2018

Simple, affordable, reliable and fair connectivity for everyone.

Annual Report 2018
TalkTalk Telecom Group PLC

TalkTalk
For Everyone

TalkTalk
For Everyone

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

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

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Contents

Highlights

Operational Highlights

- Customer base[(1)] growth of 192k (2017: 49k decline), with positive net adds in both Consumer and B2B, taking the closing base to 4,139k
- Q4 net adds[(1)] of 109k (Q4 2017: 22k) represents our highest ever quarterly net adds number and exceeded guidance due to particularly strong performance in Wholesale
- Lowest ever full year churn[(1)] of 1.22% (2017: 1.45%), with Q4 at 1.16% (Q4 2017: 1.40%)
- Over 2 million customers now on Fixed Low Price Plans (FLPP)
- Strong growth in TalkTalk Business (TTB) Ethernet base of 8.3k (2017: 7.7k) and continued Data revenue growth
- Our FTTP plans are progressing well; Chairman and CEO now appointed to the new Company
- TalkTalk has agreed Heads of Terms for the sale of its direct B2B business to The Daisy Group (Daisy) for £175m

Financial Highlights

- Total Headline revenue (ex-Carrier and Off-net)[(2)] +1% to £1,564m (2017: £1,555m); Q4 Headline revenue (ex-Carrier and Off-net)[(2)] +2%
- Statutory Revenue £1,708m (2017: £1,783m), 4% decline
- Headline EBITDA[(2)] in line with consensus[(3)] at £233m (2017: £361m)
- EBITDA movement driven significantly by investment in base growth and FLPP ARPU dilution
- Statutory operating loss £18m (2017: profit £95m); Statutory loss before taxation £73m (2017: profit £70m), after £119m of one-off costs associated with re-organising and simplifying the business
- Net debt/Headline EBITDA[(4)] 3.0x (2017: 2.2x)
- Final dividend 1.50p (2017: 5.00p), total 2018 dividend 4.00p (2017: 10.29p)

Looking forward

- Headline revenue growth
- Stabilising ARPU
- Base growth in line with previous guidance at more than 150k
- Continuing strong Ethernet base growth in TTB consistent with 2018
- Before adjusting for the impact of the Daisy transaction (c.£15m Headline EBITDA in 2019) we still expect to deliver 15% Headline EBITDA[(2)] growth in 2019, as per our previous guidance, as a result of a larger customer base, stabilising ARPU, material WLA savings and other significant cost reductions
- Non-Headline items, both P&L and cash, expected to be lower year on year

(1) All customer KPIs relate to the On-net base. The closing Off-net base amounted to 43k at the end of 2018 (2017: 62k), representing c.1% of the total broadband base.

(2) See note 1 to the consolidated financial statements for an explanation of Alternative Performance Measures (APMs), non-Headline items, and further details regarding the restatement of 2017 Headline results.

(3) Group compiled consensus for Headline EBITDA (excluding Mobile) of £234m distributed to analysts on 17 May 2018.

(4) As calculated for the purposes of the Group's borrowings.

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

We always aim to be the UK's leading value for money connectivity provider of all our products.

What we do

Broadband and Voice

We offer our retail and business customers simple, affordable, reliable and fair connectivity for broadband and voice products. Through a combination of owned and leased assets, our fixed line network currently covers approximately 96% of the UK's homes.

In our retail division, our Fixed Low Price Plans (FLPP) offer customers unique propositions with price certainty over the length of their 12, 18 or 24 month contracts, whilst allowing them to switch to new offers even whilst in contract. Our 'Fast Broadband' FLPP is our standard fixed price broadband plan designed to cater for the needs of individual users or households that do not require increased download speeds available via a fibre connection. Broadband connectivity is provided via a standard analogue telephone line using ADSL technology, which allows for download speeds of up to 17Mbps.

Within our business division, we have a Direct channel, where we offer a range of data connectivity solutions, from business broadband and fibre, through to high-value Ethernet circuits and Wide Area Networks. Across our Voice portfolio we offer both 'Legacy Voice' and 'Next Generation Voice' services. We also have a Partner channel (which accounts for c.83% of TTB's revenues) where we provide both 'managed' and 'wholesale' solutions. Voice and Data revenues are generated through long term relationships, several of which are multi-year contracts. Our managed partners primarily address the consumer and small business market, delivering voice services, broadband and fibre. Having a wholesale offering allows us to work with systems integrators, such as Fujitsu, which often combine connectivity and data solutions from multiple providers to offer large customers such as the Post Office a bespoke solution.

TTB also provides voice interconnect services to a range of international mobile operators terminating calls in the UK.

Fibre

We offer both retail and business customers access to fibre broadband connectivity, provided via our Fibre to the Cabinet (FTTC) network using VDSL technology. Our retail 'Faster Fibre Broadband' FLPP is designed for households with a number of devices that need to be connected to the internet at the same time, offering download speeds of up to 38Mbps or 76Mbps with a fibre speed boost. We also offer fibre connectivity to business customers providing them with totally unlimited broadband, allowing them to do more online at the same time, with five times faster download speeds.

We are making good progress in putting TalkTalk at the heart of Britain's fibre future (FTTP) by building a full fibre network, bringing faster, more reliable internet to millions of homes and businesses. In York our Ultra Fibre Optic broadband is helping us to provide our fastest ever broadband speeds (1,000Mbps). Further to this, we recently announced our plans with Infracapital to create an independent company that will roll-out full fibre to over 3 million UK homes and businesses over the medium term.

TV

TalkTalk TV lets our retail customers pick and mix their perfect TV package – with up to 80 Freeview channels, as well as flexible access to an extensive range of premium content from Sky, BT Sport and Netflix. Our YouView set top box enables customers to pause, rewind and record live TV. That, combined with our catch-up TV service and TalkTalk TV store app, provides the customer with flexible, great value entertainment.

Mobile

We have simplified our mobile offering, moving away from our previous MVNO proposition. Our new simple and compelling proposition allows customers to access unique offers in partnership with O2 that are only available to TalkTalk customers.

We also offer a variety of mobile plans for businesses giving staff access to voice, email and internet data on the move on a fast 4G network powered by O2.

Our business

Fixed low price plans
2 million+

Customers
4.1 million

Unbundled exchanges
3,000+

Ethernet connections
51,000+

Customer downloads a month
339 million GB

Employees
2,288

uSwitch Best Broadband, TV and Home Phone

Winner 2018

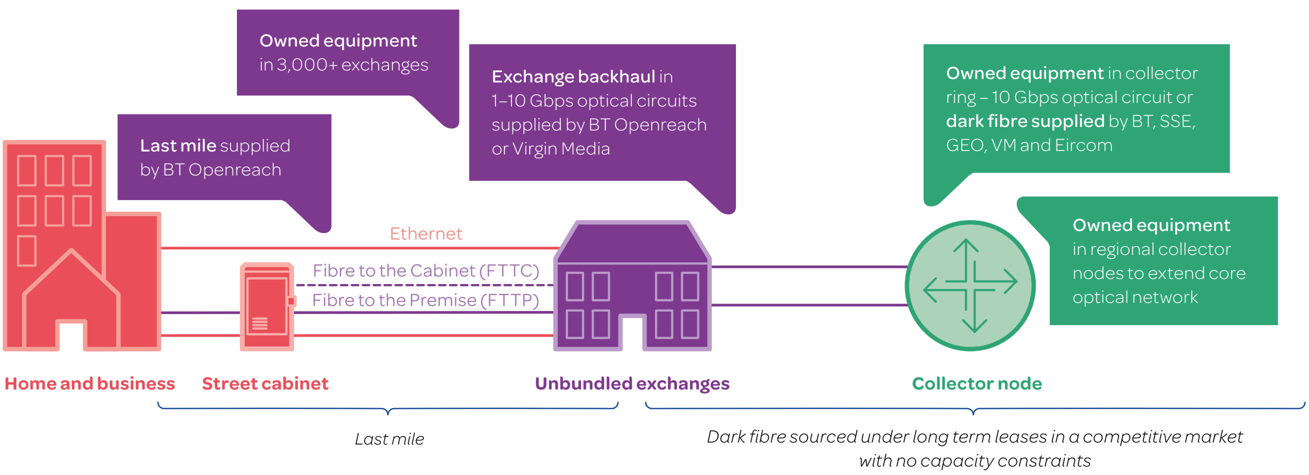
uSwitch BEST BROADBAND, TV & HOME PHONE WINNER 2018

Best Workplace

Winner 2018

Great Place To Work. Best Workplaces Large Category UK 2018

How we are connected



Price-regulated copper and Ethernet

Fibre partially regulated

Core optical network Two separate national networks with 8Tbps (Huawei) and 1.6Tbps (Infinera) capacity

18 For more information see our Chief Financial Officer's Statement

Chairman's introduction

Sir Charles Dunstone
Executive Chairman

We have worked hard to radically simplify the business, reduce costs and focus on what matters to our customers and shareholders.

The last twelve months have brought a great deal of change for TalkTalk as we have focused on the process of resetting and refocusing the business. If I think back to the end of 2016, it had become increasingly clear to me that change was needed. TalkTalk had become too complicated as an organisation, with wide-ranging ambitions. As a consequence we had strayed from our prime mission of providing reliable and cost-effective connectivity to our customers.

There are two lessons I have learnt in business. If your instinct tells you to change something, then get on and change it. In hindsight I hesitated too long. Secondly, when you come to make those changes and start to delve into it, things will prove to be more difficult than you imagined. This I also found to be the case.

We have worked hard since that time to radically simplify the business, reduce costs and focus on what matters to our customers and shareholders. We have made enormous progress and I would like to thank everyone in TalkTalk for their dedication and commitment in driving forward our reset. I am confident that by the end of the financial year, we will be the business we believe we should be.

The telecoms market has always been competitive, with demanding customers who not only seek reliability and value for money, but year on year consume ever increasing amounts of data. It requires agility and focus to keep up with their needs and I truly believe we are now building a TalkTalk which has this capability.

To our customers, employees and shareholders, thank you for your support and forbearance. I apologise for the bump in the road of last year and take full responsibility for it. All I can promise is that I am fully engaged, working with a great team and determined to help this organisation reach its full potential.

Sir Charles Dunstone
Executive Chairman
24 May 2018

Our investment case

1. **Our uniquely simple propositions are resonating well and driving base growth in both Consumer and B2B**

2. **The uncertain economic environment is driving strong customer demand for better value and price certainty in fixed connectivity**

3. **Our customer service operation is stable and network investment and associated efficiencies are paying off**

4. **A more beneficial regulatory environment underpins cost reductions and provides stability for future FTTP investment**

5. **TalkTalk is at the heart of Britain's fibre future – building a full fibre network as a minority investor and anchor wholesale tenant of the new company with Infracapital**

Chief Executive Officer's review

Tristia Harrison
Chief Executive Officer

> It is just over a year since we reset TalkTalk to focus on sustained customer growth and radically simplifying the business on core, fixed connectivity.

We made strong progress on both in 2018, whilst also taking long term decisions to set the business up for future success, with a strengthened balance sheet and the launch of our full fibre strategy.

Market Context

We enter 2019 with a clear market opportunity for a value provider of fixed services. As the internet becomes an ever more important utility for families and businesses, consumer demand for connectivity continues to rise. Bandwidth requirements on our network rose by 43% last year, creating strong demand for higher capacity, higher value products.

Economic uncertainty, however, means residential and business customers need value and pricing certainty. That creates real opportunity for a value challenger, offering simple, affordable, reliable and fair connectivity to Britain's homes and businesses.

Core Business Performance

We returned the base to sustained growth after several years of decline. We reported 192k net adds for the full year, compared to a decline of 49k in 2017. Crucially, we saw strong growth across the Consumer and B2B divisions. We have now reported five consecutive quarters of growth in net adds.

192k
Customer base growth in 2018

2m+
Customers on Fixed Low-Priced Plans

We continued to see strong demand for fibre, with 348k net adds. 45% of new acquisition customers now take FTTC services from us, reflecting the rising bandwidth demands from consumers and businesses.

The growth was driven in part by our unique FLPP. Over 2 million customers have now taken one of the plans. A materially higher proportion of the base is now in contract (69%), which, combined with service improvements, means churn continues to fall. 2018 saw us record our lowest ever full year churn of 1.22%, a material improvement on 2017 (1.45%). That means we exit the year with a larger, more stable customer base, setting the platform for revenue growth in 2019. The early behaviour of FLPP customers coming out of contract has been encouraging with churn below expectation.

In our TV business we have continued to invest in strengthening the customer experience. Our customers were the first to benefit from the updated YouView interface, delivering a faster, more seamless viewing experience. We successfully rolled out multi-screen and multi-room features, and launched a new TalkTalk TV app, unifying the TV experience across the set top box, web and mobile devices. We will be expanding our content range over the summer to continue to offer the widest range of content across free, pay, VOD and OTT players.

TalkTalk Business continued its base growth, driven by particularly good performance in indirect services, sold through our network of partner and wholesale channels. 2018 saw TalkTalk Business surpass BT Wholesale to become the largest provider of wholesale broadband in the UK, with more than 50% market share. We see real opportunity to build upon our strength in that market in 2019 and are structuring the business accordingly.

The benefits of a growing base were reflected in rising Headline revenue (ex-Carrier and Off-net), which grew to £1,564m. The strong performance of TalkTalk Business saw revenue growth across Corporate (ex-Carrier) (9%), within which Data and Voice revenue was up 7% and 12% respectively. This was offset by a 3% fall in On-net Average Revenue Per User (ARPU) due to the dilutive impact of FLPP.

However, as expected, Headline EBITDA[1] declined to £233m (2017: £361m) reflecting the planned investment in base growth and FLPP ARPU dilution.

Simplifying the business and sale of direct B2B business to Daisy

We made strong progress in simplifying the business as we focus on core fixed connectivity throughout 2018.

We completed a strategic partnership with O2, to distribute 4G SIMS to our base at discounted prices. The partnership allows us to continue offering great value mobile services to TalkTalk customers, but does so in a capital-light way that allows us to ruthlessly prioritise Capex on core, fixed connectivity. Early conversion rates are promising and the deal provides a profitable, ongoing revenue stream into 2019 and beyond.

We are also announcing further simplification in TalkTalk Business, having reached Heads of Terms on the sale of all the direct B2B business to Daisy for £175m c.80,000 small, medium and large direct business customers will be transferred to Daisy, which will reduce EBITDA by c.£15m in 2019. As an existing strategic partner, Daisy are well placed to serve all of our direct customers, who will remain on our network and provide ongoing revenue. The deal allows TalkTalk Business to further prioritise the indirect market, where it has real strength and where we see opportunity to grow at pace. It also allows us to remove significant cost and complexity from the business.

(1) See note 1 for an explanation of Alternative Performance Measures (APMs), non-Headline items, and further details regarding the restatement of 2017 Headline results.

Chief Executive Officer's review continued

Simplifying the business and sale of direct B2B business to Daisy continued

As we continue to simplify the business to focus on fewer priorities, we are making significant Opex and Capex reductions, which we expect to drive material cost improvements in 2019. We go into the year as a leaner, more efficient business and that cost discipline will continue to underpin our value propositions.

Setting the business up for future success

We have made progress in addressing financial challenges. A £201m equity raise (net of issue costs), combined with a reduction in dividend and the sale of our direct B2B business all strengthen the balance sheet and reduce net debt. In turn, that enables us to continue investing in sustainable growth and our full fibre strategy.

Given our focus on core connectivity it is essential that our foundations are strong and that we are able to adapt to the changing needs of our customers, whilst continuing to scale. As such, we will continue to incur non-Headline items in relation to our multi-year network and IT transformation programme, which will fundamentally restructure the Group's network, IT infrastructure and technology organisation. This programme is expected to run until 2021 and underpins the wider Group strategy ensuring that it is fit for the future. Furthermore, as part of simplifying the business we have incurred costs in relation to winding down our MVNO operations as we move to our partnership with O2 and the reorganisation programme implemented following the reset to deliver a leaner, simpler business.

Full Fibre

We have made good progress in positioning TalkTalk to be one of the biggest beneficiaries of the transition to full fibre. We remain on track to establish an independent infrastructure company with Infracapital. Through this partnership we intend to build a new full fibre network, reaching 3 million homes and businesses. The partnership builds on our successful trial in York and takes advantage of the strong regulatory and political support for infrastructure competition. We see real opportunity to leverage our customer base to ensure TalkTalk is at the heart of Britain's full fibre future.

We are delighted to announce that Paul Reynolds has been appointed to Chair the new company Infraco. Paul brings extensive experience of leading major telecoms and infrastructure businesses. As CEO of Telecom New Zealand, he oversaw the world's first structural separation of retail and network companies and led the roll-out of full fibre services. Prior to that he held senior roles at BT, including serving on the Board as CEO of BT Wholesale. He led the creation of BT Openreach as a functionally separate business, as well as BT's network strategy and global technology functions. He served as Chair of AAPT, one of Australia's largest telecoms companies and was on the board of Japanese telecoms company, eAccess. Most recently Paul served on the Board of Eir in Dublin.

We are also pleased to announce that Charles Bligh will become the CEO of the new independent company. Charles currently serves as Chief Operating Officer of TalkTalk. He has also served on the TalkTalk PLC Board since 2014. Prior to this he was the Managing Director of TalkTalk Business, Technology and Security. Charles was also responsible for the initial TalkTalk JV starting the FTTP journey four years ago. Charles worked at IBM for almost 22 years where he held a number of senior executive and board roles and has worked internationally in Australia, US, China and Japan. He will remain on the TalkTalk Board until the end of June and leave TalkTalk once the new entity has been formed.

We are currently making good progress on the third phase of our full fibre trial in York. When completed, the network will reach 54,000 premises. We have begun trialling the use of Openreach ducts and poles to ascertain the potential to further reduce build costs.

The new company and its shareholders have begun detailed planning for future cities and will say more about city selection in due course.

> We enter 2019 with strong growth momentum. We will maintain our focus on growing the base, and forecast net adds of more than 150k, in line with our previous guidance.

Looking into 2019

We enter 2019 with strong growth momentum. We will maintain our focus on growing the base, and forecast net adds of more than 150k, in line with our previous guidance.

We also expect Headline revenue growth, as well as Headline EBITDA growth of 15% before adjusting for the impact of the Daisy transaction, driven by three factors:

1. the benefits of a larger base and stabilising ARPU flowing through into revenue and earnings;
2. regulatory tailwinds, as Ofcom's WLA materially reduces the amount we pay BT Openreach for wholesale FTTC services; and
3. cost reduction in Opex and Capex as we continue to simplify the business and focus on fewer priorities. This includes rolling out new digital tools for customers to self-serve, which delivers improved customer satisfaction and significant cost savings for the business.

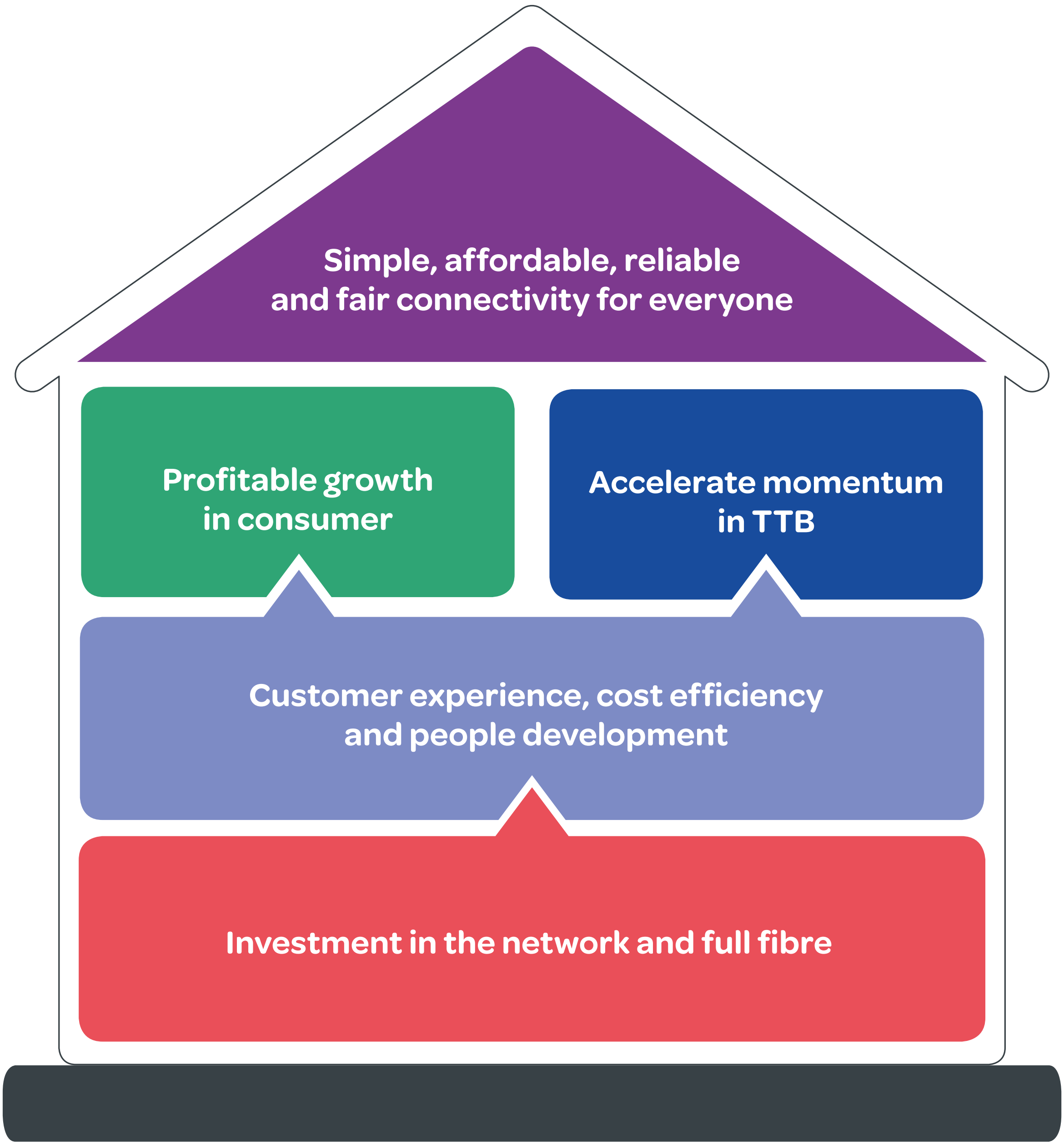
At a Statutory level we will be reducing our non-Headline items in 2019 with the bulk of our transformational costs having now been incurred. As such P&L non-Headline items are expected to reduce materially. Whilst cash non-Headline items are expected to reduce, they will be higher than the P&L expense due to the phasing of payments.

In summary, a year into the reset, we have made good progress. We have returned the base to growth, laid the foundations to continue to simplify our operations and strengthened the business. We will now see the benefit of that as we move into 2019. There is a lot more to do, but we have strong growth momentum and a clear opportunity to fulfil our potential as Britain's value provider of simple, affordable, reliable and fair connectivity.

Tristia Harrison
Chief Executive Officer
24 May 2018

Simple, affordable, reliable and fair connectivity for everyone

The opportunity for a fixed connectivity value player in the UK is as large today as ever. ARPUs in the UK are now some of the highest in Europe and this is at a time when consumers and businesses are under increasing cost pressure. They are being let down by high priced, cynical incumbents, and this is why our strategy to position TalkTalk as a disruptive fixed connectivity provider, fighting on behalf of the UK's consumers and businesses, remains unchanged.



28 For more information on how we manage our business, see our values

8 For more information on our strategy, see over the page

Our strategy

Our mission is to give consumers a better deal by offering simple, affordable, reliable, fair connectivity for everyone and, in the process, deliver good returns to our shareholders. We will do this by focusing on our four key strategic objectives:

1. Profitable growth in consumer

Since the inception of TalkTalk, our network capability, cost advantage and ability to offer multiple value for money services has enabled us to build a large and sustainable share (approximately 16%) of the UK fixed line broadband market (source: Ofcom). There is significant opportunity for us to drive further growth and enhance the customer experience in our Consumer division in the following ways:

i) Highly disruptive, great value fixed price plans
In October 2016, we launched our radically simpler range of Fixed Low Price Plans. The plans are unique in the market in giving customers pricing certainty for the duration of the contract.

This pricing strategy continues to provide customers with the freedom to fix their own package for 12, 18 or 24 months by tailoring mix-and-match broadband, TV, mobile and landline calls to suit their needs. Uniquely in the market, these are available to all our existing customers.

Demand remains strong, with over two million customers on a FLPP at the end of March 2018. This means more of our base – over two thirds – is now in contract.

The majority are contracting for longer periods (18 months: 55% and 24 months: 32%). Customers appreciate not just the material savings the plans offer, but also the certainty and fairness they provide as we guarantee not to increase prices mid-contract.

There is compelling evidence that FLPP is delivering not only reduced churn, but happier, more satisfied customers. FLPP allows customers to save over £400 relative to comparable products with our rivals. This means we have headroom to continue offering meaningful savings relative to the market whilst retaining pricing flexibility.

Additionally, we offer compelling triple and quad play propositions for customers. Our supplementary TV offering is unique in the market for the breadth of content available and the flexibility of access that customers enjoy, without any mandatory subscription or buy-through requirements. Under our new mobile proposition, we can provide customers access to unique offers in partnership with O2 that are only available to TalkTalk customers.

ii) In-home connectivity
We have markedly improved our in-home connectivity experience for customers. A major contributor to this is the higher mix of customers taking fibre products; at the end of March 2018, over one million of our Consumer base had Fibre. In total we had nearly 1.3 million fibre customers (including B2B), representing 33% penetration of the broadband base (March 2017: 25%). 45% of all new acquisition Consumer customers at the end of March 2018 signed up to a fibre product, up from 39% at the half year. We expect this demand to continue in 2019.

We will continue to advance our customer premise equipment. We will launch market leading routers to strengthen network reliability and improve the in-home experience. We have launched multi-room TV optionality to satisfy the demand from customers who want more than one set top box.

2. Accelerate momentum in TTB

As the scale challenger in B2B telecoms, TTB offers a set of services that combine our network reach and magnitude to give market leading value. We serve all end business customer segments – from sole operators to large retailers all the way up to enterprise customers. We currently serve this market both directly (17% of total B2B revenues and c.80k customers) and indirectly (83% of total B2B revenues) through partners, wholesalers, carriers and system integrators. Further information is contained within the Chief Executive Officer's review.

Our wholesale and partner customers provide us with a great route to market and low costs to serve, which, combined with our continuing investment in automation, both improves efficiency and enhances the customer experience. This enables us to continue scaling the business at speed.

Our strong growth in the indirect channel comes as the majority of UK businesses choose to consume their telecoms services via specialist partners. We empower both our partners and wholesale customers to deliver excellent communications solutions. They can then combine these solutions with other areas of their technology platform to meet the needs of the end customer in a way that is impossible for large, traditional telecoms to deliver.

Unencumbered by the need to protect a large high margin legacy business, we have used our Next Generation IP network to empower our wholesale and partner customers to take share from incumbent providers and act as an extended, specialist salesforce with thousands of people helping take TTB enabled solutions to market.

To continue the momentum in TTB, we have three key priorities:

i) Challenge the market with great value and reliable data and voice services

We offer voice and data solutions at great value and we continue to see strong growth across the portfolio. As costs continue to reduce, more businesses are adopting higher margin Ethernet based connectivity services and we are seeing a clear shift to businesses demanding these at higher capacity Gigabit speeds. In IP voice, we have quadrupled the number of SIP channels since our purchase of tIPicall three years ago. We are now running a million minutes daily on our SIP platform as the UK business market reaches a tipping point of IP voice services becoming the norm.

ii) Deliver the innovation the market needs

We are always looking for ways to disrupt the market and we are focused on data access technologies. We are currently trialling G. Fast and FTTP technologies and are significantly expanding our footprint for 1GB and 10GB Ethernet, so we continue to meet our customers' needs as they want to achieve ever higher bandwidths. All these services are delivered via our market leading MyNet portal.

iii) Putting our customers first by being brilliantly easy to do business with

We have consistently improved customer satisfaction, ending the year on an all-time high Customer Satisfaction Index (CSI) score. We will continue to roll-out initiatives to enhance the customer journey, such as the launch of a new online billing platform which will transform the experience for our managed and wholesale data customers.

3. Customer experience, cost efficiency and people development

Enhance customer experience
Throughout 2018 we have worked to enhance the customer experience through the most intuitive sales and service – predominantly self-serve and digital channels.

We concluded an exit from India for all support services and have consolidated these into our strategic partners. We have grown employee knowledge, tenure and operational stability leading to strong Q4 performance across all operational metrics. Our customer community continues to grow in scale (now over 300,000 members) supporting our peer-to-peer support ambitions. Our live chat function saw conversations increasing by 75k in H2 (up 9%) whilst the recent launch of SMS messaging is now reaching 100,000 users a month – with satisfaction scores >85% in both channels.

Looking into 2019, we will continue to progress on this front. Feedback from customers, such as the satisfaction score above, indicates that many customers prefer to self-serve, so we will continue to automate where it matters. New initiatives will significantly reduce call handling time. Inbound voice calls reduced by 300k (7%) between H1 and H2 in 2018, whilst calls answered within 30 seconds increased by 5%.

As well as being what our customers want, this move to a more digital support model also enables us to materially lower our cost to serve.

We have already undertaken a complete revision of service standards and new quality principles are rolling out through an initiative called 'Your Call' where we are investing in voice and text analytics capabilities to support our agent development and coaching.

Throughout the year we will give customers the ability to digitally diagnose and service concerns, which are both large drivers of voice contact today. Customers will be able to track tickets with our support teams at their own convenience lowering customer effort and our operational scale.

We will continue to develop our support offering with a new mobile app to supplement the use of live chat, text messaging and simpler IVR experiences so that every customer can manage their own TalkTalk account with greater ease and simplicity. All this will be complemented with a brand new online help experience launching in the first quarter.

Cost efficiency
As part of our reset we are now more focused than ever on fixed connectivity, whilst remaining capital light elsewhere.

We have made good progress towards reducing complexity in the business by doing fewer things and ensuring we approach them with ruthless efficiency. During the year, we have incurred non-Headline items in relation to operating efficiencies and business reorganisation of £16m (2017: £32m) and £19m (2017: £nil) respectively. Further detail is included within note 9 to the consolidated financial statements.

We are now working to reduce cost to serve per customer, by moving towards a predominantly self-serve/digital model, automating where it matters, having the lowest cost network, and running the simplest and most agile operating model.

We have a proven track record of operational improvement, with previous simplification programmes delivering significant benefits to the business since the demerger in 2010. However, we realise that we can do more outside of big cost saving programmes to ensure that we are operating efficiently.

Consequently, as we advance into the next financial year we will continue to rigorously apply a cost-conscious culture whereby there will be a bottom-up continuous focus on our external spend – challenging all aspects of our cost base to ensure where possible we only spend money that our customers will see a benefit from.

One area where we will not compromise is our fixed network infrastructure, and we will continue to invest to reduce the cost of capacity, reducing the average cost of traffic as demand continues to increase, in order to deliver customer experience improvements.

We will also be improving the efficiency of our support functions to ensure that our overheads are aligned to those of a value provider.

Alongside all of this, regulation continues to underpin much of what we do and the recent Wholesale Local Access Market Review (WLAMR) has resulted in significant real terms price reductions for both Metallic Path Facility (MPF) and Generic Ethernet Access (GEA) products, as well as price reductions on ancillary products, such as installations and engineering services.

People development
At TalkTalk we are committed to creating a working environment where colleagues can be themselves and give their all. A place where peers are called on to out-think the competition and collaborate with each other to deliver great results for our customers. We therefore want to attract, retain and motivate the best talent, and create a high-performance culture that allows us to achieve our potential. In order to do this, we strive to make TalkTalk the best possible workplace for our employees. In April 2018, we were officially recognised as one of the Great Place to Work Institute's UK Best Workplaces in 2018, among just 37 organisations to make it into the best Large Workplaces category. The aim is now to maintain and build upon this, and we have five core focus areas to help achieve this:

i) Becoming an increasingly agile and efficient organisation
We will continue to design our organisation, operating model and ways of working to be agile and efficient, as we must deliver quickly, accurately and at lower cost.

ii) Developing our capability spikes
We will identify and prioritise the acquisition and development of the capabilities that are most critical for the future success of TalkTalk.

iii) Develop our leadership capability
We will raise the bar on leadership at TalkTalk and ensure all our People Leaders are aligned with our values, and capable of meeting the challenges of a modern, agile workplace.

iv) Enhancing our unique culture
We will work harder than ever to live our values and behaviours because we know they are the route to optimising our culture and succeeding as a business.

v) Delivering the supporting experience
We will develop a seamless end-to-end colleague experience with people practices that enable agility, minimise bureaucracy and create employee NPS.

4. Investment in the network and full fibre

i) Future proofing our network, systems and ways of working

Our network is the very backbone of the service we provide to our customers. To maintain the competitive advantage our network gives us, we need to continually invest and out-innovate our competitors to offer high performance, quality services to both our Consumer and B2B customers. We will continue to optimise the network to maximise bandwidth and service availability whilst always seeking to reduce operating costs. To successfully future proof our network it needs to have scalability and flexibility built within the foundations to support the expansion of existing products, launch of new products and to ensure we can continue to meet the changing needs of our customers. We have several initiatives to provide additional capacity and reduce costs:

- Access Network Transformation (ANT) – This programme addresses capacity and scalability issues in the access and metro network, deploying new next generation edge devices, and revising the topology and architecture for both optimised traffic management and improved resilience.
- Optical backhaul strategy – Fibre optic backhaul is the next wave of network efficiency to maintain our cost advantage and underpin growth in FTTP and Business Ethernet services. By utilising a hybrid adoption strategy of both lit and Dark Fibre we will deliver each Gigabit at the lowest possible cost.
- Core transport – Upgrade of the transport capacity of our core network and replace end-of-life equipment.
- Route optimisation – Reduction of number of hops and interfaces per connection in the transport network, creating 'super highways' both at IP and optical layers.

Where these activities are part of a fundamental transformation of the network and forms part of our network transformation programme, related costs of £19m (2017: £11m) have been recognised within non-Headline results. Further detail is included within note 9 to the consolidated financial statements.

To complement our investment in our network we will also invest on our internal systems and ways of working, with our technology department taking the lead to deliver and support cross-functional initiatives to provide a 'digital organisation' experience for employees. We are committed to delivering next generation working for all colleagues and a migration to Office 365 sits at the very heart of this, enabling us to provide a more secure, robust, stable and collaborative toolset.

ii) Relentlessly improving security and compliance

Cyber-crime is a rising threat to businesses and organisations globally but keeping our customers and their data secure is a key priority for us. As threats evolve, so must our response. We will continue to take significant steps to enhance our security capabilities. In 2019, we will continue to mature and enhance our controls across all the security domains based on the National Institute of Standards and Technology's (NIST) Cyber Security Framework. We have already invested heavily in our in-house team, which has a wide range of prevention, detection and response tools in place to mitigate against, and manage security risks. We will continue to work closely with external security experts and law enforcement agencies, to share intelligence and ensure our processes align to best practice. We also have visibility of security practices across all our partners and suppliers and hold them to the same standards as we maintain internally.

iii) Accelerating FTTP roll-out

Full fibre is the essential infrastructure but for too long, Britain has been falling behind – the UK has just 3% FTTP penetration and ranks behind nearly every developed country in the world. TalkTalk is determined to help change that. We are already a full fibre leader, as we roll out a full fibre network in York, which currently reaches nearly 20,000 homes as we progress towards our target of 54,000 premises. We have proved in York that we can bring affordable full fibre to the public just like we brought affordable broadband to people a decade ago, and we see a substantial opportunity to scale this to more homes and businesses across the UK. As such, in February 2018 we announced that Heads of Terms had been agreed with Infracapital, the infrastructure equity investment arm of M&G Prudential, to establish a new company to build out the UK's low cost and alternative FTTP network. TalkTalk will take a minority stake (20%) and be the wholesale anchor partner. The joint venture will put up a potential equity investment of up to £500m (enabling total investment, including debt, of c.£1.5bn) to provide full fibre to more than three million homes and businesses in mid-sized towns and cities in the UK. By partnering with Infracapital we are making good progress towards putting TalkTalk at the heart of Britain's fibre future by building a full fibre network, bringing faster, more reliable internet to millions of homes and businesses.

Regulatory environment

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

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

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

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

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

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

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

We rely upon a number of wholesale products from Openreach to be able to offer services to our customers. The key wholesale products are LLU (the copper connections into homes/businesses), Generic Ethernet Access (GEA) (access to BT's FTTC network) and Ethernet (fibre links used to connect exchanges to our core network and also to connect some business customers). The prices and terms of these are set by Ofcom though a triennial market review process which gives us reasonable certainty of future costs.

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

Electronic communication services

Ofcom Strategic Review of Digital Communications

Following a consultation in July 2015, Ofcom published the 'initial conclusions' from its Strategic Review of Digital Communications (Strategic Review) in February 2016, designed to take a longer term, more holistic view than the triennial market reviews.

In July 2016, Ofcom proposed its solution that Openreach should be set up as a wholly owned subsidiary of BT (referred to as legal separation). TalkTalk has argued for a stronger structural separation remedy, where Openreach would be divested, believing that legal separation did not go far enough.

In March 2017 Ofcom announced that BT had offered voluntary commitments to legally separate Openreach, in lieu of a mandated process. The voluntary commitments establish Openreach as a separate legal entity with its own board though BT is permitted to continue to influence Openreach's decision making. Furthermore, Openreach will not own the assets it uses.

The process to complete the legal separation of Openreach is ongoing. Ofcom has committed to monitor the new arrangements and if they are not effective will review whether to impose structural separation. We continue to engage with Openreach and Ofcom to urge quicker progress and believe that structural separation will be required if the legal separation does not yield tangible consumer benefits.

Broadband services

LLU charge control and service standards

In March 2018, Ofcom published its final determination in the 2018 Wholesale Local Access Market Review (WLAMR) which set regulated prices and quality levels for MPF and GEA. This determination has resulted in significant real terms price reductions for both MPF and GEA. The MPF price is expected to remain essentially flat in nominal terms, moving from £84.38 in 2017/18 to £85.36 in 2020/21, while the 40/10 GEA price is expected to fall from £88.80 in 2017/18 to £59.91 in 2020/21. Other GEA products (both lower and higher speeds) remain unregulated; Ofcom has set out that it expects that their prices will reduce to reflect the increased competition from the regulated 40/10 product. This is the first time that Ofcom has imposed a charge control for GEA products on Openreach. There are also significant price reductions on the preponderance of ancillary products, such as installations and engineering services.

At the same time, quality of service standards imposed on Openreach will increase substantially. In particular, the proportion of fault repairs completed on time will rise to at least 88% in 2020/21, from 80% today; and 90% of new line installations must have an appointment within ten days of being notified, compared to 80% within twelve days at present. These increased levels of quality of service are likely to materially benefit TalkTalk's customers.

Duct and pole access

Ofcom confirmed its decision to require BT to improve wholesale access to its ducts and poles so that BT's rivals can use these assets to roll-out their own FTTP networks. The improvements include: relaxing the usage restrictions to allow the use of BT's ducts and poles for leased lines alongside broadband; requiring BT to fix faults and relieve congestion to make its assets 'ready for use' to enable third party access; and reducing and capping the rental prices BT can charge for duct and pole access. Duct and pole access could benefit us by reducing the cost and increasing the speed of the roll-out of our own FTTP network. We are trialling its use in York.

Universal Service Obligation

The Digital Economy Act 2017 gives the Secretary of State the power to introduce a new broadband Universal Service Obligation (USO), providing residential and business customers with a legal right to request a broadband service of 10Mbps or more. In July 2017 the Government published a consultation on the design of the USO. TalkTalk supported a 10Mbps USO, but advocated a formal, regulated approach that guaranteed costs were spread fairly across the industry. We were opposed to an alternative BT proposal that would have introduced the USO on an unregulated basis, with costs spread to only a sub-set of the industry. In March 2018 the Government confirmed that it would pursue a formal, regulated USO and tabled the appropriate secondary legislation in Parliament. Ofcom will now consult on which provider(s) will deliver the USO and how it should be funded.

Business Connectivity Market Regulation

In November 2017 the Competition Appeal Tribunal (CAT) released its judgement on BT's appeal regarding various aspects of the regulatory structure for leased lines, and in particular market definition and the imposition of a dark fibre remedy. The CAT found in BT's favour, and overturned the market definition which was the basis for the regulatory structure of the leased line market. Subsequent to this, Ofcom reimposed large elements of its 2016 Market Review on an emergency basis, to cover the period until the conclusion of the next regulatory review in March 2019, in particular the price and quality of service regime which had been imposed on EAD lines. However, it did not reimpose the dark fibre access (DFA) remedy, instead opening a consultation on whether this remedy should be reimposed on a more limited basis than previously. In April 2018 Ofcom set out that it did not plan to impose a DFA remedy in the current regulatory period, but that it would be considering an enhanced DFA remedy in future. We are disappointed in Ofcom's decision, and will be arguing strongly that an unrestricted, cost-reflective, DFA remedy should be imposed to take effect from April 2019, along with further cuts in the pricing of Openreach's Ethernet product portfolio.

Regulatory environment continued

Universal Service Obligation continued

FTTP policy

The Government ambition is for 15 million premises to be connected to full fibre by 2025. It is committed to promoting infrastructure competition and bringing down barriers to network deployment to support this vision:

- £400m stimulus for private sector investment available through the Digital Infrastructure Investment Fund;
- £200m Local Full Fibre Networks programme for local projects designed to boost further commercial roll-out;
- a nationwide Gigabit Voucher scheme for SMEs and residential customers;
- 100% business rates relief for new full fibre infrastructure from 2017–2022; and
- dedicated barrier busting unit to reduce red tape and bring down the costs of network build.

We are engaging actively with Government on its full fibre programmes and the Future Telecoms Infrastructure Review to shape policy that supports competitive investment.

Automatic compensation

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

Mobile telephony

EU roaming regulations for mobile telephony services

Whilst we wind down our MVNO operations, we continue to be subject to EU regulations relating to prices for roaming services. These regulations set limits on certain wholesale and retail tariffs for international mobile voice roaming, SMS tariffs and data roaming within the EU, provide for greater levels of transparency of retail pricing information, and impose measures to guard against bill shock in respect of data roaming. In November 2015, the EU passed legislation on the maximum retail roaming surcharges that can apply from 30 April 2016 and the removal of roaming surcharges from 15 June 2017.

We are engaging actively with Government on its full fibre programmes and the Future Telecoms Infrastructure Review to shape policy that supports competitive investment.

The European Commission adopted the implementing regulation on fair use and sustainability on 15 December 2016 and the wholesale roaming regulation came into force during 2017. Once we fully transition to our new mobile arrangement with O2, the regulatory compliance issues will be the responsibility of O2 as the MNO.

Television and video-on-demand regulation

In the UK, we are required to hold individual licences under the Broadcasting Acts 1990 and 1996 for any television channels (including barker channels) which we own or operate and for the provision of certain other services on our cable television platform, such as electronic programme guides. These Television Licensable Content Service (TLCS) licences are granted and administered by Ofcom. Under these licences, each covered service must comply with a number of Ofcom codes, including the Broadcasting Code, and with all directions issued by Ofcom. Breach of any of the terms of a TLCS licence may result in the imposition of fines on the licence holder and, ultimately, the licence being revoked.

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

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

Other material current or potential regulation

Brexit

On 23 June 2016, the UK voted to leave the European Union (EU). The UK Government has been considering how the vote will impact the future of telecoms regulation in the UK. Final decisions will be subject to terms of the UK's future relationship with the EU. We are working closely with the Government and Ofcom on the issue. We are not advocating radical regulatory changes as Britain withdraws from the EU.

Appeals reform

The Digital Economy Act 2017 strengthened the regime for legal appeals against Ofcom decisions. The Act imposes a higher standard for appealing Ofcom's decisions, thus putting Ofcom on a similar footing to other UK sector regulators. We are supportive of this change, as a stronger, more confident regulator will be beneficial to us and the industry.

Child online safety

The Digital Economy Act 2017 introduced new powers designed to protect children from accessing pornography online. The Act enables Government to appoint a regulator that can compel ISPs to block access to pornographic websites that do not have adequate age verification mechanisms in place. We have worked very closely with the Government and the regulator, the British Board of Film Classification, on the issue. Implementation of a new system has been delayed until late 2018, but we remain supportive of the new powers as a proportionate way to protect children online. We have also engaged constructively with ministers and officials on the Government's Internet Safety Strategy. We have advocated a more strategic approach to the issue, which focuses on fewer, scalable solutions to the range of online harms children may encounter.

Investigatory Powers Act

The Investigatory Powers Act 2016, which consolidates and updates existing legislation governing the retention and sharing of communications data, received royal assent on 29 November 2016. We worked closely with the Government on the details of the legislation.

Government ambition

15m

Premises to be connected to full fibre by 2025

Illegal file sharing

We, along with other major ISPs, have voluntarily agreed to send educational notifications to customers who have an IP address assigned to their account which has been detected as being used for illegal peer-to-peer file sharing. Along with BT, Sky and Virgin Media, we sent the first notifications to customers in early 2017. Separately, and pursuant to various court orders, we are required to block access to certain sites that are used for illegal file sharing and for trademark infringement.

Overall trends

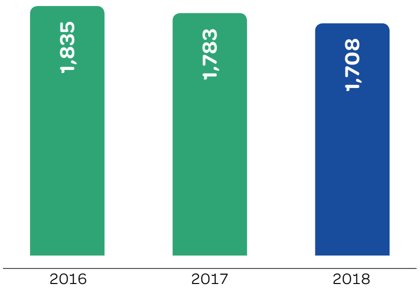
Overall, the regulatory climate for telecommunication services providers in the UK is one that increasingly favours challenger businesses such as ourselves. Materially lower wholesale FTTC prices and higher minimum Openreach service standards support the core business in the short term, whilst our long term interests are supported by a regulatory and political climate that supports competitive FTTP investment.

Overall, the regulatory climate for telecommunication services providers in the UK is one that increasingly favours challenger businesses such as ourselves.

Measuring our performance

Financial metrics[3]

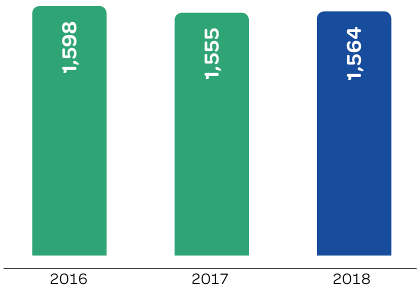
Statutory revenue (£m)



Definition
Total Statutory revenue.

Comment
Statutory revenue declined by 4% with On-net revenues down 1% but Corporate revenues (excluding Carrier) were 9% higher. Statutory revenue includes revenue of £50m (2017: £63m) from our MVNO operations which we announced the planned closure of in 2017.

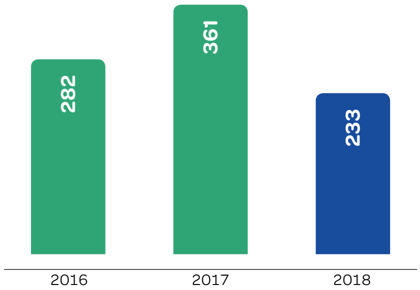
Headline revenue[1] excluding Carrier and Off-net (£m)



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

Comment
Headline revenues excluding Carrier and Off-net grew by 0.1%, with On-net revenues down 1.1% offset by Corporate revenues (excluding Carrier) which were 9.0% higher.

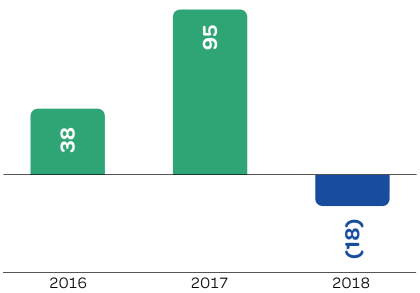
Headline EBITDA[1] (£m)



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

Comment
Headline EBITDA[1] declined by 35% predominantly due to FLPP ARPU dilution, planned investment in base growth and the impact of prior year restatements.

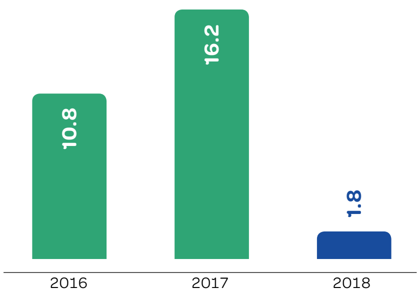
Statutory operating (loss)/profit (£m)



Definition
Total Statutory operating (loss)/profit.

Comment
Statutory operating loss arose during the year due to FLPP APRU dilution, planned investment in base growth and non-Headline items.

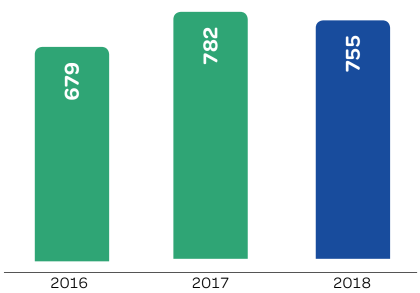
Headline basic EPS[1] (p)



Definition
Basic EPS excluding non-Headline items.

Comment
Headline basic EPS declined mainly due to a decline in Headline EBITDA and increased finance costs.

Net debt [1] (£m)

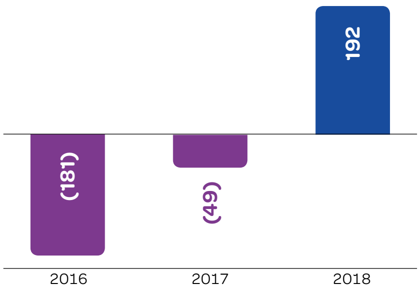


Definition
Represents total borrowings after derivatives offset by cash and cash equivalents including finance leases.

Comment
Net debt improved during the year largely reflecting the £201m equity raise in February 2018 offset by the cash costs of non-Headline items and dividends paid during the year.

Non-financial metrics[3]

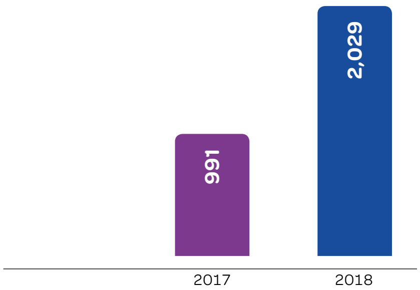
Broadband net adds[2] (000)



Definition
The net of new broadband customers[2] joining TalkTalk and those leaving TalkTalk.

Comment
Our broadband base[2] grew by 192k in the year as we invested in returning the business to growth, our FLPP propositions gained traction and strong performance in wholesale.

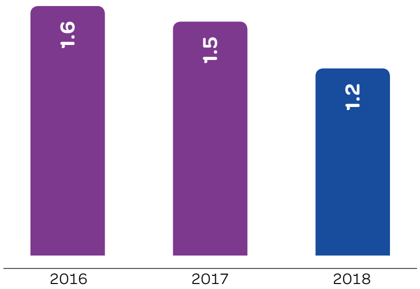
FLPP Base (000)



Definition
The number of customers currently on of our fixed low price plans.

Comment
We added over 1 million customers to our fixed low price plans during the year, taking the base to over 2 million, representing nearly 70% of the Consumer base, compared to 34% a year ago.

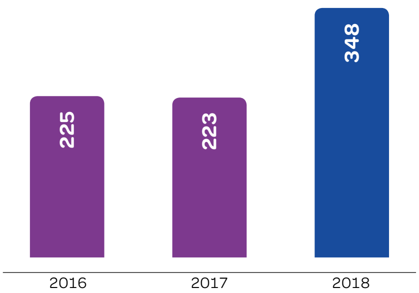
Churn[2] (%)



Definition
The percentage of our customer base[2] leaving TalkTalk each month.

Comment
Churn has seen a significant improvement in 2018, reducing to its lowest ever reported level. This is driven by the growth of the in-contract base (now 69%), alongside other operational and customer experience improvements.

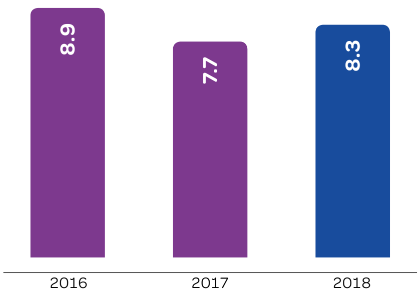
Fibre net adds (000)



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

Comment
Growth in the Fibre base accelerated in the year, adding 56% more customers year on year, taking the overall Fibre base to nearly 1.3 million, representing 33% of the MPF base compared to 25% a year ago.

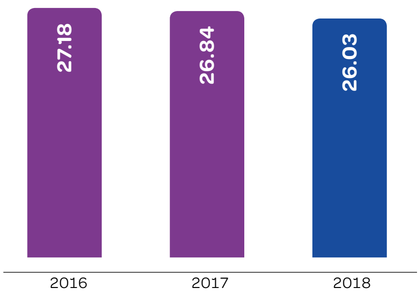
EFM and Ethernet net adds (000)



Definition
The net of new customers connecting to Data products and those disconnecting from Data products.

Comment
8,300 net new high-speed data lines connected in the year. Business demand for high-speed data continues to remain very strong.

ARPU (£)



Definition
Average monthly revenue per on-net customer.

Comment
ARPU fell by 3% year on year due to the dilutive impact of FLPP.

(1) See note 1 to the consolidated financial statements for an explanation of APMs, non-Headline items, and further details regarding the restatement of 2017 Headline results.
(2) All customer KPI's relate to the On-net base. The closing Off-net base amounted to 43k at the end of 2018 (2017: 62k), representing c.1% of the total broadband base.
(3) Following the reset of the business and the current strategic focus of the Group, the KPIs presented have been changed to better reflect the metrics most relevant to the Group.

Chief Financial Officer's statement

Kate Ferry
Chief Financial Officer

Investment in growth delivered 192k net adds in 2018, and foundations are in place for operating profit growth in 2019.

Throughout this Chief Financial Officer's statement, alternative performance measures (APMs) are presented as well as Statutory measures. This presentation is consistent with the way that financial performance is measured by management, reported to the Board, the basis of financial measures for senior management's compensation schemes and assists in providing supplementary information that assists the user to understand better the financial performance, position and trends of the Group.

Overview

The Group has delivered on its key priority of growth with 192k net adds delivered during the financial year (2017: 49k decline) and we grew the in contract Consumer customer base year on year from 59% to 69%. This investment has enabled us to deliver Headline revenue (excluding Carrier and Off-net) growth, but came with an in year cost to the Group's Headline EBITDA which was down year on year. Our Statutory loss before tax of £73m was down from a £70m profit in 2017 and included non-Headline items of £119m (2017: £129m). In February 2018, we raised £201m through the issue of equity to strengthen the Group's balance sheet, support continued customer growth and invest in long term FTTP plans. Consistent with the announcement in February 2018 the Board has recommended a final dividend of 1.50p taking the total dividend for the year to 4.00p (2017: 10.29p). Net debt/Headline EBITDA as calculated for the purposes of the Group's borrowings equates to 3.0x (2017: 2.2x). Committed headroom at 31 March 2018 was £348m (2017: £412m).

Group revenue

Headline revenue (excluding Carrier and Off-net) (2) of £1,564m was 1% higher year on year with On-net revenues down 1% but Corporate revenues (excluding Carrier) 9% higher. The decline in On-net revenues reflects the lower average Consumer base compared to 2017 and a 3% fall in ARPU due to the dilutive impact of FLPP launched in October 2016, offset in part by the increased penetration of fibre, repricing of legacy propositions following the launch of FLPP and an increased uptake of boosts with FLPP. The growth in Corporate revenues was primarily due to Data, which was up 7% on the prior year reflecting 8.3k new connections to the Ethernet and EFM base.

The Group's total Headline revenue fell 4% to £1,658m reflecting our decision to reduce our activity in the low margin Carrier business and the expected continued decline in Off-net revenues, which now represent only 1% of total Group revenue. Statutory revenue also declined 4% due to the reasons noted above and with MVNO revenues down £13m year on year to £50m as we wind down this business.

Gross margin

Headline gross margin of 53.3% was 210bps lower year on year largely due to FLPP and fibre mix dilution and a reduction in service level related disputes following the industry-wide Deemed Consent compensation scheme launched by Ofcom in 2017. This was partially offset by a reduction in low margin Carrier trading volumes, the impact of price increases and growth in high margin Data revenues.

Statutory gross margin of 52.5% was 194bps lower year on year reflecting the reasons above as well as the fall in gross margin of our MVNO proposition.

Operating expenses

Headline operating expenses increased by £11m year on year due to a deliberate investment in costs to serve as we sought to improve first time fix rates for our customers, operating costs associated with the current incremental investment in our network and the year on year impact of the profit on sale of a data centre recorded in the prior year.

Statutory operating expenses were broadly flat year on year as non-Headline items reduced by £10m to £98m.

SAC and marketing expenses

Headline SAC and marketing expenses increased by £48m year on year, driven by the planned investment in growth and the impact of the extension of our distribution agreement with a major distribution partner in 2017 to outsource the management of fixed line customer acquisitions. During the current year this arrangement enabled us to further accelerate gross additions. The unwind of deferred costs has exceeded current year costs deferred by £8m, whilst in the previous year a net deferral of £24m was recognised, net of expensed hardware costs of £25m (2017: £17m).

Statutory SAC and marketing expenses increased at a lower rate than described above reflecting the reduction in such spend in the MVNO operations which we are now winding down. See further information on non-Headline items below.

Financial information

	2018			2017 (restated)[1]		
	Headline[1] £m	Non-Headline[1] £m	Statutory £m	Headline[1] £m	Non-Headline[1] £m	Statutory £m
Revenue	1,658	50	1,708	1,720	63	1,783
Cost of sales	(774)	(38)	(812)	(767)	(46)	(813)
Gross profit	884	12	896	953	17	970
Operating expenses	(448)	(98)	(546)	(437)	(108)	(545)
SAC & marketing	(203)	(11)	(214)	(155)	(23)	(178)
EBITDA	233	(97)	136	361	(114)	247
Depreciation and amortisation	(131)	(12)	(143)	(126)	(15)	(141)
Share of results of joint ventures	(11)	–	(11)	(11)	–	(11)
Operating (loss)/profit	91	(109)	(18)	224	(129)	95
Net finance costs	(45)	(10)	(55)	(25)	–	(25)
(Loss)/profit before taxation	46	(119)	(73)	199	(129)	70
Taxation	(28)	22	(6)	(45)	33	(12)
(Loss)/profit for the year attributable to the owners of the Company	18	(97)	(79)	154	(96)	58
(Loss)/earnings per share						
Basic	1.8		(8.1)	16.2		6.1
Diluted	1.8		(8.0)	16.1		6.0

Revenue summary	**2018 £m**	2017 (restated)[1] £m
On-net	1,263	1,279
Corporate	373	397
Off-net	22	44
Headline revenue	1,658	1,720
Less Carrier	(72)	(121)
Less Off-net	(22)	(44)
Headline revenue (excluding Carrier and Off-net)	1,564	1,555

(1) See note 1 to the consolidated financial statements for an explanation of APMS, non-Headline items, and further details regarding the restatement of 2017 Headline results.

Headline EBITDA
Headline EBITDA declined by 35% to £233m (2017: £361m) reflecting the factors noted above.

Depreciation and amortisation
Depreciation and amortisation expense has remained broadly flat year on year.

Share of results of joint ventures
Our share of results of joint ventures was flat year on year at £11m and largely consists of the Group's investment in YouView.

Net finance costs
Statutory finance costs for the year were £55m compared to £25m in 2017. This increase was primarily due to the higher rate of interest on the bond issued in late 2017, higher average net debt year on year, the amortisation of additional facility fees offset by interest income recognised in the prior year on agreed service level related disputes. Net finance costs also include £10m in relation to the non-Headline cost of repurchasing 100% of the $185m USPP Notes and the re-financing during the year.

Taxation
The Headline tax charge for the year was £28m implying an effective Headline tax rate of 61% (2017: 23%) against a statutory rate of 19%, mainly driven by the impact of a reduction in the statutory tax rate and the derecognition of certain deferred tax assets.

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

Chief Financial Officer's statement continued

Non-Headline items

	2018 £m	2017 (restated) (1)
MVNO closure	(46)	(77)
Network transformation	(17)	(8)
Business reorganisation	(19)	–
Operating efficiencies – Property	(12)	(8)
Operating efficiencies – MTTS	(3)	(24)
Other	–	3
EBITDA	(97)	(114)
Depreciation and amortisation	(12)	(15)
Finance costs	(10)	–
Taxation	22	33
Non-Headline items	(97)	(96)

(1) See note 1 to the consolidated financial statements for an explanation of APMs, non-Headline items, and further details regarding the restatement of 2017.

Within the Group's Statutory EBITDA there were non-Headline items of £97m (2017: £114m) associated with the closure of our MVNO operations and certain reorganisation programmes.

Following our announcement in May 2017 of our plan to exit our MVNO operations, trading losses of £13m (2017: £28m) have been incurred during the year as well as further exit costs in relation to onerous supplier commitments, decommissioning, asset write-offs and redundancies totalling £33m (2017: £49m). The customer base is currently being wound down and we expect this business to cease operations early in 2019 calendar year.

Our significant multi-year network and IT transformation programme continued during the year incurring costs of £17m (2017: £8m) which will fundamentally restructure the Group's network, IT infrastructure and technology organisation. This programme is expected to run until 2021 and underpins the wider Group strategy ensuring that it is fit for the future.

The Group incurred £34m (2017: £32m) in relation to other reorganisation programmes associated with implementing changes to the Group's organisational structure under the new leadership team, the finalisation of costs associated with our move to our new northern headquarters in Salford, and further rationalisation of our property estate. The operating efficiency reorganisation programmes associated with MTTS and property have now completed.

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

Earnings per share

	2018	2017 (restated) (1)
Headline earnings (£m)	18	154
Basic EPS	1.8p	16.2p
Diluted EPS	1.8p	16.1p
Statutory earnings (£m)	(79)	58
Basic EPS	(8.1)p	6.1p
Diluted EPS	(8.0)p	6.0p

(1) See note 1 to the consolidated financial statements for an explanation of APMs, non-Headline items, and further details regarding the restatement of 2017.

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

Basic Headline EPS was 1.8p (2017: 16.2p) and on a Statutory basis it was (8.1)p (2017: 6.1p). The year on year reduction in EPS reflects the reduction in net profit described above and to a lesser extent the share issue in February 2018 as described below.

Net debt and cash flow

	2018 £m	2017 (restated) (1) £m
Opening net debt(1)	(782)	(679)
Headline EBITDA(1)	233	361
Working capital	(50)	(56)
Capital expenditure	(128)	(133)
Interest and taxation	(46)	(33)
Non-Headline items(1)	(73)	(75)
Acquisitions	(8)	(18)
Dividends	(71)	(150)
Share Issue	201	1
Headline net debt(2)	(724)	(782)
Finance leases	(31)	–
Closing net debt(1)	(755)	(782)

(1) See note 1 to the consolidated financial statements for an explanation of APMs, non-Headline items, and further details regarding the restatement of 2017 Headline results.

(2) Represents all drawn amounts on Senior Notes and all bank borrowing facilities offset by cash and cash equivalents.

Net debt was £755m (including finance leases of £31m) at the year end (2017: £782m). Committed headroom at 31 March 2018 was £348m (2017: £412m).

The Group had a net working capital outflow of £50m (2017: £56m) driven by increased stock levels as we invest for growth, lower debtors as a result of our reduced mobile base and lower creditors due to the start of our cost saving programmes.

Capital expenditure for the year was £128m (2017: £133m), representing 7.7% (2017: 7.7%) of Headline revenues. This expenditure is primarily for continued investment and enhancement of our network capability and investment in our online systems to support the launch of new propositions. We expect capital expenditure in 2019 to fall within our capex/revenue target of 6%–7%.

Non-Headline items of £73m (2017: £75m) relate to the cash costs associated with the programmes described above, being primarily the closure costs and operating loss associated with the MVNO operations, MTTS, network transformation and property rationalisation programme.

Acquisitions expenditure in the year of £8m (2017: £18m) was mainly on the YouView joint venture of £6m (2017: £10m) and additional investment of 33% in the York FTTP venture (£1m) in which the Group now owns a 67% controlling interest.

On 8 February 2018, the Group announced that an aggregate of 190,654,206 new ordinary shares of 0.1 pence each in the capital of the Company were successfully placed at a price of 107p per Placing Share to raise net proceeds of £201m after expenses.

Dividends

Dividends of £71m paid in the year (2017: £150m) comprised the final dividend for 2017 of 5.00p and the interim dividend for 2018 of 2.50p.

The Board is committed to returning the business to revenue and customer base growth, improving cash generation and reducing leverage, and in this context has declared a final dividend for 2018 of 1.50p (2017: 5.00p), taking the total dividend for the year to 4.00p (2017: 10.29p). For 2019 the Board expects to declare an interim cash dividend of 1.00p (2018: 2.50p) and a final cash dividend of 1.50p (2018: 1.50p) taking the total cash dividend for the year to 2.50p (2018: 4.00p). Looking beyond 2019, the Board expects to return to a more normalised dividend policy once the business returns to earnings growth and has reduced leverage towards the Group's mid-term net debt/Headline EBITDA target of 2.0x.

The final dividend for 2018 will be paid on 3 August 2018, subject to approval at the AGM on 18 July 2018 for shareholders on the register on 6 July 2018 (ex-dividend 5 July 2018).

1.8p

Headline basic EPS[1]

Funding and capital structure

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

The Group continues to review its funding and capital structure with the objectives of diversifying sources and managing both the average tenor and interest cost. During the year the Group made further changes to its funding structure, re-financing the £560m 2014 RCF with a £640m 2017 RCF in May 2017 and repurchasing the $185m US Private Placement Notes in August 2017 to better align our capital structure with the Group's strategy. Following these changes, the average term of our debt at 31 March 2018 was three years nine months.

At 31 March 2018, the Group had total committed facilities, of £1,115m (2017: £1,244m), further detail of which is given in note 18 to the consolidated financial statements. At 31 March 2018, £767m (2017: £832m) had been drawn under these facilities, leaving £348m (2017: £412m) of undrawn facilities.

The Group was in compliance with the terms of all its facilities, including the financial covenants, at 31 March 2018 and throughout the year and expects to remain in compliance with the terms going forward.

CE Ferry

Kate Ferry
Chief Financial Officer
24 May 2018

(1) See note 1 to the consolidated financial statements for an explanation of APMs, non-Headline items, and further details regarding the restatement of 2017.

Effectively managing risks

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

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

The Group's risk management framework facilitates continuous and ongoing discussion of risks and associated risk appetite to ensure the appropriate focus is placed on mitigating principal risks. The Board will continue to assess the principal risks and uncertainties faced by the Group and will update the risks and mitigation plans accordingly.

08 For more information on our strategy

Strategic governance

Board

Audit Committee

Remuneration Committee

Nomination Committee

Operational and financial governance	First line of defence	Second line of defence	Third line of defence
Senior Management Team	Operational management	Central support functions	Audit and Risk function (including Internal Audit, risk management and external advisers)

Risk and impact	Mitigation
Customer trust and brand reputation ↓ 1 2 4	
Customer confidence and trust are critical to TalkTalk's business, and the Group's operating approach always seeks to do what is right for the customer. However, as a value for money connectivity provider in the market, there is a risk that TalkTalk is perceived as a 'budget' provider, associated with price rather than quality and service. Business and industry challenges including cyber threats and scam calls or poor customer experience also present a risk to brand reputation and trust. Failure to maintain trust, improve brand reputation and offer a positive customer experience may result in a negative impact to customer satisfaction, increased churn, performance decline or loss of investor confidence.	TalkTalk remains confident of the role for a well-regarded value operator in the market and is committed to delivering a positive end-to-end customer experience. TalkTalk introduced its Fixed Low Price Plans (FLPP) in October 2016 which have resonated strongly with customers and, combined with the ongoing transformation of customer services, the Group has seen a return to growth in the core business in 2018 which is expected to continue into 2019. The Group also continues to invest in network and systems to support the provision of reliable products to customers as well as ongoing investment in and focus on security (see Data and Cyber Security Risk). These factors have contributed to improving the risk landscape with increased customer confidence and improving customer satisfaction. In addition, TalkTalk continues to support customers in dealing with the industry-wide issue of scam calls. Initiatives such as the 'Beat the Scammers' campaign and the launch of Call Safe are designed to help customers protect themselves from the threat of scams. TalkTalk will continue to focus on existing as well as new customers, guided by the four key principles we believe are critical to being a value for money connectivity provider – simplicity, affordability, reliability and fairness.
People — 3	
TalkTalk recognises employees as a key asset and aspires to be a 'Great Place to Work' for all colleagues. We understand the increasing challenges and importance in the market of defining an effective operating model and attracting and retaining the right talent to deliver organisational performance and future growth aspirations. Failure to attract and retain required talent and competencies within an effective organisational environment may negatively impact our ability to deliver on performance targets and strategic objectives.	TalkTalk has established values which act as a cultural framework and are embedded through the business in recruitment and performance management processes. Structured talent forecasting and assessment processes are in place to ensure required talent is proactively understood and actions plans are in place to actively manage attrition risks and succession. These processes also ensure a proactive review of the senior management level to ensure the right leadership is in place for motivating, inspiring and leading the workforce to deliver on the corporate objectives. A people scorecard is also in place for ongoing monitoring and oversight of people risk and, where required, actions to further mitigate risk exposures are identified and implemented. In addition, Group-wide activities are carried out to assess the level of employee engagement and insight gained is used to develop action plans to ensure a highly engaged and motivated workforce is maintained. TalkTalk has this year been recognised by 'Great Place to Work' one of the UK's Best (Large) Workplaces, which recognises the impact of sustained improvement of our people practices.
Competitive landscape — 1 2 3	
TalkTalk is established as a value for money connectivity provider in the fast growing quad play market. The value proposition is a key part of the business model and to date has provided competitor differentiation. Over the last year significant competitor activity has continued with similar intensity to prior year. The competitive landscape therefore remains largely unchanged with varying degrees of activity in most product channels. The risk that this competitive backdrop makes it difficult for TalkTalk to maintain its value credentials remains consistent with prior year.	A clear pricing strategy is in place with ongoing monitoring of pricing position and value proposition. The strategy is reviewed to ensure it remains competitive and continues to support our position as a value for money provider against the changing competitor landscape. FLPP continues to see strong customer take-up as it offers both new and existing customers the opportunity to lock in their price for the term of their contract guaranteeing no mid-contract price rises. The introduction of FLPP along with the focus on continuous improvement in connectivity has seen a return to growth across both residential and business customer bases. In 2019, the Group will continue to focus on connectivity and delivery of plans for further improvement in the customer experience including enablement of greater self-serve. These 2019 plans form part of the risk mitigation and driving an improved net risk position. In addition, competitor pricing activity continues to be monitored to understand customer and market impact and plans are revisited accordingly if necessary. TalkTalk uses customer communications to promote its simple, affordable, reliable and fair messages and is committed to helping customers understand the best positioned package to meet their needs.

Gross risk

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

Strategic objectives

1 Profitable growth in consumer
2 Accelerate momentum in TTB
3 Customer experience, cost efficiency and people development
4 Investment in the network and full fibre

Principal risks and uncertainties continued

Risk and impact	Mitigation

Changing market structure

— 1 2 3 4

Risk and impact

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

BT Group agreed to the legal separation of Openreach in March 2017 and implementation is in progress under close scrutiny by Ofcom. Uncertainty remains about the extent to which this will drive network investment and service quality.

Ofcom's Wholesale Local Access Market Review (WLAMR) has led to:

- requirements for Openreach to make it cheaper and simpler for competitors to use its existing infrastructure when building networks;
- caps on wholesale broadband prices, including a reduction in superfast broadband prices; and
- higher service standards for Openreach installations and repairs.

Together these decisions are expected to promote infrastructure competition and increase the incentives for Openreach to invest in full fibre networks while protecting consumers over the 2018–21 market review period.

Government is providing stimulus for alternative network investors through the Digital Infrastructure Investment Fund, the Local Full Fibre Networks Programme and the creation of the Barrier Busting Unit to reduce the cost of network build by removing red tape. Government has kicked off a Future Telecoms Infrastructure Review (FTIR) to assess future market structure.

Until Ofcom concludes its Business Connectivity Market Review for the period 2019–22, some uncertainty will remain over dark fibre access, which allows companies to use their own equipment to run Openreach fibre lines themselves, rather than renting much more expensive managed services from Openreach.

Mitigation

TalkTalk continues to be a vocal advocate of competition and is well placed to benefit from an increasing trend towards a more pro-competition regulatory framework. This poses a significant risk to incumbent players in the market, whilst presenting potentially valuable opportunities for challengers. The business is actively engaging with the necessary external stakeholders to share views and attempt to deliver the best market and customer outcomes, as well as to proactively understand and respond to the opportunities and challenges presented by structured market changes.

TalkTalk is closely engaging with Openreach on product and service developments, including FTTP roll-out plans, in order to pursue favourable outcomes for TalkTalk under the new governance arrangements. It is also monitoring the effect of legal separation of Openreach from BT Group and feeding in to Ofcom's Openreach Monitoring Unit.

TalkTalk's announcement of its plans to set up a new company with Infracapital with ambitions to provide full fibre to more than 3 million homes and businesses demonstrates that it will also play a central role in alternative infrastructure investment in the UK leveraging the market and regulatory opportunities.

TalkTalk is engaging with the Government's full fibre initiatives, including the barrier busting unit, and maintaining a pro-competitive position in the FTIR.

TalkTalk is calling for a dark fibre access remedy in the Business Connectivity Market Review.

Regulatory compliance

↑ 1 2 4

Risk and impact

The telecommunications sector is highly regulated, with compliance over key customer-focused regulations monitored by the governing body, Ofcom. Another of the key governing bodies relevant to the Company is the Information Commissioner's Office (ICO). The regulations and laws that TalkTalk must comply with, including Ofcom General Conditions and data legislation, are designed to support customers.

The regulatory landscape is increasingly challenging with many significant regulatory changes landing in the next 12 months including the General Data Protection Regulation (GDPR) which comes into force in May 2018, revisions to Ofcom General Conditions which primarily come into force in October 2018 and the introduction of the Automatic Compensation code that comes into effect in February 2019.

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

Mitigation

The Group's Regulatory Compliance Committee, a subcommittee of the Board, has continued to convene throughout the year to monitor the mitigation of operational risks which could give rise to customer complaints and regulatory breaches. The Group Legal Counsel and Company Secretary has chaired weekly compliance meetings throughout the year, attended by senior management.

There are clear lines of accountability both in first-line operations and in our second-line assurance function and there has been continued focus on embedding processes and controls to maintain compliance to industry regulations including focus on delivering improvements in our complaint handling processes and reducing complaint volumes.

Plans are also in place to deliver the significant volume of regulatory changes which come into force over the next twelve months.

TalkTalk has established structured programmes to deliver changes resulting from Ofcom's end-to-end review of its General Conditions. The progress of this activity will be governed by the existing Compliance Committee and meetings to ensure effective delivery.

In 2018 TalkTalk has invested significantly in implementing processes, systems and controls to deliver compliance with the GDPR. Investment and focus will continue in 2019 as activity in relation to embedding compliance to the new GDPR is a multi-year programme of work.

Risk and impact	Mitigation
Data and cyber security — 1 2 4	
Security of customer, commercial and colleague data poses increasing reputational and financial risk to all businesses and the gross risk remains high. In particular, emerging developments in cyber and data related threats and crime consistent with prior years present a significant challenge in terms of securing data and systems against attack. TalkTalk receives most of its revenue through card transactions and like many businesses utilises third parties as part of doing business. TalkTalk recognises that failure to successfully secure data and systems against attack may have a material impact on brand reputation and financial performance. Other associated costs may also be incurred, including potential regulatory fines.	In 2018 TalkTalk has continued to invest in and focus on actively implementing an ongoing programme to build security capability. Investment is also planned to continue in 2019. The organisation's security strategy is centred around four strategic themes: • Secure by Design; • Secure in Operations; • Secure Third Parties; and • Secure Culture. The strategy is underpinned by the NIST Cyber Security Framework and is positioned to continuously improve the security maturity of the organisation, as well as maintaining and updating ongoing activities (such as monitoring activities, vulnerability scanning, penetration testing and the data loss prevention solution) to ensure they remain fit for purpose. Over the last two years significant investment has been made in building out a bigger security function and capability including successfully establishing an in-house Security Operations Centre, which went live in autumn 2017. The security function has worked closely with the Group Data Protection Officer over the last twelve months to support delivery of the new data protection requirements under the General Data Protection Regulation and will continue to maintain a collaborative approach to maturing the organisation's security posture. These activities and investments are supporting management of the risk and improving net risk trajectory. In addition to the above, a robust governance structure remains in place with the Security Committee meeting every two months. This is a subcommittee of the Board, chaired by the Chief Executive, with senior executive representation and including a Non-Executive Board member.
Resilience and business continuity — 1 2 4	
TalkTalk is reliant on its infrastructure as well as key third party suppliers and partners in order to deliver quality products and services to its customers. Network, system or third party failure could result in significant disruption to services or business processes, which may have a negative impact on customers and therefore damage customer loyalty or drive complaints. It is therefore important to establish resilience in the network and require resilience from our third parties and partners. The approach adopted for supporting infrastructure and associated resilience, including use of third parties, is regularly reviewed to ensure an optimal model is maintained which drives resilience and efficiency. There is a risk that changes to approach may not be delivered effectively resulting in a negative impact to operations. It is also noted that in the event of an incident, TalkTalk must be able to respond in an efficient and effective manner in order to minimise impact on customers and performance.	Network resilience is assessed and monitored on a regular basis and, over the last year, TalkTalk has continued to deliver network improvements and simplification at pace supporting greater resilience. Continuous monitoring of network availability is also in place to ensure any issues are identified in a timely manner and resilience testing takes place. Where an incident does occur, a robust incident response process is in place and exercised to ensure effective response, followed by a problem management review that is linked to service improvement. The Group recognises that network resilience is also reliant on the dependency on Openreach for the last mile and as such Ofcom focus on BTOR processes, systems and controls should help mitigate the risk. Other prioritised critical processes, systems and third parties are identified and business owners are assigned accountability for assessing resilience and implementing business continuity plans to enable continuity of operations in the event of an incident. TalkTalk also continues to invest in supporting appropriate resilience on critical systems taking a risk-based approach. For third parties, the relationship owners are assigned accountability for requiring critical third parties to have adequate business continuity plans in place and obtaining third party assurance that their plans have been reviewed and tested on a regular basis. To support the service improvement, simplification and cost reduction agenda in 2019, TalkTalk will look at opportunities for rationalising third party partners. Where the partner landscape is rationalised, structured transition programmes will be put in place to manage the transition and mitigate key transition risks.

Gross risk

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

Strategic objectives

1 Profitable growth in consumer
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Principal risks and uncertainties continued

Risk and impact	Mitigation
Financial — 3 4	
As with many organisations, TalkTalk must actively manage liquidity risk. Other key financial risks include availability of long term funding, the ability to comply with covenants and other terms of funding arrangements, and foreign exchange and interest rate risk. In addition, there are a number of changes to accounting standards that will be adopted in 2019 and 2020, in particular IFRS 15 and IFRS 16 respectively (see note 1 to the consolidated financial statements).	The Group Treasury function is responsible for managing the Group's liquid resources and managing compliance with the terms of funding agreements. Policies and operating procedures are in place and these are regularly reviewed to ensure they remain appropriate for the business. The Executive Committee and the Board oversee the liquidity and funding position of the Group on a regular basis and are required to provide approval on major and significant funding decisions. In addition to the above, TalkTalk recently announced an equity placing which raised £201m, the net proceeds of which will be used to strengthen the Group's balance sheet, support continued customer growth and invest in long term FTTP plans. The Group Treasury function is also responsible for managing foreign exchange and interest rate risks in line with the Group's policy. TalkTalk has established projects to deliver the required changes to accounting standards over accounting for revenue from contracts with customers (IFRS 15) and lease accounting (IFRS 16) and the status of these projects is tracked as part of the Change Management Framework.
Change delivery and execution — ↓ 4	
Delivery of performance and strategic objectives and development of the business is reliant on the ability to successfully deliver innovation and other operational changes required to support growth and performance. Failure to effectively deliver significant change programmes and associated benefits critical to TalkTalk's strategy would result in an inability to deliver performance objectives and limit TalkTalk's competitive position in the market.	A formal change framework is in place for delivery of change projects which helps ensure appropriate process and governance are in place to drive successful project delivery. The framework is intended to ensure a desired level of quality is reached throughout the lifecycle of each project and has continued to support successful delivery of key change programmes in 2018, including implementing monitoring capabilities for the in-house Security Operations Centre. The Group Change function remains a key effective control for facilitating prioritisation discussions to ensure people and financial resources are appropriately engaged, allocated and focused. Performance measures for key change projects are defined and monitored and regularly reviewed by Group Change. Monitoring and oversight of key change projects occur at both the business unit leadership team level and by the Executive Committee on a regular basis, enabling real time consideration of the potential impact of other operational and strategic activities on change projects. In addition, as part of the organisational reset, TalkTalk has aimed for further simplification by concentrating on fewer, more focused initiatives to support delivery of simplified, clear strategic objectives. This inherently limits delivery and execution risk.

Gross risk

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

Strategic objectives

Strategic objectives

1 Profitable growth in consumer
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People

Mark Dickinson
Chief People Officer

We are committed to creating a working environment where colleagues can be themselves and give their all. A place where peers are called on to out-think the competition and collaborate with each other to deliver great results for our customers.

Building a Great Place to Work

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

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

The feedback from the 2018 engagement survey informed our 'Great Place to Work' strategic priority and our focus on four key areas:

- Future Organisation – evolving our structure and making sure we have the right skills and capabilities for the future.
- Next Generation Working – creating a working environment that is frictionless, flexible and collaborative.
- Culture – being clear about the values and behaviours we need to be successful.
- Operational Excellence – ensuring that we continually monitor and improve the areas that colleagues expect us to deliver every day.

Some of the highlights include:

1. Future Organisation

We constantly review our organisation size, shape and capabilities. We use a methodology called 'Future-back' to help us predict which skills and capabilities we need to develop or acquire.

Colleague performance and development

In 2018, we increased our digital learning portfolio by introducing additional online resources for our colleagues via third parties, extending our reach in technical skills in particular whilst providing a cost-effective solution for the business.

For our customer facing colleagues we have redesigned our onboarding programme focusing on improving speed to competency. A key element of the redesign is a greater emphasis on customer experience in line with our strategy to become the UK's most recommended. For our offshore colleagues, an innovative solution that we have introduced is our Virtual Reality training which enables us to transport our colleagues directly into the lives and homes of our customers. This has resulted in a far greater level of understanding of our customers enabling our front-line colleagues to deliver an improved level of customer experience.

With the introduction of GDPR regulations, we have completed an engaging campaign to all TalkTalk colleagues highlighting the importance of compliance, how to remain compliant and how to find out more information.

We have developed and now deliver a quarterly induction specifically for new People Leaders who have joined, or have been promoted, which sets them up with everything that they need to know to get up and running as a People Leader at TalkTalk.

In terms of providing 1:1 support for our colleagues, we continue to deliver our flagship Mentoring and Spot Coaching programme and we have embedded training to aid the development of our values and behaviours, harnessing the tools and resources available.

Apprenticeships

We launched our apprenticeship programme in 2017, recruiting six apprentices into our technology business area, studying a range of technical skills degrees. In addition, we launched an internal degree apprenticeship programme for 15 colleagues that offers degree pathways across Leadership and Management and Digital Technical Solutions. Over the course of the programme, apprentices gain job-specific skills, working alongside our Tech experts who provide support, guidance and inspiration. They are also supported by an external skills coach.

Graduates

In 2018 we enrolled six graduates onto our Online Digital business area. The graduates work alongside tech professionals gaining valuable experience. The graduates underwent a thorough induction programme, have been allocated mentors and attend soft skills training to help support their career development.

People continued

Living our values every day

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

2. Next Generation Working

At the start of 2017 most of our colleagues were based in the North West of England in two sites about ten miles apart. We wanted to change that and create one workplace where our people can do great work in a flexible, modern, attractive environment. In June 2017 we moved into our new North West site, the Soapworks, in Salford Quays. Colleagues have responded well to the new environment; the scores in our Great Place to Work survey 2017 for 'Our facilities contribute to a good working environment' have gone up 13% to 69%. We also believe that the 9% increase in our collaboration scores is also largely due to the improved working styles at this new location.

Giving people the tools to work flexibly and enhance collaboration across the business continues to be a key focus.

Over the last twelve months, we have reduced email traffic by 28% and increased the amount of instant messaging conversations by 27% using Skype for Business to help us collaborate faster and more efficiently. We have also hosted over 3,000 hours of Skype conferences helping our colleagues to run their meetings remotely without incurring the time, cost and environmental impact of travelling. Our SharePoint enabled intranet (The Wire) continues to be a core source of information and networking for colleagues and is visited on average 5,000 times a day.

3. Culture

Our unique culture exists thanks to the colleagues who live our values every day. In May 2017 following consultation with the business, we rearticulated our values, to make them clearer, and introduced a new sixth value – 'We deliver our commitments', to place even greater emphasis on accountability and quality of delivery. We are integrating these values and the associated behaviours throughout the colleague lifecycle to reinforce our culture, ensuring that we are recruiting, developing and celebrating our people for demonstrating the qualities that are most important for our continued success.

Colleague recognition

In January 2018 we launched a new online recognition platform; 'Shout Out', where colleagues can recognise their peers for living one of our six values. The nominations are then shortlisted by our One Voice colleagues, and each month we recognise our 'Shout Out Six' – the winning colleagues receive gift vouchers and are celebrated via our internal channels. In addition, the Company makes a charity donation for each individual piece of recognition given through the platform, with the charities being chosen on a quarterly basis by our 'Shout Out Six' winners. This platform has been a great success with an average of 28 'shout outs' per day; colleagues are enjoying the ability to recognise each other and say thank you.

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. In 2017, TalkTalk Superheroes were rewarded with a weekend trip for two to any European city.

28

'Shout Outs' per day

4. Operational excellence

Colleague benefits and share ownership

We continue to offer a comprehensive range of voluntary benefits categorised under our four wellbeing pillars, (Financial, Mental, Physical and Lifestyle), enabling colleagues to make choices to suit their individual preferences. We evaluate these on an annual basis and continue to offer our colleagues a high degree of flexibility, with the ability to opt in and out of certain benefits throughout the year as their circumstances change.

Share ownership remains an important part of our culture and over 43% of our people currently participate in our Sharesave and Share Match Plan Schemes. Having so many of our people as shareholders creates great engagement and alignment with the interests of our investors. We strongly 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 discounted mobile packages with our partner O2 and TV content offers throughout the course of the year.

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 feedback and discuss other relevant colleague matters.

Colleague communications and events

We keep our colleagues up to date, energised and engaged with a variety of channels. In 2017 we introduced TV screens across all floors of London and Soapworks sites so we could issue news to colleagues in real time whether that be our network performance or reminders of upcoming events and training. Our online collaboration tool, The Wire, remains a critical communication tool for the business and supports posting and blogging at all levels of the organisation, so colleagues can share what they are working on and seek feedback. We have continued to run 'We Talk' sessions on The Wire which involve hosting an online Q&A on a specific topic so that colleagues can ask any related questions and have them answered by a subject matter expert. We provide all colleagues with an overview of all the key business news from The Wire every Friday, in an email publication called 'Re:Wired'. We also issue bi-weekly email communications to all People Managers with all the key information they need to support their teams.

In May and November 2017, we communicated the progress we had made across our strategic priorities with an 'All Hands' tour of every site in the UK and abroad. In the summer of 2017 we also hosted two summer parties (Soapworks and London) as a thank you to all colleagues.

43%

of our people participate in our Sharesave and Share Match Plan Schemes

Gender and diversity

The Great Place to Work survey told us that 90% of us agree that we have created an environment where people feel they can be themselves and are treated fairly. We are proud of this and are determined to build on it, ensuring this is a truly inclusive place where people feel that they can be at their best.

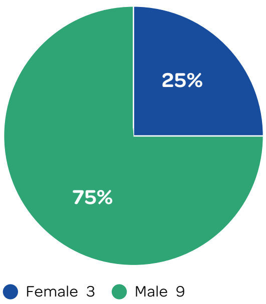
In February 2018, in line with the new gender pay gap reporting regulations, we reported a mean gender pay gap of 14.6% and a median gender pay gap of 14.1% both on the new Government Gender Pay Reporting website and on our own corporate website. Our gender pay gap summary, which can be found in both of these locations, outlines the reasons behind our figures and what we intend to do to close the gap over time.

A key focus for us in helping to close the gender pay gap is to invest in our female leadership population. In early 2018 we began new partnerships to support our female colleagues at TalkTalk through an external mentoring scheme with The 30% Club and a partnership with WISE.

The importance of diversity, equality and non-discrimination is highlighted in our Equality Policy and clearly articulated in our corporate value – 'We can be ourselves here' – which guides the respectful way we behave towards each other. We believe that people from all walks of life thrive here – that difference makes us stronger, more fun and a better place to work.

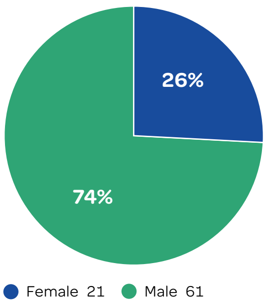
A breakdown by gender of the number of people who were Directors of the Company, senior managers and other colleagues as at 31 March 2018 is set out below.

Gender diversity – Directors*

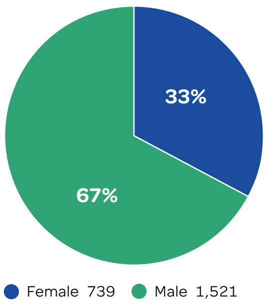


* Including Non-Executive Directors

Gender diversity – senior management



Gender diversity – all colleagues



Corporate social responsibility

At TalkTalk we want everyone to enjoy the benefits of being connected. That is why we have continued to focus our efforts on improving digital skills, safety and security. Working with our partners Good Things Foundation and Internet Matters, we have delivered a full calendar of activity to help ensure the services we offer are a force for good for everyone, from our customers to wider society.

Digital skills and inclusion

There are 11.5 million people in the UK who do not have the basic digital skills needed in today's world. Many are older, disabled or financially disadvantaged – precisely those who would benefit from being connected to loved ones and useful information and services. To address this, we have worked with Good Things Foundation (previously Tinder Foundation) for six years. They bring together community partners to run the Online Centres Network, thousands of UK venues where people can gain the support and digital skills they need to overcome social challenges.

This year we donated £100,000 to the charity, a significant part of which was used to fund a series of grants awarded to Online Centres used by vulnerable learners, with the additional objective of helping half of those learners complete an e-learning module we co-created with Good Things Foundation to promote safe online behaviour.

By the end of the year, £31,000 in grants had been awarded, supporting 496 people (342 of whom had completed the safety e-learning module). TalkTalk employees have continued to volunteer as Digital Champions at local Online Centres, helping learners gain vital digital skills.

Digital safety and security

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

Last year we continued to offer SuperSafe Boost free to all customers, providing protection from viruses and malware, plus the peace of mind of secure web browsing. To date it has been subscribed to by 1.9 million customers (an increase of 58% year on year).

TalkSafe, a way of identifying a customer when they call using their voice, has seen continued take-up. As at 31 March 2018, 1.2 million customers had activated the feature.

Blocking scam and unwanted calls was a big priority in 2018. We blocked millions of scam calls every month at a network level and in December, went a step further with the introduction of CallSafe, a free security feature for customers that screens inbound calls.

Once activated, when a customer receives a call, the caller is asked to record their name. CallSafe will then play it back to the customer and they can choose how to handle the call. Unwanted callers usually hang up at this stage because they do not want to leave their details. In the first three months, nearly 100,000 customers had activated the feature, blocking around 11 million calls each month (as at 31 March 2018).

We continued 'Beat the Scammers', our education and awareness campaign to protect consumers from scams and encourage activation of our free protection tools; thousands of customers a month report scammers' details to us online to help us prevent them from targeting other customers on our network. Action Fraud data shows a 75% reduction in reports of scam calls where the caller has purported to be from TalkTalk.

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

To help keep children safe online, in 2014 we joined forces with BT, Sky and Virgin Media to create Internet Matters, an independent not-for-profit organisation that provides information, support and advice for parents and carers. This year we invested £300,000 in Internet Matters and generated over £4.8m of in-kind marketing value supporting awareness and information campaigns, leading to a 12% increase in brand awareness among customers who are parents.

TalkTalk joined the Royal Foundation's Taskforce on the Prevention of Cyberbullying in 2016 and has continued to provide a full time secondee throughout this year to support the organisation's mission to provide young people and families with the resources required to deal with cyberbullying. We have also promoted the work of the Taskforce through our partnership with Internet Matters, to help improve awareness and understanding of the issue.

TalkTalk is also a member of the Internet Watch Foundation, the not-for-profit entity that works tirelessly to eliminate child sexual abuse imagery online. In 2018 we donated £95,000 and we continued to implement the charity's URL list service so that our customers are prevented from accidentally stumbling upon child sexual abuse imagery. It also helps protect those victims from having their images seen repeatedly.

Ambitious about Autism

Every year we host a gala dinner and auction for Ambitious about Autism, which, thanks to the enthusiastic participation of colleagues, customers and suppliers, has raised over £3.5m for children and young people with autism; this year's auction raised £420,000 for the charity.

We are passionate about the positive role technology can play in improving lives and there is no doubt that technology is critical in helping to open the world to the children and young people that Ambitious about Autism supports. One of the projects we have helped to fund and set up is 'Talk about Autism', an online community where families can get advice and support and share their experiences. The forum now has over 11,000 members and last year received over 430,000 visits.

Supporting our people

We have also been proud to support the causes that matter to our employees who could nominate a registered charity to receive £50; in 2018 we donated £24,800 to over 130 UK charities.

Protecting our environment

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

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

Emissions from:	**2018 Tonnes of CO_2e**	2017 Tonnes of CO_2e	2016 Tonnes of CO_2e
Combustion of fuel and operation of facilities	**10,526**[2]	1,205	1,172
Electricity, heat, steam and cooling purchased for own use	**11,593**	15,261	16,819
Company's chosen intensity measurement:			
Emissions reported above, normalised to tonnes of CO_2e per average gigabit of bandwidth[(1)] (tCO_2e/gb)	**7.9**	7.7	10.3

(1) Average gigabit of bandwidth for the year ended 31 March 2018 is 2,805gbs (2017: 2,138gbs; 2016: 1,748gbs; 2015: 1,182gbs).

(2) Increase in the year due to an incident in one of our data centres where the gaseous fire suppression system was activated. This unfortunately resulted in emissions equivalent to 9,817 tCO_2e/gb. Such systems are necessary to protect network equipment and we are currently exploring alternative protection systems which offer the same protection but with lesser global warming impact.

This information was calculated using the methodology set out in Environment Reporting Guidelines (ref. PB 13944), published by Defra in June 2013. Emission factors are taken from the BEIS emissions factor update published in 2017.

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.

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

tCO_2e/gb	**2018**	2017	2016
Energy[(1)], transport[(2)] and hotels	**28**	29	38

(1) Primarily electricity, but also some natural gas and backup generator fuel.

(2) Includes rail, air and car travel.

We continue to hold ISO 50001 accreditation and Carbon Saver Gold certification, and will again participate in the Carbon Disclosure Project.

Modern slavery

The Group is committed to identifying and challenging aspects of our work that have the potential to be high risk within our business and from within our supply chains, including those of our sub-contractors and partners.

Strategic Report approval

This Strategic Report was approved by the Board of Directors on 24 May 2018 and is signed on its behalf by:

Tristia Harrison
Chief Executive Officer

Kate Ferry
Chief Financial Officer

Leading with experience

Executives

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

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

Charles Bligh
Chief Operating Officer
Charles is the Chief Operating Officer of TalkTalk; prior to this he was the Managing Director of TalkTalk Business, Technology and Security joining the Group in November 2011 and the PLC Board in 2014. Previously Charles worked at IBM for almost 22 years where he held a number of senior executive and board roles leading multi-billion-pound businesses. Charles has worked internationally in Australia, the US, China, Japan and emerging markets in Asia. Charles is also a Trustee of the National Children's Orchestras of Great Britain.

Kate Ferry
Chief Financial Officer
Kate was appointed Chief Financial Officer of TalkTalk in October 2017. Prior to joining TalkTalk, Kate was a Director of Investor Relations and Corporate Affairs at Dixons Carphone Plc for almost eight years, originally brought in as Corporate Affairs Director in 2010 to facilitate the demerger from TalkTalk. Kate began her career in audit with PwC before moving to Merrill Lynch as a Director within the equity research team where she spent the next ten years. Kate is a chartered accountant and a member of the Heads Together Advisory Board.

Non-Executives

Ian West
Senior Independent Director
Ian joined the Board in February 2011 and is the Senior Independent Director. He has been involved in the TMT sector for over 30 years as a manager, director and investor. Ian held numerous roles at Sky over eleven years, latterly as Managing Director of the Sky Digital subscription business. Ian is also currently an investor in, and/or Director of, a range of small and medium-sized businesses and co-founded Top Up TV in 2003. Ian was a supervisory board member of Kabel Deutschland.

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

Sir Howard Stringer
Non-Executive Director
Sir Howard joined the Board in July 2012. Until June 2013, he was Chairman of Sony Corporation, where previous appointments included President and CEO. Prior to Sony Corporation, Sir Howard had a distinguished 30 year career as a journalist, producer and executive at CBS Inc., and President of CBS Broadcasting. In addition to his role at TalkTalk, Sir Howard is Chairman of the American Film Institute, SAID Business School Oxford and New York Presbyterian Ophthalmology Center, as well as being a board member of BBC Commercial Holdings Ltd and Chairman of Atrium TV.

John Gildersleeve
Deputy Chairman
John is Deputy Chairman having joined the Board in 2010, as well as being the Chairman of The British Land Company plc. John was previously the Deputy Chairman and Senior Independent Director of Spire Healthcare Group plc until May 2017, Chairman of Carphone Warehouse Group plc until March 2010, and a Non-Executive Director of Pick n Pay SA until March 2016. He was also formerly Chairman of New Look Retail Group, EMI Group and Gallaher Group; Lloyds TSB Bank PLC and Vodafone Group; and an Executive Director of Tesco plc.

John Allwood
Non-Executive Director
John joined the Board of TalkTalk in 2010 and is the Audit Committee Chairman. He has spent his entire career in media and telecoms, holding a number of senior executive positions in these sectors, including Chief Executive of Orange UK between 2000 and 2004. Prior to that John spent eight years at Mirror Group plc as Finance Director and Chief Executive. After leaving Orange he was Managing Director of Telegraph Media Group, and Chief Operating Officer and Finance Director of Mecom Group plc. In addition to his role at TalkTalk, he is Chairman at IMImobile plc, Chairman of Albert Technologies and a Director of Creative Education Trust.

Cath Keers
Non-Executive Director
Cath joined the Board as a Non-Executive Director in August 2016, having previously been Customer Director and Marketing Director of O2 UK and Non-Executive Director of Telefonica Europe plc and more recently Royal Mail plc. Cath is Chair of ustwo, a digital product, games and venture business, and Non-Executive Director of Sage Group plc and Funding Circle, supporting growth of small businesses.

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

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

Corporate governance

Chairman's introduction

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

The Board is committed to the highest standards of corporate governance and, in accordance with the Listing Rules of the UK Listing Authority, the Board confirms that in respect of the year ended 31 March 2018 the Company has complied with the ongoing provisions of the 2016 UK Corporate Governance Code issued by the Financial Reporting Council and available at www.frc.org.uk (the 'Code'). The Chairman was not considered independent pursuant to Section A.3.1 of the Code on his appointment to the Board in 2010 as explained below.

Board balance and independence

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

Taking into account the changes to the Board during the year, which are described below, at 31 March 2018, the Board had twelve members.

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

During the period the following Board changes occurred; as noted in last year's Annual Report the Company announced Dido Harding stepped down on 10 May 2017, following which the Company announced on 10 July 2017 a change of Chief Financial Officer which took effect when Iain Torrens stepped down on 30 September 2017 and Kate Ferry was appointed as his replacement on 9 October 2017. Additionally on 15 November 2017, Nigel Langstaff was appointed as a Non-Executive Director. During the period, the function of the PLC Committee that was formed in order to oversee the transition to the new management structure has now been assumed by the Executive Committee, which is attended by all of the Executive Directors including the Chairman.

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

In respect of Sir Charles Dunstone's controlling shareholding the Company had entered into a written and legally binding agreement with Sir Charles Dunstone in compliance with Listing Rule 9.2.2AR(1). However, following the Company's share placement during the year his percentage shareholding is now under 30%, and therefore is no longer required.

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

Leadership

How the Board operates

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

During the period, day to day management of the Company rested with the Group's Executive Committee, which was led by the Chief Executive Officer and was part of the operational management of the Group. As explained above, the PLC Committee that was formed during the period to support transition ended once transition was completed.

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

Board Committees

The Board has established the four principal 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 and business regulatory environment in which it operates.

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

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

(1) James Powell stepped down 24 May 2018.

(2) John Allwood was appointed to the Remuneration Committee on 16 May 2017.

(3) Nigel Langstaff was appointed on 15 November 2017.

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 39 to 41. Other Directors and senior management, including the Chief Financial Officer, the Company Secretary 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 42 to 58. Other Directors, including the Chief Executive Officer, the Company Secretary, the Chief People Officer and advisers, attend by invitation of the Committee.

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

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

Nomination Committee

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

The Committee carries out a formal selection process of candidates, which includes nominees put forward by any member of the Board, and then proposes and makes recommendations regarding appointments to the Board, whether of Executive or Non-Executive Directors. The Committee does from time to time use search consultants in accordance with the procedure agreed by the Board; however, during the period, the Committee has not had to use any search consultants.

During the period the Committee has overseen the appointment of Kate Ferry as Chief Financial Officer and Nigel Langstaff as Non-Executive Director.

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

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

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

Diversity

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

The diversity policy applies equally to all appointments in the Company, and the Board continues to believe that appointments should be made on merit, the key criterion being whether or not the appointee can add to or complement the existing range of skills and experience on the Board. Enhancing diversity at all levels is important and we continue to review it annually in accordance with relevant guidance.

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 responsible for all key areas of compliance across the Group. At these meetings relevant compliance is monitored against a weekly scorecard.

Corporate governance continued

Leadership continued

Number of regular formal Board meetings attended during the year

Director	Role	Board	Audit	Remuneration	Nomination
Number of meetings		6	4	5	2
Sir Charles Dunstone	Executive Chairman	6/6			
Kate Ferry(1)	Chief Financial Officer	3/3			
Iain Torrens(2)	Chief Financial Officer	2/3			
Tristia Harrison	Chief Executive Officer	6/6			
Charles Bligh	Chief Operating Officer	6/6			
John Gildersleeve(3)	Non-Executive Director	5/6		3/5	1/2
Ian West	Senior Independent Director	6/6	4/4	5/5	2/2
John Allwood(4)	Non-Executive Director	6/6	4/4	4/4	2/2
Sir Howard Stringer	Non-Executive Director	6/6			2/2
James Powell(5)	Non-Executive Director	6/6	1/4		
Roger Taylor	Non-Executive Director	6/6		5/5	
Cath Keers	Non-Executive Director	6/6	4/4		
Nigel Langstaff(6)	Non-Executive Director	2/2	1/1		

(1) Kate Ferry was appointed on 9 October 2017.
(2) Iain Torrens stepped down on 30 September 2017.
(3) John Gildersleeve was absent from meetings on medical grounds.
(4) John Allwood appointed to the Remuneration Committee on 16 May 2017.
(5) James Powell was absent from three Audit Committee meetings due to pre-existing commitments and unfortunately, the Audit Committee meetings could not be rescheduled due to other Board members' commitments.
(6) Nigel Langstaff was appointed on 15 November 2017.

As well as the formal meetings during the period, the Board met at other times as appropriate for specific matters, including 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 part 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 and at the annual strategy meeting so that the Non-Executive Directors keep abreast of developments in the Group.

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

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

Accountability – operational management of the Group

During the period there was a clear division of responsibility between the Chairman, the Chief Executive Officer and the Chief Operating Officer, with the management of the Group's business activities being delegated to the Chief Executive Officer and Chief Operating Officer who have ultimate responsibility for establishing objectives and monitoring executive actions and performance through the Executive Committee.

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

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

Effectiveness – performance evaluation and continued development

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

A report was compiled by the Company Secretary; these results and the comments of the evaluator were analysed by the Chairman, the Senior Independent Non-Executive Director and the Board as a whole against the broad criteria of overall Board effectiveness and individual contributions. As a result of this performance evaluation the Chairman confirms that each of the Directors seeking re-election at the AGM continues to be effective and has demonstrated the appropriate commitment to the role.

The results of the internal Board evaluation during the period were as follows: the Board was operating effectively, the evaluation of the Non-Executives by the Executives found their contribution towards strategy and risk management highly valued and the Chairman's performance in his Executive capacity was assessed positively and performing well.

The Senior Independent Non-Executive Director also met with the other Non-Executive Directors during March 2018 to assess the Chairman's effectiveness during the year, taking into account the views of Executive Directors and the results of the internal Board performance evaluation.

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

Remuneration

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

Risk management and internal control

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

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

The Directors have overall responsibility for the Group's system of internal controls and for reviewing their effectiveness. The Board delegates to executive management the responsibility for designing, operating and monitoring these systems. The systems are based on a process of identifying, evaluating and managing key risks and include the risk management processes set out above and channels to enable employees to raise concerns about possible irregularities in financial reporting and other issues and associated processes for those matters to be investigated.

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

The systems of internal control are designed to manage, rather than eliminate, the risk of failure to achieve business objectives. They can only provide reasonable and not absolute assurance against material errors, losses, fraud or breaches of law and regulations. The effectiveness of these systems is periodically reviewed by the Audit Committee in accordance with the revised guidance in the Turnbull Report, including ensuring the external audit goes out to tender every ten years in line with the EU regulations and directive on audit. These systems are also refined as necessary to meet changes in the Group's business and associated risks.

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

The systems of internal control were in place throughout the period and up to the date of approval of the Annual Report. The Board has conducted an annual review of the effectiveness of the systems of risk management and internal control in operation during the year and up to the date of the approval of the Annual Report. This was approved by the Audit Committee and the Board.

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

Relations with stakeholders

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

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

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

The Board will also communicate with employees via a Non-Executive Director responsible for 'Employee Voice' as described on page 44.

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

Corporate governance continued

Viability statement

The context for assessment

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

The Directors have based their assessment of viability on the Group's current business model and strategic plan, which is updated and approved annually by the Board, in line with our objective of providing Simple, Affordable, Reliable and Fair Connectivity for Everyone, underpinned by the four strategic objectives outlined on page 7 to the Strategic Report. The effective management of principal risks and uncertainties are outlined within pages 22 to 26.

The assessment period

The Directors have assessed the viability of the Group over three year period to March 2021, as this is an appropriate planning time horizon given the speed of change and customer demand in the industry and is in line with the Group's strategic planning period.

Assessment of viability

The viability of the Group has been assessed taking into account the Group's current financial position, including external funding committed for the period of assessment, and after modelling the impact of certain scenarios arising from the principal risks which have the greatest potential impact on viability in the period under review. In particular, the Board has considered the sustainability of the Business Model, the impact of customer trust and brand reputation on churn, the regulatory and market environment, advances in technology and the Group's ability to raise long term funding. These risks are aligned with the Group's review of its Principal Risks and Uncertainties on pages 22 to 26.

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

Scenario	Associated principal risks and uncertainties	Description and potential impact
Competition	Customer trust and brand reputation Competitive landscape Changing market structure Regulatory compliance Data and cyber security	Failure to respond to a decline in customer confidence and trust, increased competitor activity, impact of changing market structure or regulatory compliance may potentially give rise to increased levels of churn or lower than forecast connections. In addition, the Group could potentially experience increased levels of churn when customers come out of contract (FLPP). The potential impact of the above would result in reduced profitability and cash generation.
Simplifying the business – reduction in cost savings or increased costs	Changing market structure Regulatory compliance Resilience and business continuity Change delivery and execution Data and cyber security	Failure to achieve the Group's objectives to continue to simplify the business. Alternatively, a negative impact on the Group's cost base derived from the regulatory environment or a serious data/cyber security breach resulting in potential fines. The potential impact of the above would result in reduced profitability and cash generation.

Conclusions

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

Audit Committee report

On behalf of the Board, I am pleased to present the Audit Committee Report for 2018.

John Allwood
Audit Committee Chairman

During the year, the Committee comprised the following independent Non-Executive Directors: John Allwood (Chairman), Ian West, Cath Keers, Nigel Langstaff (appointed 15 November 2017) and James Powell.

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

The Chief Financial Officer, the Chief Executive Officer and the Chief Operating Officer as well as representatives of the Company's external auditor and other members of senior management from Finance, Legal and Internal Audit and Risk also attend these meetings by invitation of the Committee or the Chairman. The external and internal auditors have direct access to the Committee during formal meetings and time is set aside for them to have private discussion with the Committee, in the absence of management attendees. In addition, the external auditors have access as required outside formal meetings.

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

- the principles of, contents of and developments in financial reporting, accounting standards and statements of recommended practice (including the Guidelines on Alternative Performance Measures (APMs), issued by the European Securities and Markets Authority);
- key aspects of the Company's operations;
- matters that influence or distort the presentation of accounts and key financial information;
- the principles of, and developments in, key applicable company law and other legislation relevant to the Company;
- the role of internal and external audit and risk management;
- the regulatory framework of the Company's business; and
- environmental and social responsibility best reporting practices.

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

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

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

Audit Committee report continued

Significant issues

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

Significant issue considered by the Committee	How the issue was addressed by the Committee
The appropriateness of preparing the Group financial statements for the half year and full year on a going concern basis and the viability statement	The Committee considered and challenged papers and analysis 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 the financial statements on a going concern basis is appropriate. The Committee also considered and challenged management's approach to the viability statement, including the period of review, other sources of finance, risk factors and commitments, key judgements and estimates in preparing the Group financial statements, sensitivities, and mitigating actions, and concluded that the external disclosure for both the going concern assessment and viability statement is appropriate.
The treatment and disclosure of non-Headline items and alternative performance measures	The Committee considered and challenged management's approach and presentation of separately disclosed non-Headline items and alternative performance measures including the refinement of the Group's non-Headline Policy. In particular, the Committee considered whether the recognition of service level related credits should be included in Headline performance, consistent with the recognition of the associated costs for which the Group is being compensated. The Committee also considered whether the MVNO operating loss relating to an existing business should be recognised within non-Headline results. The Committee also considered the views of the external auditor on management's policy and its application during the year. At each meeting the Committee reviewed a paper prepared by management on actual and forecast levels of non-Headline items, including the nature of all the items and the balance of income and cost between non-Headline and Headline earnings. The Audit Committee has reviewed and agreed the disclosure for inclusion in the consolidated financial statements in relation to non-Headline items and alternative performance measures taking into account the Guidelines on APMs issued by the European Securities and Markets Authority (ESMA) and the Financial Reporting Council (FRC).
Revenue share arrangements with third parties	The Committee reviewed and challenged management's judgement on the application and interpretation of a revenue share arrangement that includes periodic retrospective reviews. Such reviews ensure that the revenue share and related reimbursement on customer acquisition is recognised based upon customer churn data and costs for each accounting period and is recognised within the appropriate financial period. The Committee agreed with the conclusion.
Revenue recognition	The key areas of judgement in recognising revenue is the identification of revenue arrangements with multiple deliverables and hardware sales to third parties involved in outsourcing its customer acquisition activity. 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. In addition, hardware sales to third parties involved in outsourcing its customer acquisition activity are recognised when the risk and rewards of the related hardware are transferred to the outsourced third party. The Committee reviewed and challenged management's papers on the accounting treatment and agreed with the conclusion. The recognition of revenue is also dependent on the Group's IT systems and infrastructure. During the year, the Committee considered any relevant IT control weakness and related mitigating controls and determined that the processes in place were reasonable.
Supplier rebate income and income received in relation to service level related disputes	The Committee reviewed the level and application of the recognition policy of supplier rebate income and income received in relation to service level related credits during the year, an area of inherent risk due to the complexity of the arrangements and the judgement applied by management to ensure that the income is recognised in the appropriate period. This review required an understanding of the nature of any significant transactions and adherence to the Group's accounting policies. In particular the Committee considered management's assessment of the quantification of service level related credits that may be subject to regulatory guidance, legal ruling or alternative dispute resolution processes. As a result of the review, without prejudice to the Group's legal position, the Committee concluded that the income had been appropriately recorded.
Taxation	The key judgement in relation to taxation relates to the assumptions made in recognising deferred tax assets. The value of deferred tax asset may be uncertain as the extent to which tax losses can be utilised, depends on future taxable profits and on tax legislation then in force. Recovery of the deferred tax asset relating to tax losses is estimated over a ten-year time horizon using an extrapolation of the Board-approved three year plan. The Committee reviewed and challenged management's paper, which outlines the key principles and judgements used in the calculation, and agreed with the recognition of the asset accordingly.

Significant issue considered by the Committee	How the issue was addressed by the Committee
Non-current assets and impairment review	The Group's assets include internal capitalised costs incurred in relation to the development of software and other assets for internal use. The Committee considered the appropriateness of the Group's capitalisation policy and the judgements applied in relation to impairment testing and agreed with the conclusions reached by management.

Statement of Directors in respect of the Annual Report and Accounts

As required by the Code, the Directors confirm that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, business model and strategy. In particular, the Directors have considered the balance of income and costs between Headline and non-Headline earnings and the refinement of the Group's policy and disclosure in relation to non-Headline items and Alternative Performance Measures (see note 1 to the consolidated financial statements). When arriving at this position the Board was assisted by a number of processes including:

- the Annual Report and Accounts drafted by appropriate senior employees across all areas of the business with overall supervision being provided by the Chief Financial Officer, to ensure the report is consistent across all sections;
- a comprehensive verification process is undertaken to ensure the factual accuracy of the entire Annual Report;
- complete reviews of drafts of the report are undertaken by the Audit Committee; and
- the final draft is reviewed by the Audit Committee prior to final consideration by the Board.

External audit

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

In the year ended 31 March 2018, the Audit Committee discussed the effectiveness of the external audit process and audit quality with the other attendees of the Audit Committee meeting. Based on the results of the auditor assessment carried out in the year, the Audit Committee is satisfied with the effectiveness and quality of the external audit process. No actions are recommended. Following the 2018 audit, the auditor assessment will again be completed 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 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 provided to both the auditor and to senior management. The Committee continues to consider the appropriateness of the re-appointment of the external auditor, including rotation of the audit partner. Deloitte LLP has been the Company's external auditor since August 2002, prior to TalkTalk's demerger from Carphone Warehouse plc. The lead audit partner, Sharon Thorne, stood down in the current year and has been succeeded by Katie Houldsworth. Katie Houldsworth shadowed Sharon Thorne and attended the Audit Committee meetings at the interim to allow for a smooth transition.

The Company's policy is to comply with the Code, which includes a requirement to put external audit out the tender at least once every ten years, In accordance with the Competition and Market's Authority (CMA) Statutory Audit Services Order, which is designed to align with provision of the EU Regulations on external audit tender and rotation, and current guidance, the Company is required to conduct a competitive audit tender by June 2023. This will be the latest period that Deloitte LLP may remain as auditor. The Committee will continue to evaluate annually the performance of the auditor, in particular at each five-year rotation of the lead audit partner, and will recommend a tender for this service if the circumstances so warrant.

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:

	2018 £m	2017 £m
Fees payable to the Company's auditor for the audit of the Company's Annual Report and Accounts	0.1	0.1
Audit of the Group and its subsidiaries pursuant to legislation	0.6	0.5
Audit services provided to all Group companies	0.7	0.6
Other non-audit services	0.1	0.1
Total Group auditor's remuneration	0.8	0.7

During the year, the Group incurred non-audit fees of £0.1m for interim review procedures. Having undertaken a review of the non-audit related work, the Committee has satisfied itself that the services undertaken during the year did not prejudice the external auditor's independence.

John Allwood
Audit Committee Chairman
24 May 2018

Directors' remuneration report

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for 2018 in TalkTalk Telecom Group PLC's eighth year as a publicly listed company.

John Gildersleeve
Remuneration Committee Chairman

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 2018 is split into two sections:

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

Aligning the Remuneration Policy with Company strategy and performance

At the start of the year, our Chairman set out our clear ambition to reset our business strategy, prioritising growth, cash generation and profit, in that order. Over the course of the past twelve months, the Company has seen strong delivery against the first of these, with significant base growth of 192k. The incremental investment in SAC and marketing to deliver this planned growth, however, has contributed towards a 35% decline in Headline EBITDA for 2018. Customer experience has also been a key focus throughout the year, supporting a reduction in churn to 1.22%.

Over the course of 2018, the Committee has reviewed the existing remuneration arrangements in order to ensure that the strong link between the Remuneration Policy and the business strategy continues to remain clear and that the right incentives are in place to support the delivery of our strategy. As can be seen on page 52 of the report, this is clearly demonstrated in relation to performance against the annual bonus plan targets for the year.

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

Board changes during 2018

Board resignations

As disclosed in last year's report, Dido Harding stepped down from the Board and left employment of the Company on 10 May 2017. Further to the Company announcement on 10 July 2017, Iain Torrens also stepped down from the Board and left employment of the Company on 30 September 2017.

Role changes in the year

Cath Keers offered her expertise and experience in her role as Chair of the Company's Ultrafast Fibre Committee, to oversee both the proposition roll-out in York and the Company's investment in Bolt Pro Tem Limited (see note 13 to the consolidated financial statements). In line with the disclosure in last year's report, associated Committee fees were increased accordingly.

John Allwood was appointed to the Remuneration Committee on 16 May 2017 and his Committee fees were amended accordingly.

The TV Committee was reconvened from 1 April 2017 at which the associated Committee Chair fees for Ian West were reinstated from this date.

Board appointments in the year

Further to the Company announcement on 10 July 2017, Kate Ferry was appointed to the Board in the role of Chief Financial Officer on 9 October 2017.

Nigel Langstaff was appointed to the Board as a Non-Executive Director effective from 15 November 2017 and was appointed to the Audit Committee on the same date.

Board changes during 2019

Board resignations

It was announced on 24 May 2018 that Charles Bligh would stand down as Director and Chief Operating Officer on 30 June 2018 and that James Powell would stand down as Director on 24 May 2018. Neither will therefore stand for re-election at the 2018 AGM.

Remuneration Policy during 2018

In the year ended 31 March 2018 and in line with the binding shareholder vote at the 2017 AGM, the Remuneration Committee has reviewed the Remuneration Policy for Executive Directors and has determined that it remained appropriate and fit for purpose for that period. Remuneration arrangements for Executive Directors and Non-Executive Directors have been operated in line with that shareholder-approved Remuneration Policy.

2018 annual bonus performance

The Remuneration Committee carefully considered performance against the annual bonus plan targets for the year ended 31 March 2018 taking into consideration the wider business performance in the year. Despite growth having been delivered through incremental net adds throughout the year, the Committee noted that due to investment in growth, the annual bonus plan hurdle of £270m EBITDA had not been met and therefore determined that no bonus payment would be due to Executive Directors for 2018. Achievement against the performance measures set is shown on page 52 of the report.

Remuneration Committee meeting attendance during 2018

Over the course of the year ending 31 March 2018, Committee meeting attendance was as follows:

Non-Executive Director	Number of meetings held	Number of meetings attended
John Gildersleeve(1)	5	3
Ian West	5	5
Roger Taylor	5	5
John Allwood(2)	4	4

(1) John Gildersleeve did not attend the 4 May or 16 May 2017 Remuneration Committee meetings due to illness. Ian West chaired the meetings in his absence.

(2) John Allwood was appointed to the Remuneration Committee on 16 May 2017 and attended all meetings from this point

Remuneration Policy for 2019

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

Whilst there is already a high degree of transparency in relation to the operation of the Remuneration Policy throughout the Company, recognising the importance of the FRC recommendations (currently under consultation) around strengthening employee voice, the Board plans to improve its engagement with the wider employee population. As a result, a Non-Executive Director will be appointed to meet with representatives of the employee forum 'One Voice' on a bi-annual basis to discuss executive remuneration and other such matters. Further details will be provided in next year's report.

The Remuneration Policy, which was approved by a binding shareholder vote at the July 2017 AGM, is set out on pages 44 to 50 and details of how this Policy will be implemented for the financial year ahead are set out on pages 51 to 58.

I hope that you will find this report helpful and informative and agree that the determinations made by the Committee are appropriate and in the long term interests of both the Company and our shareholders. I would also like to take this opportunity to thank our shareholders for their ratification of our revised Remuneration Policy, resulting in a binding shareholder vote of 92.99% at last year's AGM and hope that you support the Directors' Remuneration Report for the year at our AGM in July 2018. I will be available at the meeting to answer any questions that you may have regarding the work of the Committee.

John Gildersleeve
Remuneration Committee Chairman
24 May 2018

Key messages for 2019

- No changes have been made to the Remuneration Policy during the year ended 31 March 2018, save for points of clarification as set out on the previous page.
- Executive Directors will receive no payment under the annual bonus plan for the year ended 31 March 2018.

Our priorities for 2019

- To better understand the voice of the employee through the introduction of bi-annual meetings between representatives from the Company 'One Voice' body and a nominated Non-Executive Director.
- Launch the 2018 Save-As-You-Earn (SAYE) Scheme to further encourage employee share ownership. Employee share ownership currently stands at c.43%.

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

Directors' remuneration report continued

Remuneration Policy

This section sets out the Company's policy on remuneration for Executive Directors. The Remuneration Policy in operation for the year ended 31 March 2018 was approved through a binding vote by shareholders at the 2017 AGM receiving 92.99% support and took immediate effect following the AGM. That Policy will apply for a period of three years from this date. The Policy stated below reflects small amendments to the approved Policy, for the purpose of clarity, such as further clarity being provided around the use of Remuneration Committee discretion, our proposal to improve employee voice and updates to page numbers.

Remuneration Committee

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

Remuneration approach

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

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

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

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

Employee and shareholder consultation

The Remuneration Committee did not formally consult with employees of the Company on the application of the Directors' Remuneration Policy in the year ended 31 March 2018. In reaching its decisions in relation to the application of the Remuneration Policy, the Committee is mindful, however, that with the Company's strong culture of employee share ownership, with over 43% 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'. It should also be noted that although the Remuneration Policy is specifically used to set the remuneration for Executive Directors, where appropriate, similar remuneration practices are adopted throughout the Company for all employees.

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

The Remuneration Committee is committed to consultation with major shareholders both when setting the Remuneration Policy and when amending or applying new elements of the Policy from time to time. Any significant changes are put to major shareholders and if any of these shareholders are opposed to any proposed application of the Policy, the Committee will endeavour to meet with them, as appropriate, to understand and respond to any issues they may have.

Remuneration components

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

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

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

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

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

Malus and clawback

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

Executive Director shareholding requirement

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

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

Summary of remuneration components of Executive Directors

Component	Aim and link to strategy	Description of operation and any performance measures	Further detail on maximum opportunity and framework used to assess performance
Fixed Base pay	To attract and retain talent by ensuring base pay is competitive in the market. Set at a level which incentivises Executive Directors to implement and deliver our business strategy.	Paid monthly in cash.	Reviewed annually. Benchmarked against external market data from external specialists. Takes into account the individual's skills, experience and performance. The Remuneration Committee considers the level of the all-employee pay review when making recommendations and decisions on pay for Executive Directors. Any increase typically takes effect from 1 July annually. Under normal circumstances no Executive Director will receive an increase in excess of 10% of their base pay in any given financial year.
Fixed Core benefits	Designed to be competitive in the market.	Core benefits typically include: • a defined contribution pension scheme, or a cash payment in lieu of a pension contribution in certain circumstances; • private medical insurance for Executive Directors and their immediate family; and • car allowance/company car. Executive Directors are also entitled to participate on the same terms as all other employees in respect of the following benefits: • four times base pay life assurance; • income protection; and • annual leave.	Reviewed annually relative to the market. Pension contributions are made through salary sacrifice, with the Company making a contribution of 5% base pay for Executive Directors. Cash payments in lieu of pension contributions may also be made to Executive Directors, but these will be subject to normal tax and NI deductions. Company contributions for all participating employees are made at 5% base pay and all employees have the ability to join the Company's defined contribution pension scheme. Company contributions will be reviewed over time, to ensure compliance with minimums set under auto-enrolment guidelines.

Directors' remuneration report continued

Remuneration Policy continued

Summary of remuneration components of Executive Directors continued

Component	Aim and link to strategy	Description of operation and any performance measures	Further detail on maximum opportunity and framework used to assess performance
Fixed Voluntary benefits	Benefits may vary dependent on the role of the individual and the personal choices they make.	These voluntary benefits arrangements include the purchase of additional holiday and the ability to participate in all-employee share plans.	Reviewed periodically relative to the market.
Variable Annual performance bonus	Designed to focus Executives on the business priorities for the financial year ahead and to align the individual's remuneration with the delivery of superior business performance.	The bonus scheme is based on a 'balanced scorecard' that is comprised of financial and non-financial measures, which are reviewed annually. Such measures include Headline Group EBITDA(1), customer experience and growth measures. The measures and targets are set annually by the Remuneration Committee to ensure they are appropriately stretching for the delivery of 'on target', 'stretch', 'super stretch' and 'maximum' performance. At least 40% of the 'balanced scorecard' will be based on financial measures.	Payment is typically made in June. The Remuneration Committee retains the ability to exercise discretion to adjust payments up or down in exceptional circumstances where they feel this course of action is appropriate. The bonus scheme pays at the following levels: • on target awards for Executive Directors are equivalent to 50% of base pay; • stretch awards for Executive Directors are equivalent to 100% of base pay; • super stretch awards for Executive Directors are equivalent to 150% of base pay; and • maximum awards for Executive Directors are equivalent to 200% of base pay.
Variable Share-based incentive plans 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. Awards typically vest after three years from the date of grant. 60% of the total vested options are typically exercisable in the third year, with the remaining 40% typically being eligible for exercise from the fourth year. There is no intention to award DSOP awards to those Executive Directors participating in the 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 or new Executive Director promotion.	Awards do not vest until the third anniversary of the date of grant and may have a deferral element. If employment ceases during the vesting period, awards will by default lapse in full, unless the Remuneration Committee exercises its discretion. The maximum level of award is a 300% base pay multiple, unless the Board determines that exceptional circumstances exist which justify exceeding this limit, in which case options will not exceed 400% of base pay. In line with the DSOP scheme rules approved by shareholders, the Remuneration Committee has discretion over all aspects of the plan including but not limited to performance conditions, vesting conditions and levels and cancellation of the scheme.

(1) See note 1 to the consolidated financial statements for and explanation of APMs, non-Headline items, and further details regarding the restatement of 2017 Headline results.

Summary of remuneration components of Executive Directors continued

Component	Aim and link to strategy	Description of operation and any performance measures	Further detail on maximum opportunity and framework used to assess performance
Variable Share-based incentive plans SVP (award under the VES rules)	Designed to reward and retain Executives over the longer term whilst aligning an individual's interests with those of shareholders and in turn delivering significant shareholder value.	The SVP, awarded under the VES rules, is designed to enable participants to share in the incremental value of the Group in excess of an opening valuation, as determined by the Remuneration Committee. Each award entitles the participant to purchase a fixed number of separate shares ('participation shares') in the subsidiary company, TalkTalk Group Limited, the holding company for the TalkTalk business. The number of TalkTalk shares issued to each participant is determined by the incremental value pool created above a hurdle and therefore return to shareholders. The vesting of awards will be subject to continued employment and the satisfaction of performance conditions and/or other specified events as determined by the Remuneration Committee. The Committee has discretion to apply other appropriate performance conditions as it sees fit. Participation shares that are purchased by participants are acquired at market value and participants are offered a loan from TalkTalk at a commercial rate of interest in order to fund such a purchase. When the awards vest the participation shares will have a value equal to the corresponding percentage they represent of the incremental value (if any) of the TalkTalk businesses at the time of vesting in excess of the applicable opening valuation and shall then be purchased by the Company for cash and/or by the issue (or transfer) of ordinary shares in the capital of the Company. Any loan made to the participants to acquire participation shares will be required to be repaid at that time. If the market value of the participation shares is less than the amount of the outstanding loan (and any accrued interest) then the participant may be required to repay a proportion of the loan (up to 20%), the amount of which the Remuneration Committee may use its discretion to determine. Executive Directors will be required to hold 100% of any vested shares for a period of twelve months following vesting. Other participants will usually be required to hold 50% of vested shares for a twelve month period. Participation shares are generally forfeited to the value of the original loan plus accrued interest in the event that a participant leaves the Company prior to the vesting date.	Awards are discretionary and are made as a 'block award' to last four years rather than an annual award. Each participant is entitled to purchase an agreed number of participation shares, with no participant being awarded more than 10% of the value of the pool created. 60% of the award vests after three years, with the remaining 40% of the award vesting after four years. Vesting may occur earlier if the Company was taken over, subject to the discretion of the Remuneration Committee. A cap on the total value of the awards that vest at the end of the four year period applies and total awards will not result in a dilution of the issued share capital of the Company of more than 2.75%. In line with the VES rules approved by shareholders, the Remuneration Committee has discretion over all aspects of the plan including but not limited to performance conditions, vesting conditions and levels and cancellation of the scheme.

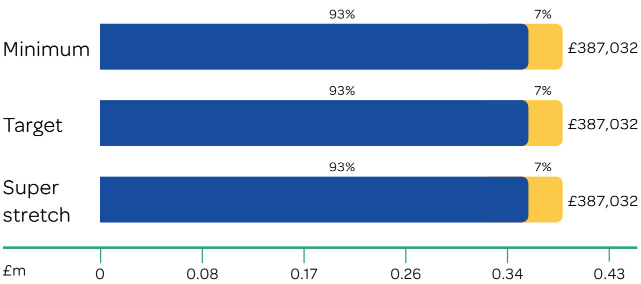
Directors' remuneration report continued

Remuneration Policy continued

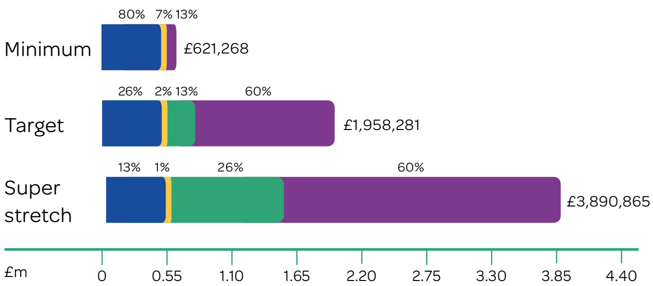
Remuneration scenarios

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

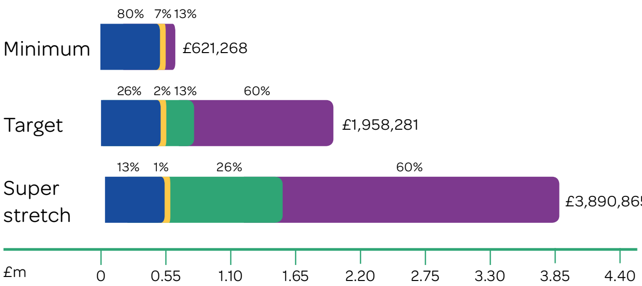
Executive Chairman
Sir Charles Dunstone



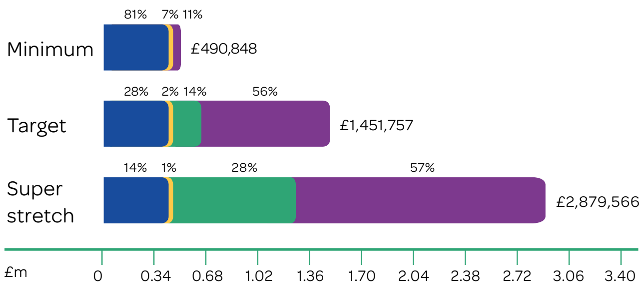
Chief Operating Officer
Charles Bligh



Chief Executive Officer
Tristia Harrison



Chief Financial Officer
Kate Ferry



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

(1) Base pay is actual base pay for the year ended 31 March 2018.
(2) Taxable benefits are at the level over the year ended 31 March 2018.
(3) Pension is based on a 5% Company contribution/cash for Tristia Harrison, Charles Bligh and Kate Ferry. Sir Charles Dunstone does not participate in the pension scheme.
(4) Annual performance bonus is at 50% of base pay for target performance, 100% of base pay for stretch performance and 200% of base pay for maximum performance. Sir Charles Dunstone does not participate in the annual performance bonus.
(5) SVP outcomes include assumed share price increases over the four year performance term. The minimum level represents the point above the CAGR hurdle at which the pool would be expected to begin to generate value for participants and the maximum level represents the point at which it is expected that the 2.75% scheme cap would be triggered. The target level has been set at the mid point between the minimum and maximum levels. Sir Charles Dunstone does not participate in any long term incentive plan.
(6) As the SVP is a 'block award' over a four year term rather than an annual award, we have annualised the potential pay-out over a four year period.

Other share-based remuneration

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

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

TalkTalk Share Match Plan (SMP)

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

The rules of the Plan allow an employee maximum contribution of £1,800 per annum, or in line with HMRC limits if these are increased. The Remuneration Committee, at its discretion, may award matching and/or free shares to eligible participants. Matching shares may be granted up to a maximum ratio of two matching shares for each partnership share purchased by a participant. Free shares may be awarded up to a maximum value of £3,600 tax free per annum, or in line with HMRC limits if these are increased.

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

Service contracts and remuneration packages

Service contracts for Executive Directors

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

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

Recruitment policy for new hires

When hiring a new Executive Director, the Remuneration Committee will align the remuneration package with the Remuneration Policy stated previously, including the maximum limits for each remuneration component.

The Remuneration Committee will take all relevant factors into consideration when making a remuneration decision on a new Executive hire to ensure that these decisions are being made in the best interests of the Company and its shareholders, including, but not limited to:

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

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

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

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

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

Relocation packages

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

Expatriate packages

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

Remuneration Policy for internal promotions

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

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

Exit payments

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

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

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

Directors' remuneration report continued

Remuneration Policy continued

Service contracts and remuneration packages continued

How the Remuneration Committee exercises discretion

The Committee has discretion relating to annual bonus, SVP and DSOP in line with their rules and according to the remuneration policy, and below provides futher clarification on such discretion.

These include but are not limited to:

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

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

Fees for Non-Executive Directors

The Non-Executive Directors do not take part in discussions on their remuneration. Each of the Non-Executive Directors has a letter of appointment substantially in the form suggested by the Code, and each has a three month notice period with no compensation for loss of office. The Company has no age limit for Directors. The dates of each contract are set out on page 56.

The fees for Non-Executive Directors are set out on page 55 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 56. The Board has also agreed that the Directors may retain their fees from such appointments.

Annual Report on Remuneration

The following sections set out how the Company's Remuneration Policy was implemented in the year ended 31 March 2018 and how it will be implemented for the year ending 31 March 2019.

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 55.

Year ended 31 March 2018

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

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

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

(3) Value of pension contribution made or cash in lieu paid by the Company in the year.

(4) Value of annual bonus payable in respect of the year and based on performance for the financial year.

(5) Dido Harding stepped down from the Board and left employment with the Company on 10 May 2017.

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

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

(8) The Committee used the discretion allowed under the Policy to determine that Iain Torrens' 20% loan liability due on SVP I would not be repayable and he was provided a bonus of £44,858 to settle such liability. Further details of this can be found on page 53 of the report.

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

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

Year ended 31 March 2017

Executive Director	Base pay(1) £000	Taxable benefits(2) £000	Pension(3) £000	Bonuses(4) £000	LTIP(5,6) £000	2017 total £000
Dido Harding(7)	587	17	59	235	244	1,142
Iain Torrens	425	16	42	170	–	653
Charles Bligh(8)	394	17	20	158	158	747
Tristia Harrison(8)	394	17	20	158	146	735
Aggregate emoluments	1,800	67	141	721	548	3,277

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

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

(3) Value of pension contribution made or cash in lieu paid 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 LTIP vesting in the year. This relates to the DSOP 2013, 20% of which vested in May 2016. The remaining 80% of the award immediately lapsed on 12 May 2016. The share price on the date of vesting was £2.691.

(6) Original DSOP 2013 award was made as a multiple of base pay. At the time of the award, Charles Bligh's base pay was £325,000 and Tristia Harrison's base pay was £300,000.

(7) Dido Harding's base pay was increased from £550,000 to £600,000 effective 1 July 2016.

(8) Charles Bligh and Tristia Harrison's base pay was increased from £375,000 to £400,000 effective 1 July 2016.

Directors' remuneration report continued

Annual Report on Remuneration continued

Appointments in the year ended 31 March 2018

Further to the Company announcement on 10 July 2017, Kate Ferry was appointed to the Board in the role of Chief Financial Officer on 9 October 2017. Kate Ferry's base pay was set at £400,000 per annum, which represents 6% reduction in base pay of that of her predecessor. Her bonus, car allowance, pension and other benefits were set in line with other Executive Directors of the Company and in line with the approved Remuneration Policy. No joining payments or buy-out awards were made to her.

Nigel Langstaff was appointed as a Non-Executive Director and was appointed to the Audit Committee on 15 November 2017.

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

Leavers in the year ended 31 March 2018

As disclosed in last year's report, Dido Harding stepped down from the Board and her employment after seven years with the Company, on 10 May 2017. Further to the Company announcement made on 10 July 2017, Iain Torrens also stepped down from the Board and his employment with the Company ended on 30 September 2017. The DSOP award made to Iain Torrens on joining the Company in February 2015 lapsed in its entirety on 30 September 2017 when he left employment.

Base pay*

Year ended 31 March 2018

There were no changes to base pay for any Executive Directors in the year ending 31 March 2018.

For the year ended 31 March 2018 average base pay increase for all other employees was 2%.

Year ending 31 March 2019

It is not anticipated that there will be any changes to base pay for Executive Directors in the year ending 31 March 2019.

For the year ending 31 March 2019, average base pay increases for all other employees will be budgeted at 1% and any such increases will be applied in July 2018 and backdated to 1 April 2018. In line with our approach in prior years, there will be no 'all-employee' increase applied and business units will have had complete discretion to apply their pay budget.

Within the 1% pay budget, adjustments have been made in order to ensure that no employee of the Company is in receipt of base pay lower than the Voluntary Living Wage, in line with the commitment made in prior years.

Pension contributions*

Year ended 31 March 2018

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

Pension contributions for Tristia Harrison, Charles Bligh and Kate Ferry were made by the Company at 5% of their base pay. Charles Dunstone does not participate in the Company Pension Scheme.

In line with our approach in previous years, a cash payment in lieu of pension, equivalent to 10% of base pay, was made to both Dido Harding and Iain Torrens for the period of their employment in the year ended 31 March 2018.

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

Year ending 31 March 2019

In the year ending 31 March 2019, pension payments for Tristia Harrison, Charles Bligh and Kate Ferry will remain capped at 5% of base pay, in line with the Remuneration Policy. It should be noted that pension payments for all other employees of the Company are also capped at 5% of base pay.

Pension payments for Executive Directors and all other employees of the Company will be reviewed over the course of the year ending 31 March 2019, in line with increases to the statutory auto-enrolment minimum thresholds from April 2019.

Annual performance bonus*

Year ended 31 March 2018

For the year ended 31 March 2018, the annual performance bonus was based on a 'balanced scorecard' blend of financial and non-financial measures as set out in the table below and, in line with the approved Remuneration Policy, Executive Directors had an incentive opportunity in the range of 0% to 200% of base pay.

The Remuneration Committee carefully considered performance against the annual bonus plan targets for the year ended 31 March 2018 taking into consideration the wider business performance in the year. Despite strong growth having been delivered through incremental net adds throughout the year coupled with ongoing improvements in customer experience, the Committee noted that due to the planned investment in growth, the annual bonus plan hurdle of £270m EBITDA had not been met and therefore determined that no bonus payment would be due to Executive Directors for 2018.

Achievement against the targets is presented in the table below:

Measure	Weighting	Target performance	Stretch performance	Maximum performance	Actual performance	Performance against target	% base pay received in relation to measure
Group net adds(1,2)	30%	100	150	>200	192	Between stretch and super stretch	0%
Group Headline EBITDA(1,3)	25%	270	285	>300	233	Miss	0%
Group free cash flow(3)	25%	120	140	>160	-23	Miss	0%
Customer experience (4)	20%			See note 4 below	Target	Target	0%

(1) Two gates applied to the scheme of £270m EBITDA and 100,000 net adds. Both gates would need to be triggered for any bonus payment to be made.

(2) Group net adds are measured as the total number of on net broadband net adds at 31 March 2018.

(3) See note 1 to the consolidated financial statements for Headline EBITDA. Free cash flow is defined as cash generated after net capital expenditure.

(4) Customer experience is measured through security improvements, improvements to internal controls as determined by the Audit Committee, network performance and a measure of Ofcom complaints. Network performance was measured through Sam Knows which is an external, independent measure of our network performance. Measure is an average ranking, across eleven measures, for the year ended 31 March 2018.

Annual performance bonus continued

Year ending 31 March 2019

A review of the annual bonus plan was conducted in the year ended 31 March 2018 to ensure that the performance measures in the balanced scorecard continue to be aligned to Company strategy. The expected performance measures and their weightings for the year ending 31 March 2019 are set out below:

Expected performance measure	Expected weighting
Financials(1)	50%
Growth(2)	35%
Customer experience(3)	15%

(1) Financials are expected to be measured through Headline EBITDA and cash flow metrics.
(2) Growth is expected be measured through net adds and revenue growth.
(3) Customer experience is expected to be measured through network performance, net promoter score (NPS) and Ofcom complaints.

The Board has determined that the disclosure of performance targets for the year ending 31 March 2019 continues to be commercially sensitive and they are therefore not disclosed in this report. These targets are determined within the context of a longer term business plan and the disclosure of these targets could give information to TalkTalk's competitors to the detriment of business performance.

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

Share-based incentive plans*

Year ended 31 March 2018

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

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

Further to the Company announcement on 28 June 2017, in line with the scheme rules, Tranche 1 (60%) of the SVP reached its vesting at which point performance against the growth hurdle was calculated and it was determined that the performance conditions had not been satisfied, with the TSR CAGR performance being -18% against a target of 7%.

In accordance with the scheme rules, on the return of 60% of their participation shares to the Company, participants were required to repay 20% of their outstanding loan (and any accrued interest).

The 20% loan liability outstanding on the returned shares of £20,216 each was added to the starting loan of the SVP III award for Tristia Harrison and Charles Bligh. Details of the SVP III award can be found on page 54 of this report. Interest on this additional loan will accrue over the duration of the SVP III scheme in line with the scheme rules.

The Remuneration Committee, in line with the scheme rules, exercised its discretion in relation to the repayment of the remaining 20% loan liability for Iain Torrens and provided him with a special one-off bonus payment of £44,858 in order to settle such liability. All associated tax and NI deductions were paid in relation to this bonus. The details relating to this special one-off bonus are shown in the single figure table on page 51 of this report.

Dido Harding and Iain Torrens were treated as scheme leavers in line with the scheme rules when their employment ended.

Loans were outstanding to the following Executives in the year ended 31 March 2018 in relation to the remaining 40% of SVP I shares:

Director	2018 % share of pool	2018 Number of participation shares purchased	2018 Outstanding loan and interest(1)
Tristia Harrison	5%	400,000	69
Charles Bligh	5%	400,000	69
	10%	800,000	138

(1) The figures relating to the remaining 20% loan liability for Tristia Harrison and Charles Bligh are not included in this figure. These amounts have been included in the SVP III table overleaf.

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 2.5% during the year.

In line with the scheme rules, subject to meeting the relevant performance conditions, the remaining 40% of the scheme will be due to vest in May 2018. On vesting, all shares must be held for twelve months from the vesting date for Executive Directors and 50% of shares for a minimum of twelve months from the vesting date for other participants. If the market value of the participation shares is less than the amount of the outstanding loan (and any accrued interest), then the participant may be required to repay a proportion of the loan, the amount of which the Remuneration Committee may use its discretion to determine, up to a maximum of 20%.

At the time of publication, the performance conditions are not expected to be met and the Company proposes to treat the remaining participation shares, loans and accrued interest in line with the scheme rules.

Further information relating to performance of the SVP will be detailed in next year's report.

SVP II

In light of the Company strategic reset last year, the Remuneration Committee reviewed all of the existing long term incentive plans, including the SVP, to ensure that they were in line with the revised strategy of the Company. Following this review, it was determined that the SVP II awards of H Shares made in 2016, having been set under the old strategy of the Company, would not meet the purpose for which those awards were originally granted. The Remuneration Committee therefore exercised its discretion under the scheme rules and in line with the approved Remuneration Policy, to cancel all of the SVP II awards for all participants.

In cancelling the SVP II scheme, the Company acquired all of the outstanding H Shares for an aggregate amount equal to the original loan made to participants plus other loans made in respect of interest on the original loan and interest on those subsequent loans. The amount paid to participants for their H Shares was then immediately used to repay all of their aggregate loans amount.

As a result of the cancellation of SVP II, Tristia Harrison and Charles Bligh transferred 100 H Shares each to the Company on 20 July 2017.

There were no outstanding loans in relation to this scheme at 31 March 2018.

Directors' remuneration report continued

Annual Report on Remuneration continued

Share-based incentive plans* continued

Year ended 31 March 2018 continued

SVP III

In line with the disclosure made in last year's report, participation shares were acquired at market value on 20 July 2017 for all participants with the exception of Kate Ferry, whose participation shares were acquired on her joining the Company, and loans were granted by the Company on the same basis as the SVP awarded in 2014.

Vesting of the plan is dependent on 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.

As disclosed in last year's report, subject to meeting the relevant performance conditions, the scheme would vest 60% in May 2020, with the remaining 40% vesting twelve months later. On vesting, all shares must be held for twelve months from the vesting date for Executive Directors and 50% of shares for a minimum of twelve months from the vesting date for other participants. If the market value of the participation shares is less than the amount of the outstanding loan (and any accrued interest), then the participant may be required to repay a proportion of the loan, the amount of which the Remuneration Committee may use its discretion to determine, up to a maximum of 20%.

Interest is accrued on the loan on an annual basis, which is set by HMRC and was charged at 2.5% during the year. A subsequent loan is provided to participants on an annual basis, until the scheme vests, at which point the loans plus accrued interest are repaid. There is no double benefit for any participant and any gain resulting from the 2014 SVP would be deducted from any gain resulting from the SVP III award. Loans were outstanding to the following Executives in the year ended 31 March 2018:

Director	2018 % share of pool	2018 Number of participation shares purchased	2018 Outstanding loan and interest (2)
Tristia Harrison (1)	10%	200	138
Charles Bligh (1)	10%	200	138
Kate Ferry (3)	7%	140	82
	27%	540	358

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

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

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

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

There was no clawback in respect of SVP, SVP II or SVP III and no Non-Executive Directors participated in these schemes during the year ended 31 March 2018.

Year ending 31 March 2019

The TalkTalk Group Shareholder Value Plan (SVP)

The Company does not plan to make any awards in the year ending 31 March 2019 to any Executive Directors already participating in this scheme.

All-employee share plans*

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

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

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

No Executive Directors were awarded share options under the 2017 Scheme.

No Non-Executive Directors participated in this scheme.

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

All-employee Share Match Plan (SMP)

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

Both Dido Harding and Iain Torrens received the following shares in respect of the Share Match Plan during the period ended 31 March 2018:

	Partnership shares purchased	Matching shares allocated	Dividend shares allocated	Total number of shares paid into plan
Dido Harding	88	88	–	176
Iain Torrens	259	159	309	727

In line with the scheme rules, Dido Harding and Iain Torrens forfeited 2,103 and 1,664 matching shares respectively when their employment with the Company ended.

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

Additional information

Shareholding requirements

Executive Directors are required to build and retain a minimum shareholding in the Company, equivalent to 200% of base pay. Current shareholdings as at 31 March 2018 are set out below for Executive Directors:

Director	Holding requirement as a % of base pay	Actual holding	Requirement satisfied	Actual share ownership as a % of base pay(1)
Charles Dunstone	200%	326,769,676	Yes	105,111%
Tristia Harrison	200%	1,762,282	Yes	408%
Charles Bligh(2)	200%	859,516	No	199%
Kate Ferry(3)	200%	139,835	No	40%

(1) Share price on 31 March 2018 of £1.158 used for calculation.

(2) Charles Bligh held shares equivalent to 362% base pay in the prior year. Percentage change on last year is driven by a fall in share price despite 65,256 shares being purchased on 8 February 2018. No ordinary shares have been disposed of.

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

There have been no changes to the shareholdings of Executive Directors between 31 March 2018 and 24 May 2018.

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

	Ordinary shares of 0.1p		
Director	**31 March 2018**	31 March 2017	Date of contract
John Gildersleeve	**291,866**	246,000	20 January 2010
Ian West	**364,714**	346,023	8 February 2011
John Allwood	**10,000**	10,000	20 January 2010
Howard Stringer	**56,000**	10,000	26 July 2012
James Powell	**1,000**	1,000	26 July 2012
Roger Taylor	**9,826,688**	5,153,792	11 November 2015
Cath Keers	**–**	–	1 August 2016
Nigel Langstaff(1)	**299,736**	n/a	15 November 2017

(1) Appointed to the Board and the Audit Committee on 15 November 2017.

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**	**2018 total £000**	Fees £000	Taxable benefits £000	2017 total £000
John Gildersleeve	**80**	**–**	**80**	80	–	80
Ian West(1)	**80**	**–**	**80**	67	–	67
John Allwood	**69**	**–**	**69**	65	–	65
Howard Stringer	**50**	**–**	**50**	50	–	50
James Powell	**50**	**–**	**50**	50	–	50
Roger Taylor	**50**	**2**	**52**	51	1	52
Cath Keers(2)	**171**	**–**	**171**	43	–	43
Nigel Langstaff(3)	**19**	**–**	**19**	–	–	–
Aggregate emoluments	**569**	**2**	**571**	406	1	407

(1) TV Committee resumed from 1 April 2017 and the associated Committee Chair fees of £12,500 were reinstated from this point.

(2) A fee of £118,936 was payable from 1 April 2017 to 31 December 2017 in respect of additional duties disclosed on page 42. No such fees were payable from 1 January to 31 March 2018.

(3) Appointed to the Board and the Audit Committee on 15 November 2017. A Non-Executive Director fee of £45,000 per annum and Audit Committee fee of £5,000 per annum were set in line with other Non-Executive Directors of the Company.

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

Directors’ remuneration report continued

Annual Report on Remuneration continued

Additional information continued

Payments to past Directors

In the year ended 31 March 2018, 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 2018, there were no payments made to Executive Directors, past or present, in compensation for loss of office other than payments in lieu of contractual notice set out elsewhere in the report.

Non-Executive Directors’ letters of appointment

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

Non-Executive Director	Committee membership	Date first appointed to the Board	Effective date of current letter of appointment
John Gildersleeve	Remuneration, Nomination, Compliance	20 January 2010	1 April 2016
John Allwood[1]	Audit, Nomination, Remuneration	20 January 2010	1 April 2016
Ian West[2]	Audit, Nomination, Remuneration, TV	8 February 2011	16 May 2016
Sir Howard Stringer	Nomination	26 July 2012	1 April 2016
James Powell[3]	Audit	26 July 2012	1 April 2016
Roger Taylor	Remuneration	11 November 2015	11 November 2015
Cath Keers	Audit, Ultrafast Fibre	1 August 2016	1 August 2016
Nigel Langstaff[4]	Audit	15 November 2017	15 November 2017

(1) Appointed to the Remuneration Committee on 16 May 2017.
(2) TV Committee resumed on 1 April 2017.
(3) James Powell stepped down on 24 May 2018.
(4) Appointed to the Board and the Audit Committee on 15 November 2017.

Fees for external appointments

Director	Organisation	2018 £000
Dido Harding[1]	Bank of England	2

(1) Fees relate to the period up to 10 May 2017 when Dido Harding’s employment with the Company ended.

Advice and services provided to the Remuneration Committee

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

Over the course of the year ended 31 March 2018, the Remuneration Committee was advised on matters relating to executive remuneration and gender pay reporting by Willis Towers Watson. The Remuneration Committee deems the advisers to be independent from the Company and the advice it received during the year to be appropriate and objective.

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

The fees paid for services are set out below:

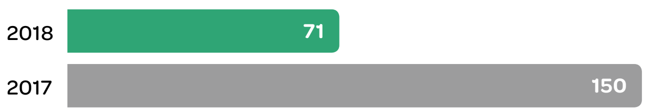
Company	Nature of service	2018 £000
Willis Towers Watson	Remuneration matters, long term incentive design and gender pay reporting	23

Relative importance of spend on pay

The difference in actual expenditure between 2017 and 2018 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)

-£79m



Total employee pay (£m)

+£16m[1]

(1) Year on year difference is due to increased annual bonus costs of £4m, fixed payroll cost increase of £5m resulting in increased pension and employee taxes, as well as a £3m increase in share-based payment charge.

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[3,4]	967	40.0%	–
2013 £000	5,617	39.2%	100%
2014 £000	6,842	37.6%	–
2015 £000	1,047	47.3%	–
2016 £000	2,810	23.5%	50%
2017 £000[5,6]	1,142	23.5%	20%
2018 £000[3,7]	541	–	–

(1) The increase in the single figure number in 2013 represents the vesting of the first LTIP award since the listing of the Company.

(2) It is not possible to show this value for the VES which vested in 2012 and 2013 as it did not have a maximum percentage of shares. However, for information the 2010 DSOP award vested at 100% of the maximum in 2012.

(3) Maximum annual bonus for Executive Directors was 200% base pay for the years ended 31 March 2011, 2012 and 2018. It was 170% base pay in all other years.

(4) Only the 50% relating to TSR measures of the DSOP 2012 vested in May 2015.

(5) The Remuneration Committee determined that 20% of the DSOP 2013 should vest in May 2016.

(6) The reduction in the single figure number in 2017 represents the lower DSOP percentage vesting and a reduction in the share price from the prior year.

(7) The 2018 comparison relates to Tristia Harrison in the post of CEO where all prior years relate to Dido Harding in the post of CEO.

The table below shows the percentage change in remuneration between 2017 and 2018 for the CEO and all other employees of the Group.

	Base pay % change	Taxable benefits % change	Annual bonus % change
CEO[1,2]	-9%	0%	-100%
Employees[3,4]	2%	0%	-62%

(1) Year on year CEO comparison represents the annualised figure for Dido Harding for 2017 and Tristia Harrison for 2018.

(2) There is no annual bonus payment due for Executive Directors for the year ending 31 March 2018.

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

(4) Average annual employee bonus for 2017 was 132% of target compared to a payment of 50% of target for 2018.

Directors' remuneration report continued

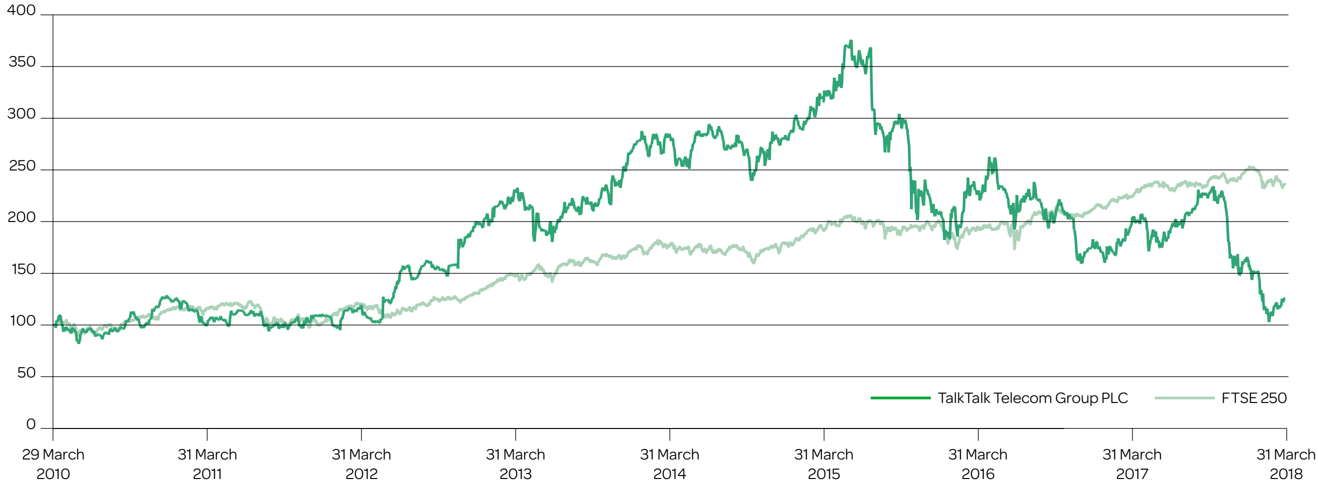
Annual Report on Remuneration continued

Additional information continued

TSR performance graph

The graph below shows the Group's performance compared to the TSR performance of the FTSE 250 from the date of the Group's listing on 29 March 2010.

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



This Remuneration Report has been prepared in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the 'Regulations') issued under the Companies Act, the UK Corporate Governance Code, the GC100 and Investor Group Directors' Remuneration Reporting Guidance and the Executive Remuneration Principles published by the Investment Association Principles in October 2016. The constitution and operation of the Remuneration Committee are in compliance with the Code.

In framing its Remuneration Policy, the Committee has given full consideration to the matters set out in Schedule A of the Code and the Regulations. As required by the Regulations, resolutions to approve the Directors' Remuneration Report will be proposed at the 2018 AGM. Voting regarding the 2017 Directors' Remuneration Report and Remuneration Policy was as follows:

	Votes for	Votes against	Votes withheld	Total votes
Remuneration Report	695,695,327	46,520,182	1,666,584	743,882,093
	93.73%	6.27%		
Remuneration Policy	690,167,496	52,045,511	1,669,089	743,882,096
	92.99%	7.01%		

John Gildersleeve
Remuneration Committee Chairman
24 May 2018

Directors' report

Reporting requirements

The Group is required to produce a Strategic Report complying with the requirements of Section 414A of the Companies Act 2006 (the 'Act'). The Group has complied with this requirement and incorporates a detailed review of the Group's activities, business performance and developments during the year in a way that is fair, balanced and understandable and gives an indication of likely future developments on pages 1 to 31.

The Corporate Governance Statement, as required by Rule 7.2.1 of the Financial Conduct Authority (FCA) Disclosure and Transparency Rules, is set out on pages 34 to 38 of the Corporate Governance Report and forms part of the Directors' Report.

Suppliers' payment policy

It is the Company's policy to develop and maintain key commercial relationships with its suppliers, one aspect of which is payment timing, to obtain mutually agreed payment terms. The Company has commercially agreed longer credit terms with one of its larger corporate suppliers. Excluding this supplier, the underlying average credit period taken on trade payables was 50 days (2017: 50 days). Including this supplier, the average credit period taken was 55 days (2017: 57 days).

Contracts with controlling shareholders

During the period Sir Charles Dunstone was a controlling shareholder within the definition set out in the Listing Rules, although following the share placement on 12 February 2017 his shareholding currently falls below the required threshold. In compliance with Listing Rule 9.2.2AR(1) during the period, the Company has entered into a written and legally binding agreement with Sir Charles Dunstone under which he agreed to comply with the independence provisions set out in Listing Rule 6.1.4DR; however, as Sir Charles Dunstone no longer has over 30% shareholding this binding agreement now falls away as it is no longer required.

During the period, there were no material contracts with controlling shareholders, except as set out above and disclosed in the Directors' Remuneration Report on pages 42 to 58.

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

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 including the Executive Directors are required to seek approval to deal in the Company's shares. The Company is not aware of any agreements between shareholders that may result in restrictions on the transfers of securities and/or voting rights.

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

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

In addition, at the AGM in 2017, the Company was granted the right to acquire 95,561,546 shares. This right expires on the date of the 2018 AGM or 20 October 2018 (whichever is sooner).

The Articles of Association may be changed by special resolution.

The Company successfully raised £201m (net of issue costs) following its announcement on 8 February 2018 in respect of the placing of new ordinary shares in the capital of the Company through an accelerated bookbuilding process at a placing price of 107p per share.

In compliance with the exemption from the obligation to publish a prospectus for up to a 20% increase in securities admitted to trading under the Prospectus Regulation which came into force on 20 July 2017, the Company issued placing shares of approximately 19.95% on a non-pre-emptive basis of its existing issued ordinary share capital. Members of its Board of Directors and senior management consulted with the Company's major institutional shareholders ahead of the placement.

Following admission of the placing shares on 12 February 2018, the Company has a total of 1,146,269,670 ordinary shares in issue. The Executive Chairman and other Directors of the Company participated in the placing to an aggregate amount of £41m.

The participation of the Executive Chairman, Invesco Asset Management, Mr David Ross, Capital Research Global Investors and Toscafund Asset Management in the placing constitute smaller related party transactions for the purposes of Rule 11.1.10R of the Listing Rules.

The net proceeds of the placing have been used to strengthen the Company's balance sheet, to support its continued customer growth and its investment in its long term FTTP plans. The structure was chosen as it minimises cost as well as use of management time at an important phase of TalkTalk's growth strategy.

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

Going concern

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

We have £1,115m of committed credit facilities and as at 31 March 2018 the headroom on these facilities was £348m. 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. Sensitivity analysis has been performed in respect of certain scenarios, including an increase in churn, lower net adds growth and lower than expected cost savings, and we have considered mitigating actions an cash management activities within the Group's control in the event of a breach in covenant. This, together with our market positioning, means that we are well placed to manage our business risks successfully and have adequate resources to operate for the foreseeable future. The Directors have therefore adopted the going concern basis of accounting in relation to the preparation of the financial statements.

The UK Corporate Governance Code requires the Directors to assess and report on the prospects of the Group over a longer period. This longer term viability statement is set out within the Annual Report on page 38.

Directors' report continued

Borrowings and financial instruments

The disclosures required in relation to the use of financial instruments by the Company, including the financial risk management objectives and policies (including in relation to hedging) of the Company; specific quantitative information on borrowings and financial instruments; and the exposure of the Company to foreign exchange risk, interest rate risk, liquidity risk and credit risk, can be found in notes 18 and 19 to the financial statements and the risks and uncertainties section of the Strategic Report on page 26, which are incorporated by reference to this report.

Appointment of Directors

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

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

Property, plant and equipment

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

Results and dividends

The Group results and dividends for the year ended 31 March 2018 are set out in the consolidated income statement and note 8 on pages 70 and 89 respectively. The Company may, by resolution in a general meeting, declare dividends in accordance with the respective rights of the members, but no dividend can exceed the amount recommended by the Board.

Significant shareholdings

At 15 May 2018, the Company had been notified of the following interests in the Company's shares:

Name	Number of shares	% of share capital
Sir Charles Dunstone	326,769,676	28.51
Toscafund Asset Management	163,537,210	14.27
Invesco Asset Management	153,982,505	13.43
Mr David Ross	129,845,616	11.33
Capital Research Global Investors	126,135,841	11.00
Jupiter Asset Management	42,368,179	3.70

The total interests of the Directors are detailed in the Directors' Remuneration Report on page 55.

Directors' indemnities

Directors' liability insurance is provided for Directors.

Disclosures required under Listing Rule 9.8.4R

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

- details of the incentive plans, which are set out on pages 53 to 54 of the Directors' Remuneration Report and note 5 to the consolidated financial statements (incorporated by reference into this report).

Greenhouse gas emissions reporting

Details of the Group's greenhouse emissions can be found in the Corporate Social Responsibility section on page 31.

Charitable donations

Charitable donations paid during the year are disclosed on page 31 of the Strategic Report.

Market Abuse Regulation

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

Equal opportunities

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

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

We are keen to ensure that employees are paid appropriately for the work that they do. We believe that everyone should have the same opportunities, regardless of gender, and we are committed to levelling the internal playing field to create a truly inclusive culture. We undertook our second gender pay audit in the year ended 31 March 2018 and will continue to do so on an annual basis. We have also complied with the mandatory gender pay reporting regulations and published our first report on 1 February 2018.

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
24 May 2018

TalkTalk Telecom Group PLC
11 Evesham Street
London W11 4AR

Directors' responsibility statement

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

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

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing these financial statements, IAS 1 requires that Directors:

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

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

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

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

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

This Responsibility Statement was approved by the Board of Directors on 24 May 2018 and is signed on its behalf by:

Tristia Harrison
Chief Executive Officer

Kate Ferry
Chief Financial Officer

Independent auditor's report

to the members of TalkTalk Telecom Group PLC

Report on the audit of the financial statements

Opinion

In our opinion:

- **the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2018 and of the Group's loss for the year then ended;**
- **the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;**
- **the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and**
- **the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the consolidated financial statements, Article 4 of the IAS Regulation.**

We have audited the financial statements of TalkTalk Telecom Group plc (the 'Parent Company') and its subsidiaries (the 'Group') which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and Parent Company balance sheets;
- the consolidated and Parent Company cash flow statements;
- the consolidated and Parent Company statements of changes in equity;
- the accounting policies; and
- the related notes 1 to 27.

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

Basis for opinion

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

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

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

Summary of our audit approach

Key audit matters

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

- management override of controls;
- disclosure of non-Headline items and the presentation of alternative performance measures in the financial statements;
- revenue recognition and revenue share arrangements with third parties; and
- capitalised time and impairment of operating intangibles.

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

Materiality

The materiality that we used in the current year was £3.6m which was determined on the basis of considering a number of different measures including Statutory loss before taxation, Headline profit before taxation and Statutory revenue. This is a change from prior year when materiality was determined on the basis of Headline profit before taxation and reflects the volatility in the results of the Group as management focuses on simplifying and resetting the business.

Scoping	Based on our assessment of the risks of material misstatement at the Group level, 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 together this covered 99% (2017: 99%) of the Group's total revenues. Together with this, our Group audit scope covered 92% of Statutory loss before taxation (2017: Statutory profit before tax 92%) and 97% of net assets (2017: 93%).
Significant changes in our approach	Last year our report included the recoverability of deferred tax assets and supplier rebate income as key audit matters. We do not consider the recoverability of deferred tax assets to be a key risk in the current year as this did not have a significant effect on our audit strategy nor the allocation of resources in the audit. We also note there was less judgement in the current year in relation to the recognition of supplier rebate income. We have included capitalised time and impairment of operating intangibles within our audit report as a key audit matter in the current year. Due to the nature and quantum of capitalised time being recorded year on year as well as the launch of the 'Network Transformation' programme in 2017, we increased the level of audit focus in relation to the potential impairment of the underlying asset base and nature of items capitalised in the year.

Conclusions relating to going concern, principal risks and viability statement

Going concern

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

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

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

Principal risks and viability statement

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

- the disclosures on pages 22–26 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation on page 38 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the Directors' explanation on page 38 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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

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

Independent auditor's report continued

to the members of TalkTalk Telecom Group PLC

Key audit matters

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

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

Management override of controls

Key audit matter description

International Standards on Auditing require us to presume a risk of fraud arising from management override of controls and conduct our audit testing accordingly. Key areas of potential risk include inappropriate bias in relation to accounting judgements and inappropriate accounting for significant or unusual transactions taking place in the year. Our audit focus in this area primarily related to the quantum and nature of items occurring during the year, including the recording of non-Headline items, revenue share arrangements with third parties, supplier rebate income, income received in relation to service level related credits, and revisions to accounting estimates and management forecasts. The number of areas requiring the application of judgement and estimation techniques creates additional risk of bias in accounting estimates and therefore we have considered this to be a key audit matter.

Disclosures relating to the items noted above are included in notes 1 and 9 and the matters are discussed in the report of the Audit Committee on pages 40 and 41.

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

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

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

Key observations

We note there continues to be significant judgements taken by management in reaching both Statutory and Headline results in relation to income received regarding service level related credits recognised, supplier settlements, true up of estimates in relation to revenue share arrangements with third parties and accounting estimates revisited in light of current data within the business.

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

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

Key audit matter description

The Group presents alternative performance measures to provide supplemental information to enable users of the financial statements to gain an understanding of the Group's financial performance. During the year, the Group has incurred items classified as 'non-Headline items' amounting to £119m prior to the impact on taxation (2017: £129m). The disclosure of non-Headline items and their presentation on the face of the income statement remain a key audit matter given the level of management judgement involved as inappropriate classification of such items would impact on the disclosure of Headline earnings, which is a key performance indicator used by the Group. The impact of the classification of items as non-Headline has been to move the Group results from a Statutory loss before taxation of £73m to a Headline profit before taxation of £46m.

Over the last two years, the Group has come to the end of a number of significant projects (such as 'Making TalkTalk Simpler') and has started a number of projects (such as 'Network Transformation' and 'Business Reorganisation') as well as disclosing the impact of the loss on exiting the MVNO operations as a key non-Headline item in the year. These are multi-phase projects spanning a number of years and consequently, we consider there is significant management judgement in determining whether those costs or projects are non-Headline based on the Group's policy or are, in substance, 'business as usual' and therefore should be recognised in arriving at Headline earnings. Management has also revised their policy in the year resulting in an increase in prior year Headline profit before taxation by £66m. Please see note 1 for further detail of the accounting policy change in the year.

The nature of these costs has been defined in note 9 to the accounts and the related accounting policy has been disclosed in note 1. The Audit Committee's discussion of this matter is set out on page 40.

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

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

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

Key observations

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

Independent auditor's report continued

to the members of TalkTalk Telecom Group PLC

Revenue recognition and revenue share arrangement with third parties

Key audit matter description

Revenue represents a significant balance of £1,708 million (2017: £1,783 million), consisting of a high volume of individually low value transactions across the business to business and consumer customer base. We have identified the following types of transactions and assertions related to revenue recognition which give rise to a key audit matter relating to risks arising from the complexity of telecom transaction processing within the Group as well as the level of management judgement:

- the completeness of revenue recorded through billing systems;
- the accuracy and completeness of revenue recognised on transactions which are outside the normal billing process, which by their nature carry a higher level of management judgement such as accrued revenue adjustments; and
- the appropriateness of the accounting in relation to revenue share arrangements with third parties and how the revenues and costs related to the transactions are disclosed within the financial statements.

See note 1 to the financial statements for revenue recognition policy that has been applied by the Group and the Audit Committee Report on page 40.

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

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

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

We performed 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. Our work included agreeing a sample of items to supporting evidence to determine whether they had been recognised in line with Group policies as well as analytical reviews to understand the movements year on year.

We assessed the appropriateness of the revenue recognition policy adopted with reference to revenue share arrangements with third parties in place and also performed substantive testing to assess whether the elements delivered have been recognised in line with Group policy.

Key observations

We note that the policies applied in relation to revenue recognition are in line with our expectations aside from the policy relating to the recognition of hardware sales where the quantum recognised in the year is insignificant in the context of the wider Group revenue balance.

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

Capitalised time and impairment of operating intangibles

Key audit matter description

The Group has significant network assets held on the balance sheet of £493m (2017: £447m) which is predominantly made up of £241m (2017: £219m) of operating intangibles and £228m (2017: £228m) of network equipment and computer hardware. This includes £30m of internally capitalised time recorded in 2018. Internal capitalised time relating to the development of network infrastructure and system enhancements remains a significant balance year on year accordingly; there is a risk that inappropriate classification of operating expenses would impact on the disclosure of Headline earnings, which is a key performance indicator used by the Group and hence this has been determined as a key audit matter.

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

See note 1 to the financial statements for the impairment and asset related accounting policies that have been applied by the Group and the Audit Committee Report on page 41.

How the scope of our audit responded to the key audit matter	We challenged management's impairment review of the asset base as at 31 March 2018, focusing on those areas under the 'Network Transformation' programme via assessing the recoverable value of assets held against the carrying value on the balance sheet. We assessed management's review by involving specialists to assess the discount rate used via independently calculating an acceptable range with reference to market data, challenging the identification of CGUs and performing relevant sensitivity analyses in line with our forecasting work outlined above. We reviewed each capital programme in progress across the year against the requirements of IAS 38 Intangible Assets (IAS 38). We also performed substantive testing procedures on a sample of time capitalised in the year via corresponding with project managers and agreeing time spent to the newly implemented core timesheet system as well as gaining an understanding of the work carried out in the year and whether directly attributable to each capital programme.
Key observations	We are satisfied with the carrying value of the operating intangibles held on the balance sheet as at 31 March 2018 and that the nature of capital additions in the year is in line with the requirements of IAS 38.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

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

	Group financial statements	Parent Company financial statements
Materiality	£3.6m (2017: £4.0m)	£3.4m (2017: £3.0m)
Basis for determining materiality	Materiality has been determined by considering a number of different measures including Statutory loss before taxation, Headline profit before taxation and Statutory revenue (2017: 3% of Headline profit before taxation).	The Parent Company materiality represents 0.3% of net assets (2017: 0.3%) which is capped at 95% of Group materiality.
Rationale for the benchmark applied	There is significant volatility in the results of the Group due to the change in the Mobile strategy and the launch of programmes such as Network Transformation and Business Reorganisation. As such, we have considered a range of metrics when determining our materiality. The materiality applied equates to 5% of Statutory loss before taxation, 7.8% of Headline profit before taxation and 0.2% of Statutory revenue.	We consider the net assets to be an appropriate benchmark for the measure of the materiality of the Parent Company on the basis that it is the Group's ultimate parent and is a non-trading company.

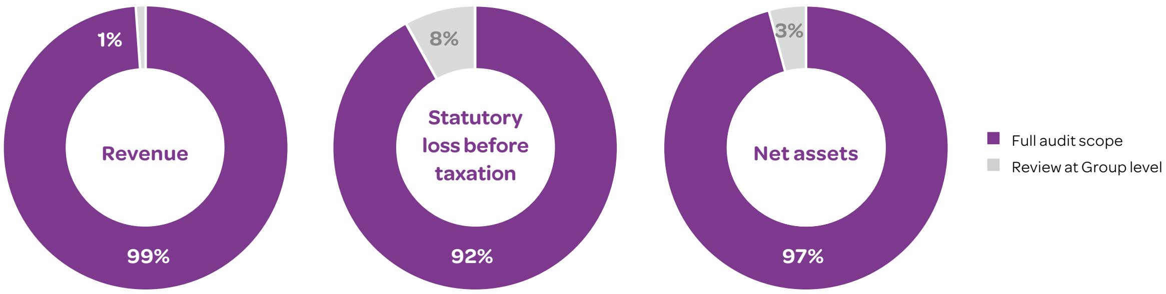
We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £180,000 (2017: £200,000) for the Group, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Independent auditor's report continued

to the members of TalkTalk Telecom Group PLC

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment and consistent with the prior year, we focused our Group audit scope primarily on the TalkTalk Consumer and TalkTalk Business operating units. Each of these was subject to a full audit which was performed directly by the Group audit team and together they represent over 99% (2017: over 99%) of the Group's total revenues. Specific focused audit work was performed over Group functions, including those covering treasury and taxation. Together this covered 92% of Statutory loss before taxation (2017: Statutory profit before tax 92%) and 97% of net assets (2017: 93%). Our audit work at each division was executed at levels of materiality which were lower than Group materiality and ranged from £2.5m to £3.1m (2017: £2.4m to £3.2m).



Other information

We have nothing to report in respect of these matters.

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our Auditor's Report thereon.

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

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

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

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

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

Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's Report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration
Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters

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

Kate J Houldsworth FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London
24 May 2018

Financial statements

Consolidated income statement

For the year ended 31 March 2018

		2018			2017 (restated)[1]		
	Notes	**Headline £m**	**Non-Headline (note 9) £m**	**Statutory £m**	Headline £m	Non-Headline (note 9) £m	Statutory £m
Revenue	2	1,658	50	1,708	1,720	63	1,783
Cost of sales		(774)	(38)	(812)	(767)	(46)	(813)
Gross profit		884	12	896	953	17	970
Operating expenses excluding amortisation and depreciation		(651)	(109)	(760)	(592)	(131)	(723)
EBITDA	9	233	(97)	136	361	(114)	247
Depreciation and amortisation	3	(131)	(12)	(143)	(126)	(15)	(141)
Share of results of joint ventures	14	(11)	–	(11)	(11)	–	(11)
Operating (loss)/profit	3, 9	91	(109)	(18)	224	(129)	95
Net finance costs	6	(45)	(10)	(55)	(25)	–	(25)
(Loss)/profit before taxation	9	46	(119)	(73)	199	(129)	70
Taxation	7, 9	(28)	22	(6)	(45)	33	(12)
(Loss)/profit for the year attributable to the owners of the Company	9	18	(97)	(79)	154	(96)	58
(Loss)/earnings per share							
Basic (p)	10			(8.1)			6.1
Diluted (p)	10			(8.0)			6.0

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

(1) See note 1 to the consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 March 2018

	2018 £m	2017 £m
(Loss)/profit for the year attributable to the owners of the Company	(79)	58
Other comprehensive income/(expense)		
Items that may be reclassified to profit or loss:		
Gains/(losses) on a hedge of a financial instrument	2	(5)
Loss on a hedge reclassified to income statement	6	–
Total other comprehensive income/(expense)	8	(5)
Total comprehensive (expense)/income attributable to the owners of the Company	(71)	53

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

Consolidated balance sheet

Company number: 07105891
As at 31 March 2018

	Notes	2018 £m	2017 £m
Non-current assets			
Goodwill	11	495	495
Other intangible assets	11	257	243
Property, plant and equipment	12	236	235
Investment in joint venture	14	3	8
Trade and other receivables	16	7	6
Derivative financial instruments	19	–	31
Deferred tax assets	7	97	108
		1,095	1,126
Current assets			
Inventories	15	35	18
Trade and other receivables	16	356	369
Cash and cash equivalents	18	43	50
		434	437
Assets classified as held for sale	13	13	–
Total assets		1,542	1,563
Current liabilities			
Trade and other payables	17	(462)	(511)
Current income tax payable		–	(5)
Borrowings	18	(75)	–
Provisions	20	(31)	(22)
		(568)	(538)
Liabilities classified as held for sale	13	(11)	–
Non-current liabilities			
Borrowings	18	(723)	(871)
Provisions	20	(28)	(14)
		(751)	(885)
Total liabilities		(1,330)	(1,423)
Net assets		212	140
Equity			
Share capital	21	1	1
Share premium	22	684	684
Translation reserve	22	(64)	(64)
Demerger reserve	22	(513)	(513)
Retained earnings and other reserves	22	104	32
Total equity		212	140

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

These financial statements were approved and authorised for issue by the Board on 24 May 2018. They were signed on its behalf by:

T Harrison
Chief Executive Officer

K Ferry
Chief Financial Officer

Consolidated cash flow statement

For the year ended 31 March 2018

	Notes	2018 £m	2017 (re-presented) [1] £m
Operating activities			
Operating (loss)/profit		(18)	95
Share-based payments	5	8	5
Depreciation of property, plant and equipment	3	72	72
Amortisation of other operating intangible assets	11	62	59
Amortisation of acquisition intangibles	11	9	10
Share of losses of joint ventures	14	11	11
Impairment of stock inventory	15	–	18
Impairment of property, plant and equipment	12	–	22
Impairment of other operating intangible assets	11	2	–
Gain on disposal of joint venture	14	(1)	–
Profit on disposal of property, plant and equipment	3	–	(2)
Increase in provisions		23	8
Operating cash flows before movements in working capital		168	298
Decrease/(increase) in trade and other receivables		12	(63)
(Increase)/decrease in inventory		(17)	21
Decrease in trade and other payables		(45)	(26)
Cash generated from operations		118	230
Income taxes received		–	2
Net cash flows generated from operating activities		118	232
Investing activities			
Acquisition of subsidiaries and joint ventures, net of cash acquired		(8)	(10)
Investment in intangible assets		(87)	(82)
Investment in property, plant and equipment		(38)	(71)
Disposal of property, plant and equipment		–	20
Cash flows used in investing activities		(133)	(143)
Financing activities			
Settlement of Group ESOT shares		1	1
Issue of shares		201	–
Payment of contingent consideration		–	(8)
Repayments of obligations under finance leases		(4)	–
Repayments of borrowings	23	(374)	(315)
Drawdown of borrowings	23	309	458
Interest paid		(41)	(30)
Other finance costs		(13)	(5)
Equity dividends paid	8	(71)	(150)
Cash flows generated from/(used in) financing activities		8	(49)
Net (decrease)/increase in cash and cash equivalents		(7)	40
Cash and cash equivalents at the start of the year		50	10
Cash and cash equivalents at the end of the year	18	43	50

(1) See note 1 to the consolidated financial statements.

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

Consolidated statement of changes in equity

For the year ended 31 March 2018

	Notes	Share capital £m	Share premium £m	Translation reserve £m	Demerger reserve £m	Retained earnings and other reserves £m	Total equity £m
At 1 April 2016		1	684	(64)	(513)	123	231
Profit for the year		–	–	–	–	58	58
Other comprehensive expense							
Items that may be reclassified to profit or loss:							
Loss on hedge of a financial instrument		–	–	–	–	(5)	(5)
Total other comprehensive expense		–	–	–	–	(5)	(5)
Total comprehensive income		–	–	–	–	53	53
Transactions with the owners of the Company							
Share-based payments	5	–	–	–	–	3	3
Settlement of Group ESOT shares		–	–	–	–	3	3
Equity dividends	8	–	–	–	–	(150)	(150)
Total transactions with the owners of the Company		–	–	–	–	(144)	(144)
At 31 March 2017		1	684	(64)	(513)	32	140
Loss for the year		–	–	–	–	(79)	(79)
Other comprehensive income							
Items that may be reclassified to profit or loss:							
Gain on hedge of a financial instrument		–	–	–	–	2	2
Loss on a hedge reclassified to income statement		–	–	–	–	6	6
Total other comprehensive income		–	–	–	–	8	8
Total comprehensive expense		–	–	–	–	(71)	(71)
Transactions with the owners of the Company							
Share-based payments	5	–	–	–	–	12	12
Settlement of Group ESOT shares		–	–	–	–	1	1
Issue of shares	21	–	–	–	–	201	201
Equity dividends	8	–	–	–	–	(71)	(71)
Total transactions with the owners of the Company		–	–	–	–	143	143
At 31 March 2018		1	684	(64)	(513)	104	212

The accompanying notes 1 to 27 are an integral part of this consolidated statement of changes in equity.

Notes to the consolidated financial statements

1. Accounting policies and basis of preparation

Basis of preparation

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

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). The consolidated financial statements of the Group have also been prepared in accordance with IFRS as adopted for use in the European Union (EU) and as applied in accordance with the provisions of the Companies Act 2006. These financial statements therefore comply with Article 4 of the European Union International Accounting Standard regulation.

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

Basis of consolidation

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

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

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

Alternative Performance Measures (APMs)

In response to the Guidelines on APMs issued by the European Securities and Markets Authority (ESMA) and the Financial Reporting Council (FRC), additional information on the APMs used by the Group is provided below. The following APMs are used by the Group:

- Headline revenue (excluding Carrier and Off-net);
- Headline EBITDA;
- Headline basic EPS;
- Headline net debt; and
- Net debt.

Further explanation of what each APM comprises and reconciliations between Statutory reported measures and Headline measures are shown in notes 2, 9 and 10. Refer to page 118 for comprehensive descriptions of all APMs including their relevance in providing supplementary information that assists the user to understand better the financial performance, position and trends of the Group. In addition, in response to the Guidelines on APMs issued by ESMA and the FRC and with a view to simplifing the Group's reporting, the Group has reduced the number of APM's used compared to the prior year. The APM's no longer used by the Group are Headline revenue, Headline EBITDA margin, Headline operating profit, Headline profit before taxation, Headline profit after taxation, Headline free cash flow and Headline leverage.

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

During the year, the Group has refined its policy in relation to non-Headline items so as to streamline its application, simplify the Group's reporting and ensure consistency between Headline and non-Headline performance. In particular, the Board considers the recognition of service level related credits should be included in Headline performance, consistent with the recognition of the associated costs for which the Group is being compensated. The MVNO operating loss, being in relation to a business being exited, has also been recognised within non-Headline results. On this basis prior year results have been restated, giving rise to a decrease in the Group's Headline revenue of £63m, an increase in the Group's Headline EBITDA of £57m and an increase in Group's Headline profit before taxation of £66m. There is no impact on the Statutory performance of the Group or the Group's consolidated balance sheet, further detail is set out in note 9.

The APMs used by the Group are not defined terms under IFRS and may therefore not be comparable with similarly titled measures reported by other companies. They are not intended to be a substitute for, or superior to, GAAP measures. All APMs relate to the current year results and comparative periods where provided.

Cash flow statement presentation

During the year, management has reviewed its cash flow statement presentation. As a result of this review movements in provisions have been re-presented within operating cash flows before movements in working capital. This is because management believe it to be more appropriate for movements in provisions not to be part of the Group's working capital. The prior year cash flow statement has been restated accordingly, resulting in an increase in operating cash flows before movement in working capital by £8m. There is no impact on cash generated from operations.

In addition, management has decided to split interest paid in financial activities to present arrangement fees separately. The prior year comparatives have been restated accordingly.

Notes to the consolidated financial statements continued

1. Accounting policies and basis of preparation continued

Going concern

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

We have £1,115m of committed credit facilities and as at 31 March 2018 the headroom on these facilities was £348m. 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. Sensitivity analysis has been performed in respect of certain scenarios, including an increase in churn, lower net adds growth and lower than expected cost savings, and we have considered mitigating actions and cash management activities within the Group's control in the event of a breach in covenant. This, together with our market positioning, means that we are well placed to manage our business risks successfully and have adequate resources to operate for the foreseeable future. The Directors have therefore adopted the going concern basis of accounting in relation to the preparation of the financial statements.

The UK Corporate Governance Code requires the Directors to assess and report on the prospects of the Group over a longer period. This longer term viability statement is set out within the Annual Report on page 38.

Accounting policies

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

Revenue

Revenue is 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; in the absence of a minimum contract period an average contract period is used; 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, limited to the amounts billed for that element on the basis of recoverability.

Where the Group sells hardware to third parties involved in outsourcing its customer acquisition, hardware revenue is recognised when risk and rewards of the related hardware are transferred to the outsourced third party.

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. Certain subscriber acquisition costs relate to revenue share arrangements with third parties payable over a definable period subject to customer churn. Revenue share payable under these arrangements is recognised as an expense at the same time as the related revenue is recognised. Reimbursement of subscriber acquisition costs from third parties are recognised on customer acquisition.

Foreign currency translation and transactions

Material transactions in foreign currencies are hedged using forward purchases or sales of the relevant currencies and are recognised in the financial statements at the exchange rates obtained. Unhedged transactions are recorded at the exchange rate on the date of the transaction. Hedge accounting as defined by 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	
	2018	2017	**2018**	2017
Euro	**1.14**	1.19	**1.14**	1.17
United States Dollar	**1.34**	1.30	**1.40**	1.25

1. Accounting policies and basis of preparation continued

Leases

The Group as lessee

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

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

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

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

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

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 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.

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

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

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

Cash and cash equivalents

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

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.

Borrowings

Borrowings represent committed and uncommitted bank loans, US Private Placement Notes, Senior Notes, a receivables purchase agreement and bank overdrafts. These are initially measured at net proceeds and are subsequently measured at amortised cost, using the effective interest rate method.

Bank fees and legal costs associated with the securing of external financing are capitalised and amortised over the term of the relevant facility. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

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

Equity instruments

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.

1. Accounting policies and basis of preparation continued

Financial instruments continued

Derivative financial instruments and hedge accounting continued

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

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

Cash flow hedges

The Group 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.

Change in accounting estimates

In light of the most up to date customer data, the Group has revised its accounting estimates in relation to the average contract period that certain promotional discounts and credits are amortised over, giving rise to an increase in the Group's Headline EBITDA of £2m (2017: £5m).

Critical accounting judgements and key sources of estimation uncertainty

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

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

Forecast assumptions used in the going concern and viability statement assessments

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

Classification of item as non-Headline

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

Revenue share arrangements with third parties

Certain subscriber acquisition costs relate to revenue share arrangements with third parties payable over a definable period subject to customer churn. Revenue share payable under these arrangements are recognised as an expense at the same time as the related revenue is recognised. Reimbursement of subscriber acquisition costs from third parties are recognised on customer acquisition.

Management applies judgement on the application and interpretation of the contractual relationship that includes periodic retrospective reviews. Such reviews ensure that the revenue share and related reimbursement on customer acquisition is recognised based upon actual customer churn data and costs for each accounting period and that recognition is recognised within the appropriate financial period.

Revenue recognition for bundled transactions

When the Group sells several 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, limited to the amounts billed for that element on the basis of recoverability. The rationale for this judgement is to ensure the total consideration from an arrangement is allocated on an appropriate basis relative to the fair value of goods and services provided to the customer.

1. Accounting policies and basis of preparation continued

Critical accounting judgements and key sources of estimation uncertainty continued

Hardware revenue to third parties involved in outsourcing its customer acquisition

Where the Group sells hardware to third parties involved in outsourcing its customer acquisition, hardware revenue is recognised when risk and rewards of the related hardware is transferred to the outsourced third party. Management applies judgement in determining when risk and rewards have transferred to the outsourced third party. The rationale of this judgement is to ensure that revenue is recognised in the appropriate financial period when risk and rewards have transferred to the outsourced third party.

Amounts receivable from suppliers

The Group may enter agreements with certain suppliers which include the opportunity for rebates on the cost of goods purchased. Income may also relate to changes in contract rates or compensation received under existing contracts. Management applies judgement in relation to assessing the appropriate timing of recognition based on the nature of the income, whether the Group has discharged its obligations and the likelihood of receipt. Consideration is also given as to whether it should be treated as income or a reduction in the value of inventory.

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

Service level related disputes

The Group's results include the recognition of certain service level related credits from suppliers to compensate the Group where the supplier has not operated within the contractual terms of these arrangements. The quantification of service level related credits may be subject to regulatory guidance, legal ruling or alternative dispute resolution processes. During the year, following a detailed independent assessment of underlying data and the Group has reviewed its estimation in relation to certain claims. At 31 March 2018, a receivable of £46m (2017: £32m) existed in relation to such claims, the resolution of which may give rise to an increase or decrease in the level of receivable recognised. This is without prejudice to the Group's legal position.

Taxation

The value of deferred tax asset may be uncertain as the extent to which tax losses can be utilised depends on future taxable profits and on the tax legislation then in force.

Recovery of the deferred tax asset relating to tax losses is estimated over a ten year time horizon using an extrapolation of the Group's three year plan. Sensitivities have been applied to these forecasts as noted in the viability statement on page 38. Forecast profits within the ten year agreed time horizon impacts the level of the deferred tax asset recognition. Accordingly, an increase or decrease in future profitability would increase or decrease the asset recognised.

Application of significant new or amended EU-endorsed accounting standards

There are no new or revised standards and interpretations that have had a material impact on the Group during the year.

Future accounting developments

At the date of authorisation of these consolidated financial statements, there were a number of significant standards and interpretations that have not been applied in these consolidated 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 an impact on the consolidated financial statements of the Group in future periods:

IFRS 9

'Financial Instruments', impacting the disclosure within the financial instruments. The Group will implement this standard for the year ended 31 March 2020. Management continue to review the impact of this standard.

IFRS 15

FRS 15 "Revenue from Contracts with Customers" impacts the amount, timing and recognition of revenue and certain associated costs, as well as related disclosures. The Group will implement this standard for the year ended 31 March 2019 and will present the first-time application of IFRS 15 using the modified retrospective method, applying a one-off cumulative effect of transition to retained earnings at 1 April 2018.

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

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

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

The Group has run a project for the implementation of IFRS 15 assessing the impact to the Group, designing accounting policies and implementing necessary processes and systems.

Notes to the consolidated financial statements continued

1. Accounting policies and basis of preparation continued

Future accounting developments continued

IFRS 15 continued

The key effects of the application of IFRS 15 are described below:

- Revenue will continue to be recognised upfront in relation to hardware provided to the customer. However whilst currently revenue is recognised only to the extent the customer contributes to this hardware, under IFRS 15 revenue will be allocated to the hardware based on the relative standalone selling prices of each of the performance obligations of the contract. As the Group often provides hardware free or at a discounted price to customers this will result in more revenue being recognised at the commencement of a contract when the hardware is provided, and less being recognised over the remainder of the contract as the service is provided.
- Connection revenues are currently recognised at the point the connection activity has been completed. Under IFRS 15 such activities will typically not be a performance obligation and therefore the revenue will form part of the overall transaction price being allocated to each of the actual performance obligations of the contract based on their relative standalone prices.
- Certain promotional discounts and credits are deferred and amortised over a defined period, however as these are not related to performance obligations, such credits and discounts will form part of the total transaction price and be allocated to each of the performance obligations.
- Incremental sales commission costs directly attributable to obtaining specific contracts and currently recognised as incurred will instead be deferred and recognised over time.
- Specific costs associates with fulfilling the customer contracts currently recognised on contract inception will instead be deferred and recognised over time.

The acceleration of revenue associated with hardware and the deferral of costs to obtain and fulfil will increase the net of assets of the Group, whilst the deferral of connection revenue will reduce net assets, We are in the process of finalising the impact to the Group of IFRS 15 including the opening adjustment to retained earnings. We will provide a reconciliation of our primary financial statements under IAS 18 to our primary financial statements under IFRS 15 in our 2019 Annual Report.

IFRS 16

'Leases', impacting lease recognition. The Group will implement this standard for the year ended 31 March 2020, as the Group continues to monitor the practical interpretation of this new standard within the telecommunications industry. Further detail of the requirements and management's current assessment of the implications for TalkTalk were disclosed within the 2017 Annual Report.

2. Segmental reporting

IFRS 8 'Operating Segments' requires the segmental information presented in the financial statements to be that used by the Chief Operating Decision Maker (CODM) to evaluate the performance of the business and decide how to allocate resources. The Group has identified the Board as its CODM. The Board considers the results of the business as a whole when assessing the performance of the business and making decisions about the allocation of resources. Accordingly, the Group has one operating segment with all trading operations based in the United Kingdom.

	2018 £m	2017 (restated) [1] £m
Statutory revenue	1,708	1,783
Less MVNO revenue	(50)	(63)
Headline revenue	1,658	1,720

	2018 £m	2017 (restated) [1] £m
Headline EBITDA	233	361
Depreciation of property, plant and equipment	(69)	(67)
Amortisation of operating intangibles	(62)	(59)
Share of results of joint ventures	(11)	(11)
Non-Headline items – gross profit	12	17
Non-Headline items – operating expenses excluding amortisation and depreciation (note 9)	(109)	(131)
Non-Headline items – depreciation and amortisation	(3)	(5)
Amortisation of acquisition intangibles (note 11)	(9)	(10)
Statutory operating (loss)/profit (note 9)	(18)	95

2. Segmental reporting continued

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

	2018 £m	2017 (restated)[1] £m
On-net	1,263	1,279
Corporate	373	397
Off-net	22	44
Headline revenue	1,658	1,720
Less Carrier	(72)	(121)
Less Off-net	(22)	(44)
Headline revenue (excluding Carrier and Off-net)	1,564	1,555

(1) See note 1 to the consolidated financial statements.

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

Corporate revenue is further analysed as:

	2018 £m	2017 £m
Carrier	72	121
Data	168	157
Voice	133	119
Corporate revenue	373	397

3. Operating (loss)/profit

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

	2018 £m	2017 (restated)[3] £m
Depreciation of property, plant and equipment (note 12)	69	69
Amortisation of other operating intangible fixed assets (note 11)	62	59
Amortisation of acquisition intangibles (note 11)	9	10
Profit on disposal of property, plant and equipment	–	(2)
Impairment of operating intangibles	2	–
Gain on disposal of joint venture	(1)	–
Impairment loss recognised on trade receivables (note 16)	37	60
Employee costs (note 4)	152	136
Cost of inventories recognised in expenses	48	55
Rentals under operating leases	101	105
Supplier rebates	(8)	(13)
Service level related disputes[1]	(14)	(56)
Auditor's remuneration[2]	1	1
Non-Headline items (note 9)	97	114
Non-Headline items – depreciation (note 9 and note 12)	3	5

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

(2) A breakdown of auditor's remuneration is disclosed within the Corporate Governance section on page 41.

(3) See note 1 to the consolidated financial statements.

4. Employee costs

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

	2018 Number	2017 Number
Administration	1,634	1,588
Sales and customer management	654	638
	2,288	2,226

Notes to the consolidated financial statements continued

4. Employee costs continued

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

	2018 £m	2017 £m
Wages and salaries	124	112
Social security costs	15	14
Other pension costs	5	5
	144	131
Share-based payments (note 5)	8	5
	152	136

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 (see the Directors' Remuneration Report on pages 42 to 58) and other senior management.

	2018 £m	2017 £m
Salaries and fees	4.9	4.0
Performance bonuses	1.4	1.5
Benefits	0.3	0.1
Pension costs	0.2	0.2
Share-based payments	2.6	0.7
Notice payment	0.7	–
Compensation for loss of office	0.3	0.9
	10.4	7.4

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.

TalkTalk Telecom Group PLC schemes

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

In order to aid the user of the financial statements, the dilutive effect on EPS of each scheme has been presented. This has been calculated using an average share price for the financial year of £1.69 (2017: £2.03).

5. Share-based payments continued

Summary of share schemes

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

Year ended 31 March 2017	IFRS 2 charge £m	Dilutive effect number millions	Options outstanding at the end of the year number millions
TalkTalk Telecom Group PLC schemes			
SVP – participation shares	1	–	–
SVP II – participation shares	1	–	–
DSOP – 2016 grant 2018	2	4	10
DSOP – 2015 grant 2016	–	1	1
DSOP – 2014 grant 2015	1	3	5
DSOP – 2013 grant 2014	–	1	1
DSOP – 2012 grant 2013	–	1	1
DSOP – 2010 grant 2011	–	1	1
SAYE	–	–	3
Total TalkTalk Telecom Group PLC schemes	5	11	22

(i) SVP

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

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

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

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

The performance conditions are measured over an initial performance period from 3 June 2014 (SVP), 19 May 2016 (SVP II) and 21 June 2017 to the date of announcement of the Group's 2017 (SVP), 2019 (SVP II) and 2020 (SVP III) annual results, after which a total of 60% of the options will vest. The remaining options are measured over a performance period from 3 June 2014 (SVP), 19 May 2016 (SVP II) and 21 June 2017 to the date of announcement of the Group's 2018 (SVP), 2020 (SVP II) and 2021 (SVP III) annual results. The pool also has a maximum cap on incremental value equal to 2.75% of the total issued share capital of TalkTalk Telecom Group PLC at the date of each vesting.

There is a holding period on 100% of the PLC shares received in exchange for participation shares on vesting, of twelve months from each vesting date for Executive Directors. All other participants are required to hold 50% of the PLC shares received in exchange for participation shares on vesting for twelve months from each vesting date.

5. Share-based payments continued

Summary of share schemes continued

(i) SVP continued

The Group advanced loans to participants to enable them to purchase participation shares in TalkTalk Group Limited, the holding company of the Group's operating business. These loans are subject to a commercial rate of interest based on rates set by HMRC.

If an employee leaves the Group before the scheme vests, then the participation shares are forfeited for the value of the outstanding loan plus accrued interest.

During the year ended 31 March 2018 the Group reviewed all of its existing long term incentive plans, including the SVP II, to ensure they are in line with the revised business strategy. It subsequently decided SVP II awarded in 2016, having being set under our old strategy, will not meet the purposes for which those awards were originally granted and cancelled the award. The cancellation of awards gave rise to an exceptional charge of £3m.

A fair value exercise was conducted for the awards using the Monte Carlo method with the total fair value of the participation shares granted totalling £5m in SVP, £4m in SVP II and £5m in SVP III.

A summary of the schemes is shown below:

	Participation shares	
SVP – 2015 grant	**2018 Number million**	2017 Number million
Outstanding at the beginning of the year	15	17
Forfeited during the year	(4)	(2)
Outstanding at the end of the year	11	15
Exercisable at the end of the year	–	–

	Participation shares	
SVP II – 2016 grant	**2018 Number million**	2017 Number million
Outstanding at the beginning of the year	18	–
Granted during the year	–	20
Cancelled during the year	(12)	–
Forfeited during the year	(6)	(2)
Outstanding at the end of the year	–	18
Exercisable at the end of the year	–	–

	Participation shares	
SVP III – 2017 grant	**2018 Number million**	2017 Number million
Outstanding at the beginning of the year	–	–
Granted during the year	14	–
Forfeited during the year	(1)	–
Outstanding at the end of the year	13	–
Exercisable at the end of the year	–	–

(ii) DSOP

During the year ended 31 March 2018 the Group granted 12 million nil-priced share options ('2017 grant'). These options are subject to the following performance condition:

- at least a 7% compound annual increase (CAGR) in the market capitalisation of the Group from the below valuation over the next three and four year periods.

The options are measured as follows:

- a performance period from 21 June 2017 to 21 June 2020 vesting on announcement of the Group's 2020 annual results. A total of 60% of the vested options are exercisable from the vesting date, with the remaining 40% of options being exercisable twelve months later. Options are forfeited if an employee leaves the Group before the options vest, subject to the DSOP scheme rules.

5. Share-based payments continued

Summary of share schemes continued

(ii) DSOP continued

In 2017 ('2016 grant'), the Group granted 11 million nil-priced share options. These options are subject to the following performance conditions:

- at least a 7% compound annual increase (CAGR) in the market capitalisation of the Group from the below valuation over the next three and four year periods; and
- at least a 23.8% compound annual increase (CAGR) in the Headline earnings per share (EPS) of the Group from the 2016 Headline EPS; and the employee remains in service with the Group for the vesting periods.

The options are measured as follows:

- a performance period from 19 May 2016 to 19 May 2019 vesting on announcement of the Group's 2020 annual results. A total of 60% of the vested options are exercisable from the vesting date, with the remaining 40% of options being exercisable twelve months later. Options are forfeited if an employee leaves the Group before the options vest, subject to the DSOP scheme rules.

In 2015 ('2014 grant') and 2016 ('2015 grant'), the Group granted eight million nil-priced share option awards and two million nil-priced share option awards respectively. These 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 below valuation over the next three and four year periods; and
- the Group's TSR outperforms the FTSE 250.

The options are measured as follows:

- 2014 grant: a performance period from 3 June 2014 to 3 June 2017 vesting on announcement of the Group's 2017 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.
- 2015 grant: a performance period from 11 September 2015 to 11 September 2018 vesting on 11 September 2018. The vested options are only exercisable twelve months following the vesting date. Options are forfeited if an employee leaves the Group before the options vest, subject to the DSOP scheme rules.

On the announcement of the Group's 2017 annual results it was determined the 2014 grant did not meet the necessary performance conditions and subsequently all remaining options under the scheme lapsed on this date.

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

The following table summarises the number of options, WAEP and valuation assumptions of each grant.

	2017 grant		2016 grant		2015 grant		2014 grant		2013 grant		2012 grant		2010 grant	
Number of share options outstanding	Number million	WAEP £	Number million	WAEP £	Number million	WAEP £	Number million	WAEP £	Number million	WAEP £	Number million	WAEP £	Number million	WAEP £
Opening balance at 1 April 2016	–	–	–	–	2	–	7	–	4	–	2	–	2	1.27
Granted during the year	–	–	11	–	–	–	–	–	–	–	–	–	–	–
Exercised during the year	–	–	–	–	–	–	–	–	–	–	(1)	–	(1)	1.27
Forfeited during the year	–	–	(1)	–	(1)	–	(2)	–	(3)	–	–	–	–	–
Closing balance at 31 March 2017	–	–	10	–	1	–	5	–	1	–	1	–	1	1.27
Granted during the year	12	–	–	–	–	–	–	–	–	–	–	–	–	–
Exercised during the year	–	–	–	–	–	–	–	–	(1)	–	–	–	(1)	1.27
Lapsed during the year	–	–	–	–	–	–	(5)	–	–	–	–	–	–	–
Forfeited during the year	(1)	–	(1)	–	–	–	–	–	–	–	–	–	–	–
Closing balance at 31 March 2018	11	–	9	–	1	–	–	–	–	–	1	–	–	–
Number of share options exercisable														
As at 31 March 2017	–	–	–	–	–	–	–	–	–	–	1	–	1	1.27
As at 31 March 2018	–	–	–	–	–	–	–	–	–	–	1	–	–	–

Notes to the consolidated financial statements continued

5. Share-based payments continued

Summary of share schemes continued

(ii) DSOP continued

Valuation assumptions	2017 grant	2016 grant	2015 grant	2014 grant	2013 grant	2012 grant	2010 grant
Valuation method	Monte Carlo	Monte Carlo	Monte Carlo	Monte Carlo	Monte Carlo	Monte Carlo	Monte Carlo
Share price (p)	174	240	309	321	228	122	132
Exercise price (p)	nil	nil	nil	nil	nil	nil	127
Expected volatility	31.95% and 30.94%	28.75%	25.0%	25.0%	30.0%	30.0%	37.0%
Expected exercise (60%/40%)	3 and 4 years	3 and 4 years	4 years	3 and 4 years	3 and 4 years	3 and 4 years	3 and 4 years
Risk free rate (3 years/4 years)	0.24% and 0.39%	0.44% and 0.64%	1.67%	1.27% and 1.67%	0.50% and 0.80%	0.60%	3.40%
Expected dividend yield	4.73%	5.65%	5.60%	5.60%	4.45%	3.50%	3.80%
Fair value of options granted (£m)	5	10	1	4	3	3	9
Weighted average remaining contractual life	9.3 years	8.1 years	7.4 years	N/A	N/A	3.9 years	N/A

Part of the 2016 grant was valued using the Black Scholes model, the valuation assumptions for these are shown below:

	DSOP – 2016 grant
Valuation method	Black Scholes
Share price (p)	240
Exercise price (p)	nil
Expected volatility	N/A
Expected exercise (years)	3 and 4 years
Risk free rate	N/A
Expected dividend yield	5.65%
Fair value of options granted (£m)	9
Weighted average remaining contractual life	9.1 years

(iii) SAYE

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

Exercise prices for the schemes are set out below:

2017 grant	145p per share
2016 grant	209p per share
2015 grant	307p per share
2014 grant	240p per share
2013 grant	192p per share
2012 grant	123p per share
2011 grant	119p per share
2010 grant	102p per share

	2018		2017	
	Number million	**WAEP £**	Number million	WAEP £
Outstanding at the beginning of the year	3	2.26	4	2.32
Granted during the year	4	1.45	2	2.09
Exercised during the year	–	–	(1)	1.88
Forfeited during the year	(2)	1.94	(2)	2.37
Outstanding at the end of the year	5	1.74	3	2.28
Exercisable at the end of the year	–	–	–	–

5. Share-based payments continued

Summary of share schemes continued

(iv) Share Match Plan

	SAYE – 2017 grant
Valuation method	Black Scholes
Share price (p)	1.81
Exercise price (p)	1.45
Expected volatility	26%
Expected exercise (years)	3.6
Risk free rate	0.29%
Expected dividend yield	4.24%
Fair value of options granted (£m)	1
Weighted average remaining contractual life	3.1 years

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

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

Currently the Group provides one matching share for each partnership share purchased by participating employees or Executive Directors. During the year ended 31 March 2018, the impact of the SIP on the Group's results was not material.

6. Net finance costs

Net finance costs are analysed as follows:

	2018 £m	2017 (restated) £m
Interest on bank loans and overdrafts	36	20
Facility fees and similar charges	9	5
Finance costs before exceptional items	45	25
Exceptional – finance expense (note 9)	10	–
Finance costs	55	25

In the year ended 31 March 2018, the Group completed the repurchase of its $185m US Private Placement Notes. This resulted in exceptional costs of £8m (2017: £nil) including the settlement of derivative instruments in designated hedge accounting relationships and associated fees. In the year ended 31 March 2018, the Group also refinanced its revolving credit facilities (RCF), resulting in the accelerated amortisation of arrangement fees from the previous facilities leading to a £2m (2017: £nil) exceptional charge in the year. In addition, arrangement fees of £5m were paid during the year and are being amortised over the life of the RCF.

In the year ended 31 March 2017, the Group issued £400m Senior Notes repayable in 2022. Arrangement fees of £5m were paid and are being amortised over the life of the Notes. Upon receipt of the proceeds the Group repaid £50m of its term loan and the 2016 £100m RCF in full, accelerating the amortisation of the fees relating to this facility.

The average interest rate in the year was 4.60% (2017: 3.60%).

7. Taxation

Accounting policy

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

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

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

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

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

Notes to the consolidated financial statements continued

7. Taxation continued

Tax – income statement

The tax charge comprises:

	2018 £m	2017 £m
Current tax		
UK corporation tax	–	5
Adjustments in respect of prior years:	(5)	–
Total current tax (credit)/charge	(5)	5
Deferred tax		
Origination and reversal of timing differences	(10)	9
Effect from write off of deferred tax losses	15	–
Effect of change in tax rate	4	7
Adjustments in respect of prior years – deferred tax charge/(credit)	2	(1)
Adjustments in respect of prior years – exceptional credit	–	(8)
Total deferred tax charge	11	7
Total tax charge	6	12

The tax charge on Headline earnings for the year ended 31 March 2018 was £28m (2017: £45m), representing an effective tax rate on pre-tax profits of 61% (2017: 23%). The tax charge on Statutory earnings for the year ended 31 March 2018 was £6m (2017: £12m). The reconciliation between the Headline and Statutory tax charge is shown in note 9.

The principal differences between the tax charge and the amount calculated by applying the standard rate of UK corporation tax of 19% (2017: 20%) to the (loss)/profit before taxation are as follows:

	2018 £m	2017 £m
(Loss)/profit before taxation	(73)	70
Tax at 19% (2017: 20%)	(14)	14
Items attracting no tax relief or liability	2	–
Effect of change in tax rate	4	7
Adjustments in respect of prior years	(3)	(1)
Adjustments in respect of prior years – exceptional credit	–	(8)
Movement in recognised tax losses during the year	17	–
Total tax charge through income statement	6	12

Tax – retained earnings and other reserves

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

	2018 £m	2017 £m
Total tax charge through income statement	6	12
Total tax charge through retained earnings and other reserves	6	12

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	Other timing differences £m	Total £m
At 1 April 2017	3	42	60	3	108
(Charge)/credit to the income statement	–	1	(17)	5	(11)
At 31 March 2018	3	43	43	8	97

	Share-based payments £m	Timing differences on capitalised costs £m	Tax losses £m	Other timing differences £m	Total £m
At 1 April 2016	3	53	56	3	115
(Charge)/credit to the income statement	–	(11)	4	–	(7)
At 31 March 2017	3	42	60	3	108

7. Taxation continued

Tax – balance sheet continued

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.

At 31 March 2018, the Group had unused tax losses of £527m (2017: £606m) available for offset against future taxable profits. A deferred tax asset of £43m (2017: £60m) has been recognised in respect of £254m (2017: £339m) of such losses, based on expectations of recovery in the foreseeable future.

No deferred tax asset has been recognised in respect of the remaining £273m (2017: £267m) of losses as there is insufficient evidence that there will be suitable taxable profits against which these losses can be recovered. All losses may be carried forward indefinitely.

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:

	2018 £m	2017 £m
Ordinary dividends		
Final dividend for the year ended 31 March 2016 of 10.58p per ordinary share	–	100
Interim dividend for the year ended 31 March 2017 of 5.29p per ordinary share	–	50
Final dividend for the year ended 31 March 2017 of 5.00p per ordinary share	47	–
Interim dividend for the year ended 31 March 2018 of 2.50p per ordinary share	24	–
Total ordinary dividends	71	150

The proposed final dividend for the year ended 31 March 2018 of 1.50p per ordinary share on 1,142 million ordinary shares (approximately £17m) was approved by the Board on 24 May 2018 and will be recommended to shareholders at the AGM on 18 July 2018. The dividend has not been included as a liability as at 31 March 2018. The payment of this dividend will not have any tax consequences for the Group.

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

9. Reconciliation of Headline information to Statutory information

Headline information is provided because the Directors consider that it provides assistance in understanding the Group's underlying performance. Further detail in relation to APMs are contained within note 1.

Accounting policy – non-Headline items

As explained within note 1, during the year the Group has refined its policy in relation to non-Headline items. Headline measures represent trading results before non-Headline items. The Directors believe that presentation of the Group results in this way is relevant to an understanding of our financial performance, as non-Headline items are identified by virtue of their size, nature and/or incidence. This presentation is consistent with the way that financial performance is measured by management, reported to the Board, the basis of financial measures for senior management's compensation schemes and assists in providing supplementary information that assists the user to understand better the financial performance, position and trends of the Group. In determining whether an event or transaction is non-Headline, the Board considers both quantitative and qualitative factors such as the frequency or predictability of occurrence.

During the periods under review, the non-Headline items excluded from operating profit in arriving at Headline operating profit were amortisation on acquisition intangibles, the operating results of a business to be exited (MVNO operating loss) and exceptional items.

Examples of charges or credits meeting the definition of exceptional items include, where material, discontinued operations, gains or losses associated with the acquisition/disposal/exit of businesses, business restructuring and fundamental transformation programmes. Certain transformation and rationalisation programmes are so fundamental they may impact a number of years. In the event that other items meet the criteria, which are applied consistently from year to year, they are also treated as exceptional items.

9. Reconciliation of Headline information to Statutory information continued

Critical judgements in applying the Group's accounting policy

The classification of items as non-Headline is subjective in nature and therefore judgement is required to determine whether the item is in line with the accounting policies outlined above. Determining whether an item is non-Headline is a matter of qualitative assessment. The following table includes details of non-Headline items:

Year ended 31 March 2018	Revenue £m	Gross profit £m	EBITDA £m	Operating loss £m	Loss before taxation £m	Taxation £m	Loss for the year £m
Headline results	1,658	884	233	91	46	(28)	18
Exceptional items – Operating efficiencies – MTTS (a)	–	–	(3)	(4)	(4)	–	(4)
Exceptional items – Operating efficiencies – property (b)	–	–	(12)	(12)	(12)	2	(10)
Exceptional items – Network transformation (c)	–	–	(17)	(19)	(19)	4	(15)
Exceptional items – Mobile proposition (d)	–	–	(33)	(33)	(33)	6	(27)
MVNO operating loss (e)	50	12	(13)	(13)	(13)	2	(11)
Exceptional items – Business reorganisation (f)	–	–	(19)	(19)	(19)	4	(15)
Exceptional items – Finance expense (g)	–	–	–	–	(10)	2	(8)
Amortisation of acquisition intangibles (k)	–	–	–	(9)	(9)	2	(7)
Statutory results	1,708	896	136	(18)	(73)	(6)	(79)

Year ended 31 March 2017 (restated)[1]	Revenue £m	Gross profit £m	EBITDA £m	Operating profit £m	Profit before taxation £m	Taxation £m	Profit for the year £m
Headline results	1,720	953	361	224	199	(45)	154
Exceptional items – Operating efficiencies – MTTS (a)	–	–	(24)	(24)	(24)	5	(19)
Exceptional items – Operating efficiencies – property (b)	–	–	(8)	(8)	(8)	2	(6)
Exceptional items – Network transformation (c)	–	–	(8)	(11)	(11)	2	(9)
Exceptional items – Mobile proposition (d)	–	–	(49)	(49)	(49)	10	(39)
MVNO operating loss (e)	63	17	(28)	(30)	(30)	5	(25)
Exceptional items – Acquisitions and disposals (i)	–	–	1	1	1	–	1
Exceptional items – Operating expenses – cyber attack (j)	–	–	2	2	2	(1)	1
Exceptional items – Taxation items (h)	–	–	–	–	–	8	8
Amortisation of acquisition intangibles (k)	–	–	–	(10)	(10)	2	(8)
Statutory results	1,783	970	247	95	70	(12)	58

(1) See note 1 to the consolidated financial statements.

During the year ended 31 March 2018, cash exceptional items were £60m (2017: £45m).

The above table shows how all APMs are reconciled to Statutory performance measures with the exception of Headline earnings per share (note 10) and net debt.

9. Reconciliation of Headline information to Statutory information continued

Critical judgements in applying the Group's accounting policy continued

Net debt of the Group comprises:

	2018 £m	2017 £m
Headline net debt[1]	(724)	(782)
Finance leases	(31)	–
Net debt	(755)	(782)

(1) Represents all drawn amounts on Senior Notes and bank borrowing facilities offset by cash and cash equivalents.

(a) Operating efficiencies – Making TalkTalk Simpler (MTTS)

During the year ended 31 March 2018, the Group completed its wide-ranging transformation programme that is delivering material improvements to our customers' experience, driving operating cost savings, and reducing SAC through lower churn and costs per add.

The wide-ranging transformation programme was considered so fundamental that it impacted a number of years with the costs incurred in the year relating to the finalisation of improving Consumer and TalkTalk Business systems and processes which focus on customer experience.

These programmes have resulted in £4m (2017: £24m) of costs including project management, redundancy, consultancy, migration, call centre costs and accelerated depreciation costs.

A total taxation credit of £5m has been recognised on these costs in the year ended 31 March 2017.

(b) Operating efficiencies – fundamental property rationalisation

The Group has fundamentally rationalised the sites from which it operates including the relocation of its Warrington and Irlam sites to one site at the Soapworks in Salford together with the rationalisation of our London property footprint. The revised estimated cost of this property rationalisation programme has been provided for during the year and has given rise to additional costs of £12m (2017: £8m).

A total taxation credit of £2m has been recognised on these costs in the year ended 31 March 2018 (2017: £2m).

(c) Network transformation

During the year ended 31 March 2017, the Group embarked on a significant multi-year transformation programme which will fundamentally restructure the Group's network, IT infrastructure and technology organisation. The change the Group is undertaking will ensure it is fit for the future and underpins the wider Group strategy in providing a great service to our customers as a value provider in the industry. This is a discrete project expected to run until 2021.

This programme has resulted in £19m (2017: £11m) of costs including project management, consultancy, dual running costs, decommissioning costs and accelerated depreciation costs.

A total taxation credit of £4m has been recognised on these costs in the year ended 31 March 2018 (2017: £2m).

(d) Mobile proposition

Following the Group's announcement in May 2017 to reassess the Group's mobile strategy net exceptional costs have been incurred in relation to decommissioning costs, asset write offs, provision releases, onerous supplier commitments and redundancies amounting to £33m (2017: £49m).

A total taxation credit of £6m has been recognised on these costs in the year ended 31 March 2018 (2017: £10m).

(e) MVNO operating loss

Following the Group's announcement in May 2017 to reassess the Group's mobile strategy, the Group is now progressing with its alternative mobile distribution strategy. Operating losses of £13m (2017: £30m) associated with the MVNO strategy have been incurred; given this one-off strategic decision, management considers these material losses are non-Headline items though they do not meet the criteria under IFRS 5 for separate disclosure as discontinued operations. The MVNO trading activity will continue to reduce as contractual commitments expire, with the expectation that a loss will arise in 2019.

A taxation credit of £2m has been recognised on these costs (2017: £5m).

(f) Business reorganisation

Net costs of £19m (2017: £nil) have been incurred associated with implementing changes to the Group's organisational structure following the Group reorganising the business under the new leadership team.

The costs include redundancy, other rationalisation costs and consultancy costs. The Group expects the finalisation of this fundamental reorganisation within 2019.

A taxation credit of £4m has been recognised on these costs (2017: £nil).

9. Reconciliation of Headline information to Statutory information continued

Critical judgements in applying the Group's accounting policy continued

(g) Finance expense

During the year ended 31 March 2018, the Group completed the repurchase of its $185m US Private Placement Notes. This resulted in incremental costs of £8m (2017: £nil) relating to the settlement of derivative instruments in designated hedge accounting relationships and associated fees. The Group also refinanced its revolving credit facilities, resulting in the accelerated amortisation of arrangement fees relating to the previous facilities leading to a £2m (2017: £nil) charge in the period.

A total taxation credit of £2m has been recognised on these items in the year ended 31 March 2018 (2017: £nil).

(h) Taxation items

During the year ended 31 March 2017, the Group resolved a longstanding enquiry with HMRC in relation to the tax treatment of £85m of losses in respect of TalkTalk Brands Limited. This resulted in a tax credit of £8m.

(i) Acquisitions and disposals

During the year ended 31 March 2017, final migrations of prior year customer base acquisitions were completed. Following completion any amounts provided for but not utilised were released resulting in a credit of £1m.

The tax impact was immaterial.

(j) Cyber attack

During the year ended 31 March 2017, the Group received insurance proceeds of £3m in relation to specific cyber related costs incurred in the prior year; these were offset by £1m of costs incurred in the prior year.

A total taxation charge of £1m was recognised on these items in the year ended 31 March 2017.

(k) Amortisation of acquisition intangibles

An amortisation charge in respect of acquisition intangibles of £9m was incurred in the year ended 31 March 2018 (2017: £10m).

A total taxation credit of £2m (2017: £2m) has been recognised in relation to the charge in the year ended 31 March 2018.

10. (Loss)/earnings per ordinary share

(Loss)/earnings per ordinary share are shown on a Headline and Statutory basis to assist in the understanding of the performance of the Group.

	2018 £m	2017 (restated)[1] £m
Headline earnings (note 9)	18	154
Statutory (loss)/earnings	(79)	58
Weighted average number of shares (millions)		
Shares in issue	979	955
Less weighted average holdings by Group ESOT	(4)	(7)
For basic EPS	975	948
Dilutive effect of share options (note 5)	12	11
For diluted EPS	987	959

	2018 Pence	2017 Pence
Basic earnings per ordinary share		
Headline	1.8	16.2
Statutory	(8.1)	6.1

	2018 Pence	2017 Pence
Diluted earnings per ordinary share		
Headline	1.8	16.1
Statutory	(8.0)	6.0

(1) See note 1 to the consolidated financial statements.

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.

The Group has two cash generating units (CGUs) which have allocated goodwill – TalkTalk Consumer and TalkTalk Business, which represent the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Cash inflows generated by the TalkTalk Consumer CGU represent income generated from the provision of telecommunication services to Retail customers. Cash inflows generated by the TalkTalk Business CGU represent income generated from the provision of telecommunication services to B2B customers.

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. In assessing value in use, the estimated cash flows of each CGU are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Impairment of goodwill

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

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

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

	2018 £m	2017 £m
Opening, closing cost and net book value	495	495

The goodwill acquired in business combinations is allocated at acquisition to the CGUs that are expected to benefit from that business combination. The Group has two CGUs which have allocated goodwill:

	2018 £m	2017 £m
TalkTalk Consumer	347	347
TalkTalk Business	148	148
	495	495

Impairment review

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

- Long term growth rates
  Long term revenue growth rates applied are based on the growth rate for the UK per the Organisation for Economic Co-operation and Development (OECD). The rate applied in the current year was 1.7% (2017: 2.0%).
- 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 7.8% (2017: 8.0%). 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 to maintain property, plant and equipment is based on senior management expectations of future required support of the network and current run rate of expenditure, typically at 6–7% of revenue.

11. Goodwill and other intangible assets continued

(a) Goodwill continued

Impairment review continued

- Customer factors
  The key assumptions for the forecast cash flows of each of the CGUs are based on expected customer growth rates, ARPU, direct costs including acquisition costs, and changes in product mix. The value assigned to each of these assumptions has been determined based on the extrapolation of historical trends in the Group and external information on expected trends of future market developments.

Sensitivity analysis has been performed for each key assumption and the Directors have not identified any reasonably possible 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. Directly attributable costs that are capitalised include employee costs specifically incurred in the development of the intangible asset. Operating intangibles are amortised on a straight-line basis over their estimated useful economic lives of up to eight years.

Acquisition intangibles

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

Impairment

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

11. Goodwill and other intangible assets continued

(b) Other intangible assets continued

Impairment of assets continued

Other intangible assets are analysed as follows:

	Operating intangibles £m	Acquisition intangibles £m	Total other intangibles £m
Opening balance at 1 April 2017	219	24	243
Additions	86	1	87
Amortisation	(62)	(9)	(71)
Impairment	(2)	–	(2)
Closing balance at 31 March 2018	241	16	257
Cost (gross carrying amount)	629	143	772
Accumulated amortisation	(388)	(127)	(515)
Closing balance at 31 March 2018	241	16	257

	Operating intangibles £m	Acquisition intangibles £m	Total other intangibles £m
Opening balance at 1 April 2016	193	34	227
Additions	85	–	85
Amortisation	(59)	(10)	(69)
Closing balance at 31 March 2017	219	24	243
Cost (gross carrying amount)	543	142	685
Accumulated amortisation	(324)	(118)	(442)
Closing balance at 31 March 2017	219	24	243

Operating intangibles

Operating intangibles includes internally generated assets with a net book value of £106m (2017: £102m), which are amortised over a period of up to eight years. This includes additions of £28m (2017: £32m) and an amortisation charge of £24m (2017: £18m) in the year ended 31 March 2018.

Acquisition intangibles

Acquisition intangibles relate to the broadband customer bases acquired from Virgin Media and Tesco in a prior year; these customer bases were valued from the discounted future cash flows expected from them, after a deduction for contributory assets.

At 31 March 2018, the net book value of the acquired broadband bases is material to the Group, with the Virgin Media base valued at £8m (2017: £12m) and the Tesco base valued at £8m (2017: £12m), with remaining useful economic lives of 22 months (2017: 34 months) and 23 months (2017: 35 months) respectively.

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
Land and buildings	3.33% per annum
Network equipment and computer hardware	12.5–50% per annum
Fixtures and fittings	20–25% per annum

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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.

	Short leasehold improvements £m	Network equipment and computer hardware £m	Fixtures and fittings £m	Total £m
Opening balance at 1 April 2017	1	228	6	235
Additions	1	70	2	73
Acquired from Business Combinations	–	10	–	10
Depreciation	–	(67)	(2)	(69)
Assets transferred to assets classified as held for sale	–	(10)	–	(10)
Accelerated depreciation (note 9)	–	(3)	–	(3)
Closing balance at 31 March 2018	2	228	6	236
Cost (gross carrying amount)	8	911	10	929
Accumulated depreciation and impairment charges	(6)	(683)	(4)	(693)
Closing balance at 31 March 2018	2	228	6	236

	Short leasehold improvements £m	Land and buildings £m	Network equipment and computer hardware £m	Fixtures and fittings £m	Total £m
Opening balance at 1 April 2016	–	7	294	1	302
Additions	–	2	35	6	43
Depreciation	–	–	(71)	(1)	(72)
Disposals	–	(8)	(8)	–	(16)
Impairment (note 9)	–	–	(22)	–	(22)
Reclassification	1	(1)	–	–	–
Closing balance at 31 March 2017	1	–	228	6	235
Cost (gross carrying amount)	7	–	841	8	856
Accumulated depreciation and impairment charges	(6)	–	(613)	(2)	(621)
Closing balance at 31 March 2017	1	–	228	6	235

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 2018 related to a 7.3% (2017: 7.3%) interest in Shared Band Limited, a telecommunications technology provider. The cost of the investment is not material.

13. Non-current asset investments continued

Accounting policy continued

(a) Investments

The Parent Company has investments in the following subsidiary undertakings, which affected the profits or losses or net assets of the Group.

Subsidiary undertakings	Country of incorporation or registration	Registered office	Principal activity	Percentage of shareholding
TalkTalk Telecom Holdings Limited[1]	England & Wales	11 Evesham Street[2]	Holding company	100
Beheer-en Beleggingsmaatschappij Antika BV	Netherlands	Euroweg[3]	Non-trading	100
Wireless Internet Portfolio BV	Netherlands	Euroweg[3]	Non-trading	100
TalkTalk Brands Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100
TalkTalk Group Ltd	England & Wales	11 Evesham Street[2]	Holding company	100
CPW Broadband Services (UK) Ltd	England & Wales	11 Evesham Street[2]	Telecommunications	100
Future Office Communications Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100
TalkTalk Broadband Services (Ireland) Limited	Ireland	39/40 Upper Mount Street[4]	Non-trading	100
TalkTalk Business (2CCH) Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100
TalkTalk Communications Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100
CPW Network Services Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100
TalkTalk Corporate Limited	England & Wales	11 Evesham Street[2]	Holding company	100
Core Telecommunications Limited	England & Wales	11 Evesham Street[2]	Non-trading	100
CPW UK Group Limited	England & Wales	11 Evesham Street[2]	Dormant	100
TalkTalk RB Limited (formerly Ratebuster Ltd)	England & Wales	11 Evesham Street[2]	Dormant	100
TalkTalk Technology Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Telequip Limited	England & Wales	348–350 Lytham Road[5]	In liquidation	100
Telco Global Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Vartec Telecom Europe Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Video Networks Limited	England & Wales	11 Evesham Street[2]	Dormant	100
World Online Telecom Limited	England & Wales	11 Evesham Street[2]	Dormant	100
GIS Telecoms Limited	England & Wales	11 Evesham Street[2]	Dormant	100
TalkTalk Direct Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Opal Connect Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Opal Business Solutions Limited	England & Wales	11 Evesham Street[2]	Dormant	100
UK Telco (GB) Limited	England & Wales	11 Evesham Street[2]	Dormant	100
TalkTalk UK Communications Services Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Onetel Telecommunications Limited	England & Wales	11 Evesham Street[2]	Dormant	100
V Networks Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Green Dot Property Management Limited	England & Wales	11 Evesham Street[2]	Non-trading	100
Executel Ltd	England & Wales	11 Evesham Street[2]	Dormant	100
Greystone Telecom Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Pipex Internet Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Pipex Communications Services Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Pipex UK Limited	England & Wales	11 Evesham Street[2]	Dormant	100
TalkTalk Telecom Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100
Telco Holdings Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100
Telco Global Distribution Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Tele2 Telecommunication Services Limited	Ireland	39/40 Upper Mount Street[4]	Non-trading	100
Tiscali UK Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100
Toucan Residential Ireland Limited	Ireland	39/40 Upper Mount Street[4]	Non-trading	100
TalkTalk TV Entertainment Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100
tIPicall Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100
Bolt Pro Tem Limited	England & Wales	15 Bedford Street[6]	Telecommunications	67
Nottingdale Receivables Limited[7]	England & Wales	6 St Andrew Street[8]	Receivables financing	–
Adventure Telecom Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100

(1) Directly held subsidiary.
(2) Full address: 11 Evesham Street, London, W11 4AR.
(3) Full address: Euroweg 20 3825 HD Amersfoort, Amsterdam, Netherlands.
(4) Full address: 39/40 Upper Mount Street, Dublin 2, Ireland.
(5) Full address: 348–350 Lytham Road, Blackpool, Lancashire, FY4 1DW.
(6) Full address: 15 Bedford Street, London, WC2E 9HE.
(7) Consolidated on the grounds of substance (see note 18).
(8) Full address: 5th floor, 6 St Andrew Street, London, EC4A 3AE.

Notes to the consolidated financial statements continued

13. Non-current asset investments continued

Accounting policy continued

(a) Investments continued

Joint venture undertakings	Country of incorporation or registration	Registered office	Principal activity	Percentage of shareholding
YouView TV Limited	England & Wales	10 Lower Thames Street[1]	Telecommunications	14.3
Internet Matters Limited	England & Wales	6th Floor, One London Wall[2]	Telecommunications	25.0

(1) Full address: 10 Lower Thames Street, Third Floor, London, EC3R 6YT.
(2) Full address: 6th Floor One, London Wall, London, EC2Y 5EB.

(b) Acquisitions and disposals

(i) Acquisitions

As described in note 14, on 20 December 2017, the Group purchased a further 33.3% interest in Bolt Pro Tem Limited (BPT) for £1m, a joint venture in which it already held a 33.3% interest. Following this acquisition, the Group owned 67% and therefore a controlling interest in the company. As a result, the Group has recognised £2m of provisional goodwill on acquisition and consolidated the assets and liabilities of BPT from the date of acquisition.

The impact of the acquisition to the Group's income statement is immaterial.

On 7 February 2018, the Group announced that it had agreed terms with Infracapital, the infrastructure equity investment arm of M&G Prudential, to provide FTTP to more than three million homes and businesses in the UK. The parties intend to create a company, with Infracapital funding 80% and TalkTalk 20%, with total potential equity investment of up to £500m over the medium term. TalkTalk would also be a founding wholesale customer of the new company, providing a minimum volume commitment. This venture was building on the success of BPT, which would be sold into the new venture. As a result, the assets and liabilities of BPT have been determined as qualifying as assets held for sale under IFRS 5 and disclosed as such within the consolidated balance sheet.

The major classes of assets and liabilities classified as held for sale are as follows:

	2018 £m	2017 £m
Assets classified as held for sale		
Non-current assets	12	–
Current assets[1]	1	–
Total assets classified as held for sale	13	–
Liabilities associated with assets classified as held for sale		
Current payables	(11)	–
Total liabilities associated with assets classified as held for sale	(11)	–

(1) The cash balance acquired was immaterial.

(ii) Disposals

The Group has made no disposal of investments during the current or prior year.

14. Investment in joint ventures

Accounting policy

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

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

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

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

14. Investment in joint ventures continued

Accounting policy continued

YouView TV Limited (YouView)

The Group holds 14.3% (2017: 14.3%) of the ordinary share capital of YouView, a joint venture with The British Broadcasting Corporation, ITV Broadcasting Limited, British Telecom PLC (BT), Channel Four Television Corporation, Arqiva Limited and Channel 5 Broadcasting Limited. The joint venture was set up in order to develop a free-to-air internet-connected TV service to UK homes. During a prior year, the Group signed a new agreement with the other existing holders of YouView whereby all seven original partners (together 'Tier 1' funders) continue to contribute approximately £1m per annum to fund basic operational and technology costs of YouView, and the Group together with BT as 'Tier 2' funders contribute up to a further £10m per annum for additional development of the technology to support their TV propositions. The Group's total contribution to YouView in the year ended 31 March 2018 was £6m (2017: £10m).

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 2018, the Group recognised an £11m share of losses (2017: £11m).

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

Bolt Pro Tem Limited

At 31 March 2017, the Group held 33.3% of the ordinary share 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 to deliver Fibre To The Premise (FTTP) broadband services in the City of York. On 20 December 2017, the Group purchased an additional 33.3% of BPT for consideration of £1m and therefore held a controlling interest in BPT. As such the Group began accounting for BPT as a subsidiary under IFRS 3 (note 13). During the period to 20 December 2017, the Group contributed £nil (2017: £nil) to the joint venture and received £nil share of losses (2017: £nil). In addition, it also lent a further £1m increasing the overall loan balance to £5m (2017: £4m).

Internet Matters Limited

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

Interest in joint ventures is analysed as follows:

	2018 £m	2017 £m
Opening balance at 1 April	8	9
Additions	6	10
Share of results	(11)	(11)
Gain on disposal on step up acquisition	1	–
Movement to subsidiary	(1)	–
Closing balance at 31 March	3	8

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

Group share of results of joint ventures	2018 £m	2017 £m
Expenses	(11)	(11)
Loss before taxation	(11)	(11)
Taxation	–	–
Loss after taxation	(11)	(11)

Group share of net assets of joint ventures	2018 £m	2017 £m
Non-current assets	3	8
Net assets	3	8

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, power line adaptors and routers. Net realisable value is based on estimated selling price, less costs expected to be incurred. A provision is made for obsolete items where appropriate.

	2018 £m	2017 £m
Goods for resale	35	18

During the year ended 31 March 2017, the Group revised its strategy toward its mobile proposition giving rise to an impairment of £18m. The impairment was recognised as an exceptional item (note 9).

16. Trade and other receivables

Trade and other receivables comprise:

	2018 £m	2017 £m
Non-current – trade and other receivables		
Other receivables	7	6
Current – trade and other receivables		
Trade receivables – gross	171	192
Less provision for impairment	(33)	(45)
Trade receivables – net	138	147
Other receivables	146	136
Prepayments	31	32
Accrued income	41	54
Total current trade and other receivables	356	369
Total trade and other receivables	363	375

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 31 days (2017: 33 days).

As explained in note 18, in September 2016, the Group signed a £75m receivables purchase agreement which matures in September 2018 of which £67m is drawn as at 31 March 2018 (2017: £58m). The Group has the ability on a rolling basis to sell its trade receivables to a third party vehicle in exchange for a discounted consideration. The Group varies the level of trade receivables sold into the programme as part of managing its liquidity position. The Group is deemed to control the third party vehicle and therefore continues to consolidate the relevant trade receivables on the grounds that substantially not all the risks and rewards of ownership have been transferred under the programme.

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

	2018 £m	2017 £m
UK Sterling	162	181
Other	9	11
	171	192

The ageing of gross trade receivables is as follows:

	2018 £m	2017 £m
Not yet due	72	85
0 to 2 months	16	15
2 to 4 months	14	17
Over 4 months	69	75
	171	192

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

	2018 £m	2017 £m
Not yet due	–	–
0 to 2 months	(3)	(2)
2 to 4 months	–	(2)
Over 4 months	(30)	(41)
	(33)	(45)

16. Trade and other receivables continued

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

	2018 £m	2017 £m
Opening balance	(45)	(30)
Charged to the income statement	(37)	(60)
Receivables written off as irrecoverable	49	45
Closing balance	(33)	(45)

Trade receivables of £66m (2017: £62m) were past due, but not impaired. These balances primarily relate to TalkTalk Consumer and TalkTalk Business fixed line customers. The Group has made provisions based on historical rates of recoverability and all unprovided amounts are considered to be recoverable. The ageing analysis of these trade receivables is as follows:

	2018 £m	2017 £m
0 to 2 months	13	13
2 to 4 months	14	15
Over 4 months	39	34
	66	62

17. Trade and other payables

	2018 £m	2017 £m
Trade payables	269	273
Other taxes and social security costs	12	37
Other payables	14	12
Accruals	122	138
Deferred income	46	51
	463	511

The Group has agreed longer commercial credit terms with certain suppliers. Excluding these suppliers, the underlying average credit period taken on trade payables was 50 days (2017: 50 days). Including these suppliers, the average credit period taken was 55 days (2017: 57 days). Included in trade payables are capital payables amounting to £82m (2017: £65m). The Group offers, via its bank group, a supply chain financing facility to its suppliers. The facility allows suppliers to obtain payment from the bank ahead of the commercially agreed payment terms. When a supplier utilises the facility, the Group continues to have the payment obligation and will pay on the commercially agreed payment terms. At the 31 March 2018, the Group recognised payables of £6m where the supplier had elected to utilise the supply chain facility.

Rebates receivable from suppliers 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 and borrowings

(a) Cash and cash equivalents comprise:

	2018 £m	2017 £m
Cash at bank and in hand	43	50

The effective interest rate on bank deposits and money market funds was 0.2% (2017: 0.1%).

Notes to the consolidated financial statements continued

18. Cash and cash equivalents and borrowings continued

(b) Borrowings comprise:

	Maturity	2018 £m	2017 £m
Current			
£75m receivables purchase facility	2018	67	–
Finance leases	2018	8	–
		75	–

	Maturity	2018 £m	2017 £m
Non-current			
$185m US Private Placement (USPP) Notes	2021, 2024, 2026	–	148
£560m revolving credit facility	2019	–	165
£50m bilateral agreements	2019	–	50
£100m term loan	2019	–	50
£75m receivables purchase agreement facility	2018	–	58
£400m Senior Notes	2022	400	400
£640m revolving credit facility	2022	300	–
Finance leases	2019, 2020, 2021, 2022, 2023	23	–
Non-current borrowings before derivatives		723	871
Total borrowings before derivatives		798	871
Derivatives		–	(39)
Total borrowings after derivatives		798	832

Total borrowings after derivatives comprise:

	2018 £m	2017 £m
Headline debt	767	832
Finance leases	31	–
Total borrowing after derivatives	798	832

Undrawn available committed facilities are as follows:

	Maturity	2018 £m	2017 £m
Undrawn available committed facilities (excluding finance leases)	2018, 2022	348	412

The book value and fair value of the Group's borrowings are as follows:

	2018 £m	2017 £m
Less than 1 year	75	–
1 to 2 years	7	58
2 to 3 years	7	265
3 to 4 years	406	–
4 to 5 years	303	482
Greater than 5 years	–	27
Total borrowings after derivatives	798	832

The fair value of borrowings is not materially different to its amortised cost.

18. Cash and cash equivalents and borrowings continued

(b) Borrowings comprise: continued

Borrowing facilities

The Group's committed facilities total £1,115m (2017: £1,244m). The Group's uncommitted facilities total £110m (2017: £116m) giving headroom on committed facilities and uncommitted facilities of £348m (2017: £412m) and £110m (2017: £116m) respectively.

The financial covenants included in each bank facility and the USPP Notes restrict the ratio of net debt to EBITDA and require minimum levels of interest cover. The amounts used in the covenant calculations are subject to adjustments for the receivables purchase facility and non-Headline items. The Group was in compliance with its covenants throughout the current and prior periods.

Details of the Group's borrowing facilities as at 31 March 2018 are set out below:

£400m Senior Notes

On 15 January 2017, TalkTalk Telecom Group PLC issued £400m Senior Notes due 2022. The Senior Notes include incurrence-based covenants customary for this type of debt, including limitations on TalkTalk's ability to incur additional debt and make restricted payments, subject to certain exceptions. The Group is permitted to incur additional debt subject to compliance with a net debt to EBITDA ratio of 4.0x and to pay dividends when net debt to EBITDA is below 3.0x (2.75x from January 2019). Regardless of the Company's net debt to EBITDA ratio, dividends are also permitted to be paid out of a basket based on 50% of cumulative consolidated net income from 1 October 2016. The interest rate payable on the notes is 5.375% payable semi-annually.

£640m revolving credit facility (RCF)

On 8 May 2017, the Group signed a £640m RCF agreement, which matures in May 2022. The interest rate payable in respect of drawings under this facility is at a margin over LIBOR and for the appropriate period. The actual margin applicable to any drawing depends on the ratio of net debt to EBITDA calculated in respect of the most recent accounting period.

Receivables purchase agreement

In September 2016, the Group signed a £75m receivables purchase agreement which matures in September 2018 and is included within committed facilities. The Group has the ability on a rolling basis to sell its receivables to a third party vehicle in exchange for a discounted consideration. The Group is deemed to control the third party vehicle and therefore continues to consolidate the relevant receivables on the grounds that substantially not all the risks and rewards of ownership have been transferred under the programme.

Uncommitted money market facilities and bank overdrafts

These facilities are used to assist in short term cash management and bear interest at a margin over the Bank of England base rate.

Finance leases

The Group uses finance leases as an alternative source of financing for significant items of capital expenditure, matching the cash profile with the life of the asset and offering flexibility regarding ownership of the lease at the end of the finance term. Finance leases at 31 March 2018 were £31m (2017: £nil).

$185m USPP Notes

In August 2017, the Group repurchased 100% of the $185m of USPP Notes originally maturing in three tranches ($139m in 2021, $25m in 2024 and $21m in 2026).

£560m revolving credit facility (RCF), £50m bilateral agreement and £100m term loan

On 8 May 2017, the Group refinanced the 2014 RCF, the 2014 bilateral agreement and the £100m term loan repaying the outstanding debt with the proceeds from the new £640m RCF, which matures in May 2022.

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 are as follows:

	2018 £m	2017 £m
Financial assets(1)		
Cash and cash equivalents (note 18)	43	50
Trade and other receivables(2)	355	369
Non-current investments and investment in joint venture	3	8
Non-current trade and other receivables	7	6
Derivative instruments in designated hedge accounting relationships:		
Derivative financial instruments(3)	–	31
Financial liabilities(1)		
Trade and other payables	(416)	(460)
Current borrowings before derivatives (note 18)	(75)	–
Non-current borrowings before derivatives (note 18)	(723)	(871)
	(807)	(867)

(1) The Group has no financial instruments designated as fair value through the profit and loss (FVTPL).

(2) Prepayments and accrued income has been included within the other receivables so as to give completeness over the Group's future cash inflows.

(3) Derivative financial instruments of £nil (2017: £32m) relates to the USPP Notes, and £nil (2017: (£1m)) relates to interest rate hedges.

Notes to the consolidated financial statements continued

19. Financial risk management and derivative financial instruments continued

(a) Financial instruments

The Group's activities expose it to a variety of financial risks including market risk (such as currency risk and interest rate risk), credit risk and liquidity risk. The Group treasury function uses certain financial instruments to mitigate potential adverse effects on the Group's financial performance from these risks. These financial instruments primarily consist of foreign exchange hedges and interest rate swaps. Other products, such as currency options, can also be used depending on the risks to be covered, but have not been used in the current or preceding financial year. The Group does not trade or speculate in any financial instruments.

The Group has cash flow hedges in place to swap the interest rate risk on the bank debt from floating to fixed rates. The outstanding swaps mature in January 2019. These hedges have been fully effective from inception. The Group will keep its risk position under review in the coming year to determine whether further hedges are required, in line with its policy.

The fair value measurement is classified as Level 2 (2017: 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 2018 is £nil (2017: £31m).

The cross-currency swaps held to hedge the risk on the USD denominated USPP $185m Notes were closed out in the year ended 31 March 2018 following the repurchase of the Notes, resulting in a reduction to the fair value measurement of financial instruments compared to the prior year.

(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. During the year the Group also used cross-currency swaps to hedge its US Dollar denominated borrowings (USPP Notes). At 31 March 2018, the adjustment to translate our net debt to Sterling at swap rates to reflect the impact of hedging was £nil (2017: £39m).

Borrowings and foreign exchange contracts are sensitive to movements in foreign exchange rates; this sensitivity can be analysed in comparison to year-end rates. There would be no material impact of a 10% movement in the UK Sterling/Euro or UK Sterling/USD exchange rate on either the income statement or other equity. The effect of foreign exchange derivatives on borrowings at the year end was as follows:

	UK Sterling £m	**US Dollar £m**	**Total £m**
2018			
Headline debt	767	–	767
Finance leases	31	–	31
Total borrowings after derivatives and finance leases	798	–	798

	UK Sterling £m	US Dollar £m	Total £m
2017			
Headline debt	723	148	871
Derivatives	–	(39)	(39)
Total borrowings after derivatives	723	109	832

During the year, the Group used derivatives for the management of the USPP Notes, foreign currency cash balances and foreign currency trading balances.

(d) Interest rate risk

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

The fair value measurement of the cash flow hedges is classified as Level 2 (2017: 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.

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

19. Financial risk management and derivative financial instruments continued

(d) Interest rate risk continued

	2018 £m	2017 £m
100 basis points movement in the UK Sterling interest rate		
Income statement movement	3	2

(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.

During the first half of the financial year the Group refinanced its core bank facilities into a new £640m revolving credit facility. This new facility together with the Senior Notes, the Group's share capital and reserves and a number of equipment and property leases form the Group's core financing. In addition, the Group has commercial contracts with certain customers on extended payment terms. To help manage the impact of these terms on its liquidity, the Group has access to invoice discounting lines with its banks which allow it to sell the receivables. The receivables are sold to the bank on a non-recourse basis and as such are derecognised on sale. At 31 March 2018 £95m of invoices had been sold using these lines.

Following the refinancing of the bank debt, the Group successfully repurchased 100% of its USPP Notes simplifying the funding structure. In addition to focusing on its core sources of liquidity, the Group uses a mix of overdrafts, short-dated uncommitted money market facilities, receivables factoring and commercial supplier terms to manage its day to day liquidity position. The Group will continue to review its sources of finance going forward.

Headroom is assessed based on historical experience as well as by assessing current business risks, availability and renewal of future facilities and foreign exchange movements.

The table below analyses the Group's financial liabilities into relevant maturity groupings. The amounts disclosed in the table are the contractual undiscounted gross cash flows including interest, assuming 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
2018							
Borrowings	(97)	(30)	(30)	(430)	(301)	–	(888)
Finance leases	(9)	(8)	(7)	(6)	(4)	–	(34)
Trade and other payables	(463)	–	–	–	–	–	(463)
	(569)	(38)	(37)	(436)	(305)	–	(1,385)

	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
2017							
Borrowings	(39)	(91)	(293)	(26)	(531)	(41)	(1,021)
Derivative financial instruments – receivable	–	–	–	–	29	10	39
Trade and other payables	(511)	–	–	–	–	–	(511)
	(550)	(91)	(293)	(26)	(502)	(31)	(1,493)

(f) Credit risk

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

(g) Capital risk management

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

The capital structure of the Group consists of debt, which includes bank facilities, Senior Notes, receivables and purchase facility, invoice discounting, retained profits and equity.

The Group continues to review its funding and capital structure with the objectives of diversifying sources and managing both the average tenor and interest cost. During the year, the Group made further changes to its funding structure, re-financing the £560m 2014 RCF with a £640m 2017 RCF in May 2017 and repurchasing the $185m US Private Placement Notes in August 2017 to better align our capital structure with the Group's strategy. In addition, on 8 February2018, the Group placed an aggregate of 190,654,206 new ordinary shares of 0.1p at a price of 107p per placing share to raise net proceeds of £201m after expenses. For further detail, see note 21 to the consolidated financial statements.

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.

The tables below analyse the Group's provisions:

	2018 £m	2017 £m
Current	31	22
Non-current	28	14
	59	36

	One Company integration £m	Property £m	Contract and other £m	Total £m
2018				
Opening balance	1	15	20	36
Charged to income statement	–	9	43	52
Released to income statement	(1)	–	(7)	(8)
Utilised in the year	–	(5)	(16)	(21)
Closing balance	–	19	40	59

	One Company integration £m	Property £m	Contract and other £m	Total £m
2017				
Opening balance	1	12	16	29
Charged to income statement	–	4	16	20
Released to income statement	–	(1)	(1)	(2)
Utilised in the year	–	–	(11)	(11)
Closing balance	1	15	20	36

Provisions are categorised as follows:

One Company integration

This provision related principally to reorganisation costs and was released during the year following the change in mobile strategy announced in May 2017 (note 9).

Property

Property provisions relate to dilapidations and similar property costs, and costs associated with onerous property contracts. All such provisions are assessed by reference to the terms and conditions of the contract and market conditions at the balance sheet date. Onerous property contracts are expected to be utilised over the next seven years. Dilapidation provisions are expected to be utilised as and when properties are exited. These provisions include the costs of exiting our Warrington and Irlam sites, as the Group relocated to one site at the Soapworks in Salford, and the rationalisation of our property footprint in London.

Contract and other

Contract and other provisions relate to onerous contracts and contracts with unfavourable terms, anticipated costs of unresolved legal disputes and committed costs relating to exceptional projects. Onerous contracts are supplier commitments entered into prior to the reassessment of the Group's mobile strategy, these are expected to be utilised over the next 12 months. All such provisions are assessed by reference to the best available information at the balance sheet date.

21. Share capital

	2018 million	2017 million	2018 £m	2017 £m
Authorised, issued and fully paid				
Ordinary shares of 0.1p each	1,146	955	1	1

The Company has one class of ordinary share that carries no right to fixed income. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

21. Share capital continued

On 8 February 2018, the Group placed an aggregate of 190,654,206 new ordinary shares of 0.1p at a price of 107p per placing share to raise net proceeds of £201m after expenses. The placing shares represented approximately 19.95% of the Company's existing issued share capital. The placing utilised a cash box structure, whereby the cash box entity issued redeemable preference shares in consideration for the receipt of the cash proceeds (net of issue costs) arising from the placing. The Company's ordinary shares were issued as consideration for the transfer to it of the shares, which it did not already own, in the cash box entity. As a result, in the opinion of the Board, the placing qualified for merger relief under section 612 of Companies Act 2006 so that the excess of the value of the acquired shares in the cash box entity over the nominal value of the ordinary shares issued by the Company was credited to the Company's other reserves.

The placing shares ranked pari passu in all respects with the existing ordinary shares, including the right to receive all dividends and other distributions declared, made or paid after the date of issue.

22. Reserves

Share premium

The share premium account records the difference between the nominal amount of shares issued and the fair value of the consideration received. The share premium account may be used for certain purposes specified by UK law, including to write off expenses incurred on any issue of shares or debentures and to pay up fully paid bonus shares. The share premium account is not distributable but may be reduced by special resolution of the Company's ordinary shareholders and with court approval.

Translation reserve

The results of overseas operations are translated at the average foreign exchange rates for the year, and their balance sheets are translated at the rates prevailing at the balance sheet date. Exchange differences arising on the translation of opening net assets and results of overseas operations are recognised in the translation and hedging reserve. All other exchange differences are included in the income statement.

Demerger reserve

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

Retained earnings

Retained earnings are accumulated reserves and placing discussed in note 21.

Other reserve – Group ESOT

The Group ESOT held four million shares at 31 March 2018 (2017: five million) in the Company for the benefit of employees. The decrease in the number of shares held is due to employees participating in the Group schemes exercising their options during the year.

23. Analysis of changes in net debt

	Opening £m	Net cash flow £m	Non-cash movements £m	Closing £m
2018				
Cash and cash equivalents	50	(7)	–	43
Borrowings	(871)	104	–	(767)
Derivatives	39	(39)	–	–
Headline debt (note 18)	(832)	65	–	(767)
Headline net debt	(782)	58	–	(724)
Finance leases (note 18)	–	–	(31)	(31)
Net debt[1]	(782)	58	(31)	(755)

	Opening £m	Net cash flow £m	Non-cash movements £m	Closing £m
2017				
Cash and cash equivalents	10	40	–	50
Borrowings	(709)	(143)	(19)	(871)
Derivatives	20	–	19	39
Headline debt	(689)	(143)	–	(832)
Headline net debt and net debt[1]	(679)	(103)	–	(782)

(1) See note 1 to the consolidated financial statements.

24. Leases

(a) Operating leases

The Group leases network infrastructure and offices under non-cancellable operating leases. The leases have varying terms, purchase options, escalation clauses and renewal rights. There were no leases which were individually significant to the Group.

Due to the forthcoming adoption in the year ended 31 March 2019 of IFRS 16 'Leases', impacting lease recognition, the Group has reviewed the completeness of its existing disclosure. Accordingly, the 2017 comparatives have been restated to ensure comparable information is presented. The previously presented 2017 total of £193m has been restated to £185m in the table below.

The Group had outstanding commitments for future minimum payments due as follows:

	2018			2017 (restated)		
	Property	**Network equipment**	**Total £m**	Property	Network equipment	Total £m
Less than 1 year	10	13	23	12	24	36
2 to 5 years	30	15	45	38	36	74
Greater than 5 years	66	2	68	72	3	75
	106	30	136	122	63	185

(b) Finance leases

	Minimum lease payments	
	2018 £	2017 £
Amounts payable under finance leases:		
Within one year	8	–
In the second to fifth years inclusive	26	–
	34	–
Less: future finance charges	(3)	–
Present value of lease obligations	31	–

	Present value of minimum lease payments	
	2018 £	2017 £
Amounts payable under finance leases:		
Within one year	8	–
In the second to fifth years inclusive	23	–
Present value of lease obligations	31	–
Analysed as:		
Amount due for settlement within 12 months (shown under current liabilities)	8	–
Amount due for settlement after 12 months	23	–
Present value of lease obligations	31	–

It is the Group's policy to lease some of its equipment on finance leases. The average lease term is 4.3 years. For the year ended 31 March 2018, the average effective borrowing rate was 6.2% (2017: nil). Interest rates are fixed at the contract date. All leases are on a fixed payment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in sterling.

The fair value of the Group's lease obligations as at 31 March 2018 is estimated to be £31m (2017: nil) using a 6.2% (2017: nil) discount rate.

The Group's obligations under finance leases are secured by the lessors' rights over the leased assets.

25. Commitments

The Group has in the normal course of business entered into various multi-year supply and working capital agreements for core network, IT and customer equipment. As at 31 March 2018, expenditure contracted but not provided for in these financial statements amounted to £203m (2017: £231m). Of this amount, £100m (2017: £127m) related to supply for core network, IT and customer equipment, £82m (2017: £65m) related to capital commitments and £21m (2017: £39m) related to the supply of customer equipment.

Under the Heads of terms agreed with Infracapital for the new FTTP venture, the parties have agreed to an initial funding commitment of £100m, of which the Group's share is £20m.

In addition, the Group has a contingent liability in relation to potential costs associated with a commercial agreement of up to £25m (2017: £nil).

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 51 to 55. The remuneration of all key management personnel is disclosed in note 4.

On 8 February 2018, the Group placed an aggregate of 190,654,206 new ordinary shares of 0.1p at a price of 107p per placing share to raise net proceeds of approximately £201m after expenses. The Executive Chairman, other Directors (R Taylor, T Harrison, N Langstaff, K Ferry, C Bligh, J Gildersleeve, I West) and the Company Secretary (T Morris) participated in this Placing purchasing 32,710,280 shares, 4,672,896 shares, 279,671 shares, 186,915 shares, 139,835 shares, 65,256 shares, 46,728 shares, 18,691 shares and 186,915 shares respectively.

27. Post balance sheet events

On 24 May 2018, the Group announced plans to sell its direct B2B business to Daisy for £175m. The transaction includes all direct business customers, who will be served by Daisy but will remain on Group's network via a new wholesale agreement. The transaction represents a non-adjusting post balance sheet event and underpins the Group's strategy to focus on core, high-growth partner and wholesale B2B channels.

Company balance sheet

Company number: 07105891
As at 31 March 2018

	Notes	2018 £m	2017 £m
Non-current assets			
Investments in subsidiaries and joint ventures	4	1,197	1,189
Derivative financial instruments		–	31
		1,197	1,220
Current assets			
Cash and cash equivalents		17	121
Trade and other receivables	5	804	646
		821	767
Total assets		2,018	1,987
Current liabilities			
Trade and other payables	6	(104)	(55)
Borrowings	7	(67)	–
		(171)	(55)
Non-current liabilities			
Borrowings	7	(700)	(871)
Total liabilities		(871)	(926)
Net assets		1,147	1,061
Equity			
Share capital	9	1	1
Share premium	10	684	684
Retained earnings and other reserves(1)	10	462	376
Total equity		1,147	1,061

(1) The Company's loss for the year was £60m (2017: profit £111m).

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

These financial statements were approved and authorised for issue by the Board on 24 May 2018. They were signed on its behalf by:

TA Harrison

T Harrison
Chief Executive Officer

K Ferry

K Ferry
Chief Financial Officer

Company cash flow statement

For the year ended 31 March 2018

	Notes	2018 £m	2017 (re-presented)[1] £m
Operating activities			
Operating loss		(11)	(24)
Share-based payments		1	5
Impairment loss		6	22
Operating cash flows before movements in working capital		(4)	3
Increase in trade and other receivables		(162)	(617)
Increase in trade and other payables		50	1
Cash used in operations		(116)	(613)
Income taxes received		–	2
Net cash flows used in operating activities		(116)	(611)
Investing activities			
Dividend received		–	140
Cash flows generated from investing activities		–	140
Financing activities			
Repayments of borrowings		(374)	(315)
Drawdown of borrowings		309	458
Interest paid		(40)	(30)
Other finance costs		(13)	(5)
Issue of shares		201	–
Dividends paid	3	(71)	(150)
Cash flows generated from/(used in) financing activities		12	(42)
Net decrease in cash and cash equivalents		(104)	(513)
Cash and cash equivalents at the start of the year		121	634
Cash and cash equivalents at the end of the year		17	121

(1) See note 1.

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

Company statement of changes in equity

For the year ended 31 March 2018

	Notes	Share capital £m	Share premium £m	Retained earnings and other reserves £m	Total equity £m
At 1 April 2016		1	684	415	1,100
Profit for the year		–	–	111	111
Other comprehensive expense					
Items that may be reclassified to profit or loss:					
Loss on hedge of a financial instrument		–	–	(5)	(5)
Total other comprehensive expense		–	–	(5)	(5)
Total comprehensive income		–	–	106	106
Transactions with the owners of the Company					
Share-based payments reserve credit		–	–	5	5
Equity dividends	3	–	–	(150)	(150)
Total transactions with the owners of the Company		–	–	(145)	(145)
At 31 March 2017		1	684	376	1,061
Loss for the year		–	–	(60)	(60)
Other comprehensive income					
Items that may be reclassified to profit or loss:					
Gain on hedge of a financial instrument		–	–	2	2
Loss on a hedge reclassified to income statement		–	–	6	6
Total other comprehensive income		–	–	8	8
Total comprehensive expense		–	–	(52)	(52)
Transactions with the owners of the Company					
Share-based payments reserve credit		–	–	8	8
Issue of shares		–	–	201	201
Equity dividends	3	–	–	(71)	(71)
Total transactions with the owners of the Company		–	–	138	138
At 31 March 2018		**1**	**684**	**462**	**1,147**

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

Notes to the Company financial statements

1. Accounting policies and basis of preparation

Basis of preparation

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

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

The financial statements have been prepared on the going concern basis. Details of the considerations undertaken by the Board in reaching this conclusion are set out in note 1 to the Group consolidated financial statements.

Cash flow statement presentation

During the year, management has reviewed its cash flow statement presentation. As a result of this review, management has decided to split interest paid in financial activities to present arrangement fees separately. The prior year comparatives have been restated accordingly.

Accounting policies

The Company's accounting policies are in line with the Group's accounting policy as set out in note 1 of the Group consolidated financial statements. Where an accounting policy is generally applicable to a specific note, the policy is described within that note.

Significant accounting judgements, estimates and assumptions

Asset impairment review

Where there are indicators of impairment, an impairment test is performed on the relevant investment. The recoverable amount of investments is determined to be the higher of fair value less costs of disposal, and value in use. Value in use is calculated from cash flow projections based on internal forecasts and then beyond using estimated long-term growth rates. Key estimates for the value in use calculations include the projections of future performance, discount rates and future growth rates. Fair value is determined by reference to the Company's share price value on the London Stock Exchanges. Any estimates of future economic benefits made in relation to investments may differ from the benefits that ultimately arise and materially affect the recoverable value of the asset.

2. Profit for the year

The Company has not presented its own profit and loss account as permitted by Section 408 of the Companies Act 2006.

The Company reported a loss of £60m for the year ended 31 March 2018 (2017: profit of £111m). The prior year included a dividend from a subsidiary of £140m.

The auditor's remuneration for audit and other services is disclosed in the Corporate Governance Report on page 41.

Detailed disclosures of the Directors' remuneration and share-based payments are given in the audited section of the Directors' Remuneration Report on pages 42 to 58 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.

	2018 £m	2017 £m
Final dividend for the year ended 31 March 2016 of 10.58p per ordinary share	–	100
Interim dividend for the year ended 31 March 2017 of 5.29p per ordinary share	–	50
Final dividend for the year ended 31 March 2017 of 5.00p per ordinary share	47	–
Interim dividend for the year ended 31 March 2018 of 2.50p per ordinary share	24	–
Total ordinary dividends(1)	71	150

(1) The proposed final dividend for the year ended 31 March 2018 of 1.50p (2017: 5.00p) per ordinary share on approximately 1,142 million (2017: 950 million) ordinary shares (approximately £17m) was approved by the Board on 24 May 2018 and has not been included as a liability as at 31 March 2018.

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

Notes to the Company financial statements continued

4. Investments

Accounting policy

Investments in subsidiaries and joint venture are recorded at cost, being the fair value of consideration, acquisition charges associated with the investment and capital contributions by way of share-based payments, less any provision for impairment.

	2018 £m	2017 £m
Subsidiaries	1,174	1,166
Joint venture	23	23
	1,197	1,189

	2018 £m	2017 £m
Opening net book value	1,189	1,196
Additions	14	15
Impairment	(6)	(22)
Closing net book value	1,197	1,189

Joint venture

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

Principal Group investments

A full list of subsidiaries, joint arrangements, associated undertakings and any significant holdings (as defined in the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008) is presented in note 13 of the Group consolidated financial statements.

Additions

The additions in the year comprise:

- £8m relating to share-based payment schemes issued by the Company (2017: £5m); and
- £6m relating to the YouView joint venture (2017: £10m), settled by intercompany.

Impairment

The impairment in the year comprises:

- £6m relating to the YouView joint venture (2017: £22m).

5. Trade and other receivables

	2018 £m	2017 £m
Amounts owed by Group undertakings	791	632
Prepayments and accrued income	13	14
	804	646

Interest on overdraft cash balances generated by TalkTalk's pooling arrangements has been calculated at the Bank of England base rate plus 2%; deposits received interest at the Bank of England base rate with no margin. Interest is either paid or capitalised monthly as appropriate. Where they exist, currency balances are calculated at similar rates.

During the year TalkTalk moved to an end of day sweeping arrangement and from this point no interest was charged on intercompany balances.

6. Trade and other payables

	2018 £m	2017 £m
Amounts owed to Group undertakings	99	55
Accruals and deferred income	5	–
	104	55

Interest on overdraft cash balances generated by TalkTalk's pooling arrangements has been calculated at the Bank of England base rate plus 2%; deposits received interest at the Bank of England base rate with no margin. Interest is either paid or capitalised monthly as appropriate. Where they exist, currency balances are calculated at similar rates.

During the year TalkTalk moved to an end of day sweeping arrangement and from this point no interest was charged on intercompany balances.

7. Borrowings

	2018 £m	2017 £m
Non-current		
Loans	700	871
Current		
Loans	67	–
Total borrowings	767	871

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. Financial risk management and derivative financial instruments

The book value and fair value of the Company's financial assets, liabilities and derivative financial instruments are as follows:

	2018 £m	2017 £m
Financial assets(1)		
Cash and cash equivalents	17	121
Trade and other receivables(2)	804	646
Non-current investments and investment in joint venture	1,197	1,189
Derivative instruments in designated hedge accounting relationships:		
Derivative financial instruments(3)	–	31
Financial liabilities(1)		
Trade and other payables	(104)	(55)
Borrowings before derivatives	(767)	(871)
	1,147	1,061

(1) The Company has no financial instruments designated as FVTPL.

(2) Prepayments and accrued income has been included within the other receivables so as to give completeness over the Company's future cash inflows.

(3) Derivative financial instruments of £nil (2017: £32m) relates to the USPP Notes, and £nil (2017: (£1m)) relates to interest rate hedges.

The details of the Company's risk management activities are disclosed within note 19 to the consolidated financial statements and should be regarded as an integral part of these financial statements.

Notes to the Company financial statements continued

9. Share capital

	2018 million	2017 million	2018 £m	2017 £m
Allotted, called up and fully paid				
Ordinary shares of 0.1p each	1,146	955	1	1

On 8 February 2018, the Company placed an aggregate of 190,654,206 new ordinary shares of 0.1p at a price of 107p per placing share to raise net proceeds of approximately £201m after expenses. The placing shares represented approximately 19.95%. of the Company's existing issued share capital. For further details, see note 21 of the consolidated financial statements.

The placing shares, ranked pari passu in all respects with the existing ordinary shares, including the right to receive all dividends and other distributions declared, made or paid after the date of issue.

10. Reserves

Share premium

The share premium account records the difference between the nominal amount of shares issued and the fair value of the consideration received. The share premium account may be used for certain purposes specified by UK law, including to write off expenses incurred on any issue of shares or debentures and to pay up fully paid bonus shares. The share premium account is not distributable but may be reduced by special resolution of the Company's ordinary shareholders and with court approval.

Other reserve – Group ESOT

The Group ESOT held four million shares at 31 March 2018 (2017: five million) in the Company for the benefit of employees. The Group ESOT has waived its rights to receive dividends and none of its shares have been allocated to specific schemes. At the year end the shares had a market value of £5m (2017: £10m).

11. 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 2018.

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.

12. Related party transactions

The remuneration of the Directors, who are some of the key management personnel of the Group, is set out in the Directors' Remuneration Report on pages 51 to 55. The remuneration of all key management personnel is disclosed in note 4.

On 8 February 2018, the Group placed an aggregate of 190,654,206 new ordinary shares of 0.1p at a price of 107p per placing share to raise net proceeds of approximately £201m after expenses. The Executive Chairman, other Directors (R Taylor, T Harrison, N Langstaff, K Ferry, C Bligh, J Gildersleeve, I West) and the Company Secretary (T Morris) participated in this Placing purchasing 32,710,280 shares, 4,672,896 shares, 279,671 shares, 186,915 shares, 139,835 shares, 65,256 shares, 46,728 shares, 18,691 shares and 186,915 shares respectively.

Three year record (unaudited)

	2018 £m	2017 (restated) [1] £m	2016 (restated) [1] £m
Headline results			
Revenue	1,658	1,720	1,772
Profit for the year attributable to the owners of the Company	18	154	101
Net assets			
Non-current assets	1,095	1,126	1,169
Net current liabilities excluding provisions	(101)	(79)	(224)
Non-current liabilities excluding provisions	(723)	(871)	(685)
Provisions	(59)	(36)	(29)
Net assets	212	140	231
Headline earnings per share			
Basic (p)	1.8	16.2	10.8
Diluted (p)	1.8	16.1	10.7
Statutory earnings per share			
Basic (p)	(8.1)	6.1	2.6
Diluted (p)	(8.0)	6.0	2.5

(1) See note 1 to the consolidated financial statements.

Headline earnings represent the Group's income statement stated before non-Headline items.

Alternative performance measures

APMs are the way that financial performance is measured by management, reported to the Board, the basis of financial measures for senior management's compensation schemes and assists in providing supplementary information that allows the user to understand better the underlying trading results.

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note reference for reconciliation	Definition purpose
Income statement measures				
Headline revenue (excluding Carrier and Off-net)	Statutory revenue	Excludes non-Headline items, specifically MVNO Revenue. In addition, also excludes Carrier and Off-net revenues	Note 2	Represents revenue excluding non-Headline revenue. Currently comprising businesses being exited, low margin/volatile carrier revenue and non-core Off-net revenue.
Headline earnings before interest, tax, depreciation and amortisation (EBITDA)	Operating profit	Operating profit excluding exceptional items, MVNO operating loss, depreciation and amortisation	Note 9	Represents operating profit before non-Headline items, depreciation, amortisation and share of results of joint ventures to assist in the understanding of the Group's performance.
Headline basic EPS	Basic EPS	Basic EPS excluding non-Headline items	Note 10	Represents Basic EPS excluding non-Headline items and assists in providing supplementary information that allows the user to understand better the underlying trading results.
Balance sheet measure				
Headline net debt	Total borrowings after derivatives offset by cash and cash equivalents excluding finance leases	Senior Notes and bank borrowings facilities offset by cash and cash equivalents	Note 9	Represents all drawn amounts on Senior Notes and bank borrowings facilities offset by cash and cash equivalents. It is a useful measure of the progress in generating cash and strengthening of the Group balance sheet position
Net debt	Total borrowings after derivatives offset by cash and cash equivalents	Headline net debt and finance leases	Note 9	Represents total borrowings after derivatives offset by cash and cash equivalents. It is a useful measure of the progress in generating cash and strengthening of the Group balance sheet position and is a measure widely used by various stakeholders.

Glossary

ADSL	Asymmetric Digital Subscriber Line technology enables data transmission over existing copper wiring at data rates several hundred times faster than analogue modems, providing for simultaneous delivery of voice, video and data
APM	Alternative Performance Measure
ARPU	Average Revenue Per User on a monthly basis
BPT	Bolt Pro Team Limited
CAGR	Compound Annual Growth Rate
CGU	Cash Generating Unit
Churn	A measure of the number of subscribers moving out of a product or service over a specific period of time
The Company	TalkTalk Telecom Group PLC
Companies Act	Companies Act 2006
CPW	The Carphone Warehouse Group plc, its subsidiary companies, joint ventures and investments
Demerger	The demerger of the The Carphone Warehouse Group plc into TalkTalk Telecom Group PLC and Carphone Warehouse Group plc effective on 26 March 2010
DSOP	Discretionary Share Option Plan
EBITDA	Earnings Before Interest, Taxation, Depreciation and Amortisation
EFM	Ethernet in the First Mile
EPS	Earnings Per Share
Ethernet	Ethernet is a protocol that controls data transmission over a communications network often referred to as a family of frame-based computers
FLPP	Fixed Low Price Plan
FRC	Financial Reporting Council
FTTC	Fibre to the Cabinet
FTTP	Fibre to the Premise
Gbps	Gigabits Per Second
GEA	Generic Ethernet Access
GPS	Global Positioning System
The Group	The Company, its subsidiaries and entities which are joint ventures
Group ESOT	TalkTalk Telecoms Holdings Employee Share Option Trust
Headline information	Headline information represents the Group's income statement, stated before the amortisation of acquisition intangibles and exceptional items that are considered to be one-off, non-recurring in nature and so material that the Directors believe that they require separate disclosure to avoid distortion of underlying performance and should be separately presented on the face of the income statement
IP	Internet Protocol is the packet data protocol used for routing and carriage of messages across the internet and similar networks. IP performs the addressing function and contains some control information to allow packets to be routed through networks
LLU	Local Loop Unbundling
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
MVNO	Mobile Virtual Network Operator

Glossary continued

Net debt	Borrowings net of cash held on deposit at financial institutions
NGN	Next Generation Network
On-net	The Group's unbundled network
Operating free cash flow	Cash generated from operations before exceptional items, interest, taxation, dividend payments and investments
Operating profit	Profit before finance costs and taxation
Quad play	A customer that takes voice, broadband, TV and MVNO services from the Group
RCF	Revolving Credit Facility
SVP	Shareholder Value Plan
Triple play	A customer that takes voice, broadband and TV services from the Group
TSR	Total Shareholder Return
UK Corporate Governance Code	UK Corporate Governance Code published by the FRC in May 2011
VES	Value Enhancement Scheme
WAEP	Weighted Average Exercise Price

Financial calendar

Ex-dividend date	5 July 2018
Record date	6 July 2018
AGM	18 July 2018
Dividend payment date	3 August 2018

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

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

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