EMBARGOED UNTIL 7.00 AM ON THURSDAY 23rd MAY

23 May 2019

TalkTalk Telecom Group PLC
Preliminary results for the year ended 31 March 2019

Financial highlights

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

Operational highlights

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

Looking forward

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

Tristia Harrison, Chief Executive of TalkTalk, commented:

"Today's results show that two years after re-setting TalkTalk, the fundamentals of the business are much stronger. We have grown our customer base in a disciplined way, accelerated Fibre take-up, and reduced costs. This is translating to revenue growth and a c.17% increase in Headline EBITDA.

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

Having re-structured the customer base to reduce the difference between our front and back book pricing, the business is also well placed to benefit from imminent regulatory changes related to fairer pricing. These trends, coupled with ongoing cost reductions including our move to one Salford campus, mean we are confident in delivering strong Headline EBITDA growth both next year and over the medium term."

[1] All customer KPIs relate to the On-net base. The closing Off-net base represented less than 1% of the total broadband base (FY19: 29k, FY18: 43k).
[2] See note 1 for further details on the restatement of comparative information due to the retrospective application of IFRS 15 and IFRS 9.
[3] See note 1 for an explanation of alternative performance measures (APMs) and non-Headline items. See note 4 for a reconciliation of Headline information to Statutory information.
4 FY20 Headline EBITDA consensus: £266m (excluding FibreNation costs) and £263m (including FibreNation costs), based on a range of estimates between £247m and £282m. Source: Internally compiled TalkTalk consensus published on corporate website (https://www.talktalkgroup.com/events/events/FY19/FY19-Preliminary-Results-and-Consensus).

The person responsible for arranging the release of this announcement on behalf of the Company is Tim Morris, General Counsel and Company Secretary.

Presentation and Q&A
8.45am – Registration and coffee
9.00am – Presentation

Address
Deutsche Bank, 23 Great Winchester Street, London, EC2N 2DB

Webcast link: https://webcast.merchantcantoscdn.com/webcaster/dyn/4000/7464/7467/113427/Lobby/default.htm

Conference call details: Participants do not need a PIN for the live call – they simply need to ask to be put through to the TalkTalk results call.

Live call:	UK and International	+44 (0) 20 3003 2666
Replay (available for 7 days):	UK and International	+44 (0) 20 8196 1998
	PIN:	0949083#

Contacts:

Investor Relations:	Tim Warrington	+44 (0) 20 3417 1821
Media:	Iain Wood	+44 (0) 79 9078 5019

FY19 financial results [1,2,3]

Base growth in all four quarters of the year means we went through FY19 with a larger customer base and this, coupled with our ambition to upgrade customers to faster, more reliable and ARPU accretive Fibre products, has seen us increase Headline revenue (excluding Carrier and Off-net) year on year by 2.2%. This growth has been in the face of continued FLPP ARPU dilution, with higher ARPU legacy customers migrating onto lower price packages, and continued fixed line voice usage declines, due to consumers and businesses using their landline less and less. At a gross margin level, we have seen improved profit margins, due to lower Fibre wholesale rates, with regulatory pricing (wholesale local access (WLA) market review) and commercial discounts reducing our input costs year on year. Throughout the year we have also been on a relentless drive to simplify the business, doing fewer things and focusing solely on core fixed connectivity, which has enabled us to materially reduce our operating costs. Headline EBITDA has therefore grown by 16.7% to £237m (FY18 restated: £203m).

As a result of simplifying the business over the last two years, we have been able to reduce non-Headline items pre-tax from £115m to £42m, with costs relating to the HQ move to Salford and our multi-year network and IT transformation programme being the main drivers of the remaining spend. This reduction alongside Headline EBITDA growth has seen our Statutory loss before tax reduce from £100m to £5m in the year.

Q4 trading – continued base growth and accelerating Fibre penetration in a competitive market [1,2,3]

Q4 saw us continue to increase our focus on accelerating Fibre growth, enabling us to add a record 152k to the Fibre base (Q4 FY18: 98k), exceeding the previous record quarters in Q2 (125k) and Q3 (146k). The continued rise in net adds is driven both by upgrading existing and re-contracting customers, as well as 71% of new customers choosing to take one of our higher speed products throughout Q4 (Q3 FY19: 66%).

Similarly, to the first quarter of the year, Q4 saw a large number of FLPP customers come to the end of their contract. In this context, we have been very pleased with high levels of re-contracting, meaning churn only increased slightly from 1.16% in Q3 to 1.21% in Q4, and the proportion of Consumer customers in contract stayed broadly flat at 68% (Q3 FY19: 71%).

Our focus on accelerating Fibre mix and on existing customer retention, against the backdrop of a competitive market, meant that overall base growth was impacted, with 2k net adds for the quarter (Q4 FY18: 109k), with growth in B2B offsetting a modest decline in Consumer. With Copper fast becoming a declining product, shifting our focus to Fibre is the right thing for us and the customer. Fibre customers benefit from faster, more reliable connectivity, whilst for us these customers are accretive to customer lifetime value (CLV) with higher ARPU and lower churn and cost to serve.

The main revenue growth drivers, On-net and Data revenue, both saw continued strong growth in Q4, with On-net revenue (comprising Consumer, Wholesale and Direct B2B broadband) up 4.3% year on year to £318m, driven by a larger average base and increased Fibre penetration, offset by continued Consumer voice usage decline. On-net ARPU continues to stabilise at £24.72 (Q3 FY19: £24.70, Q4 FY18: £24.89), with Consumer ARPU growth, offset by the Wholesale and Retail base mix. Within Corporate, Data revenue was up 2.4% to £43m driven by a larger average base, as well as upselling customers to higher speed and higher ARPU services.

Total Headline revenues of £387m excluding Carrier (£10m) and Off-net (£3m) fell by 1.8% year on year during the quarter. The main driver of this was a 44.7% decline in legacy Corporate Voice (£26m), where the prior year number was increased by a one-off re-allocation of revenues from Carrier, giving a larger than usual quarterly Voice figure (Q4 FY18: £47m vs quarterly average for FY18 of £33m).

[1] All customer KPIs relate to the On-net base. The closing Off-net base represented less than 1% of the total broadband base (FY19: 29k, FY18: 43k).
[2] See note 1 for further details on the restatement of comparative information due to the retrospective application of IFRS 15 and IFRS 9.
[3] See note 1 for an explanation of alternative performance measures (APMs) and non-Headline items. See note 4 for a reconciliation of Headline information to Statutory information.

CEO review

Core business performance [1,2,3]

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

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

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

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

Consumer [1]

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

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

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

TalkTalk Business

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

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

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

[1] All customer KPIs relate to the On-net base. The closing Off-net base represented less than 1% of the total broadband base (FY19: 29k, FY18: 43k).
[2] See note 1 for further details on the restatement of comparative information due to the retrospective application of IFRS 15 and IFRS 9.
[3] See note 1 for an explanation of alternative performance measures (APMs) and non-Headline items. See note 4 for a reconciliation of Headline information to Statutory information.

Network and connectivity

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

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

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

Fibre for Everyone

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

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

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

Cost reduction [3]

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

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

[3] See note 1 for an explanation of alternative performance measures (APMs) and non-Headline items. See note 4 for a reconciliation of Headline information to Statutory information.

Outlook [1,2,3]

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

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

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

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

[1] All customer KPIs relate to the On-net base. The closing Off-net base represented less than 1% of the total broadband base (FY19: 29k, FY18: 43k).
[2] See note 1 for further details on the restatement of comparative information due to the retrospective application of IFRS 15 and IFRS 9.
[3] See note 1 for an explanation of alternative performance measures (APMs) and non-Headline items. See note 4 for a reconciliation of Headline information to Statutory information.

CFO review

Financial information (1,2,3)

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

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

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

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

Overview (1,2,3)

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

[1] See note 1 for further details on the restatement of comparative information due to the retrospective application of IFRS 15 and IFRS 9.
[2] See note 1 for an explanation of alternative performance measures (APMs) and non-Headline items. See note 4 for a reconciliation of Headline information to Statutory information.
[3] All customer KPIs relate to the On-net base. The closing Off-net base represented less than 1% of the total broadband base (FY19: 29k, FY18: 43k).

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

Group revenue [(1,2,3)]
Headline revenue (excluding Carrier and Off-net) [(2)] of £1,544m was 2.2% higher year on year with On-net revenues up 3.9% but Corporate revenues (excluding Carrier) 4.7% lower. The growth in On-net revenues reflects the higher average Consumer and Business bases compared to 2018 together with the increased penetration of Fibre partly offset by FLPP ARPU dilution and Consumer Voice revenue decline, which was down 20.3% year on year due to lower usage of the platform. The contraction in Corporate revenues was primarily due to Voice, which was down 18.8% on the prior year, being offset by a 6.8% increase in Data revenue reflecting a larger average base, as well as the upselling of customers to higher speed and higher ARPU services.

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

Gross margin [(2,3)]
Headline gross margin of 52.8% was 100bps higher year on year reflecting the revenue benefits noted above and lower costs of sales resulting from the WLA review and BT Openreach volume discounts on FTTC products.

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

Operating expenses [(2,3)]
Headline operating expenses decreased by £15m year on year due to reduced headcount across the business, disposal of small customer bases, lower outsource partner costs and the benefits of transitioning to a more self-serve model which have produced significant savings in our costs to serve offset by FibreNation costs and higher commissions incurred under a distribution agreement with a major distribution partner and increased investment in targeted channels.

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

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

Headline EBITDA [(2,3)]
Headline EBITDA increased by 16.7% to £237m (2018 restated: £203m) reflecting the factors noted above.

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

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

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

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

[1] See note 1 for further details on the restatement of comparative information due to the retrospective application of IFRS 15 and IFRS 9.
[2] See note 1 for an explanation of alternative performance measures (APMs) and non-Headline items. See note 4 for a reconciliation of Headline information to Statutory information.
[3] All customer KPIs relate to the On-net base. The closing Off-net base represented less than 1% of the total broadband base (FY19: 29k, FY18: 43k).

Non-Headline items [(2)]

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

(1) See note 1 for further details on the restatement of comparative information due to the retrospective application of IFRS 15 and IFRS 9.
(2) See note 1 for an explanation of alternative performance measures (APMs) and non-Headline items. See note 4 for a reconciliation of Headline information to Statutory information.

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

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

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

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

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

Earnings per share

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

(1) See note 1 for further details on the restatement of comparative information due to the retrospective application of IFRS 15 and IFRS 9.
(2) See note 1 for an explanation of alternative performance measures (APMs) and non-Headline items. See note 4 for a reconciliation of Headline information to Statutory information.

EPS on a Headline basis is provided alongside our Statutory measures to assist in providing supplementary information that assists the user to understand better the financial performance, position and trends of the Group. A full reconciliation to Statutory results can be found in note 4.

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

Net debt and cash flow

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

(1) See note 1 for further details on the restatement of comparative information due to the retrospective application of IFRS 15 and IFRS 9.
(2) See note 1 for an explanation of alternative performance measures (APMs) and non-Headline items. See note 4 for a reconciliation of Headline information to Statutory information.

Net debt of £781m (including finance leases of £39m) was broadly flat year on year (FY18: £776m [1] including finance leases of £31m). Committed headroom at 31 March 2019 was £306m (2018: £348m).

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

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

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

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

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

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

The final dividend for FY18 will be paid on 2 August 2019, subject to approval at the AGM on 17 July 2019 for shareholders on the register on 5 July 2019 (ex-dividend 4 July 2019).

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

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

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

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

Going concern

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

Our business activities, together with the factors likely to affect our future development, performance and position are set out in the Business Review. Our financial position, cash and borrowing facilities are described within this CFO review.

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

We have £1,115m of committed credit facilities and as at 31 March 2019 the headroom on these facilities was £306m. Our forecasts and projections, after assuming a soft/no Brexit, and taking into account reasonably possible changes in trading performance indicate that there is sufficient cash and covenant headroom on our facilities. In considering reasonably possible sensitivities, we have identified feasible mitigating actions and cash management activities together with the use of additional, currently uncommitted, facilities within our control to ensure covenants are not breached. This, together with our market positioning, means that we are well placed to manage our business risks successfully and have adequate resources to continue in operational existence for the foreseeable future. The Directors have therefore adopted the going concern basis of accounting preparing the financial statements.

Consolidated income statement

For the year ended 31 March 2019

	Notes	2019			2018 (restated) [1]		
		Headline [2]	**Non-Headline (note 4) [2]**	**Statutory**	Headline [2]	Non-Headline (note 4) [2]	Statutory
		£m	**£m**	**£m**	£m	£m	£m
Revenue	2	**1,609**	**23**	**1,632**	1,605	48	1,653
Cost of sales		**(759)**	**(11)**	**(770)**	(774)	(38)	(812)
Gross profit		**850**	**12**	**862**	831	10	841
Operating expenses [2]		**(613)**	**(46)**	**(659)**	(628)	(103)	(731)
EBITDA [3]	4	**237**	**(34)**	**203**	203	(93)	110
Depreciation and amortisation		**(138)**	**(8)**	**(146)**	(131)	(12)	(143)
Share of results of joint ventures		**(10)**	**–**	**(10)**	(11)	–	(11)
Operating profit/(loss)	4	**89**	**(42)**	**47**	61	(105)	(44)
Net finance costs		**(52)**	**–**	**(52)**	(46)	(10)	(56)
Loss before taxation	4	**37**	**(42)**	**(5)**	15	(115)	(100)
Taxation	4	**32**	**5**	**37**	(22)	22	–
Profit/(loss) for the year attributable to the owners of the Company	4	**69**	**(37)**	**32**	(7)	(93)	(100)
Earnings/(loss) per share							
Basic (p)	5			**2.8**			(10.3)
Diluted (p)	5			**2.8**			(10.1)

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

(2) Operating expenses includes £11m (2018: £20m) of credit losses on financial assets.

(3) See note 1 for an explanation of Alternative Performance Measures (APMs) and non-Headline items. See note 4 for a reconciliation of Headline information to Statutory information.

Consolidated statement of comprehensive income

For the year ended 31 March 2019

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

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

Consolidated balance sheet

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

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

(2) See note 1 for further details on the restatement of the assets classified as held for sale.

Consolidated cash flow statement

For the year ended 31 March 2019

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

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

Consolidated statement of changes in equity

For the year ended 31 March 2019

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

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

1. Basis of preparation

The financial information is derived from the Group's consolidated financial statements for the year ended 31 March 2019, which have been prepared on the going concern basis in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union, IFRS Interpretations Committee and those parts of the Companies Act 2006 (the Act) applicable to companies reporting under IFRS. The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments and investments. The financial statements are presented in Sterling, rounded to the nearest million, because that is the currency of the principal economic environment in which the Group operates.

The consolidated financial statements were approved by the Directors on 23 May 2019.

The financial information does not constitute statutory accounts within the meaning of section 435 of the Act or contain sufficient information to comply with the disclosure requirements of IFRS.

The Company's auditors, Deloitte LLP, have given an unqualified report on the consolidated financial statements for the year ended 31 March 2019, which did not include reference to any matters to which the auditors drew attention without qualifying their report and did not contain any statement under section 498 of the Companies Act 2006. Subject to approval by the Company's shareholders, the consolidated financial statements will be filed with the Registrar of Companies following the Company's Annual General Meeting on 17 July 2019.

Alternative Performance Measures

The consolidated financial statements include APMs as well as Statutory measures. These APMs used by the Group are not defined terms under IFRS and may therefore not be comparable with similarly titled measures reported by other companies. They are not intended to be a substitute for, or superior to, GAAP measures. All APMs relate to the current year results and comparative periods where provided. This presentation is also consistent with the way that financial performance is measured by management, reported to the Board, the basis of financial measures for senior management's compensation schemes and provides supplementary information that assists the user in understanding the financial performance, position and trends of the Group. The APMs were the same as those that applied to the audited consolidated financial statements for the year ended 31 March 2018. See note 4 for reconciliation of Headline information to Statutory information.

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

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

Refer to the Glossary 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.

Application of significant new or amended EU-endorsed accounting standards

IFRS 9

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

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

IFRS 9 introduces new requirements for the following areas:

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

Classification and measurement of financial assets and financial liabilities

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

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

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

Impairment of financial assets

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

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

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

General hedge accounting

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

IFRS 15

Background and adoption

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

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

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

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

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

Key impacts and changes in accounting policy

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

- Revenue continues to be recognised upfront in relation to hardware provided to the customer (routers, set top boxes, etc.); however, whilst previously such revenue was recognised only to the extent the customer contributed to this hardware, under IFRS 15 revenue is allocated to the hardware based on the relative stand-alone selling prices of each of the performance obligations of the contract regardless of their contract pricing. Stand-alone selling prices are determined by reference to the price at which the Group sells the individual goods or services stand-alone, their assessed market value and a cost plus methodology. As the Group often provides hardware free or at a discounted price to customers, this results in more revenue being recognised at the commencement of a contract when the hardware is provided, and less being recognised over the remainder of the contract as the service is provided.
- Connection revenues, being fees charged to the customer to connect them to the Group's network, were previously recognised at the point the connection activity has been completed at the commencement of the contract. Under IFRS 15 such activities are typically not a performance obligation and therefore the revenue forms part of the overall transaction price being allocated to each of the actual performance obligations of the contract based on their relative stand-alone prices.
- Certain discounts and credits were previously deferred and amortised over the minimum customer contract period and where such a minimum period did not exist over the average customer tenure. As these discounts are not related to performance obligations under IFRS 15 they form part of the total transaction price and are allocated to each of the performance obligations in line with their relative stand-alone selling prices.
- Incremental sales commission costs directly attributable to obtaining contracts or pools of contracts and directly attributable costs associated with fulfilling the customer contracts (largely comprising the costs of connecting a customer) were previously expensed as incurred. These costs are now recognised as an asset and amortised over the period in which the corresponding benefit is received, which is assessed to be average customer tenure (50–120 months). Average customer tenure is based on customer behaviour, with specific reference to their propensity to churn. Commission costs not incremental to new contracts continue to be expensed as incurred.

- A collectability assessment has been performed in relation to all streams of revenue. Where recoverability has been found not to be probable, which is the case in regard to certain early termination fees, the revenue is recognised when received rather than following the revenue recognition policies stated above.
- The Group previously had certain arrangements whereby it would repurchase stock owned by a third party, where this inventory had been previously sold by the Group. IFRS 15 provides prescriptive guidance on such repurchase arrangements and consequently this is now treated as a financing arrangement. Therefore, rather than derecognising the stock when sold to the third party as was previously the treatment, the stock continues to be recognised by the Group and a corresponding debt balance recognised. This stock has been recognised applying the Group's stock provision policy.

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

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

Consolidated income statement and other comprehensive income

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

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

(1) The Group has represented the net assets classified as held for sale as at 31 March 2018 to £23m from £2m to include additional non-current assets of £8m and inventory of £13m reflecting those assets that qualify as held for sale under IFRS 5.

Consolidated cash flow statement

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

IFRS 16

Transition approach

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

Structure and status of IFRS 16 implementation project

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

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

Implications of IFRS 16

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

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

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

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

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

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

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

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

Key IFRS 16 judgements

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

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

Exemptions and practical expedients to be applied and taken

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

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

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

2. Segmental reporting

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

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

	2019 £m	2018 (restated) £m
Headline EBITDA [1]	**237**	203
Depreciation of property, plant and equipment	**(71)**	(69)
Amortisation of operating intangibles	**(67)**	(62)
Share of results of joint ventures	**(10)**	(11)
Non-Headline items – gross profit	**12**	10
Non-Headline items – operating expenses	**(46)**	(103)
Non-Headline items – depreciation and amortisation	**(8)**	(12)
Statutory operating profit/(loss) (note 4)	**47**	(44)

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

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

(1) See note 1 for an explanation of alternative performance measures (APMs) and non-Headline items. See note 4 for a reconciliation of Headline information to Statutory information.

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

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

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

Corporate revenue is further analysed as:

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

3. Dividends

Accounting policy

Dividend income is recognised when payment has been received. Final dividend distributions are recognised as a liability in the financial statements in the year in which they are approved by the relevant shareholders. Interim dividends are recognised in the year in which they are paid.

The following dividends were paid by the Group to its shareholders:

	2019 £m	2018 £m
Ordinary dividends		
Final dividend for the year ended 31 March 2017 of 5.00p per ordinary share	**-**	47
Interim dividend for the year ended 31 March 2018 of 2.50p per ordinary share	**-**	24
Final dividend for the year ended 31 March 2018 of 1.50p per ordinary share	**17**	-
Interim dividend for the year ended 31 March 2019 of 1.00p per ordinary share	**11**	-
Total ordinary dividends	**28**	71

The proposed final dividend for the year ended 31 March 2019 of 1.50p per ordinary share on 1,143 million ordinary shares (approximately £17m) was approved by the Board on 23 May 2019 and will be recommended to shareholders at the AGM on 17 July 2019. The dividend has not been included as a liability as at 31 March 2019. The payment of this dividend will not have any tax consequences for the Group.

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

4. Reconciliation of Headline information to Statutory information

Headline information is provided because the Directors consider that it provides assistance in understanding the Group's underlying performance. Further details in relation to alternative performance measures (APMs) are contained within note 1.

Accounting policy – non-Headline items

During the years under review, the non-Headline items excluded from operating profit in arriving at Headline operating profit were certain adjusting items, the operating results of a business to be exited (MVNO operating profit/(loss)) and amortisation of acquisition intangibles.

Examples of charges or credits meeting the definition of adjusting items include where material, discontinued operations, gains or losses associated with the acquisition/disposal/exit of businesses, business restructuring and fundamental transformation programmes. Certain transformation and rationalisation programmes are so fundamental they may impact a number of years. In the event that other items meet the criteria, which are applied consistently from year to year, they are also treated as adjusting items.

Judgements in applying the Group's accounting policy

The classification of items as non-Headline is subjective in nature and therefore judgement is required to determine whether the item is in line with the accounting policies outlined above. Determining whether an item is non-Headline is a matter of qualitative assessment. Management consider amortisation of acquisition intangibles to be a non-Headline item due to it being inherently linked to losses associated with historic acquisitions of businesses in accordance with the Group's non-Headline accounting policy.

The following table includes details of non-Headline items and reconciles Headline information to Statutory information:

Year ended 31 March 2019	**Revenue £m**	**Gross profit £m**	**EBITDA £m**	**Depreciation, amortisation and results of Joint Ventures £m**	**Operating profit £m**	**Profit/(loss) before taxation £m**	**Taxation £m**	**Profit for the year £m**
Headline results	**1,609**	**850**	**237**	**(148)**	**89**	**37**	**32**	**69**
Adjusting items – network transformation (a)	**–**	**–**	**(15)**	**–**	**(15)**	**(15)**	**2**	**(13)**
Adjusting items – OneTeam operating model (b)	**–**	**–**	**(22)**	**–**	**(22)**	**(22)**	**3**	**(19)**
MVNO operating profit (c)	**23**	**12**	**3**	**–**	**3**	**3**	**(1)**	**2**
Amortisation of acquisition intangibles (d)	**–**	**–**	**–**	**(8)**	**(8)**	**(8)**	**1**	**(7)**
Statutory results	**1,632**	**862**	**203**	**(156)**	**47**	**(5)**	**37**	**32**

Year ended 31 March 2018 (restated)	Revenue £m	Gross profit £m	EBITDA £m	Depreciation, amortisation and results of Joint Ventures £m	Operating profit/(loss) £m	Loss before taxation £m	Taxation £m	Loss for the year £m
Headline results (restated)	1,605	831	203	(142)	61	15	(22)	(7)
Adjusting items – network transformation (a)	–	–	(17)	(2)	(19)	(19)	4	(15)
MVNO operating loss (c)	48	10	(9)	–	(9)	(9)	2	(7)
Amortisation of acquisition intangibles (d)	–	–	–	(9)	(9)	(9)	2	(7)
Adjusting items – operating efficiencies – MTTS (e)	–	–	(3)	(1)	(4)	(4)	–	(4)
Adjusting items – operating efficiencies – fundamental property rationalisation (f)	–	–	(12)	–	(12)	(12)	2	(10)
Adjusting items – mobile proposition (g)	–	–	(33)	–	(33)	(33)	6	(27)
Adjusting items – business reorganisation (h)	–	–	(19)	–	(19)	(19)	4	(15)
Adjusting items – finance expense (i)	–	–	–	–	–	(10)	2	(8)
Statutory results (restated)	1,653	841	110	(154)	(44)	(100)	–	(100)

	2019 £m	2018 (restated)[1] £m
Operating profit/(loss)	**47**	(44)
Share of results of joint ventures	**10**	11
Depreciation and amortisation	**146**	143
EBITDA	**203**	110

During the year ended 31 March 2019, cash adjusting items were £47m (2018: £60m).

The above table shows how all APMs are reconciled to Statutory performance measures with the exception of Headline earnings per share and net debt.

(a) Network transformation
During the year ended 31 March 2019, the Group continued its significant multi-year transformation programme which will fundamentally restructure the Group's network, IT infrastructure and technology organisation. The change the Group is undertaking will ensure it is fit for the future and underpins the wider Group strategy in providing an outstanding service to our customers as a value provider in the industry. This is a discrete project expected to run until 2021.

This programme has resulted in £15m (2018: £19m) of costs including project management, consultancy, dual-running costs, decommissioning costs, and accelerated depreciation.

A total taxation credit of £2m has been recognised on these costs in the year ended 31 March 2019 (2018: £4m).

(b) OneTeam operating model

Net costs of £22m (2018: £nil) have been incurred associated with simplifying the Group's organisational structure and relocating roles to one primary location at the Soapworks in Salford. These costs have been determined to be adjusting items and are presented as non-Headline in accordance with the Group's accounting policy as they represent a material business restructuring programme.

The costs include redundancy payments, dual-running costs, recruitment costs and other consultancy costs. The Group expects the finalisation of this fundamental reorganisation within FY20.

A taxation credit of £3m has been recognised on these costs (2018: £nil).

(c) MVNO operating profit/(loss)
Following the Group's announcement in May 2017 to reassess the Group's mobile strategy, the Group is now progressing with its alternative mobile distribution strategy. Operating profits of £3m (2018 restated: £9m loss) associated with this strategy have been incurred; given this one-off strategic decision, management considers these profits/(losses) are non-Headline items though they do not meet the criteria under IFRS 5 for separate disclosure as discontinued operations. The Group continues to transition from a wholesale agreement with Vodafone to a mobile distribution agreement with Telefonica. The wholesale agreement with Vodafone has been extended to support the smooth transition of remaining customers. The MVNO trading activity will continue to diminish with contractual commitments expiring in 2021.

A taxation charge of £1m has been recognised on these costs (2018: £2m credit).

(d) Amortisation of acquisition intangibles
An amortisation charge in respect of acquisition intangibles of £8m was incurred during the year (2018: £9m).

A taxation credit of £1m has been recognised on these costs (2018: £2m credit).

(e) Operating efficiencies – Making TalkTalk Simpler (MTTS)
During the year ended 31 March 2018, the Group completed its wide-ranging transformation programme that delivered material improvements to customer experience, driving operating cost savings, lower churn and subscriber acquisition costs.

The wide-ranging transformation programme was considered so fundamental that it impacted a number of years with the costs incurred relating to the improvement of the Consumer and TalkTalk Business systems and processes which focus on customer experience.

These programmes resulted in £4m of costs including project management, redundancy, consultancy, migration, call centre costs and accelerated depreciation costs.

A total taxation credit of £nil has been recognised on these costs in the year ended 31 March 2018.

(f) Operating efficiencies – fundamental property rationalisation
During the year ended 31 March 2018, the Group completed its fundamental rationalisation of the sites from which it operates including the relocation of its Warrington and Irlam sites to one site at the Soapworks in Salford together with the rationalisation of its London property footprint. The revised estimated cost of this property rationalisation programme was provided for giving rise to additional costs of £12m during the prior year.

A total taxation credit of £2m has been recognised on these costs in the year ended 31 March 2018.

(g) Mobile proposition
Following the Group's announcement in May 2017 to reassess the Group's mobile strategy net exceptional costs were incurred in relation to decommissioning costs, asset write offs, provision releases, onerous supplier commitments and redundancies amounting to £33m for the year ended 31 March 2018.

A total taxation credit of £6m has been recognised on these costs in the year ended 31 March 2018.

(h) Business reorganisation
Net costs of £19m were incurred in the year ended 31 March 2018 associated with implementing changes to the Group's organisational structure following the Group reorganising the business under the new leadership team.

The costs include redundancy, other rationalisation costs and consultancy costs.

A taxation credit of £4m has been recognised on these costs in the year ended 31 March 2018.

(i) Finance expense
During the year ended 31 March 2018, the Group completed the repurchase of its $185m US Private Placement Notes. This resulted in incremental costs of £8m relating to the settlement of derivative instruments in designated hedge accounting relationships and associated fees. The Group also refinanced its revolving credit facilities, resulting in the accelerated amortisation of arrangement fees relating to the previous facilities leading to a £2m charge in the year.

A taxation credit of £2m has been recognised on these costs in the year ended 31 March 2018.

5. Earnings/(loss) per ordinary share

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

	2019 £m	2018 (restated)[1] £m
Headline earnings/(loss) (note 4)	**69**	(7)
Statutory earnings/(loss)	**32**	(100)
Weighted average number of shares (millions)		
Shares in issue	**1,146**	979
Less weighted average holdings by Group ESOT	**(3)**	(4)
For basic EPS	**1,143**	975
Dilutive effect of share options	**13**	12
For diluted EPS	**1,156**	987

	2019 Pence	2018 (restated) Pence
Basic earnings per ordinary share		
Headline	**6.0**	(0.7)
Statutory	**2.8**	(10.3)

	2019 Pence	2018 (restated) Pence
Diluted earnings per ordinary share		
Headline	**6.0**	(0.7)
Statutory	**2.8**	(10.1)

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

6. Cash and cash equivalents and borrowings

(a) Cash and cash equivalents comprise:

	2019 £m	2018 £m
Cash at bank and in hand	**67**	43

The effective interest rate on bank deposits and money market funds was 0.5% (2018: 0.2%).

(b) Borrowings comprise:

	Maturity	**2019 £m**	2018 (restated) £m
Current			
£75m receivables purchase agreement facility	2019	**-**	67
Finance leases	2019	**10**	8
Inventory financing	2019	**-**	21
		10	96

	Maturity	**2019 £m**	2018 (restated) £m
Non-current			
£400m Senior Notes	2022	**400**	400
£640m revolving credit facility	2022	**348**	300
£75m receivables purchase agreement facility	2020	**61**	–
Finance leases	2020, 2021, 2022, 2023, 2024	**29**	23
Non-current borrowings		**838**	723
Total borrowings		**848**	819

Net debt comprises:

	2019 £m	2018 (restated) £m
Cash at bank and in hand	**(67)**	(43)
Borrowings	**848**	819
Net debt	**781**	776

Undrawn available committed facilities are as follows:

	Maturity	2019 £m	2018 (restated) £m
Undrawn available committed facilities (excluding finance leases)	2020, 2022	**306**	348

The book value and fair value of the Group's borrowings are as follows:

	2019 £m	2018 (restated) £m
Less than 1 year	**10**	96
1 to 2 years	**71**	7
2 to 3 years	**406**	7
3 to 4 years	**359**	406
4 to 5 years	**2**	303
Total borrowings	**848**	819

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

The fair value of borrowings is not materially different to its amortised cost.

Borrowing facilities

The Group's committed facilities total £1,115m (2018: £1,115m). The Group's uncommitted facilities total £90m (2018 restated: £131m) giving headroom on committed facilities and uncommitted facilities of £306m (2018: £348m) and £90m (2018 restated: £110m) respectively.

The financial covenants included in each bank facility restrict the ratio of net debt to EBITDA and require minimum levels of interest cover. The amounts used in the covenant calculations are subject to adjustments for the receivables purchase agreement facility and non-Headline items. As at 31 March 2019, net debt to Headline EBITDA as calculated for the purposes of the Group's borrowings equated to 3.1x (2018: 3.0x). The Group was also in compliance with its covenants throughout the current and prior year.

Details of the Group's borrowing facilities as at 31 March 2019 are set out below:

£400m Senior Notes

On 15 January 2017, TalkTalk Telecom Group PLC issued £400m Senior Notes due 2022. The Senior Notes include incurrence-based covenants customary for this type of debt, including limitations on TalkTalk's ability to incur additional debt and make restricted payments, subject to certain exceptions. The Group is permitted to incur additional debt subject to compliance with a net debt to EBITDA ratio of 4.0x and to pay dividends when net debt to EBITDA is below 3.0x (2.75x from January 2019). Regardless of the Company's net debt to EBITDA ratio, dividends are also permitted to be paid out of a basket based on 50% of cumulative consolidated net income from 1 October 2016. The interest rate payable on the notes is 5.375% payable semi-annually.

£640m revolving credit facility (RCF)

On 8 May 2017, the Group signed a £640m RCF agreement, which matures in May 2022. The interest rate payable in respect of drawings under this facility is at a margin over LIBOR and for the appropriate period. The actual margin applicable to any drawing depends on the ratio of net debt to EBITDA calculated in respect of the most recent accounting year.

£75m receivables purchase agreement

On 27 March 2019, the Group signed an extension to the £100m receivables purchase agreement (£25m on an uncommitted basis) which matures in June 2020 and is included within both the committed and uncommitted facilities. The Group has the ability on a rolling basis to sell its receivables to a third-party vehicle in exchange for a discounted consideration. The Group is deemed to control the third-party vehicle and therefore continues to consolidate the relevant receivables and the external debt on the grounds that substantially not all the risks and rewards of ownership have been transferred under the programme.

Uncommitted money market facilities, inventory financing and bank overdrafts

These facilities are used to assist in short term cash management and bear interest at a margin over the applicable borrowing rate. In the year ended 31 March 2019 the Group fully repaid and cancelled the £21m inventory financing facility.

Finance leases

The Group uses finance leases as an alternative source of financing for significant items of capital expenditure, matching the cash profile with the life of the asset and offering flexibility regarding ownership of the lease at the end of the finance term. Finance leases at 31 March 2019 were £39m (2018: £31m).

7. Analysis of changes in net debt

	Opening £m	Net cash flow £m	Non-cash movements £m	Closing £m
2019				
Cash and cash equivalents	**43**	**24**	**-**	**67**
Borrowings [2]	**(788)**	**(28)**	**7**	**(809)**
	(745)	**(4)**	**7**	**(742)**
Finance leases	**(31)**	**9**	**(17)**	**(39)**
Net debt [1]	**(776)**	**5**	**(10)**	**(781)**

	Opening £m	Net cash flow £m	Non-cash movements £m	Closing £m
2018 (restated)				
Cash and cash equivalents	50	(7)	–	43
Borrowings	(908)	120	–	(788)
Derivatives	39	(39)	–	–
	(869)	81	–	(788)
	(819)	74	–	(745)
Finance leases	–	–	(31)	(31)
Net debt [1]	(819)	74	(31)	(776)

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

(2) During the year, amortised borrowing costs of £10m were reclassified from other receivables to Borrowings of which £3m has been amortised during the year.

Glossary: Alternative performance measures

APMs are the way that financial performance is measured by management, reported to the Board, the basis of financial measures for senior management's compensation schemes and provides supplementary information that assists the user in understanding the underlying trading results.

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note reference for reconciliation	Definition and purpose
Income statement measure				
Headline revenue (excluding Carrier and Off-net)	Statutory revenue	Excludes non-Headline items, specifically MVNO Revenue. In addition, also excludes Carrier and Off-net revenues	Note 2	Represents revenue excluding non-Headline revenue and low margin/volatile carrier revenue and non-core Off-net revenue. This APMs purpose is to allow the user to understand the Group's underlying revenue performance on a comparable basis.
EBITDA	Operating profit or loss	Operating profit or loss, before depreciation and amortisation, share of joint ventures, net finance costs and taxation	Note 1	Represents operating profit before depreciation, amortisation and share of results of joint ventures.
Headline earnings before interest, tax, depreciation and amortisation (EBITDA)	Operating profit or loss	Operating profit or loss before non-Headline items, depreciation and amortisation, share of joint ventures, net finance costs and taxation	Note 4	Represents operating profit before non-Headline items, depreciation, amortisation and share of results of joint ventures to assist in the understanding of the Group's performance. Management consider amortisation of acquisition intangibles to be a non-Headline item due to it being inherently linked to losses associated with historic acquisitions of businesses in accordance with the Group's non-Headline accounting policy. This APMs purpose is to allow the user to understand the Group's underlying financial performance measured by management, reported to the Board and that is a financial measure senior management's compensation schemes.
Headline basic EPS	Basic EPS	Basic EPS excluding non-Headline items	Note 5	Represents Basic EPS excluding non-Headline items and provides supplementary information that assists the user in understanding the underlying trading results.
Balance sheet measure				
Net debt	Total borrowings after derivatives offset by cash and cash equivalents		Note 6	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.