended 31 March 2015 continued

Significant investment in the year in our rapidly growing TV business, in our fibre and mobile propositions has resulted in the majority of financial measures being confirmed at below minimum. Considered focus for the year on customer churn, accelerated growth within TalkTalk Business and a strong pipeline for innovation has delivered strong performance against the remainder of the scorecard which has resulted in bonus being paid out to Executive Directors at just above target levels.

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

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

Year ending 31 March 2016

A review of the annual bonus scheme was conducted in the year ending 31 March 2015 to ensure that the performance measures in the balanced scorecard continue to be aligned to Company strategy. The performance measures and their weightings for the year ending 31 March 2016 are set out below:

Performance measure	Weighting
Headline Group EBITDA	25%
Group revenue	20%
Churn	25%
Innovation	10%
Transformation	20%

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

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

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

Share-based incentive plans*

Year ended 31 March 2015

The single figure of remuneration includes amounts for the value of options to acquire ordinary shares in the Company granted to or held by the Directors. Details of the options for the Directors who served during the year are as follows:

The TalkTalk Group Shareholder Value Plan (awarded under the Value Enhancement Scheme rules)

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

As stated in the Remuneration Policy, the Shareholder Value Plan (SVP) is designed to enable participants to share in the incremental value of the Group in the excess of an opening valuation, as determined by the Remuneration Committee and agreed with HMRC, with the initial valuation being calculated over the five business day average up to 3 June 2014. Following consultation with the Company's top ten institutional shareholders, comprising 53% of the Company's shareholders, in April and May 2014, awards under the SVP were made on 18 June 2014.

Participants purchase Participation shares at market value and are given a loan by the Company in order to pay for the Participation shares. The loan attracts interest on an annual basis which is set by HMRC. There are two performance conditions on which vesting are dependent:

- at least a 7% compound annual increase in the market capitalisation of TalkTalk Telecom Group PLC from the starting valuation over the following three and four year periods; and
- TalkTalk Group's shareholder return should outperform that of the FTSE 250.

As performance conditions are satisfied and the award vests, the Participation shares are purchased by TalkTalk through the issue of TalkTalk Telecom Group PLC shares or satisfied by shares held by the Group ESOT.

Subject to performance conditions being met, 60% of the scheme will vest in 2017, with the remaining 40% vesting in 2018. On vesting, all Plc shares must be held for a minimum of twelve months from the vesting date for Executive Directors and 50% of Plc shares for a minimum of twelve months from vesting for other participants.

Participation shares were acquired and loans granted by the Company to the following Executives in the year ended 31 March 2015:

Director	2015 % share of pool	2015 Number of Participation shares purchased	2015 Outstanding loan and Interest
D Harding	10	2,000,000	316
S Makin(1)	5	1,000,000	158
I Torrens(2)	5	1,000,000	186
T Harrison	5	1,000,000	158
C Bligh	5	1,000,000	158
	30	6,000,000	976

(1) Award for S Makin was forfeited for the value of the loan plus outstanding interest on his exit from the business on 31 December 2014.
(2) Award to I Torrens made on 2 February 2015, resulting in a higher cost per Participation Share than original participants.

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

Interest on outstanding loans was charged at 3.25% during the year.

There was no clawback in respect of this scheme during the year ended 31 March 2015 and no Non-Executive Directors participated in this scheme.

Share-based incentive plans* continued

Year ended 31 March 2015 continued

TalkTalk Discretionary Shares

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

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

Scheme interests awarded in the year

2014 grant

An award was granted under the DSOP rules approved by shareholders in 2010 and was an unapproved scheme in June 2014.

The Board recognises the importance of closely aligning the interests of the senior team to those of shareholders and therefore awarded all participants a multiple of 300% base pay, as an exceptional award under the DSOP rules. The exercise of these options is subject to continuing employment and two performance conditions, which are set out below:

- at least a 7% compound annual increase in the market capitalisation of TalkTalk Telecom Group PLC from the starting valuation over the following three and four year periods; and
- TalkTalk Group's shareholder return should outperform that of the FTSE 250.

Awards under this scheme vest in June 2017. The awards held by Executive Directors are detailed in the table below.

There was no clawback in respect of this scheme during the year ended 31 March 2015 and no Executive or Non-Executive Directors participated in this award.

In line with the Remuneration Policy, the Committee, at its sole discretion, may, in hiring a new Executive Director, make a 'buy-out' award to an external candidate in compensation for any remuneration arrangements forfeited on leaving a previous employer.

A special discretionary award was made to I Torrens on 3 February 2015 in compensation for long term incentives forfeited from his previous employer on joining the Company. The exercise of these options is subject to continuing employment and the award vests in February 2018.

The detail of the one-off discretionary award is set out below:

Director	Number of share options allocated
I Torrens	117,905
	117,905

Total DSOP under option at year ended 31 March 2015

Director	Scheme type	Type of award	Performance conditions apply[4]	Average share price used for grant	Face value of award[1]	Minimum level of award	Vesting date
D Harding	DSOP 2012	Nil priced unapproved	Yes	£1.22	£1,250,000	25%	May 2015[2]
	DSOP 2013	Nil priced unapproved	Yes	£2.21	£1,000,000	25%	June 2016[3]
S Makin[5]	DSOP 2013	Nil priced unapproved	Yes	£2.21	£750,000	25%	June 2016[3]
I Torrens[6]	DSOP 2014	Nil priced unapproved	No	£3.19	£376,116	100%	February 2018[7]
T Harrison	DSOP 2012	Nil priced unapproved	Yes	£1.22	£600,000	25%	May 2015[2]
	DSOP 2013	Nil priced unapproved	Yes	£2.21	£600,000	25%	June 2016[3]
C Bligh	DSOP 2012	Nil priced unapproved	Yes	£1.22	£650,000	25%	May 2015[2]
	DSOP 2013	Nil priced unapproved	Yes	£2.21	£650,000	25%	June 2016[3]
					£5,876,116		

(1) Face value is calculated as the number of options awarded multiplied by the average share price over the five day period prior to grant.
(2) 60% exercisable from May 2015 and remaining 40% exercisable twelve months thereafter.
(3) 60% exercisable from June 2016 and remaining 40% exercisable twelve months thereafter.
(4) Performance conditions are set out on page 39.
(5) Stepped down from the Board on 13 November 2014 and options lapsed accordingly on his exit from the Company on 31 December 2014.
(6) Award made on 3 February 2015.
(7) 100% exercisable from February 2018.

Governance

Directors' Remuneration Report continued

Annual Report on Remuneration continued

Share-based incentive plans* continued

Year ending 31 March 2016

The TalkTalk Group Shareholder Value Plan (SVP)

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

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

The level of award granted to each individual during the year ending 31 March 2016 will be determined by the Remuneration Committee. The awards will recognise the individual's performance, including exceptional performance, but no individual participant shall be awarded more than 10% of the SVP pool. In addition, the total value of the SVP awards will be subject to the cap set out in the Remuneration Policy.

It is expected that no Executive Directors will participate in the SVP in the year ending 31 March 2016.

TalkTalk discretionary shares

The Remuneration Committee intends to make an award in 2015 under the DSOP rules approved by shareholders in 2010 to members of the senior management group.

The exercise of any options awarded under this scheme will be dependent on continued employment and the achievement of performance conditions, set out below:

- at least a 7% compound annual increase in the market capitalisation of TalkTalk Telecom Group PLC from the starting valuation over the following three and four year periods; and
- TalkTalk Group's shareholder return should outperform that of the FTSE 250.

Awards under this scheme will vest in 2018.

It is expected that no Executive Directors or participants of the 2015 SVP will participate in the SVP in the year ending 31 March 2016.

All-Employee Share Plans*

TalkTalk Sharesave Scheme (SAYE)

The TalkTalk Sharesave Scheme is a Save-As-You-Earn (SAYE) share option scheme and is approved by HMRC. The SAYE Scheme is administrated by a duly authorised committee of the Board. All UK Executive Directors and employees of TalkTalk and participating companies within the Group are eligible to participate in the Sharesave Scheme as long as they have been employed for a qualifying period. To participate in the Scheme an eligible employee must enter into a Sharesave contract and agree to make monthly contributions between £5 and £500 for a specified period of three or five years.

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

No share options were exercised by Executive Directors within the period.

Dido Harding was awarded 3,750 share options under the 2014 scheme at an option price of £2.40, which has been reflected in the single figure table detailed above.

No Non-Executive Directors participated in this scheme.

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

All-employee Share Match Plan (SIP)

In June 2014, the Company introduced an all-employee, HMRC-approved Share Incentive Plan or SIP, Share Match Plan, which had been approved by the Remuneration Committee during the previous financial year. This enables eligible employees to purchase market priced shares by entering into a partnership share agreement and holding such shares in trust for up to a five year period. Approval for the TTG Share Match was granted by shareholders at the AGM on 24 July 2013.

Both Dido Harding and Iain Torrens and have received the following shares in respect of the Share Match Plan during the period ended 31 March 2015:

	Partnership Shares purchased	Matching Shares allocated	Total number of shares held in plan
D Harding(1)	597	597	1,194
I Torrens(1)	45	45	90

(1) These awards have been included in the shareholding numbers reflected in the table below.

Additional information

Shareholding requirements

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

Director	Holding requirement as a % of base pay	Actual holding	Requirement satisfied	Actual share ownership as a % of base pay[4]
D Harding	200%	4,254,184	Yes	2,662%
S Makin[1]	200%	8,000	No	7%
I Torrens[3]	200%	90	No	0%
C Bligh[2]	200%	–	No	0%
T Harrison[2]	200%	1,282,934	Yes	1,318%

(1) Stepped down from the Board on 13 November and left the Company on 31 December 2014.
(2) Appointed to the Board on 3 June 2014.
(3) Appointed to the Board on 5 January 2015.
(4) Share price on 31 March 2015 used for calculation.

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

	Ordinary shares of 0.1p		
Director	31 March 2015	31 March 2014	Date of contract
C Dunstone	294,059,396	294,059,396	20 January 2010
J Gildersleeve	246,000	245,138	20 January 2010
I West	346,023	346,023	8 February 2011
J Allwood	10,000	10,000	20 January 2010
B Hoberman	12,882	12,882	20 January 2010
H Stringer	10,000	10,000	26 July 2012
J Powell	1,000	1,000	26 July 2012
J Shields[1]	–	–	16 May 2013

(1) Stepped down from the Board on 22 July 2014.

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	2015 total £000	Fees £000	Taxable benefits £000	2014 total £000
C Dunstone	360	1	361	360	1	361
J Gildersleeve[1]	80	–	80	85	–	85
I West	80	–	80	78	–	78
J Allwood	65	–	65	68	–	68
B Hoberman	50	–	50	50	–	50
H Stringer[4,5]	50	–	50	50	–	50
J Powell	50	–	50	50	–	50
J Shields[2,3]	15	–	15	39	–	39
Aggregate emoluments	750	1	751	780	1	781

(1) Stepped down from Audit Committee in June 2014.
(2) Appointed to Remuneration Committee in June 2014.
(3) Stepped down from the Board on 22 July 2014.
(4) Stepped down from the Remuneration Committee in June 2014
(5) Appointed to Nomination Committee in June 2014

There were no changes to fee levels for Non-Executive Directors in the year and no increases are proposed in the year ending 31 March 2016, except where there are changes in the membership of the various committees of the Board.

Governance

Directors' Remuneration Report continued

Annual Report on Remuneration continued

Additional information continued

Payments to past Directors

In the year ended 31 March 2015, there were no payments made to past Directors not disclosed elsewhere in the report.

Payments for loss of office

In the year ended 31 March 2015, there were no payments made to Executive Directors, past or present, in compensation for loss of office.

The 2013 DSOP award of 339,367 options made to Steve Makin lapsed on 31 December 2014 on his exit from the Company.

Non-Executive Directors' letters of appointment

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

Non-Executive Director	Committee membership	Date first appointed to the Board	Effective date of current letter of appointment
C Dunstone	–	20 January 2010	16 January 2013
J Gildersleeve[1]	Remuneration, Nomination	20 January 2010	16 January 2013
J Allwood	Audit, Nomination	20 January 2010	20 January 2013
B Hoberman	Remuneration	20 January 2010	20 January 2013
I West	Audit, Nomination, Remuneration	8 February 2011	16 May 2013
H Stringer[2]	Nomination	26 July 2012	26 July 2012
J Powell	Audit	26 July 2012	26 July 2012
J Shields[3,4]	Remuneration	16 May 2013	16 May 2013

(1) Stepped down from the Audit Committee in June 2014.
(2) Stepped down from the Remuneration Committee and appointed to the Nomination Committee in June 2014.
(3) Appointed to the Remuneration Committee in June 2014.
(4) Stepped down from the Board on 22 July 2014.

Fees for external appointments

Director	Organisation	2015 £000
D Harding	Bank of England[1], British Land PLC[2], The Jockey Club[3]	52

(1) Appointed in August 2014.
(2) Stepped down in December 2014.
(3) Stepped down in January 2015.

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

Advice and services provided to the Remuneration Committee

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

Over the course of the year ended 31 March 2015, the Remuneration Committee was advised on matters relating to Executive remuneration by Towers Watson. The Remuneration Committee deems the advisers to be independent from the Company and the advice they received during the year to be appropriate and objective.

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

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

The fees paid for services are set out below:

Company	Nature of service	2015 £000
Towers Watson	Remuneration benchmarking and long term incentive design	33

Relative importance of spend on pay

The difference in actual expenditure between FY14 and FY15 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) **+£17m**

Total employee pay (£m) **–£3m**

Additional information continued

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)	967	40.0%	–
2013 £000	5,617	39.2%	100%
2014 £000	6,842	37.6%	–
2015 £000	**1,047**	**47.3%**	**–**

(1) The increase in the single figure number in 2013 represents the vesting of the first LTIP award since the listing of the Company.
(2) It is not possible to show this value for the VES which vested in 2012 and 2013 as does not have a maximum % of shares. However, for information the 2010 DSOP award vested at 100% of the maximum in 2012.
(3) Maximum bonus for Executive Directors was 200% base pay for the years ended 31 March 2011 and 2012.

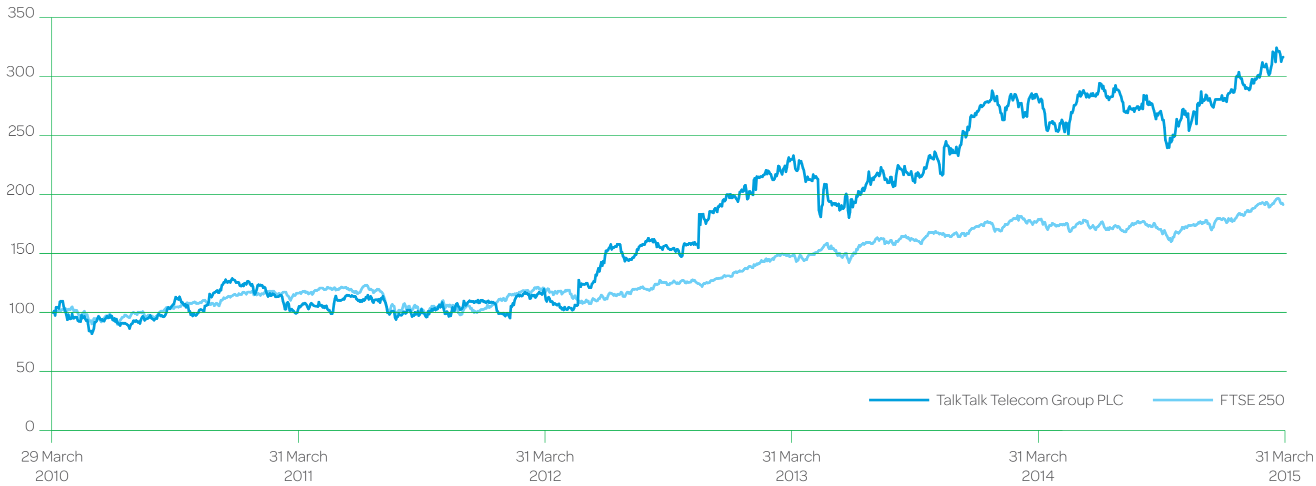
The table below shows the percentage change in remuneration between 2014 and 2015 for the CEO and all other employees of the Group.

	Base pay % change	Taxable benefits % change	Annual bonus % change
CEO	8%	–	35.15%
Employees	3%	–	(6)%

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.



Governance

Directors' Remuneration Report continued

Annual Report on Remuneration continued

Additional information continued

This Remuneration Report has been prepared in accordance with the Large and Medium-sized Companies and Group (Accounts and Reports) (Amendment) Regulations 2013 ('Regulations') issued under the Companies Act, the UK Corporate Governance Code, The GC 100 and Investor Group Directors' Remuneration Reporting Guidance and the Executive Remuneration Principles published by the Association of British Insurers in November 2013. The constitution and operation of the Remuneration Committee are in compliance with the Code.

In framing its Remuneration Policy the Committee has given full consideration to the matters set out in Schedule A of the Code and the Regulations. As required by the Regulations, resolutions to approve the Remuneration Policy section and the overall Directors' Remuneration Report will be proposed at the 2015 AGM. Voting regarding the 2014 Directors' Remuneration Report and Remuneration Policy was as follows:

	Votes for	Votes against	Votes withheld	Total votes
Remuneration Report	806,208,320	22,566,770	779,905	828,775,090
	97.28%	2.72%		86.79%
Remuneration Policy	767,064,382	51,852,294	10,638,319	818,916,676
	93.67%	6.33%		85.75%

John Gildersleeve
Remuneration Committee Chairman
13 May 2015

Governance

Other statutory information

Suppliers payment policy

It is the Company's policy to develop and maintain key commercial relationships with its suppliers, one aspect of which is payment timing, to obtain mutually agreed payment terms. The Company has commercially agreed longer credit terms with one of its larger corporate suppliers. Excluding this supplier, the underlying average credit period taken on trade payables was 33 days (2014: 32 days). Including this supplier, the average credit period taken was 43 days (2014: 42 days). The Company is compliant with the Department for Business, Innovation and Skills' Prompt Payment Code and is currently in the process of completing an application to be a formal signatory.

Contracts with controlling shareholders

Sir Charles Dunstone is a controlling shareholder within the definition set out in the Listing Rules. In compliance with Listing Rule 9.2.2A R(1), the Company has entered into a written and legally binding agreement with Sir Charles, containing certain undertakings intended to ensure that Sir Charles complies with the independence provisions set out in Listing Rule 6.1.4D R. The Company also confirms that its Articles of Association do not prevent the election and re-election of independent Directors to be conducted in accordance with the election provisions set out in Listing Rule 9.2.2E R and Listing Rule 9.2.2F R.

There are no material contracts with controlling shareholders, except as set out above and disclosed in the Directors' Remuneration Report on pages 29 to 46.

No Director is entitled to any compensation for loss of office on a takeover or change of control of the Company. Details of employee share schemes are set out in note 5 to the financial statements.

Shares held by the Group ESOT abstain from voting.

Share capital

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

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

There is a general right of the Company to purchase its own shares, as set out at Article 16 of the Company's Articles of Association.

In addition, at the AGM in 2014, the Directors were granted the right to acquire 95,496,686 shares. This right expires on the date of the 2015 AGM or 23 October 2015 (whichever is the sooner).

The Articles of Association may be changed by special resolution.

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

Appointment of Directors

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

The powers of the Directors are set out in the Company's Articles of Association.

Property, plant and equipment

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

Dividends

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

Significant shareholdings

At 15 April 2015, the Company had been notified of the following interests in the Company's shares:

Name	Number of shares	% of share capital
Charles Dunstone	294,059,396	30.77
Capital Research Global Investors	141,656,393	14.82
David Ross	116,160,528	12.16
INVESCO Asset Management Limited	64,549,697	6.75
Alken Asset Management LLP	46,685,603	4.89
Group ESOT	32,479,732	3.41

The total interests of the Directors are detailed in the Directors' Remuneration Report on pages 29 to 46.

Directors' indemnities

Directors' liability insurance is provided for Directors.

Equal opportunities

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

Audit information

Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

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

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

By order of the Board

Tim Morris
Company Secretary
13 May 2015

TalkTalk Telecom Group PLC
11 Evesham Street
London W11 4AR

Governance

Directors' responsibilities statement

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

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

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

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

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

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

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

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

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 13 May 2015 and is signed on its behalf by:

Dido Harding
Chief Executive Officer
13 May 2015

Iain Torrens
Chief Financial Officer
13 May 2015

Financial statements

Independent auditor's report

to the members of TalkTalk Telecom Group PLC

Opinion on financial statements of TalkTalk Telecom Group PLC	In our opinion: • the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2015 and of the Group's profit for the year then ended; • the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; • the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and • the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. The financial statements comprise the Group income statement, the Group statement of comprehensive income, the Group and Parent Company balance sheets, the Group cash flow statement, the Group statement of changes in equity, the Parent Company reconciliation of movements in shareholders' funds and the related notes 1 to 28. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).
Separate opinion in relation to IFRSs as issued by the IASB	As explained in note 1 to the Group financial statements, in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, the Group has also applied IFRSs as issued by the International Accounting Standards Board (IASB). In our opinion the Group financial statements comply with IFRSs as issued by the IASB.
Going concern	As required by the Listing Rules we have reviewed the Directors' statement contained within the Chief Financial Officer's Statement that the Group is a going concern. We confirm that: • we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and • we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.
Our assessment of risks of material misstatement	The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Financial statements

Independent auditor's report continued

to the members of TalkTalk Telecom Group PLC

Risk	How the scope of our audit responded to the risk
Revenue recognition Revenue represents a material balance consisting of a high volume of individually low value transactions and we have identified the following types of transactions and assertions related to revenue recognition which give rise to key risks: ○ the completeness of revenue recorded as a result of the reliance on output of the billing systems; ○ 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; and ○ the appropriateness of the allocation of the total transaction value between multiple elements in a bundled transaction. The Group's policy with respect to bundled transactions is to limit the revenue recognised for delivered elements to the amounts billed, with promotional credits deferred over the contractual term. See note 1 in the financial statements for revenue recognition policy.	We tested the operating effectiveness of automated and non-automated controls over the customer billing systems. Our tests assessed the controls in place to ensure all services supplied to customers are input into and processed through the billing systems. This enabled us to obtain assurance over billing systems accounting for over 95% of total Group revenue. We subsequently applied a combination of substantive analytical review procedures and tests of detail to obtain assurance over the validity and completeness of the reported output of these systems. We performed substantive testing on a sample of non-systematic adjustments which are outside of the normal billing process and therefore carry higher levels of management judgement. These included revenue deferrals and the write-back to the income statement of credits applied to customer accounts. We have assessed the appropriateness of this policy and also performed substantive testing to confirm the fair value of elements delivered up front is in excess of the amounts billable and therefore appropriate application of their accounting policy.
Supplier rebates As disclosed in note 1 of the financial statements, the Group periodically receives commercial income, bonuses or other rebates from suppliers. There is a risk that these are incorrectly accounted for or recognised in the wrong accounting period.	We held discussions with the relationship managers for the major suppliers across the Group and reviewed supplier accounts to identify significant credits from suppliers. For significant credit items we reviewed the relevant contracts to understand the terms and conditions associated with the transaction and associated commercial rationale. Based on our review of the contracts, we have challenged management's recognition of the accounting treatment of credits recognised from suppliers and, where the credits were significant, held discussions with the counterparty to confirm our understanding of the commercial arrangement.
Disclosure of exceptional items and the presentation of adjusted measures in the financial statements The disclosure of exceptional items and their presentation on the face of the income statement represents an audit risk given the level of management judgement involved. Areas of particular audit focus in the current year are exceptional costs recognised in relation to amounts recognisable in respect of the historic termination charges settlement (see note 9), operating efficiencies, dual running costs, asset impairments and customer migration costs – all of which we deem to carry a higher level of judgement. Furthermore, the Group is challenging HMRC's interpretation of the VAT Prompt Payment Discount rules. Determining the likely outcome of any such disputes, and therefore required provisions, is inherently uncertain. The nature of these costs has been defined in note 9 to the accounts.	In addition to understanding the composition of exceptional items and agreeing a sample of items to supporting documentation, we have challenged management's rationale for the presentation of items within the income statement as exceptional, particularly around the areas of higher judgment such as ladder pricing to assess if the exceptional credit is virtually certain and regarding dual running and customer migration costs to determine whether the costs recognised as exceptional meet the criteria of the accounting policy for such items defined by the Group within note 9. This includes assessing the incremental nature of the costs, the extent to which the costs are non-recurring, whether they are specific to individual projects and considering whether they should be classified as part of underlying operations. Regarding the VAT disputes, we have reviewed correspondence with HMRC and with the support of our internal VAT specialists we have critically challenged management's assessment of the likelihood of success and the completeness of their provisioning and disclosure. Our work has also included a review, on a sample basis, of items included within the income statement to identify income and expenses which may be exceptional by nature but not separately identified. This has included consideration of credit balances within underlying results.

Risk	How the scope of our audit responded to the risk
Acquisition accounting There have been three significant acquisitions in the year as described in note 13 which included two customer base acquisitions and a share purchase acquisition with material fair value adjustments. The transactions give rise to cumulative goodwill of £11m and other intangibles assets of £43m. The accounting treatment for these acquisitions gives rise to significant judgement around the fair value adjustments, including the valuation of intangible assets recognised, which include determining appropriate inputs and assumptions used in the underlying valuations.	We have considered management's assessment that the acquired assets represent a business combination under IFRS3 and challenged management's inputs and assumptions used in determining the valuation and completeness of the acquired intangible assets. This challenge specifically included the consideration of the forecast cash flows expected to be generated by the acquired assets, the anticipated rate of churn within the underlying customer base and forecast revenue and cost metrics. We have also challenged the appropriateness of the useful economic life attributed to the assets.
Carrying value of goodwill and intangible assets As disclosed in note 11 to the financial statements the carrying value of goodwill on the Group balance sheet as at 31 March 2015 is £490m. Management is required to undertake an impairment review annually or, if more frequent, whenever there is an indication that the asset may be impaired. This review incorporates judgements based on assumptions of future cash flows, including assumptions around revenue growth, margins and forecast cash flows, the selection of appropriate discount rates and the assessment of the Group's cash-generating units.	We challenged management's assumptions used in the impairment model for goodwill and intangible assets, including the determination of cash-generating units, the forecast cash flow projections for each cash-generating unit and the discount rates applied. In making this assessment of the cash flow projections we assessed historical forecasting accuracy and compared forecast profit margins to historical margins and benchmarked the discount rate and growth rates employed to available market data. We critically assessed management's position as to whether or not a reasonably possible change to key operating assumptions could result in an impairment. In doing so we considered the sensitivity of the asset valuations to these assumptions, in particular changes to the long term growth rate assumed and the growth of the TV and Fibre customer bases. We used our specialist team to determine whether the discount rate used in the calculations was appropriate. We also considered the appropriateness of the related disclosures set out in note 11 to the accounts.
Treatment and presentation of tax balances The accounting treatment and presentation of the measurement of deferred tax assets relating to losses acquired in Video Networks ('VNL') of £29m (which have been disclosed within note 7) is a judgemental area. Specifically, the quantum of losses to be recognised as a deferred tax asset is dependent on future profitability and the judgements within and reliance on management forecasts.	We have reviewed correspondence with HMRC supporting the availability of the VNL losses. With the use of our tax specialist team we have challenged management's forecasts of future taxable profits to determine the appropriate quantum of VNL losses to recognise as a deferred tax asset.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 27.

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

Financial statements

Independent auditor's report continued

to the members of TalkTalk Telecom Group PLC

Our application of materiality	We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work. We determined materiality for the Group to be £6m (2014: £6m), which is approximately 7.3% (2014: 8.2%) of profit before tax and exceptional items. Our materiality was set by blending revenue and profit metrics. This approach was taken to make allowance for the impact of subscriber acquisition costs related to TV customers which has reduced current year earnings. We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £120,000 (2014: £120,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.
An overview of the scope of our audit	Our Group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our Group audit scope primarily on the TalkTalk Consumer and TalkTalk Business operating units. Each of these was subject to a full audit and represent over 95% (2014: over 95%) of the Group's total assets and revenues. Specific focused audit work was performed over Group functions, including those covering treasury and taxation. Our audit work at each division was executed at levels of materiality which were lower than Group materiality. At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit.
Opinion on other matters prescribed by the Companies Act 2006	In our opinion: - the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and - the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records	Under the Companies Act 2006 we are required to report to you if, in our opinion: - we have not received all the information and explanations we require for our audit; or - adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or - the Parent Company financial statements are not in agreement with the accounting records and returns. We have nothing to report in respect of these matters.
Directors' remuneration	Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.
Corporate Governance Statement	Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the Company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.
Our duty to read other information in the Annual Report	Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is: - materially inconsistent with the information in the audited financial statements; or - apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or - otherwise misleading. In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of Directors and auditor	As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team, strategically focused second partner reviews and independent partner reviews. This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.
Scope of the audit of the financial statements	An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Sharon Thorne FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
13 May 2015

Financial statements

Group income statement

For the year ended 31 March

	Notes	2015 Headline - Before amortisation of acquisition intangibles and exceptional items £m	2015 Amortisation of acquisition intangibles and exceptional items* £m	2015 Statutory - After amortisation of acquisition intangibles and exceptional items £m	2014 Headline - Before amortisation of acquisition intangibles and exceptional items £m	2014 Amortisation of acquisition intangibles and exceptional items* £m	2014 Statutory - After amortisation of acquisition intangibles and exceptional items £m
Revenue	2	1,795	–	1,795	1,727	(5)	1,722
Cost of sales		(815)	–	(815)	(769)	–	(769)
Gross profit		980	–	980	958	(5)	953
Operating expenses excluding amortisation and depreciation		(735)	(46)	(781)	(745)	(17)	(762)
EBITDA		245	(46)	199	213	(22)	191
Depreciation	3, 12	(78)	(5)	(83)	(77)	–	(77)
Amortisation	3, 11	(42)	(12)	(54)	(35)	(21)	(56)
Share of results of joint venture	14	(8)	–	(8)	(7)	–	(7)
Operating profit	3	117	(63)	54	94	(43)	51
Finance costs	6	(22)	–	(22)	(20)	–	(20)
Profit before taxation		95	(63)	32	74	(43)	31
Taxation	7	(19)	59	40	(13)	10	(3)
Profit for the year		76	(4)	72	61	(33)	28
Attributable to the equity holders of the Parent Company		76	(4)	72	61	(33)	28
Earnings per share							
Headline/Statutory							
Basic (p)	10	8.2		7.8	6.8		3.1
Diluted (p)	10	8.1		7.7	6.6		3.0

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

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

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Group statement of comprehensive income

For the year ended 31 March

	Notes	2015 £m	2014 £m
Profit for the year*		72	28
Other comprehensive income for the year			
Items that may be reclassified subsequently to the income statement:			
(Losses) gains on a hedge of a financial instrument*	19	(5)	3
Currency translation differences**		(1)	–
Total comprehensive income for the year		66	31
Attributable to the equity holders of the Parent Company		66	31

* Recognised within retained earnings and other reserves.
** Recognised within translation reserves.

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

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Group statement of changes in equity

For the year ended 31 March

	Notes	Share capital £m	Share premium £m	Translation reserve £m	Demerger reserve £m	Retained earnings and other reserves £m	Total £m
At 1 April 2014		1	684	(64)	(513)	239	347
Total comprehensive income for the year		–	–	(1)	–	67	66
Taxation of items recognised directly in reserves		–	–	–	–	(3)	(3)
Share-based payments reserve credit	5	–	–	–	–	4	4
Share-based payments reserve debit		–	–	–	–	(3)	(3)
Settlement of Group ESOT		–	–	–	–	2	2
Equity dividends	8	–	–	–	–	(116)	(116)
At 31 March 2015		1	684	(65)	(513)	190	297

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

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

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

Financial statements

Group balance sheet

As at 31 March

	Notes	2015 £m	2014 £m
Non-current assets			
Goodwill	11	490	479
Other intangible assets	11	178	141
Property, plant and equipment	12	290	305
Investment in joint venture	14	10	7
Deferred tax assets	7	130	107
		1,098	1,039
Current assets			
Cash and cash equivalents	18	10	–
Inventories	15	31	24
Corporation tax receivable		1	–
Trade and other receivables	16	323	260
		365	284
Total assets		1,463	1,323
Current liabilities			
Bank overdraft	18	–	(7)
Trade and other payables	17	(516)	(456)
Loans and other borrowings	18	–	(30)
Corporation tax liabilities		–	(14)
Provisions	20	(34)	(2)
		(550)	(509)
Non-current liabilities			
Loans and other borrowings	19	(615)	(460)
Provisions	20	(1)	(7)
		(616)	(467)
Total liabilities		(1,166)	(976)
Net assets		297	347
Equity			
Share capital	21, 22	1	1
Share premium	22	684	684
Translation reserve	22	(65)	(64)
Demerger reserve	22	(513)	(513)
Retained earnings and other reserves	22	190	239
Total equity		297	347

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

These financial statements were approved by the Board on 13 May 2015. They were signed on its behalf by:

D Harding
Chief Executive Officer
13 May 2015

I Torrens
Chief Financial Officer
13 May 2015

Financial statements

Group cash flow statement

For the year ended 31 March

	Notes	2015 £m	2014 £m
Operating activities			
Operating profit		54	51
Adjustments for non-cash items:			
Share-based payments	5	4	4
Depreciation	3, 12	83	77
Amortisation	3, 11	54	56
Share of losses of joint venture	14	8	7
Profit on disposal of property, plant and equipment	3	(3)	–
Profit on disposal of subsidiaries and customer bases	3, 13	(5)	–
Operating cash flows before movements in working capital		195	195
Increase in trade and other receivables		(44)	(36)
Increase in inventory		(7)	(1)
Increase in trade and other payables		26	7
Increase in provisions		26	(5)
Cash generated by operations		196	160
Income taxes paid		(2)	–
Net cash flows generated from operating activities		194	160
Investing activities			
Acquisition of subsidiaries and joint ventures, net of cash acquired	13, 14	(38)	(8)
Investment in intangible assets		(49)	(42)
Investment in property, plant and equipment		(67)	(65)
Disposal of property, plant and equipment		4	–
Cash flows used in investing activities		(150)	(115)
Financing activities			
Settlement of Group ESOT shares		2	6
Net purchase of own shares		–	(39)
Drawdown of borrowings	23	109	90
Interest paid		(22)	(17)
Dividends paid	8	(116)	(99)
Cash flows used in financing activities		(27)	(59)
Net increase (decrease) in cash and cash equivalents		17	(14)
Cash and cash equivalents at the start of the year		(7)	7
Cash and cash equivalents at the end of the year		10	(7)
Cash and cash equivalents for the purpose of this statement comprise:			
Cash and cash equivalents	18	10	–
Bank overdrafts	18	–	(7)
		10	(7)

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

Financial statements

Notes to the consolidated financial statements

1. Accounting policies and basis of preparation

Basis of preparation

TalkTalk Telecom Group PLC is incorporated in England and Wales under the Companies Act 2006.

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union (EU) and as applied in accordance with the provisions of the Companies Act 2006. These financial statements therefore comply with Article 4 of the European Union International Accounting Standard regulation. The Company has elected to prepare its Parent Company financial statements in accordance with UK GAAP.

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

Basis of consolidation

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

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

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

Going concern

The financial statements have been prepared on the going concern basis. Details of the considerations undertaken by the Directors in reaching this conclusion are set out on page 14 within the Chief Financial Officer's Statement.

Accounting policies

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

Revenue

Revenue is stated net of VAT and other sales-related taxes and represents the gross inflow of economic benefit generated from the provision of fixed line, TV and mobile telecommunications services. All such revenue is recognised as the services are provided:

- line rental is recognised in the period to which it relates;
- voice and broadband subscriptions are recognised in the period to which they relate;
- usage including voice and TV content is recognised in the period in which the customer takes the service;
- promotional discounts and credits are amortised on a straight line basis over the minimum contract period subject to an adjustment for in-contract churn; and
- data service solutions and other service contracts are recognised as the Group fulfils its performance obligations.

Revenue is measured at fair value of the consideration received or receivable. When the Group sells a number of products within a bundled transaction, the total consideration from the arrangement is allocated to each element based on their relative fair values. Management applies judgement in determining the amount of revenue the Group recognises for delivered elements. This is limited to the amounts billed for that element.

Subscriber acquisition costs

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

Foreign currency translation and transactions

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

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

	Average		Closing	
	2015	2014	2015	2014
Euro	1.29	1.19	1.38	1.21
United States Dollar	1.61	1.60	1.49	1.67

Financial statements

Notes to the consolidated financial statements continued

1. Accounting policies and basis of preparation continued

Leases

Rental payments under operating leases are charged to the income statement on a straight line basis over the period of the lease, even where payments are not made on such a basis. Lease incentives and rent free periods are amortised through the income statement over the period of the lease term.

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

Financial instruments

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

Trade and other receivables

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

Rebates receivable from suppliers

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 period.

Rebates from suppliers in the year related to renegotiated contract rates and compensation received under existing contracts. Where these amounts relate to historical transactions, but negotiated in the current year, they are recognised in the current year income statement.

Cash and cash equivalents

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

Trade payables

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

Financial liabilities and equity instruments

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

Loans and other borrowings

Loans and other borrowings represent committed and uncommitted bank loans, US Private Placement notes 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 period in which they are incurred.

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

Equity instruments

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

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

Derivative financial instruments and hedge accounting

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

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

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

1. Accounting policies and basis of preparation continued

Financial instruments continued

Cash flow hedges

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

Measurement

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

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

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to exercise judgement in applying the Group's accounting policies. Estimates and assumptions used in the preparation of the financial statements are continually reviewed and revised as necessary. Whilst every effort is made to ensure that such estimates and assumptions are reasonable, by their nature they are uncertain, and as such changes in estimates and assumptions may have a material impact.

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

- rebates receivable from suppliers (note 1);
- revenue recognition for bundled transactions (note 1);
- taxation (note 7);
- exceptional items (note 9);
- impairment of goodwill (note 11);
- valuation of acquisition intangibles (note 11);
- capitalisation and useful economic lives of assets (notes 11 and 12);
- impairment of assets (notes 11 and 12); and
- trade receivables (note 16).

Application of significant new or amended EU endorsed accounting standards

Amendments to IFRS 2 'Share-based Payment', IFRS 3 'Business Combinations', IFRS 8 'Operating Segments', IFRS 13 'Fair Value Measurement', IAS 16 'Property, Plant and Equipment', IAS 24 'Related Party Disclosures', IAS 38 'Intangible Assets' and IAS 40 'Investment Property' became effective in the current reporting period. These new and revised standards and interpretations have no material impact on the Group.

Future accounting developments

At the date of authorisation of these financial statements, there were a number of significant standards and interpretations that have not been applied in these financial statements, these were in issue, but not yet effective (and in some cases had not yet been adopted by the EU).

The Directors expect that the following standards will have material impact on the financial statements of the Group in future periods:

- IFRS 9 'Financial Instruments', impacting both the measurement and disclosure of financial instruments.
- IFRS 15 'Revenue from Contracts with Customers', impacting revenue recognition, related costs and disclosures.

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

Financial statements

Notes to the consolidated financial statements continued

2. Segmental reporting

Accounting policy

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

	2015 £m	2014 £m
Headline revenue	1,795	1,727
Headline EBITDA	245	213
Depreciation	(78)	(77)
Amortisation of operating intangibles	(42)	(35)
Share of results of joint ventures	(8)	(7)
Headline profit before interest and taxation (note 9)	117	94
Amortisation of acquisition intangibles	(6)	(21)
Exceptional items – Other	(46)	(22)
Exceptional items – Impairment loss	(11)	–
Operating profit	54	51

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

	2015 £m	2014 £m
On-net	1,333	1,259
Corporate	375	340
Off-net	87	128
	1,795	1,727

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

3. Operating profit before interest and taxation

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

	2015 £m	2014 £m
Depreciation of property, plant and equipment	78	77
Amortisation of acquisition intangibles	6	21
Amortisation of other operating intangible fixed assets	42	35
Profit on disposal of property, plant and equipment	(3)	–
Impairment loss recognised on trade receivables	62	52
Staff costs	122	125
Cost of inventories recognised in expenses	115	123
Rentals under operating leases	95	91
Supplier rebates*	(33)	(10)
Auditor's remuneration**	1	1
Exceptional item – Impairment loss***	11	–
Exceptional item – Profit on disposal of subsidiaries and customer bases	(5)	–

* Includes a credit of £20m to offset associated increased costs of £25m.
** A breakdown of auditor's remuneration is disclosed within the Governance section on page 28.
*** Comprises depreciation of £5m and amortisation of £6m (note 9).

4. Employee costs

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

	2015 Number	2014 Number
Administration	1,452	1,516
Sales and customer management	655	792
	2,107	2,308

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

	2015 £m	2014 £m
Wages and salaries	102	104
Social security costs	12	13
Other pension costs	4	4
	118	121
Share-based payments (note 5)	4	4
	122	125

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

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

	2015 £m	2014 £m
Salaries and fees	3.2	3.9
Performance bonuses	1.9	1.8
Benefits	0.2	0.2
Pension costs	0.2	0.2
Share-based payments	1.8	0.7
Compensation for loss of office	0.2	–
	7.5	6.8

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.

If a scheme is cancelled, any remaining part of the fair value of the scheme is expensed immediately. If a scheme is forfeited, no further expense is recognised and any charges previously recognised are reversed.

Charges arise on loans that are provided to employees to fund the purchase of shares in the Group as part of long term incentive plans. To the extent to which the loans are not, in certain circumstances, repayable, the cost of such loans is expensed over the course of the relevant incentive plans. Charges are also recognised on loans provided to employees to settle personal tax liabilities. To the extent to which the loans are not, in certain circumstances, repayable, the cost of such loans is expensed on grant.

Financial statements

Notes to the consolidated financial statements continued

5. Share-based payments continued

Group share schemes

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

In order to aid the user of the accounts, the dilutive effect on EPS of each of the Group schemes has been presented. This has been calculated using an average share price for the financial year of £3.00 (2014: £2.67).

In June 2014, the Group made awards under the SVP and the DSOP schemes, under rules previously approved by shareholders. Further information is set out in sections (i) and (ii) of this note. The TTG Value Enhancement Scheme (VES) and CPW TTG VES have fully vested in the prior year; therefore, disclosures are limited to the dilutive effect on EPS and the number of outstanding options in the prior year.

Summary of share schemes

Year ended 31 March 2015	IFRS 2 charge £m	Dilutive effect millions	Options outstanding at end of the year millions
TalkTalk Telecom Group PLC schemes			
SVP	2	3	–
DSOP – 2014 grant	1	3	8
DSOP – 2013 grant	–	3	5
DSOP – 2012 grant	–	4	8
DSOP – 2010 grant	–	1	2
SAYE	1	1	5
Total TalkTalk Telecom Group PLC schemes	4	15	28

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

TalkTalk Telecom Group PLC schemes

(i) TTG SVP

On 18 June 2014, the Company made awards in the SVP, operating under the VES rules previously approved by shareholders. Subsequent awards were made to new joiners of the Group in December 2014, February and March 2015. 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. The SVP is a growth plan and not a share option plan. These loans are subject to a commercial rate of interest set by HMRC. The SVP enables participants to share in up to 7% of any increase in the value of the Group over an opening market capitalisation of £2,941m based on a five business day average up to 3 June 2014. The awards are subject to the following performance conditions:

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

5. Share-based payments continued

TalkTalk Telecom Group PLC schemes continued

(i) TTG SVP continued

The performance conditions are measured over an initial performance period from 3 June 2014 to the date of announcement of the Group's FY17 annual results after which a total of 60% of the options will vest. The remaining options are measured over a performance period from 3 June 2014 to the date of announcement of the Group's FY18 annual results. Participation shares are forfeited for the value of the outstanding loan plus accrued interest, if an employee leaves the Group before the scheme vests. 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.

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 £6m. The resulting IFRS 2 charge for the year ended 31 March 2015 is £1.6m.

(ii) DSOP – 2014 grant

In June 2014, the Group granted eight million nil-priced share option awards subject to the following performance conditions:

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

The options are measured over a performance period from 3 June 2014 to 3 June 2017 and will vest on announcement of the Group's FY17 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. Subsequent awards were made to new joiners of the Group in December 2014 and February 2015.

	2015	
DSOP – 2014 grant	Number million	WAEP £
Outstanding at the beginning of the year	–	–
Granted during the year	8	–
Outstanding at the end of the year	8	–
Exercisable at the end of the year	–	–

Valuation method	Monte Carlo
Share price (p)	321
Exercise price (p)	nil
Expected volatility	25.0%
Expected exercise (60%/40%)	3.0/4.0 years
Risk free rate (three years/four years)	1.27%/1.67%
Expected dividend yield	5.6%
Fair value of options granted (£m)	4

The weighted average remaining contractual life of the DSOP – 2014 grant is 9.2 years.

Financial statements

Notes to the consolidated financial statements continued

5. Share-based payments continued

TalkTalk Telecom Group PLC schemes continued

(iii) DSOP – 2013 grant

In FY14, the Group granted six million nil-priced share option awards subject to absolute TSR and EPS performance targets. The options are measured over a performance period to 31 March 2016 and will vest on the announcement of the Group's FY16 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. Awards are triggered within a range from 5% to 26% for compound annual growth of TSR and EPS. If the minimum performance requirement is met a total of 25% of the award will vest, rising to 40% for target, 70% for stretch and 100% for super stretch.

DSOP – 2013 grant	2015 Number million	2015 WAEP £	2014 Number million	2014 WAEP £
Outstanding at the beginning of the year	6	–	–	–
Granted during the year	–	–	6	–
Forfeited during the year	(1)	–	–	–
Outstanding at the end of the year	5	–	6	–
Exercisable at the end of the year	–	–	–	–

The weighted average remaining contractual life of the DSOP – 2013 grant is 8.2 years (2014: 9.2 years).

(iv) DSOP – 2012 grant

Nil-priced share option awards made under the DSOP 2012 grant are subject to absolute TSR and EPS performance targets with a cap and collar to address volatility in the market, as detailed in the Directors' Remuneration Report. The options are measured over a performance period to 31 March 2015 and will vest on the announcement of the Group's FY15 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. Awards are triggered within a range from 10% to 19% for compound annual growth of TSR and EPS. If the minimum performance requirement is met a total of 25% of the award will vest, rising to 40% for target, 70% for stretch and 100% for super stretch.

DSOP – 2012 grant	2015 Number million	2015 WAEP £	2014 Number million	2014 WAEP £
Outstanding at the beginning of the year	10	–	12	–
Forfeited during the year	(2)	–	(2)	–
Outstanding at the end of the year	8	–	10	–
Exercisable at the end of the year	–	–	–	–

* In accordance with the scheme rules, the final performance of the DSOP 2012 was measured on 31 March 2015. It was confirmed that performance against the EPS measure fell below the minimum threshold and was missed, but that performance against the TSR measure exceeded Super Stretch and was hit. 50% of the DSOP 2012 will therefore vest on 14 May 2015, with 60% of the vested options being available to exercise from this date and the remaining 40% available to exercise on 14 May 2016.

The weighted average remaining contractual life of the DSOP – 2012 grant is 6.9 years (2014: 7.9 years).

(v) DSOP – 2010 grant

Awards made under the DSOP – 2010 grant were subject to TSR performance targets and were measured over a performance period to 28 March 2013. Options were forfeited if an employee left the Group before the options vested. On 28 March 2013, all options vested subject to the DSOP scheme rules but they were not exercisable until after the preliminary announcement on 16 May 2013.

DSOP – 2010 grant	2015 Number million	2015 WAEP £	2014 Number million	2014 WAEP £
Outstanding at the beginning of the year	2	1.27	17	1.24
Exercised during the year	–	–	(15)	1.23
Outstanding at the end of the year	2	1.27	2	1.27
Exercisable at the end of the year	2	–	2	–

The weighted average remaining contractual life of the DSOP – 2010 grant is 5.6 years (2014: 6.0 years).

5. Share-based payments continued

TalkTalk Telecom Group PLC schemes continued

(vi) SAYE

The scheme permits the granting of options to employees linked to a bank SAYE contract for a term of three or five years. Contributions from UK employees range from £5 to £250 per month for schemes launched between 2010 and 2013 and between £5 and £500 per month for the 2014 scheme onwards. Options may be exercised at the end of the three or five year period at an exercise price determined at the invitation date. The scheme is available for a period each year for employees to join.

Exercise prices for the schemes are set out below:

2014 grant	240p per share
2013 grant	192p per share
2012 grant	123p per share
2011 grant	119p per share
2010 grant	102p per share

	2015		2014	
	Number million	WAEP £	Number million	WAEP £
Outstanding at the beginning of the year	4	1.52	6	1.08
Granted during the year	2	2.40	2	1.92
Exercised during the year	(1)	1.21	(3)	1.03
Forfeited during the year	(1)	1.97	(1)	1.42
Outstanding at the end of the year	4	1.89	4	1.52
Exercisable at the end of the year	–	–	–	–

	SAYE – 2014 grant
Valuation method	Black Scholes
Share price (p)	321
Exercise price (p)	240
Expected volatility	35.96%
Expected exercise (years)	3.9
Risk free rate	2.09%
Expected dividend yield	3.74%
Fair value of options granted (£m)	2.0

The weighted average remaining contractual life of SAYE options is 2.1 years (2014: 2.3 years).

(vii) Share Match

The Group launched its first all-employee, HMRC approved Share Match Plan (SIP) in June 2014, following the Remuneration Committee approval of this scheme in the year ending 31 March 2014. This enables eligible employees to purchase market priced shares by entering into a partnership share agreement and holding such shares in trust for up to a five year period. The rules of the Plan allow an employee maximum contribution of £1,800 per annum, or in line with HMRC limits if these are increased. Approval for the TTG Share Match was granted by shareholders at the AGM on 24 July 2013.

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

Currently the Group provides one matching share for each partnership share purchased by participating employees or Executive Directors. During the year ended 31 March 2015, the impact of Share Match scheme on the Group's results was not material.

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Notes to the consolidated financial statements continued

6. Finance income and costs

Finance costs are analysed as follows:

	2015 £m	2014 £m
Interest on bank loans and overdrafts	17	16
Facility fees and similar charges	5	4
	22	20

During the year ended 31 March 2015, the Group refinanced its term loan and revolving credit facility with bank debt and US Private Placement notes and paid £5m in respect of arrangement and legal fees. The fees are being amortised over the expected life of the loan and notes and are included within facility fees and similar charges above, along with the accelerated amortisation of the arrangement fees on the previous re-financing. The average interest rate in the year was 3.00% (2014: 3.39%).

7. Taxation

Accounting policy

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

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

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

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

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

Critical judgements in applying the Group's accounting policy

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

Tax – income statement

The tax charge comprises:

	2015 £m	2014 £m
Current tax:		
UK corporation tax	–	(2)
Adjustments in respect of prior years:		
UK corporation tax – exceptional credit	(14)	–
Total current tax (credit)	(14)	(2)
Deferred tax:		
Origination and reversal of timing differences	–	(7)
Origination and reversal of timing differences – exceptional credit	(29)	–
Effect of change in tax rate	1	16
Adjustments in respect of prior years – deferred tax recognised	4	(4)
Adjustments in respect of prior years – exceptional credit	(2)	–
Total deferred tax	(26)	5
Total tax (credit) charge	(40)	3

The tax charge on Headline earnings for the year ended 31 March 2015 is £19m (2014: £13m), representing an effective tax rate on pre-tax profits of 20% (2014: 18%). The tax credit on Statutory earnings for the year ended 31 March 2015 is £40m (2014: £3m). The reconciliation between the Headline and Statutory tax charge is shown in note 9.

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 21% (2014: 23%) to the profit before tax are as follows:

	2015 £m	2014 £m
Profit before tax	32	31
Tax at 21% (2014: 23%)	7	7
Items attracting no tax relief or liability	1	(1)
Effect of change in tax rate	1	16
Adjustments in respect of prior years	4	(4)
Adjustments in respect of prior years – exceptional credit	(16)	–
Movement in unrecognised tax losses during the year	(8)	(15)
Movement in unrecognised tax losses during the year – exceptional credit	(29)	–
Total tax (credit) charge through income statement	**(40)**	**3**

Tax – retained earnings and other reserves

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

	2015 £m	2014 £m
Total tax (credit) charge through income statement	(40)	3
Deferred tax charge (credit) recognised directly in retained earnings and other reserves	3	(2)
Total tax (credit) charge through retained earnings and other reserves	**(37)**	**1**

The deferred tax charge recognised directly in retained earnings and other reserves for the years ended 31 March 2015 and 31 March 2014 relates to share-based payments.

Tax– balance sheet

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

	Share-based payments £m	Timing differences on capitalised costs £m	Tax losses £m	Timing differences on acquisition intangibles £m	Other timing differences £m	Total £m
At 1 April 2014	7	61	39	(1)	1	107
Credit (charge) to the income statement	2	(7)	30	1	–	26
(Charge) to reserves	(3)	–	–	–	–	(3)
At 31 March 2015	6	54	69	–	1	130

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

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

During the year, the Company reviewed the period over which it recognises assets in respect of brought forward tax losses and revised this from five years to ten years due to the increased stability of the TV proposition. The incremental movement of £29m has been recognised through exceptional items.

At 31 March 2015, the Group had unused tax losses of £674m (2014: £702m) available for offset against future taxable profits. A deferred tax asset of £69m (2014: £39m) has been recognised in respect of £347m (2014: £197m) of such losses, based on expectations of recovery in the foreseeable future.

No deferred tax asset has been recognised in respect of the remaining £327m (2014: £505m) 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.

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Notes to the consolidated financial statements continued

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:

	2015 £m	2014 £m
Ordinary dividends		
Final dividend for the year ended 31 March 2013 of 6.95p per ordinary share	–	62
Interim dividend for the year ended 31 March 2014 of 4.00p per ordinary share	–	37
Final dividend for the year ended 31 March 2014 of 8.00p per ordinary share	74	–
Interim dividend for the year ended 31 March 2015 of 4.60p per ordinary share	42	–
Total ordinary dividends	116	99

The proposed final dividend for the year ended 31 March 2015 of 9.2p per ordinary share on approximately 922 million ordinary shares (approximately £85m) was approved by the Board on 13 May 2015 and will be recommended to shareholders at the AGM in July. The dividend has not been included as a liability as at 31 March 2015.

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

9. Reconciliation of Headline information to Statutory information

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

Accounting policy

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

Critical judgements in applying the Group's accounting policy

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

Year ended 31 March 2015	EBITDA £m	Profit before interest and tax £m	Profit before tax £m	Profit for the year £m
Headline results	245	117	95	76
Exceptional items – Revenue (a)	–	–	–	–
Exceptional items – Operating efficiencies (b)	(29)	(29)	(29)	(22)
Exceptional items – Acquisitions and disposal (c)	(9)	(9)	(9)	(7)
Exceptional items – Mobile Migration (d)	(8)	(8)	(8)	(6)
Exceptional items – Impairment loss (e)	–	(11)	(11)	(9)
Amortisation of acquisition intangibles (f)	–	(6)	(6)	(5)
Exceptional items – Tax (g)	–	–	–	45
Statutory results	199	54	32	72

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

9. Reconciliation of Headline information to Statutory information continued

Critical judgements in applying the Group's accounting policy continued

a) Revenue
Within the Statutory results are two items relating to ongoing commercial discussions; the treatment of prompt payment discounts and historic termination charge settlements with the Mobile Network Operators. The net impact of these two items is not material. (2014: -£5m).

b) Operating efficiencies – Making TalkTalk Simpler (MTTS)
During the year ended 31 March 2015, the Group has continued its simplification and cost reduction programmes to drive a seamless and efficient customer experience and provide the business with operations and processes that are fit for purpose.

The costs incurred in the year included work on improving Consumer and TalkTalk Business customer operations, services and rationalising customer tariffs and exiting Group legacy products and access methods.

These programmes have resulted in £29m (2014: £20m) of costs including project management, consultancy, migration and call centre costs.

A total taxation credit of £7m has been recognised on these costs in the year ended 31 March 2015 (2014: £5m).

c) Acquisitions and disposal
During the year ended 31 March 2015, the Group acquired broadband and voice customer bases from both Virgin Media Limited ('Virgin Media') and Tesco Stores Limited ('Tesco') and acquired blinkbox Entertainment Limited ('blinkbox'). The Group has incurred costs for the migration of customers onto the Group's network and integration costs including redundancy. The total charge incurred in the year ended 31 March 2015 was £4m (2014: £nil).

Further to this, the Group has provided for £10m of costs in respect of committed future programmes predominantly in respect of migration, reorganisation and related costs.

In addition, on 24 December 2014, the Group disposed of its existing off-net broadband customer base to Fleur Telecom Limited, a member of Daisy Communications Group. This transaction generated £5m profit to the Group.

A total taxation credit of £2m (2014: £nil) has been recognised in relation to these items in the year ended 31 March 2015.

d) Mobile Migration
As part of the plan to build a scale quad-play business, during the year ended 31 March 2015, the Group has entered into a new multi-year commercial MVNO agreement with Telefónica UK, where by Telefónica UK will provide TalkTalk with access to 4G and national roaming services in the UK. As a result, the Group provided for £8m (2014: £nil) of costs in respect of committed future mobile migration programmes from the existing network provider to Telefónica UK predominantly in respect of SIM replacement, customer communications and related costs.

A total taxation credit of £2m (2014: £nil) has been recognised on these costs in the year ended 31 March 2015.

e) Impairment loss
As a result of the MTTS exceptional projects, an £11m impairment charge has been recognised in respect of a number of systems to be decommissioned or replaced before the end of their useful economic life. £5m (2014: £nil) of this impairment charge related to equipment and has been included within exceptional depreciation and the remaining £6m (2014: £nil) related to a billing system and has been included in exceptional amortisation on the face of the Group income statement.

A total taxation credit of £2m (2014: £nil) has been recognised on these costs in the year ended 31 March 2015.

f) Amortisation of acquisition intangibles
An amortisation charge in respect of acquisition intangibles of £6m was incurred in the year ended 31 March 2015 (2014: £21m). The Tiscali customer base was fully amortised in the year.

A total taxation credit of £1m has been recognised in the year ended 31 March 2015 (2014: £5m).

g) Tax items
The Group has recognised tax credits of £45m (2014: £nil) comprising a further £29m in respect of VNL tax losses following the increase in the time period used to recognise losses from five to ten years and £16m for the resolution of legacy demerger items (note 7).

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Notes to the consolidated financial statements continued

10. Earnings per share

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

	2015 £m	2014 £m
Headline earnings (note 9)	76	61
Statutory earnings	72	28
Weighted average number of shares (millions):		
Shares in issue	955	938
Less weighted average holdings by Group ESOT	(33)	(37)
For basic EPS	922	901
Dilutive effect of share options	15	30
For diluted EPS	937	931

	2015 Pence	2014 Pence
Basic earnings per share		
Headline	8.2	6.8
Statutory	7.8	3.1

	2015 Pence	2014 Pence
Diluted earnings per share		
Headline	8.1	6.6
Statutory	7.7	3.0

There are no share options considered anti-dilutive in the year ended 31 March 2015 (2014: nil).

11. Goodwill and other intangible assets

(a) Goodwill

Accounting policy

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

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

Critical judgements in applying the Group's accounting policy

The Group has two CGUs – Consumer and TalkTalk Business. For the purpose of impairment testing, at the acquisition date, goodwill is allocated to each of the CGUs expected to benefit from the synergies of the acquisition. The Group's shared costs and assets relating mainly to infrastructure and central overheads are allocated across the two CGUs based on the relative future cash flows that those shared costs support.

Determining whether goodwill is impaired requires estimation of the value in use of the CGUs to which the goodwill has been allocated. The value in use calculation involves estimation of both the future cash flows of the CGUs and the selection of appropriate discount rates to use to calculate present values.

Impairment of goodwill

Goodwill is not subject to amortisation but is tested for impairment annually or whenever there is an indication that the asset may be impaired; this review is performed at a CGU level.

Impairment is determined by assessing the future cash flows of the CGU to which the goodwill relates. The future cash flows of the Group are taken from the Board approved five-year plan and extrapolated out to 20 years based on the UK's long term growth rate. This is discounted by the CGU's weighted average cost of capital pre-tax to give the net present value of that CGU. Where the net present value of future cash flows is less than the carrying value of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss is recognised in the income statement and is not subsequently reversed.

11. Goodwill and other intangible assets continued

(a) Goodwill continued

Impairment of goodwill continued

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

	2015 £m	2014 £m
Opening cost and net book value	479	479
Acquisitions (note 13)	11	–
Closing cost and net book value	**490**	479

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

	2015 £m	2014 £m
Consumer	348	337
TalkTalk Business	142	142
	490	479

Impairment review

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

- Long term growth rates
  Long term revenue growth rates applied are based on the growth rate for the UK per the Organisation for Economic Co-operation and Development (OECD). The rate applied in the current year was 2.2% (2014: 1.7%).
- Discount rate
  The underlying discount rate for each CGU is based on the UK ten-year gilt rate adjusted for an equity risk premium and the systematic risk of the CGU. The average pre-tax rate for both CGUs used to discount the forecast cash flows is 9.0% (2014: 8.4%). The assumptions used in the calculation of the CGUs' discount rate are benchmarked to externally available data. The same discount rate has been applied to both CGUs due to the similarity of risk factors and geographical location.
- Capital expenditure
  Forecast capital expenditure is based on senior management expectations of future required support of the network and current run rate of expenditure, typically at 6% of revenue.
- Customer factors
  The key assumptions for the forecast cash flows of each of the CGUs are based on expected customer growth rates, ARPU, direct costs including acquisition costs, and change in product mix. The value assigned to each of these assumptions has been determined based on the extrapolation of historical trends in the Group and external information on expected trends of future market developments.

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

(b) Other intangible assets

Accounting policy

Operating intangibles

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

Acquisition intangibles

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

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Notes to the consolidated financial statements continued

11. Goodwill and other intangible assets continued

(b) Other intangible assets continued

Critical judgements in applying the Group's accounting policy

Impairment

At the acquisition date, acquisition intangibles are allocated to each of the CGUs expected to benefit from the synergies of the combination. The Group's shared costs and assets relating mainly to infrastructure and central overheads are allocated across the two CGUs based on the relative future cash flows.

Determining whether the carrying 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 both the future cash flows of the CGUs and the selection of appropriate discount rates to use to calculate present values.

Useful economic lives

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

Impairment of assets

The Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss at each reporting date. Where an indicator of impairment exists, the Group makes a formal estimate of the asset's recoverable amount and the extent of any impairment loss.

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

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

Other intangible assets are analysed as follows:

	Operating intangibles £m	Acquisition intangibles £m	Total other intangibles £m
Opening balance at 1 April 2014	135	6	141
Additions	49	–	49
Acquisition of subsidiary business combination	–	42	42
Amortisation	(42)	(6)	(48)
Impairment loss	(6)	–	(6)
Closing balance at 31 March 2015	136	42	178
Cost (gross carrying amount)	352	140	492
Accumulated amortisation	(216)	(98)	(314)
Closing balance at 31 March 2015	136	42	178

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

11. Goodwill and other intangible assets continued

(b) Other intangible assets continued

Operating intangibles

Operating intangibles includes internally generated assets with a net book value of £59m (2014: £39m), which are amortised over a period of up to eight years. This includes additions of £31m (2014: £15m) and an amortisation charge of £10m (2014: £7m) in the year ended 31 March 2015.

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

- TRIO, the customer billing system, which has a net book value of £66m (2014: £76m). TRIO is amortised over a period of up to eight years depending on the release date of the relevant component. The weighted average remaining useful economic life of the components of TRIO is three years (2014: four years).

Acquisition intangibles

At 31 March 2015, the acquisition intangibles relate to the broadband customer bases acquired from Virgin Media and Tesco in October 2014 and January 2015 respectively (see note 13). The valuation of customer bases is derived from the discounted future cash flows expected from them, after a deduction for contributory assets.

The value of these broadband customer bases is material to the Group with net book value of £38m. The useful economic life of acquired customer bases is five years from the date of acquisition. The Tiscali customer base was fully amortised in the year.

The remaining £4m of acquisition intangibles relate to the website acquired as part of the blinkbox transaction in January 2015 (see note 13). The website is valued using replacement method and has a remaining useful economic life of three years.

12. Property, plant and equipment

Accounting policy

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

Short leasehold improvements	10% or the lease term if less than ten years
Network equipment and computer hardware	12.5–50% per annum
Fixtures and fittings	20–25% per annum

Critical judgements in applying the Group's accounting policy

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

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

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Notes to the consolidated financial statements continued

12. Property, plant and equipment continued

Impairment of assets

Property, plant and equipment

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

	Leasehold improvements £m	Network equipment and computer hardware £m	Fixtures and fittings £m	Total £m
Opening balance at 1 April 2014	5	300	–	305
Additions	–	67	–	67
Acquisition of subsidiary	–	–	2	2
Depreciation	(5)	(73)	–	(78)
Impairment loss	–	(5)	–	(5)
Disposals	–	(1)	–	(1)
Closing balance at 31 March 2015	–	288	2	290
Cost (gross carrying amount)	6	737	2	745
Accumulated depreciation and impairment charges	(6)	(449)	–	(455)
Closing balance at 31 March 2015	–	288	2	290

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

13. Non-current asset investments

Accounting policy

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

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

Non-current asset investments at 31 March 2015 related to a 7.3% (2014: 7.3%) interest in Shared Band Limited, a telecommunications technology provider. The cost of the investment is not material.

(a) Principal investments

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

Name	Country of incorporation or registration	Nature of business
TalkTalk Group Limited	England and Wales	Holding company
TalkTalk Telecom Holdings Limited*	England and Wales	Holding company
TalkTalk Communications Limited	England and Wales	Telecommunications
TalkTalk Telecom Limited	England and Wales	Telecommunications
CPW Network Services Limited	England and Wales	Telecommunications

* Directly held by the Company.

13. Non-current asset investments continued

(b) Acquisitions and disposals

(i) Acquisitions

The Group has made the following acquisitions during the year ended 31 March 2015:

Virgin Media broadband customer base acquisition

On 27 October 2014, the Group acquired the Virgin Media broadband service business from Virgin Media which comprises broadband customers (MPF, SMPF and IP Stream). The acquisition is complementary to the Group's existing business model. The legal title of asset was transferred as the customers migrated to the Group's network which substantially took place in the period from December 2014 to March 2015. As this is an acquisition of customer base, nil voting shares were acquired. The provisional goodwill represents the future economic benefit arising from the aligning of customers' existing products with the Group's products and its fit with existing operations. Provisional goodwill has been allocated to the Consumer Cash Generating Unit (CGU).

Tesco broadband and voice customer base acquisition

On 7 January 2015, the Group acquired the Tesco broadband service business from Tesco which comprises broadband (MPF, SMPF and IP Stream) and voice customers. The acquisition is complementary to the Group's existing business model. The legal title of asset was transferred on 1 March 2015. As this is an acquisition of customer base, nil voting shares were acquired. The provisional goodwill relation to the future economic benefit arising from aligning the customers' existing products with the Group's products and its fit with existing operations. Provisional goodwill has been allocated to the Consumer Cash Generating Unit (CGU).

blinkbox acquisition

On 7 January 2015, the Group acquired 100% of the issued and voting share capital of blinkbox from Tesco Holdings Limited. The acquisition is complementary to the Group's existing business model. blinkbox provides movies and TV series online for customers to stream or download on demand.

The financial impacts of the acquisitions are summarised below:

	Virgin Media £m	Tesco £m	blinkbox £m
Consideration	**25**	**18**	**6**
Total provisional consideration – cash	17	14	6
Total provisional consideration – deferred	8	4	–
Net assets acquired	**22**	**15**	**1**
Customer base	22	17	–
Provision for unfavourable contract	–	(2)	–
Other net assets*	–	–	1
Goodwill	**3**	**3**	**5**
Total impact on the Group**			
FY15 revenue	5	2	2
FY15 profit before taxation	(4)	(4)	(2)
Total pro-forma impact on the Group ***			
Pro-forma revenue	1,812	1,813	1,803
Pro-forma profit before taxation	31	30	14

* blinkbox net assets breakdown is included in the table overleaf.
** Impact reflected in the Group's result for the year ended 31 March 2015.
*** Pro-forma revenue and profit before taxation for the Group assuming that the acquisition had been made on 1 April 2014.

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Notes to the consolidated financial statements continued

13. Non-current asset investments continued

(b) Acquisitions and disposals continued

(i) Acquisitions continued

blinkbox acquisition continued

In relation to the blinkbox acquisition, the amounts recognised in respect of the identifiable assets acquired and liabilities assumed are set out in the table below.

	Book value £m	Fair value adjustments £m	Fair value to the Group £m
Fixed assets	**22**	**(15)**	**7**
Cash	10	–	10
Trade debtors	1	–	1
Other debtors and prepayments	2	–	2
Total current assets	**13**	**–**	**13**
Trade creditors	(4)	–	(4)
Other creditors and accruals	(14)	(1)	(15)
Total current liabilities	**(18)**	**(1)**	**(19)**
Total assets and liabilities	**17**	**(16)**	**1**
Provisional goodwill			**5**
Satisfied by cash			**6**

Fair value adjustments relate principally to:

- the write down of internally developed software to its fair value; and
- provisions for onerous contracts.

The book value of the current assets is expected to equal their fair value.

The provisional goodwill of £5m relates to the future opportunities arising from the nature of the business, particularly around the knowledge of creating on demand TV platforms, and fit with the Group's existing operations. The provisional goodwill has been allocated to the Consumer CGU.

All the acquisitions were carried out by in house functions therefore the impact of external adviser fees relating to the acquisition in the Group's results was £nil. Other acquisition costs are set out in note 9.

All of the goodwill generated from acquisitions is expected to be deductible for Corporation tax purposes.

In the prior year, the Group acquired the remaining 75% of the issued share capital of Future Office Communications Limited (note 22).

(ii) Disposals

On 24 December 2014, the Group agreed to dispose of its existing off-net broadband customer base to Fleur Telecom Limited (Fleur), a member of Daisy Communications Group, for a contingent consideration of £8m generating a profit on disposal of £5m. The expected cost to sell of £3m has been included within the Group's trade and other payable balance on the consolidated balance sheet. The consideration is contingent on the performance of this customer base in the period of 24 months following the network migration completion date.

The customer base was derecognised from the balance sheet at completion date, 31 March 2015.

There were no disposals in the prior year.

(iii) Asset held for sale

As at 31 March 2015, the Group agreed to sell the acquired off-net broadband base from Virgin Media and Tesco to Fleur. The transaction is expected to complete in the year ending 31 March 2016. These bases therefore met the definition of asset held for sale under IFRS 5 and has been included as part of trade and other receivables balance on the Group consolidated balance sheet (£1m). The carrying value of these assets was based on the selling price of the disposal transaction; therefore no gain or loss is recognised as a result of this classification.

14. Interest in joint ventures

Accounting policy

Interests in joint ventures are accounted for using the equity method. The Group income statement includes the Group's share of the post-tax profits or losses of the joint ventures based on their financial statements for the year.

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

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

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

YouView TV Limited ('YouView')

The Group holds 14.3% (2014: 14.3%) of the ordinary share capital of YouView, a joint venture with The British Broadcasting Corporation, ITV Broadcasting Limited, British Telecom PLC (BT), Channel Four Television Corporation, Arqiva Limited and Channel 5 Broadcasting Limited. The joint venture was set up in order to develop a free-to-air internet-connected TV service to UK homes. During the year ended 31 March 2015, the Group signed a new agreement with the other existing holders of YouView whereby all seven original partners (together 'Tier 1' funders) continue to contribute approximately £1m per annum to basic operational and technology costs of YouView, and the Group together with BT as 'Tier 2' funders, contribute up to a further £10m per annum for additional development of the technology to support their TV propositions. The Group's total contribution to YouView in the year ended 31 March 2015 was £8m (2014: £5m).

There was no change in the overall control of the joint venture as a result of these changes as all seven partners share overall control. Under this agreement, the Group's share of losses comprises one-seventh of any Tier 1 loss and half of any Tier 2 loss. During the year ended 31 March 2015, the Group recognised £8m share of losses (2014: £7m).

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

Bolt Pro Tem Limited

The Group holds 33% of the ordinary shares capital of Bolt Pro Tem Limited ('BPT'), a joint venture with British Sky Broadcasting Limited ('BSkyB') and City Fibre Holdings Limited. The joint venture was set up in FY15 to deliver fibre to the premise ('FTTP') broadband services in the City of York. The Group has committed to contribute £5m over the three-year period to 31 March 2017. In FY15, the joint venture started to build a trial network in York. During the year ended 31 March 2015, the Group contributed £3m to the joint venture and received £nil share of losses.

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

Internet Matters

During the year ended 31 March 2014, the Group, alongside BSkyB, BT and Virgin Media established an equal membership joint venture, Internet Matters Limited. It is a not-for-profit company, set up as an industry-led body to promote and educate parents about internet safety for children. The Group is committed to contribute £2m over the period to 31 March 2017.

The table below sets out the net additions in the year.

	2015 £m	2014 £m
Opening balance at 1 April	7	9
Additions	11	5
Share of results	(8)	(7)
Closing balance at 31 March	10	7

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

Group share of results of joint ventures	2015 £m	2014 £m
Expenses	(8)	(7)
Loss before taxation	(8)	(7)
Taxation	–	–
Loss after taxation	(8)	(7)

Group share of net assets of joint ventures	2015 £m	2014 £m
Non-current assets	10	7
Net assets	10	7

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Notes to the consolidated financial statements continued

15. Inventories

Accounting policy

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

	2015 £m	2014 £m
Goods for resale	31	24

16. Trade and other receivables

Critical judgements in applying the Group's accounting policy

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

Trade and other receivables comprise:

	2015 £m	2014 £m
Current – trade and other receivables		
Trade receivables – gross	178	169
Less provision for impairment	(25)	(34)
Trade receivables – net	153	135
Other receivables	89	63
Prepayments and accrued income	80	62
Assets held for sale	1	–
Trade and other receivables	323	260

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

The average credit period taken on trade receivables, calculated by reference to the amount owed at the year-end as a proportion of total revenue in the year, was 30 days (2014: 30 days).

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

	2015 £m	2014 £m
UK Sterling	166	146
Other	12	23
	178	169

The ageing of gross trade receivables is as follows:

	2015 £m	2014 £m
Not yet due	95	74
0 to 2 months	20	14
2 to 4 months	19	17
Over 4 months	44	64
	178	169

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

	2015 £m	2014 £m
Not yet due	(1)	(2)
0 to 2 months	(1)	(2)
2 to 4 months	–	(4)
Over 4 months	(23)	(26)
	(25)	(34)

16. Trade and other receivables continued

Critical judgements in applying the Group's accounting policy continued

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

	2015 £m	2014 £m
Opening balance	(34)	(33)
Charged to the income statement	(62)	(52)
Receivables written off as irrecoverable	71	51
	(25)	(34)

Trade receivables of £59m (2014: £63m) were past due, but not impaired. These balances primarily relate to Consumer and TalkTalk Business fixed line customers. The Group has made provisions based on historical rates of recoverability and all unprovided amounts are considered to be recoverable. The ageing analysis of these trade receivables is as follows:

	2015 £m	2014 £m
0 to 2 months	19	12
2 to 4 months	19	13
Over 4 months	21	38
	59	63

17. Trade and other payables

	2015 £m	2014 £m
Trade payables	218	208
Other taxes and social security costs	35	15
Other payables	22	17
Accruals and deferred income	241	216
	516	456

The Group has commercially agreed longer credit terms with certain suppliers. Excluding these suppliers, the underlying average credit period taken on trade payables was 33 days (2014: 32 days). Including these suppliers, the average credit period taken was 43 days (2014: 42 days).

Any supplier rebates are accounted for in accordance with the policy set out in note 1.

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

18. Cash and cash equivalents, loans and other borrowings

(a) Cash and cash equivalents are as follows:

	2015 £m	2014 £m
Cash at bank and in hand	10	–

The effective interest rate on bank deposits and money market funds was 0.6% (2014: 0.7%).

(b) Loans and other borrowings comprise:

	2015 £m	2014 £m
Current		
Bank overdrafts	–	7
Term loan	–	30
	–	37

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Notes to the consolidated financial statements continued

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

(b) Loans and other borrowings comprise continued

	Maturity	2015 £m	2014 £m
Non-current			
US Private Placement Notes	2021, 2024, 2026	109	–
£560m revolving credit facility	2019	340	385
Bilateral agreement	2019	50	–
Term loan	2017, 2018, 2019	100	75
		599	460

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

Bank overdrafts

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

$185m US Private Placement (USPP) Notes

In July 2014 the Group issued $185m of USPP notes maturing in 3 tranches ($139m 2021, $25m 2024, $21m 2026). The interest rate payable on the notes is at a margin over US treasury rate for the appropriate period. The USPP proceeds were swapped to £109m (£82m 2021, £15m 2024, £12m 2026) and the net debt includes retranslation of the USPP funds at the rates achieved where hedged by cross currency swaps.

£560m revolving credit facility (RCF) and £50m bilateral agreement

The Group has a £560m RCF, which matures in July 2019. The interest rate payable in respect of drawings under this facility is at a margin over LIBOR and for the appropriate period. The actual margin applicable to any drawing depends on the ratio of net debt to EBITDA calculated in respect of the most recent accounting period. In addition to the RCF, the Group also has a £50m bilateral agreement which matures in July 2019.

£100m term loan

The Group has a committed term loan of £100m (2014: £75m), with a final maturity date of July 2019. This loan amortises over the term with repayments due of £25m in January 2017, £25m in January 2018 and the remainder in July 2019. The interest rate payable in respect of drawings under this facility is at a margin over LIBOR for the relevant currency and for the appropriate period. The actual margin applicable to any drawing depends on the ratio of net debt to EBITDA calculated in respect of the most recent accounting period.

The Group's facilities total £819m (excluding the translation impact). The financial covenants included in each facility are identical; they restrict the ratio of net debt to EBITDA and require minimum levels of interest cover.

The Group was in compliance with its covenants throughout the current and prior year.

Borrowing facilities

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

	Maturity	2015 £m	2014 £m
Undrawn available committed facilities	2019	220	175

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

	2015 £m	2014 £m
Less than 1 year	–	37
1 to 2 years	25	460
2 to 3 years	25	–
3 to 4 years	–	–
4 to 5 years	440	–
Greater than 5 years	109	–
	599	497

19. Financial risk management and derivative financial instruments

The book value and fair value of the Group's financial assets, liabilities and derivative financial instruments, excluding the Group's loans and other borrowings shown in note 18, are as follows:

	2015 £m	2014 £m
Current assets		
Cash and cash equivalents	10	–
Trade and other receivables*	312	260
Derivative financial instruments*	11	–
Non-current assets		
Non-current investments and investment in joint venture	10	7
Current liabilities		
Bank overdrafts	–	(7)
Trade and other payables**	(516)	(456)
	(173)	(196)

* Derivative financial instruments are included with other receivables in note 16.
** Deferred income has been included within the financial liabilities above so as to give completeness over the Group's contractual commitments on future cash outflows.

(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 bank loans and interest rate swaps. Other products, such as currency options, can also be used depending on the risks to be covered, but have not been used in the current or preceding financial year. The Group does not trade or speculate in any financial instruments.

The Group has cash flow hedges in place to (a) swap the interest rate risk on the RCF from floating to fixed and (b) swap the currency and interest rate risk on the USPP debt from USD to GBP and from fixed US Treasury interest rates to fixed GBP interest rates. These hedges have been fully effective from inception. The fair value measurement is classified as Level 2 (FY14: 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 2015 is £11m (2014: £nil). A loss of £5m (2014: gain of £3m) has been recognised in other comprehensive income in the year ended 31 March 2015. As the hedges were fully effective there has been no income statement impact.

(b) Embedded derivatives

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

(c) Foreign exchange risk

The Group uses spot and forward foreign exchange trading to hedge transactional exposures, which arise mainly through cost of sales and operating expenses, and are primarily denominated in Euro and US Dollar. The Group also uses cross currency swaps to hedge its US Dollar denominated borrowings (US Private Placement). At 31 March 2015 the adjustment to translate our net debt to Sterling at swap rates to reflect the impact of hedging was £16m (2014: £nil).

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

	UK Sterling £m	Euro £m	USD £m	Total £m
2015				
Borrowings before derivatives	490	–	125	615
Derivatives	–	–	(16)	(16)
	490	–	109	599

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

During the year, the Group used derivatives for the management of US private placement debt, foreign currency cash balances and foreign currency trading balances.

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Notes to the consolidated financial statements continued

19. Financial risk management and derivative financial instruments continued

(d) Interest rate risk

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

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

	2015 £m	2014 £m
1% movement in the UK Sterling interest rate		
Income statement movement	3	3

(e) Liquidity risk

The Group manages its exposure to liquidity risk by regularly reviewing the long and short term cash flow projections for the business against facilities and other resources available to it. Headroom is assessed based on historical experience as well as by assessing current business risks, including foreign exchange movements. Existing bank debt facilities do not expire until July 2019, USPP debt matures in three tranches July 2021, 2024 and 2026; it is Group policy to refinance debt maturities significantly ahead of maturity dates.

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

	Less than 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	More than 5 years £m	Total £m
2015							
Loans and other borrowings	–	(25)	(25)	–	(440)	(125)	(615)
Derivative financial instruments – payable	–	–	–	–	–	–	–
Derivative financial instruments – receivable	–	–	–	–	–	16	16
Trade and other payables	(516)	–	–	–	–	–	(516)
	(516)	(25)	(25)	–	(440)	(109)	(1,115)

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

(f) Credit risk

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

19. Financial risk management and derivative financial instruments continued

(g) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders.

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

The Group's Board reviews the capital structure on an annual basis. As part of this review, the Board concluded that it is more appropriate to align its measures with the external metrics in the banking agreement. The Group uses the ratio of net debt to EBITDA and has a medium term ratio target below 2.0x. The ratio at 31 March 2015 is 2.4x driven primarily by the Company's continued investment in growth combined with an increased dividend pay-out. The Board is confident that the ratio will return to its target in the medium term.

The net debt to EBITDA ratio at the year-end is as follows:

	2015 £m	2014 £m
Debt	(615)	(490)
Cash and cash equivalents	10	–
Bank overdraft	–	(7)
Derivatives	16	–
Net debt	(589)	(497)
EBITDA	245	213
Net debt to EBITDA ratio	2.4x	2.3x

20. Provisions

Accounting policy

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

Provisions are categorised as follows:

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

One Company integration
These provisions relate principally to reorganisation costs and are only recognised where plans are demonstrably committed and where appropriate communication to those affected has been undertaken at the balance sheet date. These provisions are expected to be utilised over the next twelve months.

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

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Notes to the consolidated financial statements continued

20. Provisions continued

Accounting policy continued

Contract and other

Contract and other provisions relate mainly to customer migration costs as a result of the customer base acquisitions in the current year and the SIM replacement costs as part of the mobile migration programme (note 9). The remaining are provisions on onerous contracts and contracts with unfavourable terms arising on the acquisition of businesses and anticipated costs of unresolved legal disputes. All such provisions are assessed by reference to the best available information at the balance sheet date.

The below tables analyse the Group's provisions:

	2015 £m	2014 £m
Current	34	2
Non-current	1	7
	35	9

	Operating efficiencies £m	One Company integration £m	Property £m	Contract and other £m	Total £m
2015					
Opening balance	1	1	7	–	9
Charged to income statement	–	–	–	32	32
Released to income statement	–	–	(2)	–	(2)
Utilised in the year	(1)	–	(3)	–	(4)
	–	1	2	32	35

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

21. Share capital

	2015 million	2014 million	2015 £m	2014 £m
Allotted, called up and fully paid				
Ordinary shares of 0.1p each	955	955	1	1

22. Reserves

	Notes	Share capital £m	Share premium £m	Translation reserve £m	Demerger reserve £m	Retained earnings and other reserves £m	Total £m
At 1 April 2014		1	684	(64)	(513)	239	347
Total comprehensive income for the year		–	–	(1)	–	67	66
Taxation of items recognised directly in reserves		–	–	–	–	(3)	(3)
Share-based payments reserve credit	5	–	–	–	–	4	4
Share-based payments reserve debit		–	–	–	–	(3)	(3)
Settlement of Group ESOT		–	–	–	–	2	2
Equity dividends	8	–	–	–	–	(116)	(116)
At 31 March 2015		1	684	(65)	(513)	190	297

22. Reserves continued

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

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

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

Group ESOT

The Group ESOT held 33 million shares at 31 March 2015 (2014: 34 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 £112m (2014: £109m).

Demerger reserve

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

Translation reserve

The results of overseas operations are translated at the average foreign exchange rates for the year, and their balance sheets are translated at the rates prevailing at the balance sheet date. Exchange differences arising on the translation of opening net assets and results of overseas operations are recognised in the translation and hedging reserve. All other exchange differences are included in the income statement.

23. Analysis of changes in net debt

	Opening £m	Net cash flow £m	Closing £m
2015			
Cash and cash equivalents	–	10	10
Bank overdrafts	(7)	7	–
	(7)	17	10
Current loans and other borrowings	(30)	30	–
Non-current loans and other borrowings	(460)	(155)	(615)
Derivatives	–	16	16
	(490)	(109)	(599)
Total net debt	(497)	(92)	(589)

Financial statements

Notes to the consolidated financial statements continued

23. Analysis of changes in net debt continued

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

24. Commitments under operating leases

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

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

	2015 £m	2014 £m
Less than 1 year	37	39
2 to 5 years	65	61
Greater than 5 years	58	55
	160	155

25. Capital commitments

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

	2015 £m	2014 £m
Expenditure contracted but not provided for in the financial statements	85	23

26. Related party transactions

a) Subsidiaries and joint ventures

Details of subsidiaries and joint ventures are disclosed in notes 13 and 14 respectively.

b) Directors

The remuneration of the Directors, who are some of the key management personnel of the Group, is set out in the Directors' Remuneration Report on pages 29 to 46. The remuneration of all key management personnel is disclosed in note 4.

27. Contingent liabilities

As at 31 March 2014, the Group had received £33m in total in relation to an Ofcom determination that BT had overcharged for certain wholesale Ethernet services. During the year ended 31 March 2015, BT lost its appeal against Ofcom's determination in the Competition Appeal Tribunal and appealed to the Court of Appeal. The decision of that appeal has not yet been made and the Group considers the appeal is unlikely to succeed based on the advice received and so no liability for repayment has been recorded at the year end, although the outcome of the appeal is not yet certain.

28. Events after the balance sheet date

On 22 April 2015, the Group acquired 100% shares of tIPicall limited, a company providing Voice over Internet Protocol (VoIP) services for cash of £5m plus an element of deferred consideration depending on the performance of the business. The Group's investment in the company will be accounted for as a subsidiary in accordance with IFRS 3 'Business Combination'. The financial impact of the acquisition on the Group position is not material.

Financial statements

Company balance sheet

As at 31 March

	Notes	2015 £m	2014 £m
Fixed assets			
Investments in subsidiaries and joint ventures	4	1,184	1,173
		1,184	1,173
Current assets			
Debtors: amounts due within one year	5	678	270
		678	270
Total assets		1,862	1,443
Current liabilities			
Creditors: amounts due within one year	6	(27)	(49)
Loans	7	–	(30)
		(27)	(79)
Non-current liabilities			
Loans	7	(615)	(460)
		(615)	(460)
Total liabilities		(642)	(539)
Net assets		1,220	904
Equity			
Share capital	8, 9	1	1
Share premium	9	684	684
Retained earnings and other reserves	9	535	219
Equity shareholders' funds		1,220	904

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

These financial statements were approved by the Board of Directors on 13 May 2015. They were signed on its behalf by:

D Harding
Chief Executive Officer
13 May 2015

I Torrens
Chief Financial Officer
13 May 2015

Financial statements

Company reconciliation of movement in shareholders' funds

For the year ended 31 March

	Notes	2015 £m	2014 £m
Profit for the period	2	433	28
Equity dividends	3	(116)	(99)
Retained profit for the period		317	(71)
Issue of own shares*		–	66
Share-based payments reserve credit		4	4
Share-based payments reserve debit*		–	(2)
Currency translation and cash flow hedges		(5)	3
Net movement in shareholders' funds		316	–
Opening shareholders' funds		904	904
Closing shareholders' funds		1,220	904

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

Financial statements

Notes to the Company financial statements

1. Accounting policies

Basis of preparation

The separate financial statements of the Company are presented as required by the Companies Act 2006. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards and law.

The financial statements have been prepared on the going concern basis. Details of the considerations undertaken by the Directors in reaching this conclusion are set out on page 14 within the Chief Financial Officer's Statement.

Accounting policies

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

Financial liabilities and equity instruments

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

Loans and other borrowings

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

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

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

Equity instruments

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

Share-based payments

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

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

Taxation

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

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

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

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

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

Exemptions

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

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

Financial statements

Notes to the Company financial statements continued

2. Profit for the year

As permitted by Section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year. The Company reported a profit of £433m for the year ended 31 March 2015 (2014: £28m). This includes a dividend from a subsidiary of £400m (2014: £nil).

The auditor's remuneration for audit and other services is disclosed in the Corporate Governance Report on page 28.

Detailed disclosures of the Directors' remuneration and share-based payments are given in the audited section of the Directors' Remuneration Report on pages 38 to 46 and should be regarded as an integral part of this note.

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

The Company has no employees other than Directors.

3. Dividends

Accounting policy

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

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

	2015 £m	2014 £m
Final dividend for the year ended 31 March 2013 of 6.95p per ordinary share	–	62
Interim dividend for the year ended 31 March 2014 of 4.00p per ordinary share	–	37
Final dividend for the year ended 31 March 2014 of 8.00p per ordinary share	74	–
Interim dividend for the year ended 31 March 2015 of 4.60p per ordinary share	42	–
Total ordinary dividends	116	99

The proposed final dividend for the year ended 31 March 2015 of 9.2p per ordinary share on approximately 922 million ordinary shares (approximately £85m) was approved by the Board on 13 May 2015 and has not been included as a liability as at 31 March 2015.

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

	2015 £m	2014 £m
Subsidiaries	1,157	1,153
Joint venture	27	20
	1,184	1,173

	2015 £m	2014 £m
Opening net book value	1,173	1,082
Additions	11	91
Closing net book value	1,184	1,173

Joint ventures

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

Principal Group investments

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

Additions

The additions in the year comprise:

- £3m relating to share-based payment schemes issued by the Company (2014: £3m); and
- £8m relating to the YouView joint venture (2014: £5m).

5. Debtors: amounts due within one year

	2015 £m	2014 £m
Amounts owed by Group undertakings	675	262
Other debtors	3	8
	678	270

Interest on intercompany funding is calculated at the Bank of England base rate plus 2%; intercompany deposits receive interest at the Bank of England base rate with no margin. Interest is either paid or capitalised monthly as appropriate. Where they exist, currency balances are calculated at similar rates.

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

6. Creditors: amounts due within one year

	2015 £m	2014 £m
Amounts owed to Group undertakings	25	48
Other creditors	2	1
	27	49

Interest on intercompany funding is calculated at the Bank of England base rate plus 2%; intercompany deposits receive interest at the Bank of England base rate with no margin. Interest is either paid or capitalised monthly as appropriate. Where they exist, currency balances are calculated at similar rates.

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

7. Loans

	2015 £m	2014 £m
Current		
Loans	–	30
Non-current		
Loans	615	460
	615	490

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

8. Share capital

	2015 million	2014 million	2015 £m	2014 £m
Allotted, called up and fully paid				
Ordinary shares of 0.1p each	955	955	1	1

Financial statements

Notes to the Company financial statements continued

9. Reserves

	Share capital £m	Share premium £m	Profit and loss and other reserves £m	Total £m
At 1 April 2014	1	684	219	904
Profit for the period*	–	–	433	433
Share-based payment credit	–	–	4	4
Currency translations and cash flow hedges	–	–	(5)	(5)
Equity dividends	–	–	(116)	(116)
At 31 March 2015	1	684	535	1,220

* On 27 March 2015, the Company received an intercompany dividend payment of £400m from TalkTalk Telecom Holdings Limited, a subsidiary company.

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

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

10. Audit exemption note

The Company is entitled to exemption from audit for its subsidiaries under Section 479A of the Companies Act 2006 for the year ended 31 March 2015.

The Directors have applied this exemption for the following subsidiaries:

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

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

Other information

Five-year record (unaudited)

	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Headline results					
Revenue	1,795	1,727	1,670	1,687	1,765
Net profit for the year	76	61	132	159	122
Net assets employed					
Non-current assets	1,098	1,039	1,046	1,102	1,137
Net current liabilities excluding provisions	(151)	(223)	(216)	(230)	(281)
Provisions	(35)	(9)	(13)	(18)	(46)
Non-current liabilities excluding provisions	(615)	(460)	(375)	(410)	(395)
Net assets employed	297	347	442	444	415
Headline earnings per share					
Basic (p)	8.2	6.8	14.9	18.0	13.5
Diluted (p)	8.1	6.6	14.0	17.2	12.8
Statutory earnings per share					
Basic (p)	7.8	3.1	11.3	15.6	3.9
Diluted (p)	7.7	3.0	10.6	14.9	3.7

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

Other information

Glossary

ADSL	Asymmetric Digital Subscriber Line technology enables data transmission over existing copper wiring at data rates several hundred times faster than analogue modems, providing for simultaneous delivery of voice, video and data
ARPU	Average Revenue Per User on a monthly basis
CAGR	Compound Annual Growth Rate
CGU	Cash generating unit
Churn	A measure of the number of subscribers moving into or out of a product or service over a specific period of time
The Company	TalkTalk Telecom Group PLC
Companies Act	Companies Act 2006
CPW	The Carphone Warehouse Group PLC, its subsidiary companies, joint ventures and investments
CRM	Customer Relationship Management
Demerger	The demerger of the The Carphone Warehouse Group PLC into TalkTalk Telecom Group PLC and Carphone Warehouse Group PLC effective on 26 March 2010
DSLAM	Digital Subscriber Line Access Multiplexer
EBIT	Earnings Before Interest and Taxation
EBITDA	Earnings Before Interest Taxation Depreciation and Amortisation
EFM	Ethernet in the First Mile
EPS	Earnings Per Share
Ethernet	Ethernet is a protocol that controls data transmission over a communications network often referred to as a family of frame-based computers
FRC	Financial Reporting Council
FTTP	Fibre to Premise
Gbps	Gigabits per second
GPS	Global Positioning System
The Group	The Company, its subsidiaries and entities which are joint ventures
Group ESOT	TalkTalk Telecoms Holdings Employee Share Option Trust
Headline information	Headline information represents the Group's income statement, stated before the amortisation of acquisition intangibles and exceptional items that are considered to be one-off, non-recurring in nature and so material that the Directors believe that they require separate disclosure to avoid distortion of underlying performance and should be separately presented on the face of the income statement
HD	High Definition
IP	Internet Protocol is the packet data protocol used for routing and carriage of messages across the internet and similar networks. IP performs the addressing function and contains some control information to allow packets to be routed through networks
ISP	Internet Service Provider
LLU	Local Loop Unbundling
Mbit/s/Mbps	Unit of data transfer rate equal to 1,000,000 bits per second
MPF	Metallic Path Facility provides both broadband and telephony services to customers from TalkTalk Group exchange infrastructure
MSAN	Multi-Service Access Nodes
MVNO	Mobile Virtual Network Operator
Narrowband	Telecommunication service that carries voice information in a narrowband of frequencies
Net debt	Borrowings net of cash held on deposit at financial institutions
NGN	Next Generation Network
On-net	The Group's unbundled network
Operating free cash flow	Cash generated from operations before exceptional items, interest, taxation, dividend payments and investments
Operating profit	Profit before finance costs and taxation
OTT	Over the Top
Quad play	A customer that takes voice, broadband, TV and MVNO services from the Group
RCF	Revolving Credit Facility
SMPF or partial unbundling	Shared Metallic Path Facility provides broadband services to customers from TalkTalk Group exchange infrastructure
SME	Small and Medium sized Enterprises
Triple play	A customer that takes voice, broadband and TV services from the Group
TVOD	TV on Demand
UK Corporate Governance Code	UK Corporate Governance Code published by the FRC in May 2011
Unbundling	Process by which BT makes available its local network to third party broadband service providers
VoIP	Voice over Internet Protocol
VNL	Video Network Limited
WAEP	Weighted Average Exercise Price
Wi-Fi	Trademark of the Wi-Fi Alliance often used as a general term for wireless networking technology that uses radio waves to provide wireless high-speed internet and network connections

Other information

Financial calendar

AGM	22 July 2015
Ex-dividend date	9 July 2015
Record date	10 July 2015
Dividend payment date	3 August 2015

Advisers

Principal bankers:
The Royal Bank of Scotland PLC
Barclays Bank PLC
Bank of China Limited
DNB Bank ASA
HSBC Bank PLC
Abbey National Treasury Services PLC

Corporate brokers:
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Barclays Capital
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