TalkTalk For Everyone

15 November 2016

TalkTalk Telecom Group PLC

Interim results for the 6 months to 30 September 2016 (H117)

- Strong growth in H1 profits: EBITDA[1] £130m (+44% year-on-year); interim dividend 5.29p
- Material improvements in customer service: Q2 churn reduced to 1.43% (Q216: 1.58%)
- Re-established brand and value credentials with launch of Fixed Low Price Plans
- New propositions and further service improvements to drive a return to subscriber growth in FY18
- York fibre to the premise trial to be extended to whole city beginning in Spring 2017

(1) Headline EBITDA excluding net exceptional items and non-operating amortisation

H117 Financial Highlights

- Total revenue -1.1% to £902m (H116: £912m)
- On-net revenue -3.9% to £670m (H116: £697m); ARPU maintained at £28.05 (H116: £28.08)
- Corporate revenue +10.6% to £208m (H116: £188m); Data +38.9%; Carrier +30.9%
- On-net net adds -29k; lower Retail (-98k) offset by growth in Wholesale (+69k); RGUs +85k
- £58m reduction in SAC and Marketing expense driven by lower connections and reduced CPA
- £17m savings delivered from Making TalkTalk Simpler
- Statutory basic EPS 2.2p (H116: -0.7p)

Outlook and guidance

- Strong start to new Fixed Low Price Plans; re-contracting rates ten times higher than average
- Growth in in-contract base improving the outlook for churn reduction through H2
- Near term ARPU dilution to be mitigated by higher take-up of boosts and higher quality base
- Success of re-contracting to deliver FY EBITDA towards lower end of £320m-£360m guidance
- Final dividend expected to be in line with FY16 and broadly covered by operating free cash flow
- Year-end net debt/EBITDA expected to be significantly lower year-on-year

Dido Harding, Chief Executive of TalkTalk commented:

"We have delivered an excellent uplift in first half profits and expect to deliver materially higher full year profits than last year. One year on from the cyber attack, we have maintained a relentless focus on looking after our existing customers and keeping up the pace across a wide range of operational improvements to make TalkTalk simpler and better for customers. As a result we have seen significant year-on-year improvements in churn and customer satisfaction.

We are delighted with the initial response to our Fixed Low Price Plans, which offer customers simple, affordable and fair prices in an increasingly confusing market place. By allowing our existing customers to switch to these new plans, we are delivering a value for money proposition to our customer base that is genuinely unique in the market, and are laying the foundations for a fundamental transformation of the TalkTalk brand. This combined with our ongoing focus on Making TalkTalk Simpler will drive a return to retail subscriber and revenue growth in FY18, supporting our confidence in the longer term prospects for the business"

Presentation and Q&A
8.00am – 9.30am
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Outlook and guidance

Impact of new pricing and propositions

We have now traded for one month with our simpler, fairer, Fixed Low Price Plans which we launched ahead of the wider industry's move to all-in pricing.

Our existing customers have responded extremely well to the new plans: ten times as many have re-contracted than in an average month; many more have chosen the Faster (fibre) plan than expected; and attachment rates for calling boosts and TV have also been stronger than we had expected. Conversely, we have seen heightened churn from some legacy customers who were on discounted packages and for whom re-contracting would have meant paying more.

We expect any near term impacts on ARPU (after any mitigation from the higher take up of fibre and boosts), churn and SAC to be more than offset over the medium term, by the transformation of our legacy base into a lower churning, more engaged and therefore more valuable base of customers.

This will be enhanced by growing traction in new acquisition volumes, with customers joining on higher ARPUs than some legacy cohorts and with similar attachment rates for boosts as we have seen from existing customers.

We expect to deliver further strong progress in EBITDA during H2 and as a result of the successful launch of our new propositions, FY EBITDA towards the lower end of our £320m-£360m guidance, which is in line with market consensus. In addition, we expect to exit the year with lower churn, an improved net adds trend and a higher quality customer base.

Net debt

Our medium term target is to reduce leverage (net debt/EBITDA) towards 2.0x. With FY17 net capex of £130m-£135m, a reversal of most of H1’s working capital outflow and a reduction in cash exceptional costs, we expect year end leverage to be significantly lower than at the end of FY16 and trending towards our target.

Dividend

We expect the FY17 dividend to be at least in line with that of FY16 and to be broadly covered by operating free cash flow.

SUMMARY FINANCIALS

Headline Profit & Loss	**6 months ended 30 September 2016 Unaudited**	6 months ended 30 September 2015 Unaudited
Revenue (£m)	**902**	912
EBITDA [(1)] (£m)	**130**	90
EBITDA margin [(1)]	**14.4%**	9.9%
Operating profit [(1)] (£m)	**60**	25
Profit before taxation [(1)](£m)	**46**	14
Profit after taxation [(1)](£m)	**35**	11
Basic EPS [(1)](p)	**3.7**	1.2
Interim dividend per share (p)	**5.29**	5.29

(1) Excludes net exceptional items and non-operating amortisation

Headline Cash flow (£m)	**6 months ended 30 September 2016 Unaudited**	6 months ended 30 September 2015 Unaudited
Operating free cash flow	**(28)**	31
Interest and taxation	**(11)**	(11)
Free cash flow	**(39)**	20
Exceptional items	**(15)**	(33)
Acquisitions	**(14)**	(5)
Dividends	**(100)**	(85)
Sale of own shares	**-**	61
Net Debt	**847**	631
Net Debt/EBITDA (LTM)	**2.8x**	2.8x

Statutory Profit & Loss	**6 months ended 30 September 2016 Unaudited**	6 months ended 30 September 2015 Unaudited
EBITDA (£m)	**119**	73
EBITDA margin	**13.2%**	8.0%
Operating profit (£m)	**44**	3
Profit/(loss) before taxation (£m)	**30**	(8)
Profit/(loss) after taxation (£m)	**21**	(7)
Basic EPS (p)	**2.2**	(0.7)

Key Performance Indicators	**6 months ended 30 September 2016 Unaudited**	6 months ended 30 September 2015 Unaudited
On-net Broadband Net Adds ('000)	**(29)**	(80)
On-net Churn (%)	**1.40%**	1.48%
TV Net Adds ('000)	**(56)**	25
Fibre Net Adds ('000)	**76**	99
Mobile Net Adds ('000)	**94**	132
EFM & Ethernet Net Adds ('000)	**4.2**	4.5

H117 Business Review

Summary – 44% growth in H1 EBITDA [(1)]

H1 EBITDA[(1)] of £130m (H116: £90m) grew strongly by 44%, driven by a significant improvement in subscriber acquisition costs (SAC) and marketing, and £17m of savings from our transformation programme Making TalkTalk Simpler (MTTS).

As guided at the time of our FY16 preliminary announcement in May 2016, group revenue fell through H1 (-1.1%) with a Q2 decline of 1.7%. On-net revenues fell by 5.6% in Q2, driving an overall H1 decline of 3.9% year-on-year. ARPU of £28.05 was flat year-on-year during the half (H116: £28.08) with the impact of a lower on-net base (driven in part by reduced recruitment activity ahead of the launch of our new Fixed Low Price Plans in October) and voice usage mitigated by the benefit of the October 2015 price and proposition changes and growth in fibre penetration. Excluding Carrier revenues (+30.9%), Corporate revenue growth in the half was 2.3%, with continuing strength in data (+38.9%) partly offset by the decline in legacy voice revenues of 22.8%. Off-net revenues which only comprise 2.7% of Group revenues (H116: 3.0%) declined by 11.1% to £24m.

With momentum from our new propositions, increasing benefits from Making TalkTalk Simpler and continuing strong growth from TalkTalk Business, we expect another significant step up in EBITDA in H2, driving improved dividend cover, and reduced leverage (net debt/EBITDA). The Board has recommended an interim dividend of 5.29p (H116: 5.29p).

Strong operational execution and strategic progress

Our focus during the first half has been on looking after our existing customers and sustaining the momentum of operational improvement through MTTS. Our aim has been to drive continuing reductions in churn through improving customer service, thereby establishing strong foundations for the launch of a comprehensive brand refresh and our new Fixed Low Price Plans.

Making TalkTalk Simpler is delivering long-lasting benefits - £17m of savings in H1

We have made significant progress across all our customer experience improvement programmes, which have driven materially better outcomes for customers, and as a result, £17m of savings across the income statement during H1. Key areas in which we have made strong progress include:

- New technical support and repair processes introduced for front-line service representatives, built on technology deployed in FY16, reducing customer effort and increasing first-time fix rates, with 10% fewer customers with a broadband issue calling back within 7 days.
- More than 600,000 customers enrolled on TalkSafe, TalkTalk's innovative, secure and low-effort new voice biometric verification system.
- Deployed tailored Next Best Action technology across online and phone channels, increasing Net Promoter Scores (NPS) and upsell actions.
- Introduced a redesigned online bill for fixed-line customers that are simpler, more informative and transparent.
- Re-platformed the highest traffic parts of our websites to optimise for mobile as well as desktop devices and improve performance.

Reducing SAC through more efficient distribution channels

We have continued to reduce Costs Per Add (CPA) significantly, by driving much improved online journeys for new and existing customers, more efficiently targeted upselling activity and rationalising our distribution channels. As part of this we have extended our sales and distribution agreement with Connected World Services (CWS) to cover quad play products. These initiatives have driven higher rates of on-line conversion and material reductions in the commissions historically paid to third party affiliates, whilst also building higher value customer cohorts.

Ongoing network investment has improved customers' everyday experience

In addition to improving customer experience through the service programmes in MTTS, we have continued to invest in our network, across four major areas of focus:

- Investing in network capacity (backhaul and core) to ensure we maintain at peak usage, the best outcome for customers with no shaping or throttling. As a result we are ranked best with *samknows* for peak time throughput, which is a key measure of customer experience, when customers are using the service most.
- We are making excellent progress replacing our Dynamic Line Management (DLM) system for broadband customers. By Christmas 2016, 90% of the base will have been migrated which will improve both speed and line stability for our broadband customers. In addition, a new industry leading secure Domain Name System (DNS) will be rolled out across the network in Q4, which again will improve resilience, web security and protection, and overall responsiveness for customers' web surfing.
- The core network upgrade is progressing well, software upgrades to the collector nodes will be completed in H2 alongside the commencement of the migration phase of our major access network upgrade to 10gb+ capacity, with over 100 exchanges fully migrated and a detailed, migration approach in place to scale the programme across our unbundled network over the next few years.
- Further optimisation of video streaming performance on our network is a key focus area for us, both for OTT players and our own third party sourced content. We rank well on the Netflix UK ISP ratings, and we are continuing the deployment of more Netflix caches at the edge of our network to improve streaming experience by pushing content closer to the customer. We expect to further improve our Netflix rankings as a result. Additionally for our TV Set Top Box customers taking sports boosts, we have engineered a substantial uplift in video quality, which combined with the DLM improvements to customer line conditions, we expect to translate into an improved viewing experience.

Substantial improvements in customer satisfaction drive material churn reduction

H1 churn of 1.40% was materially lower year-on-year (H116: 1.48%), with Q2 churn 15bp better year-on-year and level on Q1. Customer satisfaction with our service agents (+20% year-on-year), call volumes (-22% year-on-year) and complaints to Ofcom (-44% year-on-year), all of which are drivers of churn, also improved significantly during the half as a direct result of the initiatives in the MTTS programme and our ongoing network investment.

And broadly stable broadband base

As a result of the improvement in churn, and despite lower recruitment activity ahead of launching our new Fixed Low Price Plans at the beginning of Q3, we exited the half with a broadly stable on-net broadband base of 3.967m (FY16: 3.996m). Within this, the Retail base declined by 98k during the half, while the Wholesale base continued to grow robustly (+69k). RGUs as a proportion of the on-net base grew by 5.5% year-on-year during H1 and by 1.8% half-on-half.

Continuing growth in mobile and fibre penetration

The mobile base grew again to 793k (22% penetration of the broadband base) with H1 net adds of 94k. We have made progress in the first phase of migrating from Vodafone to Telefonica MVNO, which involves moving existing mobile customers onto our new CRM and billing platform, and launching a 4G service on the Telefonica UK network for new customers. A number of milestone events have been achieved over the past six months, including deploying our new platforms to live environments, provisioning our own TalkTalk 4G SIMs on the Telefonica UK network and successfully making live calls, sending SMSs, conducting data sessions and number porting with other MNOs.

Having completed the design and test phase, bulk billing migrations and service launch on Telefonica UK will begin in Spring 2017, followed by network migrations.

In the meantime, as part of our new Fixed Low Price Plans, we introduced an upgraded SIM offer ("Essentials SIM") across all our broadband packages. The new SIM gives customers unlimited calls and texts and 500MB of data usage.

The fibre base grew to 779k (21% penetration of the broadband base) with H1 net adds of 76k. Our new Faster tariff, offers customers speeds of up to 38Mbps without usage caps and is seeing strong take-up.

TV strategy of driving greater engagement is gaining traction

The TV base contracted to 1.3m (37% penetration of the broadband base) with H1 net adds down by 56k. However, we are seeing strong results from our strategy of driving profitable engagement with existing customers. We have achieved a material increase in platform viewing by simplifying our boosts, providing a great line up of content, including the successful integration of the BBC red button ahead of the Olympics, and improving the functionality and performance of our YouView set top box. Our TV App, which allows all broadband customers to rent or buy the latest movies and TV shows across multiple devices, has also seen strong take-up with a significant number of customers now using this service regularly. These initiatives have yielded a very positive customer response, with NPS improvement the highest in over 3 years, and continued reduction in complaints to Ofcom.

Viewer engagement across Video on Demand (VoD) and linear TV continued to increase during the half with customers buying and renting more movies and series than ever before through our set top box, with the ability to continue watching on other devices proving a key attraction. We have also seen a year-on-year increase in premium Sky Sports subscribers as our customers take advantage of our market leading season pass offer.

We have concluded a number of content deals during H1, including a multi-year renewal of our full Sky content, so our customers can continue viewing leading PayTV channels including Sky1, Sky Living, Sky Arts as well as the full portfolio of Sky Sports and Sky Cinema, and Sky Box Office PPV events. We also added BT Sports, so coupled with Sky Sports our customers can now watch all leading sports in the UK; with Formula 1, Ryder Cup, and all premier league football games, all available on TalkTalk TV.

Our strategy of making the broadest content available on the most flexible terms is based on our long term commitment to the YouView platform, which continues to grow in value. We expect to commence the rollout of our next generation YouView software across the existing set top box base before Christmas 2016. This will offer a significantly enhanced and market leading user interface as well as performance, further improving engagement with our TV customers.

Strong foundations laid for TalkTalk Consumer to re-establish its value credentials

In an increasingly confusing market for customers, the process and systems improvements we have delivered through MTTS have created a strong foundation upon which to re-establish TalkTalk's value credentials.

There is a clear space in the market for a genuine value for money provider that offers simple, affordable, reliable and fair products. Our own extensive customer research has shown that 44% of all customers choose their broadband offering mainly based on price, with an equal number also choosing their mobile service on the basis of price. 35% of all customers are primarily motivated by the core broadband offering; 57% of customers are equally motivated by broadband and TV within package; and just 8% motivated primarily by TV offering.

Our research also revealed customers' irritation that market-leading deals are reserved for new customers, with loyalty being "punished, rather than rewarded" and 84% of UK adults said this was the number one thing they would like to see their broadband provider change.

Our research also revealed strong demand from customers for price transparency (74%) and for prices to be fixed for 18m (69%).

At the beginning of October we replaced all of our existing offers with a new, radically simpler range of Fixed Low Price Plans giving customers the freedom to choose and fix their own package for 18m by tailoring mix-and-match broadband, mobile, TV and land-line calls to suit their needs; all customers can now choose between two new simple packages inclusive of line rental:

Fast Broadband - £22.95 per month for speeds of up to 17Mbps, inclusive of a 200min, unlimited texts, 500MB SIM and access to the TalkTalk TV Store.

Faster Broadband (fibre) - £27.00 per month for speeds of up to 38Mbps, inclusive of a 200min, unlimited texts, 500MB SIM and access to the TalkTalk TV Store.

Customers wishing to take an additional TV service are able to add it as a boost, with a choice of set top boxes (non-recordable and recordable).

Importantly, these new packages are also available to all of our existing customers (Simply Broadband, Essentials TV and Plus TV) who are able to move to these packages by re-contracting for 18m. This marks an unambiguous return by our consumer business to its challenger roots and the early indicators have been encouraging.

Strong re-contracting and attachment activity during October

We have now traded for one month with our simpler, fairer, Fixed Low Price Plans which we launched ahead of the wider industry's move to all-in pricing.

Our existing customers have responded extremely well to the new plans: ten times as many have re-contracted than in an average month; many more have chosen the Faster (fibre) plan than expected; attachment rates for calling boosts and TV have also been stronger than we had expected reflecting both the attractiveness of our simple and clear pricing, and the much improved online experience that we have delivered through MTTS. Conversely, we have seen heightened churn from some legacy customers who were on discounted packages and for whom re-contracting would have meant paying more.

We expect any near term impacts on ARPU (after any mitigation from the higher take up of fibre and boosts), churn and SAC to be more than offset over the longer term, by the transformation of our legacy base into a lower churning, more engaged and therefore more valuable base of customers.

This will be enhanced by growing traction in new acquisition volumes, with customers joining on higher ARPUs than some legacy cohorts, and with similar attachment rates for boosts as we have seen from existing customers.

Returning to growth in FY18

By delivering on MTTS, focusing on our existing customers, and radically simplifying our value for money customer propositions, we have laid the foundations for a fundamental transformation of the TalkTalk brand which we expect to drive a return to retail subscriber and revenue growth in FY18.

Continuing strong growth at TalkTalk Business: Corporate (+10.6%) and Data (+38.9%)

TalkTalk Business (TTB) has delivered another six months of strong performance in Corporate. Revenues for the half grew by 10.6% to £208m (H116: £188m), and by 2.3% excluding Carrier. Data revenues grew 38.9% year-on-year with the number of Ethernet and EFM lines up by 4,200 in the half. Legacy voice revenues declined (-22.8%) in line with the established trend but we are beginning to see strong take-up of our new next generation voice product, with revenue growth during the half of 35%. While Carrier revenues at £72m were up strongly year-on-year (30.9%), we expect the rate of growth to level off materially in H2, returning to more normalised patterns of trading.

Major contract wins and strengthening pipeline

Significant contract wins in Data during the period include Marston’s Telecom, for whom we will be upgrading 500 premium sites to full Ethernet services under a three year contract and Global 4, for whom we will be installing EoFTTC and DSL across 900 client sites.

We are seeing increasing quality in the future pipeline from small businesses looking to use our high speed Ethernet products as they transition to hosted voice products. We are also growing the

pipeline with large corporates looking to take advantage of our new managed network offering. Notably we have seen demand growing both pre and post Brexit, reflecting the strength of our partner channel, and our clear value proposition focused on value, reliability, simplicity and innovation.

Expanding product portfolio to serve growing demand

We have continued to expand our portfolio of data products. In Q2, we completed our plans to offer a complete portfolio of FTTC and Ethernet products, for which there is strong demand from both our partners and direct customers. The number of partners wholesaling FTTC from us has grown in the last 6 months and we expect continued growth in this area.

Following our acquisition of tIPicall in April 2015, our next generation voice portfolio continues to gain good momentum. 94 Partners have signed to sell this new service and the total base of SIP channels on the platform, including acquired base, has increased by 47% in H1. The acquisition has continued our diversification into next generation telephony services, further demonstrated by our hosted telephony platform which has seen a user base increase of 22% in H1.

York Fibre-To-The-Premise Trial extended to cover whole city

We have made excellent progress with UFO, our Fibre-To-The-Premise (FTTP) trial in York. The initial roll out has covered over 14,000 homes, with nearly 2,500 (over 18% penetration in 6 months) customers signing up to the service with TalkTalk and Sky since the beginning of the year. Residents and businesses have embraced the ultrafast service, as they discover a broadband service that delivers seamless, uninterrupted internet access on multiple devices. The network has been available for 100% of the reporting period. Build costs have come in significantly under our £500 per home target and customer take-up and satisfaction are also running ahead of targets. Customer satisfaction scores for the UFO product are strongly outperforming FTTC, with scores consistently averaging over 80% with almost no customer churn.

Following the success of this first phase, work will now begin on extending the network across the rest of York. The build will start in the Spring of 2017 and is expected to reach a further 40,000 homes over 18m, covering the vast majority of the city’s premises. TalkTalk will acquire Sky's equity in the joint venture with Sky becoming a long term wholesale customer. The York rollout is expected to cost c£20 million to complete, which will be funded by TalkTalk, with City Fibre Holdings continuing as a shareholder in the joint venture.

H1 FY17 Finance Review

Headline financial information (£m)

	6 months ended 30 September 2016 Unaudited	6 months ended 30 September 2015 Unaudited
On-net	670	697
Off-net	24	27
Corporate	208	188
Revenue	**902**	**912**
Gross profit	469	487
%	52.0%	53.4%
Operating expenses exc amortisation & depreciation	(245)	(245)
SAC and Marketing costs	(94)	(152)
Headline EBITDA	**130**	**90**
%	14.4%	9.9%
Exceptional items	(11)	(17)
EBITDA	**119**	**73**
Depreciation and amortisation	(65)	(59)
Non-operating amortisation	(5)	(5)
Share of JVs	(5)	(6)
Operating profit	**44**	**3**
Finance costs	(14)	(11)
Profit/(loss) before taxation	**30**	**(8)**
Taxation	(9)	1
Profit/(loss) after taxation	**21**	**(7)**

Overview

Headline EBITDA increased by 44.4% to £130m (H116: £90m) and H117 revenue declined as expected by 1.1% to £902m (H116: £912m). The Board has recommended an interim dividend of 5.29p in line with the prior year and guidance. Net debt/EBITDA amounted to 2.8x (H116: 2.8x).

Revenue

Revenue for the period decreased by 1.1% year-on-year to £902m (H116: £912m), and by 3.2% excluding Carrier revenues of £72m (H116: £55m). On-net revenues declined by 3.9% reflecting the reduction in the On-net base in FY16, mainly due to the decision to disconnect 72k non-paying customers during H116 and a 95k impact due to the cyber attack in Q3. On-net ARPU remained in line with prior year with growth in pricing and propositions (including a price rise in June and October 2015) offset by a decline in voice usage.

Corporate revenues (excluding Carrier) grew by 2.3% benefitting from continuing growth in Data revenues (+38.9% year-on-year) driven by 8.6k new connections year-on-year to our Ethernet and EFM base, and offset by the expected reduction in Legacy Voice revenues (22.8% year-on-year). Our new VOIP proposition, launched in April 2015 is gaining traction (+34.6% year-on-year revenue growth) and is expected to deliver strong growth in FY17.

Gross profit

Gross profit decreased by 3.7% to £469m (H116: £487m) with the gross margin rate falling from 53.4% to 52.0%. The movement in gross margin during the period reflects a number of effects including: the greater weight of low margin carrier revenues in the mix (8% vs 6% in H116); the lower weight of Retail revenues versus Wholesale revenues in the on-net mix; and lower year-on-year voice usage, partly offset by the growth in high margin data revenue (8.3% of total revenues vs 5.9% in H116) and the benefits of MTTS.

We expect H2 gross margins to recover from the H1 level, helped by a return to more normalised levels of growth in carrier revenue, the impact of October's pricing activity, continued growth in high margin data revenues and the delivery of procurement benefits.

Operating expenses

Operating expenses excluding SAC and Marketing were in line with H116 at £245m, with network and IT investment (which has driven improved peak time throughput and much improved latencies), mainly offset by MTTS benefits (from contact centre and retention efficiencies and property costs) and reduced BT regulated backhaul costs. We expect FY operating expenses to reduce year-on-year, supported by savings from MTTS and lower network and IT costs relative to H1.

SAC and Marketing

SAC and Marketing expenditure of £94m was 38.2% lower year-on-year due to the reduced volume of Retail connections (driving just over half of the year-on-year reduction); reduced channel costs (just under a third of the year-on-year reduction) from an extended sales and distribution agreement with CWS; and the phasing of certain marketing costs into H2, offset by higher SAC from the growth in data connections at TTB. We expect FY expenditure to also be materially lower year-on-year, with any SAC impact from higher broadband and data connections mitigated by ongoing efficiencies in channel costs.

Headline EBITDA

Headline EBITDA increased by 44.4% to £130m (H116: £90m) reflecting an EBITDA margin of 14.4% (H116: 9.9%), driven mainly by MTTS benefits and SAC and Marketing efficiencies.

Depreciation and amortisation

Depreciation and amortisation increased by 10.2% from £59m to £65m in H117 due to prior year capitalisation of intangibles in relation to MTTS, innovation and our network, as we brought forward some programmes as a result of the cyber attack, for example the re-platforming of our online channels.

Exceptional items

We incurred a £10m exceptional charge in H1 (H116: £19m) related to delivering MTTS, and expect the full year exceptional charge for the programme to be c£28m (FY16: £41m).

Cash exceptional costs which include the partial unwind of prior year provisions related to the cyber attack, were £15m (H116: £33m) and related mainly to the delivery of MTTS. For the full year we expect cash exceptional costs to be £30m-£35m (FY16: £88m), as previously guided.

Net finance costs

Net finance costs of £14m (H116: £11m) comprised the blended interest rate of 3.01% (H116: 2.95%) on a higher level of average net debt during the period compared to the prior year; and additional fees incurred on the extension of certain debt facilities including a receivables purchase agreement.

Profit before taxation

Statutory profit before taxation increased to £30m from a prior year loss of £8m.

Taxation

The effective headline rate in the period was 24% (H116: 20%) on headline profit before taxation of £46m (H116: £14m) with the impact of exceptional items resulting in a statutory tax charge of £9m (H116: £1m credit). The effective rate of tax has increased from the prior year due to a reduction in the future statutory tax rate from 18% to 17%.

Earnings per share

	6 months ended 30 September 2016 Unaudited	6 months ended 30 September 2015 Unaudited
Headline earnings (£m)	**35**	**11**
Basic EPS	3.7p	1.2p
Diluted EPS	3.6p	1.2p
Statutory earnings (£m)	**21**	**(7)**
Basic EPS	2.2p	(0.7)p
Diluted EPS	2.2p	(0.7)p

Headline basic earnings per share increased by 2.5p year-on-year to 3.7p (H116: 1.2p) and on a statutory basis to 2.2p from (0.7p) driven by the increase in EBITDA. The basic number of shares increased to 947m (H116: 927m), driven by the Employee Share Ownership Trust (ESOT) share sale in H116.

Cashflow and net debt (£m)

	6 months ended 30 September 2016 Unaudited	6 months ended 30 September 2015 Unaudited
Headline EBITDA	130	90
Working capital	(59)	32
Capital expenditure	(99)	(91)
Operating free cash flow	**(28)**	**31**
Interest and taxation	(11)	(11)
Free cash flow	**(39)**	**20**
Exceptional items	(15)	(33)
Acquisitions	(14)	(5)
Dividends	(100)	(85)
Sales of own shares	-	61
Net cashflow	**(168)**	**(42)**
Opening net debt	(679)	(589)
Closing net debt	**(847)**	**(631)**

Working capital

The working capital outflow of £59m in the half (H116: £32m inflow) was due to the timing of payments in relation to the extended distribution agreement with CWS, the phasing of stock payments and increased prepayments including for marketing spend ahead of the launch of Fixed Low Price Plans. We expect to see a significant improvement in working capital in H2, as most of the H1 outflows reverse.

Capital expenditure

Capital expenditure of £99m (H116: £91m) included the impact of a delay in delivering certain elements of Q416 expenditure into H117, which has driven a H1 weighting to capex. Other expenditure during the period related to our ongoing investment in MTTS, the development of our new mobile CRM and billing platform, together with core systems and network investment.

For the full year we expect net capital expenditure to be £130-£135m (FY16: £166m) – £5m-£10m higher than planned, driven by investment in online systems to support the launch of our new propositions and systems preparation in advance of the roll-out of our 4G mobile proposition. FY16 capex included elements that are not expected to recur in the current year, including some expenditure on MTTS programmes in response to the cyber attack; and investment in our mobile billing and CRM systems and fibre to the premise systems.

Acquisitions

Acquisition expenditure in the year of £14m (H116: £5m) represents £5m in respect of the YouView joint venture (H116: £5m) and £9m in respect of contingent consideration for prior period acquisitions of tiPicall, the Virgin Media off-net broadband base and the Tesco broadband base.

Dividends

Dividends of £100m paid in the period (H116: £85m) comprised of the final dividend for FY16 of 10.58p (H116: 9.20p). The Board has recommended an interim dividend of 5.29p (H116: 5.29p), which will amount to £50m and be paid on 16 December 2016 to holders on the record at 25 November 2016, with the ex-dividend date at 24 November 2016.

Interest and taxation

Interest paid in the period amounted to £14m (H116: £11m). In addition, during the period, a tax refund of £3m was received in relation to a recovery of Corporation tax for the year ended 31 March 2015.

Sale of own shares

The £61m inflow in the prior year from the ESOT reflects a decision taken by the trustees of the ESOT to reassess the number of shares required to satisfy the ESOT's obligations under the Group's share award plans.

Funding and net debt

The Group is financed through a combination of bank facilities, US Private Placement Notes, retained profits and equity. Committed facilities at the half year totalled £994m (FY16: £944m). The Group's uncommitted facilities total £111m (FY16: £81m). At 30 September 2016, £847m (FY16: £689m) had been drawn down under these facilities leaving £162m and £96m of committed and uncommitted undrawn facilities respectively. Covenants are identical across all funding facilities and the Group was in compliance with its covenants throughout the current period. During the period the Group diversified its sources of funding through a £75m receivables purchase agreement. In addition, a £25m RCF in place at the year-end was cancelled during the period.

Net debt in the half increased by £168m to £847m (FY16: £679m) driven by the increased final dividend for FY16, the phasing of capex and the working capital outflow. As a result the net debt to EBITDA ratio remained flat on H1 FY16 period end at 2.8x. Given the H2 weighting of EBITDA, the partial reversal of the H1 working capital position, and the H1 weighting of capex, we expect leverage to fall by the end of FY17 (FY16: 2.6x) and to continue to trend towards our target of leverage 2.0x over the medium term. The Board regularly reviews the capital structure of the Group and looks for opportunities to further diversify our sources of funding and reduce the cost of debt facilities.

Going concern

The Directors have acknowledged the 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting', published by the FRC in September 2014.

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 Finance review.

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

We have £994m of committed credit facilities and as at 30 September 2016 the headroom on these facilities was £162m. Our forecasts and projections, taking into account reasonably possible changes in trading performance, indicate that there is sufficient cash and covenant headroom on our facilities and that this, together with our market positioning, means that we are well placed to manage our business risks successfully and have adequate resources to continue in operational existence for the foreseeable future. The Directors have therefore adopted the going concern basis of accounting preparing the interim condensed consolidated financial statements.

Risks and uncertainties

On 23 June 2016, the United Kingdom electorate voted to leave the European Union. The UK government has yet to trigger Article 50, which would begin a two-year period of negotiation. At this point it is unclear what precise impacts this may or may not have on the Group.

There are a number of other risks and uncertainties facing the Group in the second half of the financial year. The Board has reconsidered the principal risks and uncertainties published at the full year 2016 and considered these to remain appropriate. The following risks and uncertainties are those that the Director's believe could have the most significant impact on the Group's business:

- Data and cyber security
- People (attracting and retaining the right talent to deliver current performance and future growth aspirations)
- Customer trust and brand reputation
- Change delivery and execution (ability to successfully deliver innovation and other operational changes required to support growth and performance)
- Competitive intensity
- Changing market structure
- Regulatory compliance
- Financial (ability to raise required short and long term funding to enable delivery of strategic objectives)
- Resilience and business continuity (establish resilience in the network and being able to respond in an efficient and effective manner in the event of an incident)

These risks and mitigating factors are described in more detail on pages 20 to 23 of the TalkTalk Telecom Group PLC Annual Report 2016, a copy of which is available on the Group's website.

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

Statement of directors' responsibilities

The unaudited interim condensed financial statements for the 6 months ended 30 September 2016 have been prepared in accordance with IAS 34 'Interim Financial Reporting', as adopted by the European Union and the Disclosure and Transparency Directive Rules ('DTR'). The interim management report herein includes a fair review of the important events during the first 6 months and description of principal risks and uncertainties for the remainder of the financial period, as required by DTR 4.2.7R, and a fair review of disclosure of related party transactions and changes therein, as required by DTR 4.2.8R.

The Directors of TalkTalk Telecom Group PLC are listed on the Group's website:
www.talktalkgroup.com.

On behalf of the Board

D Harding, Chief Executive Officer

I Torrens, Chief Financial Officer

14 November 2016

Interim condensed consolidated income statement

	Note	Six months ended 30 September 2016 Unaudited			Six months ended 30 September 2015 Unaudited		
		Headline - before non-operating amortisation and exceptional items £m	**Non-operating amortisation and exceptional items £m**	**Statutory - after non-operating amortisation and exceptional items £m**	Headline - before non-operating amortisation and exceptional items £m	Non-operating amortisation and exceptional items £m	Statutory - after non-operating amortisation and exceptional items £m
Revenue	4	**902**	–	**902**	912	–	912
Cost of sales		**(433)**	–	**(433)**	(425)	–	(425)
Gross profit		**469**	–	**469**	487	–	487
Operating expenses excluding amortisation and depreciation		**(339)**	**(11)**	**(350)**	(397)	(17)	(414)
EBITDA	5	**130**	**(11)**	**119**	90	(17)	73
Depreciation	6	**(35)**	–	**(35)**	(36)	–	(36)
Amortisation	6	**(30)**	**(5)**	**(35)**	(23)	(5)	(28)
Share of results of joint ventures		**(5)**	–	**(5)**	(6)	–	(6)
Operating profit	5, 6	**60**	**(16)**	**44**	25	(22)	3
Net finance costs		**(14)**	–	**(14)**	(11)	–	(11)
Profit/(loss) before taxation	5	**46**	**(16)**	**30**	14	(22)	(8)
Taxation	7	**(11)**	**2**	**(9)**	(3)	4	1
Profit/(loss) for the year attributable to the owners of the Company	5	**35**	**(14)**	**21**	11	(18)	(7)
Earnings/(loss) per share							
Basic (p)	8			**2.2**			(0.7)
Diluted (p)	8			**2.2**			(0.7)

	2016	2015
Statutory operating profit	**44**	3
Adjusted for:		
Non-operating amortisation	**5**	5
Exceptional items	**11**	17
Headline operating profit	**60**	25

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

Interim condensed consolidated statement of comprehensive income

	Six months to 30 September 2016 Unaudited £m	Six months to 30 September 2015 Unaudited £m
Profit/(loss) for the year attributable to the owners of the Company	**21**	(7)
Other comprehensive (expense)/income		
Items that may be reclassified to profit or loss:		
(Loss)/gain on a hedge of a financial instrument	**(2)**	2
Currency translation differences	**1**	–
Total other comprehensive (expense)/income	**(1)**	2
Total comprehensive income/(expense) of the period	**20**	(5)

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

Interim condensed consolidated balance sheet

	Note	30 September 2016 Unaudited £m	30 September 2015 Unaudited £m	31 March 2016 Audited £m
Non-current assets				
Goodwill		**495**	498	495
Other intangible assets	10	**237**	202	227
Property, plant and equipment		**289**	302	302
Investment in joint venture		**9**	10	9
Trade and other receivables		**4**	–	3
Derivative financial instruments		**28**	10	18
Deferred tax assets		**111**	135	115
		1,173	1,157	1,169
Current assets				
Inventories	11	**32**	37	57
Trade and other receivables	12	**333**	299	294
Current income tax receivable		**–**	2	3
Cash and cash equivalents	13	**–**	23	10
		365	361	364
Total assets		**1,538**	1,518	1,533
Current liabilities				
Trade and other payables	14	**(475)**	(558)	(563)
Current income tax payable		**(5)**	–	–
Borrowings	13	**(90)**	–	(25)
Provisions	15	**(11)**	(19)	(18)
		(581)	(577)	(606)
Non-current liabilities				
Borrowings	13	**(790)**	(667)	(684)
Derivative financial instruments		**–**	–	(1)
Provisions	15	**(10)**	–	(11)
		(800)	(667)	(696)
Total liabilities		**(1,381)**	(1,244)	(1,302)
Net assets		**157**	274	231
Equity				
Share capital		**1**	1	1
Share premium		**684**	684	684
Translation reserve		**(63)**	(65)	(64)
Demerger reserve		**(513)**	(513)	(513)
Retained earnings and other reserves		**48**	167	123
Total equity		**157**	274	231

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

Interim condensed consolidated cash flow statement

	Note	**Six months to 30 September 2016 Unaudited £m**	Six months to 30 September 2015 Unaudited £m
Operating activities			
Operating profit		**44**	3
Share-based payments		**4**	2
Depreciation	6	**35**	36
Amortisation of other operating intangible fixed assets	6	**30**	23
Amortisation of acquisition intangibles	6	**5**	5
Share of results of joint ventures		**5**	6
Profit on disposal of subsidiaries and customer bases		**–**	1
Operating cash flows before movements in working capital		**123**	76
(Increase)/decrease in trade and other receivables		**(40)**	18
Decrease/(increase) in inventory		**25**	(6)
(Decrease)/increase in trade and other payables		**(46)**	15
Decrease in provisions	15	**(8)**	(16)
Cash generated from operations		**54**	87
Income taxes received		**3**	–
Net cash flows generated from operating activities		**57**	87
Investing activities			
Acquisition of subsidiaries and joint ventures, net of cash acquired		**(6)**	(5)
Investment in intangible assets		**(48)**	(49)
Investment in property, plant and equipment		**(51)**	(42)
Cash flows used in investing activities		**(105)**	(96)
Financing activities			
Settlement of Group ESOT shares		**2**	2
Net sale of own shares		**–**	61
Payment of contingent consideration		**(8)**	–
Drawdown of borrowings		**143**	55
Interest paid		**(14)**	(11)
Dividends paid	9	**(100)**	(85)
Cash flows generated from financing activities		**23**	22
Net (decrease)/increase in cash and cash equivalents		**(25)**	13
Cash and cash equivalents at the start of the period		**10**	10
Cash and cash equivalents at the end of the period		**(15)**	23

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

Interim condensed consolidated statement of changes in equity

	Note	Share capital £m	Share premium £m	Translation reserve £m	Demerger reserve £m	Retained earnings and other reserves £m	Total equity £m
At 1 April 2016		1	684	(64)	(513)	123	231
Profit for the period		–	–	–	–	21	21
Other comprehensive income/(expense)							
Items that may be reclassified to profit or loss:							
Loss on hedge of a financial instrument		–	–	–	–	(2)	(2)
Currency translation differences		–	–	1	–	–	1
Total other comprehensive income/(expense)		–	–	1	–	(2)	(1)
Total comprehensive income		–	–	1	–	19	20
Transactions with the owners of the Company							
Share-based payments reserve credit		–	–	–	–	4	4
Settlement of Group ESOT		–	–	–	–	2	2
Equity dividends	9	–	–	–	–	(100)	(100)
At 30 September 2016		**1**	**684**	**(63)**	**(513)**	**48**	**157**

	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 2015		1	684	(65)	(513)	190	297
Loss for the period		–	–	–	–	(7)	(7)
Other comprehensive income							
Items that may be reclassified to profit or loss:							
Gain on hedge of a financial instrument		–	–	–	–	2	2
Total other comprehensive income		–	–	–	–	2	2
Total comprehensive expense		–	–	–	–	(5)	(5)
Transactions with the owners of the Company							
Share-based payments reserve credit		–	–	–	–	2	2
Share-based payments reserve debit		–	–	–	–	(1)	(1)
Sale of own shares		–	–	–	–	61	61
Settlement of Group ESOT		–	–	–	–	2	2
Equity dividends	9	–	–	–	–	(85)	(85)
Taxation of items recognised directly in reserves		–	–	–	–	3	3
At 30 September 2015		1	684	(65)	(513)	167	274

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

Notes to the interim condensed consolidated financial statements

1. Basis of preparation

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

This half-year report has been prepared in accordance with the Disclosure and Transparency Rules of the United Kingdom Financial Conduct Authority; IAS 34 'Interim Financial Reporting' as adopted by the European Union; on the basis of the accounting policies and the recognition and measurement requirements of IFRS applied in the consolidated financial statements at 31 March 2016 and those standards that have been endorsed by the European Union and will be applied at 31 March 2017. This report should be read in conjunction with the consolidated financial statements for the year ended 31 March 2016.

The results for each half year are unaudited and do not represent the Group's statutory accounts within the meaning of section 434 of the Companies Act 2006. The interim financial information has been reviewed by Deloitte LLP, not audited. The Group's statutory accounts were approved by the Directors on 12 May 2016 and have been reported on by Deloitte LLP and delivered to the Registrar of Companies. The report of Deloitte LLP was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 of the Companies Act 2006.

Going concern

Based on internal forecasts and projections, the Directors consider that the Group has adequate financial resources to continue in operation for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the Group's interim condensed consolidated financial statements.

2. Accounting policies

The interim condensed consolidated financial statements for the 6 months ended 30 September 2016 have been prepared using accounting policies and methods of computation consistent with those set out in the consolidated financial statements for the year ended 31 March 2016. There are no new or revised standards and interpretations that have had a material impact on the Group during the period.

Income tax

Income tax in the interim period is accrued using the tax rate that would be applicable to the expected annual profit or loss.

Future accounting developments

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

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

• IFRS 9 'Financial Instruments', impacting the measurement and disclosure of financial instruments. The effective date of this standard for the Group is 1 April 2018.

• IFRS 15 'Revenue from Contracts with Customers', impacting revenue recognition, related costs and disclosures. The effective date of this standard for the Group is 1 April 2018.

• IFRS 16 'Leases', impacting lease recognition. The effective date of this standard for the Group is 1 April 2019.

Evaluation projects have commenced to review and implement these accounting developments.

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

3. Critical accounting judgements and estimates

The preparation of the condensed interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 March 2016.

4. Segmental reporting

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

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

	Six months ended 30 September 2016 Unaudited £m	Six months ended 30 September 2015 Unaudited £m
On-net	**670**	697
Off-net	**24**	27
Corporate	**208**	188
	902	912

Corporate revenue is further analysed as:

	Six months ended 30 September 2016 Unaudited £m	Six months ended 30 September 2015 Unaudited £m
Carrier	**72**	55
Data	**75**	54
Voice	**61**	79
	208	188

5. 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.

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

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

The details of exceptional items and amortisation of acquisition intangibles and the related income statement accounts impacted are presented below:

Six months ended 30 September 2016 (Unaudited)	**EBITDA £m**	**Operating profit £m**	**Profit before taxation £m**	**Taxation £m**	**Profit for the year £m**
Headline results	**130**	**60**	**46**	**(11)**	**35**
Exceptional items – Operating efficiencies (a)	**(10)**	**(10)**	**(10)**	**2**	**(8)**
Exceptional items – Acquisitions and disposal (b)	**(1)**	**(1)**	**(1)**	**–**	**(1)**
Amortisation of acquisition intangibles (c)	**–**	**(5)**	**(5)**	**–**	**(5)**
Statutory results	**119**	**44**	**30**	**(9)**	**21**

Six months ended 30 September 2015 (Unaudited)	EBITDA £m	Operating profit £m	Profit before taxation £m	Taxation £m	Profit for the year £m
Headline results	90	25	14	(3)	11
Exceptional items – Operating efficiencies (a)	(19)	(19)	(19)	3	(16)
Exceptional items – Acquisitions and disposal (b)	2	2	2	–	2
Amortisation of acquisition intangibles (c)	–	(5)	(5)	1	(4)
Statutory results	73	3	(8)	1	(7)

a) Operating efficiencies – Making TalkTalk Simpler (MTTS)

During the period ended 30 September 2016, the Group continued its simplification and cost reduction programmes to drive a seamless and efficient customer experience and provide the business with operations and processes that are fit for purpose. This wide ranging transformation programme is delivering material improvements to our customers' experience, driving operating cost savings, and reducing SAC through lower churn and costs per add (CPA).

The costs incurred in the period include work on improving systems and processes which focus on customer experience; the review of the organisational structure of the business and the sites where the Group operates.

These programmes have resulted in £10m (2015: £19m) of one-off costs being incurred, including project management, redundancy, property, consultancy, migration and call centre costs.

A total taxation credit of £2m (2015: £3m) has been recognised on these costs.

b) Acquisitions and disposals

During the period ended 30 September 2016, the Group incurred further exceptional costs of £1m in relation to the disposal of the off-net customer base in the prior period.

During the period ended 30 September 2015, the Group recognised net exceptional income of £2m in relation to the prior year acquisitions and disposals of Virgin Media (£3m exceptional income) and the off-net broadband customer base (£1m exceptional charge) respectively.

The tax impact was £nil (2015: £nil)

c) Amortisation of acquisition intangibles

An amortisation charge in respect of acquisition intangibles of £5m was incurred in the period ended 30 September 2016 (2015: £5m). A total taxation credit of £nil (2015: £1m) has been recognised on these costs.

6. Operating profit

Operating profit is stated after charging/(crediting):

	Six months to 30 September 2016 Unaudited £m	Six months to 30 September 2015 Unaudited £m
SAC and marketing costs	**94**	152
Depreciation of property, plant and equipment	**35**	36
Amortisation of other operating intangible fixed assets (note 10)	**30**	23
Amortisation of acquisition intangibles (note 10)	**5**	5
Impairment loss recognised on trade receivables	**36**	35
Staff costs	**66**	66
Cost of inventories recognised in expenses	**26**	42
Rentals under operating leases	**50**	49
Supplier rebates	**–**	(1)
Exceptional items (note 5)	**11**	17

7. Taxation

The taxation charge of £11m (2015: £3m) reflects an effective tax rate of 24% (2015: 20%) on headline profits before taxation of £46m (2015: £14m), representing the best estimate of the average annual effective tax rate expected for the full year, applied to the six month period. The effective rate of tax has increased from the prior year due to a decrease in deferred tax derived from the utilisation of tax losses and a change in tax rates to 17%.

8. Earnings/(loss) per share

Earnings/(loss) per share are shown on a headline and statutory basis to assist understanding of the performance of the Group.

	Six months ended 30 September 2016 Unaudited £m	Six months ended 30 September 2015 Unaudited £m
Headline earnings (note 5)	**35**	11
Statutory earnings/(loss) (note 5)	**21**	(7)

Weighted average number of shares (millions):		
Shares in issue	**955**	955
Less weighted average holdings by Group ESOT	**(8)**	(28)
For basic EPS	**947**	927
Dilutive effect of share options	**12**	15
For diluted EPS	**959**	942

	30 September 2016 Unaudited Pence	30 September 2015 Unaudited Pence
Basic earnings/(loss) per share		
Headline	**3.7**	1.2
Statutory	**2.2**	(0.7)

	30 September 2016 Unaudited Pence	30 September 2015 Unaudited Pence
Diluted earnings/(loss) per share		
Headline	**3.6**	1.2
Statutory	**2.2**	(0.7)

There are no share options considered anti-dilutive in the period ended 30 September 2016 (2015: £nil).

9. Equity dividends

Final dividend distributions to the Company's shareholders are recognised as a liability in the financial statements in the period in which they are approved by the Company's shareholders. Interim dividends are recognised in the period in which they are paid.

	30 September 2016 Unaudited £m	30 September 2015 Unaudited £m	31 March 2016 Audited £m
Final dividend for the year ended 31 March 2015 of 9.20p per ordinary share	–	85	85
Interim dividend for the year ended 31 March 2016 of 5.29p per ordinary share	–	–	50
Final dividend for the year ended 31 March 2016 of 10.58p per ordinary share	**100**	–	–
Total equity dividends	**100**	85	135

The proposed interim dividend for the year ended 31 March 2017 of 5.29p (year ended 31 March 2016: 5.29p) per ordinary share on 948 million (year ended 31 March 2016: 945 million) ordinary shares (£50m) was approved by the Board on 14 November 2016 and has not been included as a liability as at 30 September 2016.

10. Other intangible assets

Operating intangibles

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

Non-operating intangibles

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

Other intangible assets are analysed as follows:

	Operating intangibles £m	**Acquisition intangibles £m**	**Total other intangibles £m**
At 1 April 2016 (Audited)	193	34	227
Additions	45	–	45
Amortisation	(30)	(5)	(35)
At 30 September 2016 (Unaudited)	**208**	**29**	**237**
Cost (gross carrying amount)	503	142	645
Accumulated amortisation	(295)	(113)	(408)
At 30 September 2016 (Unaudited)	**208**	**29**	**237**

	Operating intangibles £m	Acquisition intangibles £m	Total other intangibles £m
At 1 April 2015 (Audited)	136	42	178
Additions	52	–	52
Amortisation	(23)	(5)	(28)
At 30 September 2015 (Unaudited)	165	37	202
Cost (gross carrying amount)	403	140	543
Accumulated amortisation	(238)	(103)	(341)
At 30 September 2015 (Unaudited)	165	37	202

11. Inventories

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

	30 September 2016 Unaudited £m	30 September 2015 Unaudited £m	31 March 2016 Audited £m
Goods for resale	**32**	37	57

12. Receivables

Trade and other receivables comprise:

	30 September 2016 Unaudited £m	30 September 2015 Unaudited £m	31 March 2016 Audited £m
Current – trade and other receivables			
Trade receivables	**168**	144	144
Other receivables	**84**	69	84
Prepayments	**46**	38	21
Accrued income	**35**	48	45
Trade and other receivables	**333**	299	294

The Directors estimate that the carrying amount of trade receivables approximates to their fair value. The average credit period taken on trade receivables, calculated by reference to the amount owed at the year end as a proportion of total revenue in the year, was 35 days (2015: 28 days, March 2016: 30 days).

13. Cash and cash equivalents and borrowings

(a) Cash and cash equivalents are as follows:

	30 September 2016 Unaudited £m	30 September 2015 Unaudited £m	31 March 2016 Audited £m
Cash at bank and in hand	**–**	23	10

The effective interest rate on bank deposits and money market funds was 0.1% (September 2015: 0.3%; March 2016: 0.3%).

(b) Borrowings comprise:

	Maturity	**30 September 2016 Unaudited £m**	30 September 2015 Unaudited £m	31 March 2016 Audited £m
Current				
Bank overdrafts		**15**	–	–
Term loan	2017	**25**	–	25
£100m revolving credit facility	2017	**50**	–	–
Current borrowings		**90**	–	25

	Maturity	**30 September 2016 Unaudited £m**	30 September 2015 Unaudited £m	31 March 2016 Audited £m
Non-current				
$185m US Private Placement (USPP) Notes	2021, 2024, 2026	**142**	122	129
£560m revolving credit facility	2019	**460**	395	430
£50m bilateral agreements	2019	**50**	50	50
£100m term loan (of which £25m is current)	2018, 2019	**75**	100	75
£75m receivables purchase agreement facility	2018	**63**	–	–
Non-current borrowings before derivatives		**790**	667	684
Total borrowings before derivatives		**880**	667	709
Derivatives		**(33)**	(13)	(20)
Borrowings after derivatives		**847**	654	689

	Maturity	**30 September 2016 Unaudited £m**	30 September 2015 Unaudited £m	31 March 2016 Audited £m
Undrawn available committed facilities	2017, 2019	**162**	290	255

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

	30 September 2016 Unaudited £m	30 September 2015 Unaudited £m	31 March 2016 Audited £m
Less than 1 year	**90**	–	25
1 to 2 years	**88**	25	25
2 to 3 years	**560**	25	–
3 to 4 years	**–**	495	530
4 to 5 years	**82**	–	–
Greater than 5 years	**27**	109	109
Borrowings after derivatives	**847**	654	689

Borrowing facilities

The Group's committed facilities total £994m (2015: £704m, March 2016: £944m). The Group's uncommitted facilities total £111m (2015: £81m, March 2016: £81m) giving headroom on committed facilities and uncommitted facilities of £162m and £96m respectively. The financial covenants included in each facility are identical; they restrict the ratio of net debt to EBITDA and require minimum levels of interest cover. The amounts used in the covenant calculations are subject to adjustments as defined under the terms of the banking arrangement. The Group was in compliance with its covenants throughout the current and prior periods.

Details of the borrowing facilities of the Group as at 30 September 2016 are set out below:

$185m USPP Notes

In July 2014, the Group issued $185m of USPP Notes maturing in three tranches ($139m in 2021, $25m in 2024 and $21m in 2026). The interest rate payable on the notes is at a margin over US treasury rate for the appropriate period. The USPP proceeds were swapped to Sterling to give £109m (£82m in 2021, £15m in 2024 and £12m in 2026) and the net debt includes retranslation of the USPP funds at the rates achieved where hedged by cross-currency swaps. The fair value of the cross currency rate swap at 30 September 2016 was £33m (2015: £13m, March 2016: £20m).

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

The Group has a £560m RCF, which matures in July 2019. The interest rate payable in respect of drawings under this facility is at a margin over LIBOR and for the appropriate period. The actual margin applicable to any drawing depends on the ratio of net debt to EBITDA calculated in respect of the most recent accounting period. In addition to the RCF, the Group also has £50m of bilateral agreements, signed in July 2014 which matures in July 2019. A second bilateral agreement of £25m signed in August 2015 has since been cancelled. The terms of the bilateral agreement are consistent with the main RCF.

£100m revolving credit facility (RCF)

In January 2016, the Group signed a £100m RCF which matures in November 2017. The interest rate payable in respect of drawings under this facility is at a margin over LIBOR and for the appropriate period. The actual margin applicable to any drawing depends on the ratio of net debt to EBITDA calculated in respect of the most recent accounting period.

£100m term loan

The Group has a committed term loan of £100m (2015: £100m, March 2016: £100m), with a final maturity date of July 2019. This loan amortises over the term with repayments due of £25m in January 2017, £25m in January 2018 and the remainder in July 2019. The interest rate payable in respect of drawings under this facility is at a margin over LIBOR for the relevant currency and for the appropriate period. The actual margin applicable to any drawing depends on the ratio of net debt to EBITDA calculated in respect of the most recent accounting period.

Receivables purchase agreement

In September 2016, the Group signed a £75m receivables purchase agreement which matures in September 2018 and is included within committed facilities. The Group has the ability on a rolling basis to sell its receivables in exchange for a discounted consideration. The Group continues to consolidate the relevant receivables on the grounds that substantially not all the risks and rewards of ownership have been transferred under the programme.

Uncommitted credit facility

In August 2016, the Group signed a £30m uncommitted credit facility secured against certain receivables.

Bank overdrafts

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

14. Trade and other payables

	30 September 2016 Unaudited £m	30 September 2015 Unaudited £m	31 March 2016 Audited £m
Trade payables	**237**	246	304
Other taxes and social security costs	**29**	35	28
Other payables	**12**	26	19
Accruals	**137**	186	150
Deferred income	**60**	65	62
	475	558	563

The underlying average credit period taken on trade payables was 40 days (2015: 35 days, March 2016: 40 days). The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

15. Provisions

The tables below analyses the Group's provisions:

	30 September 2016 Unaudited £m	30 September 2015 Unaudited £m	31 March 2016 Audited £m
Current	**11**	19	18
Non-current	**10**	–	11
	21	19	29

The movement in provisions are as follows:

	One Company integration £m	**Property £m**	**Contract and other £m**	**Total £m**
At 1 April 2016 (Audited)	1	12	16	29
Utilised in the year	**–**	**–**	**(8)**	**(8)**
At 30 September 2016 (Unaudited)	**1**	**12**	**8**	**21**

	One Company integration £m	Property £m	Contract and other £m	Total £m
At 1 April 2015 (Audited)	1	2	32	35
Charged to income statement	–	1	5	6
Released to income statement	–	(1)	–	(1)
Utilised in the year	–	–	(21)	(21)
At 30 September 2015 (Unaudited)	1	2	16	19

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

Provisions are categorised as follows:

One Company integration

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

Property

Property provisions relate to dilapidations and similar property costs, and costs associated with onerous property contracts. All such provisions are assessed by reference to the terms and conditions of the contract and market conditions at the balance sheet date. Onerous property contracts are expected to be utilised over the next seven years. Dilapidation provisions are expected to be utilised as and when properties are exited. These provisions include the costs of exiting our Warrington and Irlam sites, as the Group relocates to one site at the Soapworks in Salford in April 2017.

Contract and other

Contract and other provisions at 30 September 2016 relate mainly to SIM replacement costs as part of the mobile migration programme provided for in a prior year. The provisions utilised in the period ended 30 September 2016, mainly relate to cash outflows associated with the cyber attack during October 2015. Other provisions remaining are in respect of onerous contracts, contracts with unfavourable terms arising on the acquisition of businesses and anticipated costs of unresolved legal disputes. All such provisions are assessed by reference to the best available information at the balance sheet date.

16. Financial risk management and derivative financial instruments

The book value and fair value of the Group's financial assets, liabilities and derivative financial instruments, excluding the Group's borrowings shown in note 13, are as follows:

	30 September 2016 Unaudited £m	30 September 2015 Unaudited £m	31 March 2016 Audited £m
Current assets			
Cash and cash equivalents	**–**	23	10
Trade and other receivables [1]	**333**	299	294
Non-current assets			
Non-current investments and investment in joint venture	**9**	10	9
Trade and other receivables	**4**	–	3
Derivative financial instruments [2]	**28**	10	18
Current liabilities			
Trade and other payables	**(415)**	(493)	(501)
Non-current liabilities			
Derivative financial instruments	–	–	(1)
	(41)	(151)	(168)

1 Accrued income has been included within the other receivables so as to give a complete view of the Group's future cash inflows.

2 Derivative financial instruments of £33m (2015: £13m, March 2016: £20m) relates to the USPP notes, foreign currency hedges of (£3m) (2015: (£1m)), March 2016: (£2m) and (£2m) (2015: (£2m), March 2016: £nil) relates to interest rate hedges.

(a) Financial instruments

The Group's activities expose it to a variety of financial risks including market risk (such as currency risk and interest rate risk), credit risk and liquidity risk. The Group Treasury function uses certain financial instruments to mitigate potential adverse effects on the Group's financial performance from these risks. These financial instruments primarily consist of bank loans and cross currency rate swaps. Other products, such as currency options, can also be used depending on the risks to be covered, but have not been used in the current or preceding financial year. The Group does not trade or speculate in any financial instruments.

The Group has cash flow hedges in place to (a) swap the interest rate risk on the RCF from floating to fixed and (b) swap the currency and interest rate risk on the USPP debt from USD to GBP and from fixed US Treasury interest rates to fixed GBP interest rates. These hedges have been fully effective from inception. The fair value measurement is classified as Level 2 (2015: Level 2, March 2016: level 2), derived from other observable market data; this means that their fair value is based upon the mark to market valuation at the balance sheet date. Fair value measurement at Level 2 gives consideration to interest rates, yield curves and foreign exchange rates at commonly quoted intervals for relevant currencies. The Group has also assessed the credit risk within its financial instruments. The fair value of these instruments at 30 September 2016 is £28m (2015: £10m, March 2016: £18m). A loss of £2m (2015: gain £2m, March 2016: gain £2m) has been recognised in other comprehensive income in the period ended 30 September 2016. As the hedges were fully effective there has been no income statement impact.

(b) Embedded derivatives

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

(c) Foreign exchange risk

The Group uses spot and forward foreign exchange trading to hedge transactional exposures, which arise mainly through cost of sales and operating expenses and are primarily denominated in Euro and US Dollar. The Group also uses cross-currency swaps to hedge its US Dollar denominated borrowings (US Private Placement). At 30 September 2016, the adjustment to translate our net debt to Sterling at swap rates to reflect the impact of hedging was £33m (2015: £13m, March 2016: £20m).

Borrowings and foreign exchange contracts are sensitive to movements in foreign exchange rates; this sensitivity can be analysed in comparison to year-end rates. There would be no material impact of a 10% movement in the UK Sterling/Euro or UK Sterling/USD exchange rate on either the income statement or other equity. The effect of foreign exchange derivatives on borrowings at the year end was as follows:

	UK Sterling £m	**USD £m**	**Total £m**
30 September 2016 (Unaudited)			
Borrowings before derivatives	**738**	**142**	**880**
Derivatives	–	**(33)**	**(33)**
Borrowings after derivatives	**738**	**109**	**847**

	UK Sterling £m	USD £m	Total £m
30 September 2015 (Unaudited)			
Borrowings before derivatives	545	122	667
Derivatives	–	(13)	(13)
Borrowings after derivatives	545	109	654

	UK Sterling £m	USD £m	Total £m
31 March 2016 (Audited)			
Borrowings before derivatives	580	129	709
Derivatives	–	(20)	(20)
Borrowings after derivatives	580	109	689

During the period, the Group used derivatives for the management of US Private Placement debt, foreign currency cash balances and foreign currency trading balances.

(d) Interest rate risk

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

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

	30 September 2016 Unaudited £m	30 September 2015 Unaudited £m	31 March 2016 Audited £m
100 basis points movement in the UK Sterling interest rate			
Income statement movement	**6**	4	4

(e) Liquidity risk

The Group manages its exposure to liquidity risk by regularly reviewing the long and short term cash flow projections for the business against facilities and other resources available to it. Headroom is assessed based on historical experience as well as by assessing current business risks, including foreign exchange movements.

During November 2016, the £100m RCF due to expire in May 2017 was extended to November 2017.

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

	Less than 1 year £m	**1 to 2 years £m**	**2 to 3 years £m**	**3 to 4 years £m**	**4 to 5 years £m**	**More than 5 years £m**	**Total £m**
30 September 2016 (Unaudited)							
Borrowings	**(135)**	**(106)**	**(575)**	**(6)**	**(111)**	**(40)**	**(973)**
Derivative financial instruments – receivable	**–**	**–**	**–**	**–**	**25**	**8**	**33**
Trade and other payables	**(415)**	**–**	**–**	**–**	**–**	**–**	**(415)**
	(550)	**(106)**	**(575)**	**(6)**	**(86)**	**(32)**	**(1,355)**

	Less than 1 year £m	**1 to 2 years £m**	**2 to 3 years £m**	**3 to 4 years £m**	**4 to 5 years £m**	**More than 5 years £m**	**Total £m**
30 September 2015 (Unaudited)							
Borrowings	(20)	(42)	(42)	(508)	(5)	(131)	(748)
Derivative financial instruments – receivable	–	–	–	–	–	13	13
Trade and other payables	(493)	–	–	–	–	–	(493)
	(513)	(42)	(42)	(508)	(5)	(118)	(1,228)

	Less than 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	More than 5 years £m	Total £m
31 March 2016 (Audited)							
Borrowings	(46)	(44)	(18)	(539)	(5)	(135)	(787)
Derivative financial instruments – receivable	–	–	–	–	–	20	20
Trade and other payables	(501)	–	–	–	–	–	(501)
	(547)	(44)	(18)	(539)	(5)	(115)	(1,268)

(f) Credit risk

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

(g) Capital risk management

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

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 13, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings. The Group's Board reviews the capital structure on an annual basis including reviewing opportunities to access other sources of finance including the public debt markets.

The Group uses the ratio of net debt to headline EBITDA to monitor its capital structure and has a medium-term ratio target of 2.0x. The ratio at 30 September 2016 is 2.8x (2015: 2.8x, March 2016: 2.6x) and the Board expects the ratio will return to its target in the medium term.

	30 September 2016 Unaudited £m	30 September 2015 Unaudited £m	31 March 2016 Audited £m
Debt	**(880)**	(667)	(709)
Cash and cash equivalents	**–**	23	10
Derivatives	**33**	13	20
Net debt	**(847)**	(631)	(679)
Headline EBITDA	**300**	225	260
Net debt to headline EBITDA ratio (LTM)	**2.8x**	2.8x	2.6x

17. Analysis of changes in net debt

	As at 31 March 2016 Audited £m	**Net cash flow £m**	**Non-cash movements £m**	**As at 30 September 2016 Unaudited £m**
Cash and cash equivalents	10	(10)	–	**–**
Bank overdrafts	–	(15)	–	**(15)**
	10	(25)	–	**(15)**
Borrowings	(709)	(143)	(13)	**(865)**
Derivatives	20	–	13	**33**
	(689)	(143)	–	**(832)**
Total net debt	(679)	(168)	–	**(847)**

18. Commitments

The Group has in the normal course of business entered into various multi-year supply and working capital agreements for core network, IT and customer equipment. As at 30 September 2016, expenditure contracted, but not provided for in these financial statements amounted to £264m (September 2015: £362m; March 2016: £318m). Of this amount, £52m (September 2015: £67m; March 2016: £55m) related to capital commitments and £39m (September 2015: £nil; March 2016: £25m) related to the supply of customer equipment.

19. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation, and therefore, are not required to be disclosed in these condensed interim financial statements.

Key management compensation and transactions with the Group's pension and post-employment schemes for the financial year ended 31 March 2016 are detailed in note 4 (page 74) of the consolidated financial statements for the year ended 31 March 2016. Brent Hoberman resigned as a Non-Executive Director on 20 July 2016 and Catherine Keers was appointed as a Non-Executive Director on 1 August 2016. There have been no changes in the composition of the Executive Committee since the year end. There have been no significant changes in the nature of related party transactions from those described in the consolidated financial statements for the year ended 31 March 2016.

20. Contingent liabilities

As at 31 March 2014, the Group had received £33m in total in relation to an Ofcom determination that BT Group PLC ("BT") had overcharged for certain wholesale Ethernet services. During the year ended 31 March 2015, BT lost its appeal against Ofcom's determination in the Competition Appeal Tribunal and appealed to the Court of Appeal. This appeal is due to be heard in the Court of Appeal in March 2017. The Group considers the appeal is unlikely to succeed based on the advice received and so no liability for repayment has been recorded at the year end, although the outcome of the appeal is not yet certain.