EMBARGOED UNTIL 7.00 AM ON 21st NOVEMBER 2018

21 November 2018

TalkTalk Telecom Group PLC

Trading update for the 6 months to 30 September 2018 (H1 FY19)

Continued growth in Broadband base and Headline revenue; reiterating full year expectations

Operational Highlights

- Customer base growth of +104k (H1 FY18: +46k), taking the closing base to 4,243k [1]
- Q2 net adds of +24k (Q2 FY18: +26k), with growth in both Consumer and B2B
- Ongoing low level of churn at 1.2% (H1 FY18: 1.3%), with Q2 the lowest ever quarter at 1.1%
- Accelerating Fibre uptake with 192k net adds in the half and a record 125k in Q2
- Improving ARPU trends, with encouraging quarter on quarter Consumer ARPU growth
- Continued strong growth in B2B including data connections (Ethernet and EFM) of +4.3k (H1 FY18: +3.8k)
- TalkTalk's HQ moving to Salford; creating one main campus and a more efficient operating model
- Accelerating full fibre plans, to reach over 100,000 homes in the next 12-18 months. Launched new company, FibreNation to deliver our ambition (see separate RNS)

Financial Highlights

- Total Headline [2] revenue (ex-Carrier & Off-net) up 3.9% to £771m (H1 FY18: £742m [3]); Q2 Headline revenue (ex-Carrier & Off-net) +3.7%
- Statutory revenue declined 0.6% to £822m (H1 FY18: £827m [3]), primarily due to exiting MVNO proposition
- Headline EBITDA £101m (H1 FY18: £75m [3])
- Statutory operating profit £19m (H1 FY18: £62m loss [3]); Statutory loss before taxation £4m (H1 FY18: £95m loss [3])
- Headline net debt [2] £760m – excluding finance leases of £40m (H1 FY18: £837m – excluding finance leases of £18m)
- H1 dividend in line with existing policy at 1.00p (H1 FY18: 2.50p)

FY19 Outlook

- Headline EBITDA in line with expectations
- Headline revenue growth, with stabilising Group ARPU and ongoing Consumer ARPU growth
- In excess of 150k broadband net adds for the full year
- Non-Headline items, both P&L and cash, to be lower year on year

Tristia Harrison, Chief Executive of TalkTalk, commented: "This has been a strong first half for TalkTalk, with continued broadband base growth and further progress as we become a simpler, more efficient business. Our Fairer Broadband commitment, focus on reliability and unique Fixed Low Price Plans continue to improve customer satisfaction and loyalty, resulting in our lowest ever churn in the second quarter. We remain on track to deliver our plan for the year, with growing Consumer ARPU and increasing revenue leading to strong EBITDA growth.

With core business performance on track, we are today announcing two additional steps to position TalkTalk for the future. We are accelerating our full fibre strategy, launching a new company, FibreNation, which will expand our Gigabit broadband footprint to over 100,000 homes in the next 12-18 months. As we continue to radically simplify TalkTalk, we will also create a single main campus for the business in Salford. Having a single main home will reduce operational complexity and allow us to become a more efficient, focussed business, in turn supporting our long-term growth."

[1] All customer KPIs relate to the On-net base. The closing Off-net base amounted to 33k at the end of Q2 FY19 (Q2 FY18: 55k), representing less than 1% of the total broadband base.
[2] See note 7 for a reconciliation of headline information to statutory information.
[3] See note 2 for further details on the restatement of comparative information due to the introduction of IFRS 15 and IFRS 9.

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

Presentation and Q&A:
8.30am: Registration and Coffee
9.00am: Presentation

Address:
Deutsche Bank, 1 Great Winchester Street, London, EC2N 2DB

Webcast link: https://webcast.merchantcantoscdn.com/webcaster/dyn/4000/7464/16532/108795/Lobby/default.htm

Conference call dials: 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 & International	+44 (0) 20 3003 2666
Replay (available for 7 days):	UK & International	+44 (0) 20 8196 1998
	PIN Code:	8874698#

Contacts:

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

Q2 trading – continued base and revenue growth

We continued to see good base growth in the second quarter, adding a further 24k to the broadband base (Q2 FY18: 26k, Q1 FY19: 80k), with Consumer and B2B both growing.

We have seen increasing demand for Fibre with a record 125k net adds in the quarter (Q2 FY18: 89k, Q1 FY19: 67k). As at the end of Q2, 54% of new acquisition customers are choosing to take our higher speed products, compared to 39% at this time last year and 45% at the end of FY18. These customers are not only a driver of stabilising ARPU, they also have lower cost to serve and materially lower churn.

In Consumer we continue to see healthy demand for our Fixed Low Price Plans ("FLPP"), with the base growing to 2.2m in the quarter (Q2 FY18: 1.6m, Q1 FY19: 2.1m). With a greater proportion of customers in-contract (69% at the end of Q2) we have been able to report our lowest ever churn at 1.1% for Q2 (Q2 FY18: 1.4%, Q1 FY19: 1.3%).

Once again, we saw strong growth in the TalkTalk Business Ethernet & EFM base, with 2.4k new lines added (Q2 FY18: 2.2k, Q1 FY19: 1.9k), taking the total installed base of data connections to 55k.

Total Headline revenues of £389m excluding Carrier (£15m) and Off-net (£4m) grew by 3.7% year-on-year during the quarter. On-net revenue of £320m (comprising Consumer, Wholesale and Direct B2B broadband) was up 3.2% year-on-year, driven by a larger average base and increased Fibre penetration, offset by moderate On-net ARPU decline (Q2 FY19 ARPU: £25.21 vs Q2 FY18 ARPU: £25.96) largely due to the Wholesale and Retail base mix. These dilutionary effects are expected to stabilise in line with guidance by the end of the full year, as we are now seeing ARPU growth in Q2 in Consumer with positive re-contracting behaviour alongside increasing take-up of Fibre and the upselling of both TV and call boosts.

H1 FY19 financial results

Headline revenue (excluding Carrier and Off-net) grew by 3.9% to £771m reflecting a larger customer base, increased Fibre penetration and growth in data products, offset by continued FLPP ARPU dilution and declining voice usage. Statutory revenue declined 0.6% to £822m due to the MVNO revenue being down £12m year on year to £14m as activity continues to diminish.

Headline EBITDA growth of 34.7% to £101m represented the revenue growth noted above combined with a continued focus on reducing the cost base of the business. Our Statutory loss before tax of £4m was improved from a £95m loss in H1 FY18 and included non-Headline items of £10m (H1 FY18: £81m).

H1 FY19 Business Review

Overview

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

In H1, we continued to make good progress in delivering our strategy. We have seen customer base growth for the sixth and seventh consecutive quarters, with 104k broadband net adds across Consumer and TalkTalk Business (H1 FY19: +46k). We also reported our lowest ever churn level in Q2 at 1.1% (H1 FY19: 1.2%).

Alongside these strong customer KPI's, we are beginning to see this operational momentum translate into improving profitability. Headline revenue excluding Carrier and Off-net rose by 3.9% to £771m (H1 FY18: £742m), as we saw the benefits of a bigger base, increased Fibre penetration and growth in data products, offset by continued FLPP ARPU dilution and declining voice usage.

Headline EBITDA rose as planned to £101m (H1 FY18: £75m), reflecting in part the revenue upside above. Accompanying this we have benefitted from regulatory tailwinds and BT Openreach volume discounts relating to Fibre wholesale pricing, as well as ongoing cost reductions across the core business, which is enabling us to be a leaner, lower cost organisation. We remain on track to deliver our plan for the year.

As we become a less complex business, non-Headline items are materially lower year-on-year, with non-Headline EBITDA items amounting to £6m in H1 (H1 FY18: £66m), consisting only of costs coming through for our 3-4 year network transformation project and the tail end of the MVNO trading activity, with no new items in the half. From a cash perspective non-Headline items were higher than the in-year P&L charge at £20m (H1 FY18: £21m), as a result of the timing of prior year Group organisational restructure payments.

As per our guidance, we have also been able to reduce capital expenditure. In line with our strategy to focus on core fixed connectivity, capital expenditure on the network has remained broadly flat, but we are now approaching all non-core activities in a capital light way. As such, we have been able to reduce spend in these areas to £59m (H1 FY18: £63m) and we remain on track for £100m-£110m cash capital expenditure outlay for the year, excluding FibreNation (FY18: £128m).

Consumer

The Consumer business returned to customer growth in Q2, as our unique FLPP continue to resonate strongly in an uncertain economic environment. 2.2m Customers are now on a FLPP, helping to drive longer tenure and reduced churn. H1 saw the largest ever volume of customers coming out of contract, as the initial FLPP contracts elapsed and customers re-contracted. In the face of this, we were able to keep the in-contract percentage at 69%, and as a result churn for the half remained broadly flat, with a slight uptick in Q1 followed by our lowest ever churn level in Q2 (1.1%), demonstrating the loyalty benefits of FLPP.

In H1, we embarked upon a 'Fibre for Everyone' strategy as we consciously increased the proportion of our customer base on fibre, taking advantage of significantly reduced wholesale prices (driven partly through regulatory changes and partly through a commercial discount deal agreed with Openreach). H1, therefore, represented the start of a meaningful shift from copper to fibre and we delivered fibre net adds of 192k (H1 FY18: 161k). Within that, Q2 net adds were particularly strong, at 125k (Q2 FY18: 89k, Q1 FY19: 67k), our strongest quarter on record, and we exited the period with 54% of new customers taking one of our higher speed packages (H1 FY18: 39%). The transition is good news for customers, as fibre subscribers have higher satisfaction and fewer faults, meaning they have less reason to churn. Fibre customers also have a lower cost to serve and support our commitment to growing Consumer ARPU.

We have made significant progress this year in improving the customer experience and moving towards a self-service model. Using a data driven diagnostic tool, that includes a cloud-based repository of internal and Openreach data, we can produce a service dashboard for every customer. This can be used by our agents to diagnose a customer's end-to-end connectivity, which enables us to find a treatment that addresses all their issues, rather than just the most immediate one. With greater information available to us we can immediately detect and fix certain problems rather than waiting for customers to call, reducing call volumes and engineer call outs, which help to bring down cost to serve. This approach has enabled us to prompt customers to upgrade to Fibre when their needs have out-paced their line's capacity. Critically this tool also allows customers to self-serve through *My Account*, as they can identify what their issue is and, in some cases, resolve with one click, thereby reducing customer effort, leading to fewer customers wishing to churn.

TalkTalk Business

Our B2B business continues to perform strongly, with real strength in the indirect channel, where we have solidified our position as the UK's largest Wholesale Broadband provider (with over 1m customers) and are continuing to see strong growth in this channel. It is well known that these customers come with a lower ARPU compared to Consumer customers, but the significantly lower cost to serve means that over the life of the customer they are broadly equivalent in terms of profitability.

Alongside the growing broadband base, we have seen sustained growth in high margin data products with the Ethernet and EFM base increasing by 4.3k (H1 FY18: 3.8k) in the half, as the base closed at c.55k. As a consequence, Data revenues grew by 10.3% to £86m (H1 FY18: £78m).

Similarly to the Consumer business, across both broadband and data products there is a fundamental mix shift towards higher speed data – with Fibre penetration of the broadband base increasing and a higher proportion of 1Gb Ethernet circuits within the data product base. These higher speed products come with higher ARPU, contributing to revenue growth and lower cost to serve, leading to increasing profits.

On 29 June 2018, TalkTalk and The Daisy Group jointly agreed not to proceed with the proposed sale of TalkTalk's direct B2B business, as announced at preliminary results on 24 May 2018. TalkTalk continue to manage all direct B2B business, providing uninterrupted services for customers. Daisy remains an important, long-term strategic partner.

Network and Connectivity

As we grow our customer base and customer behaviour develops, we are seeing an exponential increase in data usage on the network, and in the last year we have seen a 30% increase in customer demand. This has largely been driven by video content, such as Netflix, Amazon Prime and YouTube, which makes up 58% of all traffic on the network. As a result, we must constantly future-proof the network to be able to cope with this ever-increasing demand. For example, we have enhanced our customers' video experience by caching an average of 87% of video content within the network, which lowers the amount of traffic that has to leave our network and improves customer experience with no buffering or delays for video streaming.

We are meeting these growing data usage demands, whilst being able to reduce our cost per Gb by evolving the network. In addition to caching video content directly on our network, we are adopting additional high capacity optical products across the network, deploying next generation access switching capability that utilises more cost effective backhaul options, and exploiting network telemetry data to identify and resolve service issues in near real time to avoid customer disruption and engineer dispatch.

In addition to improvements within the network, we have taken steps to improve the in-home experience by rolling out our new Wi-Fi Hub to c.10% of our Consumer base, which provides our fastest, strongest and most reliable Wi-Fi signal ever. The Hub is smart enough to focus its signal on customers' connected devices, breaking through interference, allowing customers to enjoy a better connection across all devices. It has been listed by Which? as a 'Best Buy' and received a *Good Housekeeping* 'Reader Recommended Award UK 2018 endorsement'.

Fibre for Everyone

We continue to pursue a 'Fibre for Everyone' strategy, future proofing our network, both through our partnership with Openreach and with our own infrastructure investment. In the short-term, that means materially increasing the proportion of our base on FTTC products, as we did in H1; well over a third of our base is now taking Fibre, and with 54% of new acquisition customers taking a higher speed package, we expect overall Fibre penetration to continue rising. TalkTalk are also positioned to be an early adopter of future products, such as G.Fast and Single Order Generic Ethernet Access ("SOGEA"). We made good progress with our G.Fast trial in H1 and are actively engaged with Openreach to ensure SOGEA products are priced to enable fast adoption.

Alongside this acceleration, the only viable long-term infrastructure solution remains full fibre, and we continue to make good progress on our full fibre strategy to be both an infrastructure investor and an active wholesaler from competing networks.

In line with this ambition, today we have announced our formation of FibreNation (see separate RNS). FibreNation is a wholly owned full fibre wholesale provider that will be rolling out full fibre to another 50,000-60,000 homes in three towns and cities; Harrogate, Knaresborough and Ripon. This will expand our overall footprint to over 100,000 homes in the next 12-18 months. York and other fibre assets wholly owned by TalkTalk will transfer to FibreNation. The joint venture originally set up for the York trial and its assets are not being transferred. Sky will remain a wholesale customer of the new network in the expanded footprint. TalkTalk is in discussions with potential partners, including Infracapital, to develop an appropriate long-term capital structure for FibreNation. TalkTalk and Infracapital will not be progressing on the basis of the Heads of Terms, announced in February 2018.

Cost reduction

We entered FY19 as a leaner, more efficient business, having already put in place a number of cost saving initiatives, including a review of our central costs and external spend. As outlined in the Consumer section we have also made a significant move towards self-service and are seeing cost to serve savings as a result. We have also benefitted from regulatory Fibre pricing, as well as a new commercial agreement with Openreach for Fibre wholesale prices. These all combine to underpin our guidance for the full year. As we look forward and make the transition to Salford we will update the market as to any potential efficiencies from this simplification.

People

It is crucial our headcount and footprint align with our simpler, more efficient operating model. Nearly two years ago, we created a single home in Salford for our colleagues in the north west. It has improved efficiency, strengthened collaboration and enabled us to attract and retain talent. As we further simplify the business, and focus on fewer priorities, we no longer need to be split across two main sites. Now is the right time to consolidate, making Salford the single main campus for the business. The vast majority of London roles will relocate to Salford in 2019. The move builds upon our heritage as a north west brand and creates a simpler, more efficient structure that better aligns with our future plans.

FY19 Outlook

We will continue to see strong momentum in growing the customer base, and in line with our previous guidance we expect to deliver net adds in excess of 150k. Headline EBITDA remains in line with expectations, with year on year growth driven by three factors:

- the benefits of a larger base and stabilising Group ARPU flowing through into Headline revenue and earnings;
- commercial and regulatory tailwinds for Fibre pricing, as Ofcom's WLA and BT Openreach volume discounts materially reduce the amount we pay Openreach for wholesale FTTC services; and
- cost reductions as we continue to simplify the business and focus on fewer priorities.

CFO Review

Financial information

	Six months ended 30 September 2018 Unaudited			Six months ended 30 September 2017 Unaudited (restated) (1)		
	Headline (2)	**Non-Headline (2)**	**Statutory**	Headline (2)	Non-Headline (2)	Statutory
	£m	**£m**	**£m**	£m	£m	£m
Revenue	**808**	**14**	**822**	801	26	827
Cost of sales	**(383)**	**(8)**	**(391)**	(393)	(22)	(415)
Gross profit	**425**	**6**	**431**	408	4	412
Operating expenses	**(324)**	**(12)**	**(336)**	(333)	(70)	(403)
EBITDA	**101**	**(6)**	**95**	75	(66)	9
Depreciation and amortisation	**(67)**	**(4)**	**(71)**	(61)	(5)	(66)
Share of results of joint ventures	**(5)**	**–**	**(5)**	(5)	–	(5)
Operating profit/(loss)	**29**	**(10)**	**19**	9	(71)	(62)
Net finance costs	**(23)**	**–**	**(23)**	(23)	(10)	(33)
Profit/(loss) before taxation	**6**	**(10)**	**(4)**	(14)	(81)	(95)
Taxation	**(1)**	**2**	**1**	(7)	15	8
Profit/(loss) for the year attributable to the owners of the Company	**5**	**(8)**	**(3)**	(21)	(66)	(87)
Earnings/(loss) per share						
Basic (p)	**0.4**		**(0.3)**	(2.2)		(9.2)
Diluted (p)	**0.4**		**(0.3)**	(2.2)		(9.0)

Revenue summary	**Six months ended 30 September 2018 Unaudited £m**	Six months ended 30 September 2017 Unaudited (restated) (1) £m
On-net	**629**	608
Corporate	**172**	179
Off-net	**7**	14
Headline revenue	**808**	801
Less Carrier	**(30)**	(45)
Less Off-net	**(7)**	(14)
Headline revenue (excluding Carrier and Off-net)	**771**	742

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

(2) See note 2 for an explanation of Alternative Performance Measures (APMs) and non-Headline items. See note 7 for a reconciliation of headline information to statutory information.

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 better understand the financial performance, position and trends of the Group.

The Group has adopted a full retrospective approach for 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 ensuring analysis is on a like for like basis. More details on the restatement is provided in Note 2.

Overview
Headline revenue (excluding Carrier and Off-net) grew by 3.9% reflecting a larger customer base, increased Fibre penetration and growth in data products, offset by continued FLPP ARPU dilution and declining voice usage. Headline EBITDA growth of 34.7% to £101m represented the revenue growth noted above, lower costs of sales combined with a continued focus on reducing the cost base of the business. Our Statutory loss before tax of £4m has improved from a £95m loss in H1 FY18 and included non-Headline items of £10m (H1 FY18: £81m). The Board has recommended an interim dividend of 1.00p (H1 FY18: 2.50p) in line with our previously guided approach to dividends.

Group revenue
Headline revenue (excluding Carrier and Off-net) of £771m was 3.9% higher year on year with On-net revenues up 3.5%. The increase in On-net revenues reflects the larger Consumer and Business bases compared to the period ended 30 September 2017 together with the increased penetration of fibre partly offset by ARPU dilution. Corporate revenue declined by 3.9% due to a decline in Carrier revenue of £15m offset by growth in Data, which was up 10.3% on the prior year reflecting 4.3k new connections to the Ethernet and EFM base.

The Group's total Headline revenue rose 0.9% to £808m following seven consecutive quarters of base growth. Statutory revenue declined 0.6% to £822m due to the MVNO revenue being down £12m year on year to £14m as activity continues to diminish.

Gross margin
Headline gross margin of 52.6% was 166bps higher year on year reflecting the revenue benefits noted above and lower costs of sales resulting from the Wholesale Line Access ruling and BT Openreach volume discounts on Fibre to the Cabinet ("FTTC") products.

Statutory gross margin of 52.4% was 261bps higher year on year due to the reasons above as well as the improved gross margin of our MVNO proposition following migrations to O2 and the repricing of legacy mobile propositions.

Operating expenses
Headline operating expenses decreased by £9m year on year due to a reduced headcount across the business, lower outsource partner costs and the benefits of transitioning to a more self-serve model offset by higher ongoing commissions incurred under a distribution agreement with a major distribution partner and increased investment in targeted channels. Whilst during the period the Group has moved to alternative customer acquisition and marketing models with different partners, there has been an in-year increase in costs due to the higher base of customer connected through the previous distribution agreement. The commissions payable under this arrangement will cease in FY21.

Statutory operating expenses were down £67m year on year as non-Headline items reduced from £70m to £12m. See further information on non-Headline items below.

Headline EBITDA
Headline EBITDA increased 34.7% to £101m (H1 FY18: £75m) reflecting the factors noted above.

Depreciation and amortisation
Statutory depreciation and amortisation expense increased to £71m (H1 FY18: £66m) year on year driven by capital expenditure in prior periods.

Share of results of joint ventures
Our share of results of joint ventures was flat year on year at £5m and primarily consists of the Group's investment in YouView.

Net finance costs
Statutory finance costs for the year were £23m compared to £33m in H1 FY18. This decrease was due to the non-Headline cost of repurchasing 100% of the $185m US Private Placement ("USPP") Notes and the re-financing during the prior year.

Taxation
The Headline tax charge for the year was £1m implying an effective Headline tax rate of 17% (H1 FY18: -50%) against a statutory rate of 19%.

Non-Headline items (1)

	Six months ended 30 September 2018 Unaudited £m	Six months ended 30 September 2017 Unaudited (restated) (2) £m
MVNO closure	**1**	(38)
Network transformation	**(7)**	(8)
Business reorganisation	**–**	(9)
Operating efficiencies – Property	**–**	(8)
Operating efficiencies – Making TalkTalk Simpler (MTTS)	**–**	(3)
EBITDA	**(6)**	(66)
Depreciation and amortisation	**(4)**	(5)
Finance costs	**–**	(10)
Taxation	**2**	15
Non-headline items	**(8)**	(66)

(1) See note 2 for an explanation of Alternative Performance Measures (APMs) and non-Headline items. See note 7 for a reconciliation of headline information to statutory information.

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

Within the Group's Statutory EBITDA there were non-Headline items of £6m (H1 FY18: £46m) associated with the closure of our MVNO operations and the Groups network transformation programme.

Following the Group's decision in 2017 to exit its MVNO operations, operating profits of £1m associated with this business have been earned during the period (H1 FY18: operating losses of £7m and net exceptional costs of £31m). 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.

Our significant multi-year network and IT transformation programme continued during the period incurring costs of £7m (H1 FY18: £8m) as part of restructuring 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 H1 FY18, costs totalling £20m were recognised in association with implementing changes to the Group's organisational structure under the new leadership team, costs associated with the move to our new northern site in Salford, further rationalisation of our property estate and the operating efficiency programmes associated with MTTS which concluded in FY18.

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

Net debt and cash flow

	Six months ended 30 September 2018 Unaudited £m	Six months ended 30 September 2017 Unaudited (restated) (1) £m
Opening Headline net debt (1)	**(724)**	(782)
Headline EBITDA (1)	**101**	75
Working capital	**(14)**	34
Capital expenditure	**(59)**	(63)
Interest and taxation	**(21)**	(28)
Non-Headline items (1)	**(20)**	(21)
Acquisitions	**(6)**	(5)
Dividends	**(17)**	(47)
Headline net debt (2)	**(760)**	(837)
Finance leases	**(40)**	(18)
Closing net debt (1)	**(800)**	(855)

(1) See note 2 for an explanation of Alternative Performance Measures (APMs), non-Headline items and further details on the restatement of comparative information due to the introduction of IFRS 15 and IFRS 9. See note 7 for a reconciliation of headline information to statutory information.

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

Net debt was £800m (H1 FY18: £855m) including finance leases of £40m at the period end (H1 FY18: £18m). Committed headroom at 30 September 2018 was £310m (H1 FY18: £222m).

The Group had a net working capital outflow of £14m (H1 FY18: £34m inflow) whilst capital expenditure for the period was £59m (H1 FY18: £63m), representing 7.3% (H1 FY18: 7.9%) of Headline revenues. This expenditure is primarily for continued investment and enhancement of our network capacity and capability. We expect full year cash capital expenditure excluding our investment in FibreNation to be £100m-£110m.

Non-Headline items of £20m (H1 FY18: £21m) relate to the cash costs associated with the programmes described above, being primarily the closure costs and operating loss associated with the MVNO operations, MTTS, network transformation and property rationalisation programmes.

Acquisitions expenditure in the period of £6m (H1 FY18: £5m) was mainly on the YouView joint venture.

Dividends
Dividends of £17m paid in the period (H1 FY18: £47m) comprised the final dividend for FY18 of 1.50p.

As announced earlier in the year, the Board is committed to returning the business to revenue and customer base growth, improving cash generation and reducing leverage, and in this context has declared an interim dividend for FY19 of 1.00p (H1 FY18: 2.50p). The Board expects to declare a final cash dividend of 1.50p (FY18: 1.50p) taking the total cash dividend for the year to 2.50p (FY18: 4.00p). Looking beyond FY19, the Board expects to return to a more normalised dividend policy once the business returns to earnings growth and has reduced leverage towards the Group's mid-term net debt/Headline EBITDA target of 2.0x.

The interim dividend for FY19 will be paid on 24 December 2018 for shareholders on the register on 30 November 2018 (ex-dividend 29 November 2018).

Funding and capital structure
The Group is financed through a combination of bank facilities, Senior Notes, debtor securitisation, working capital management, finance leases, 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 Group's revolving credit facility does not expire until May 2022 and the Senior Notes in January 2022; it is Group policy to refinance debt maturities significantly ahead of maturity dates.

At 30 September 2018, the Group had total committed facilities, of £1,115m (30 September 2017: £1,115m) (31 March 2018: £1,115m). At 30 September 2018, net drawings under these facilities total £797m (30 September 2017: £893m) (31 March 2018: £767m), giving headroom on committed facilities of £310m (30 September 2017: £222m) (31 March 2018: £348m). Net debt/Headline EBITDA as calculated for the purposes of the Group's borrowings equates to 3.2x (H1 FY18: 2.9x).

The average term of our debt at 30 September 2018 was 3 years 3 months (30 September 2017: 4 years 2 months) (31 March 2018: 3 years 9 months).

The Group was in compliance with the terms of all its facilities, including the financial covenants, at 30 September 2018 and throughout the year and expects to remain in compliance with the terms going forward.

Going concern

Our business activities, together with the factors likely to affect our future performance and market position are set out in the Business Review. Our financial position, cash and borrowing facilities are described above, together with further detail on other sources of finance including receivables financing, working capital management and commitments given in the notes to the condensed consolidated interim financial statements.

We have £1,115m of committed credit facilities and as at 30 September 2018 the headroom on these facilities was £310m. Our forecasts and projections, taking into account reasonably possible changes in trading performance, indicate that there is sufficient cash and covenant headroom on our facilities. Sensitivity analysis has been performed in respect of certain scenarios, including an increase in churn, lower net adds growth and lower than expected cost savings, and we have considered mitigating actions and cash management activities within the Group's control in the event of a potential breach in covenant. This, together with our market positioning, means that we are well placed to manage our business risks successfully and have adequate resources to operate for the foreseeable future. The Directors have therefore adopted the going concern basis of accounting in relation to the preparation of the financial statements.

Risks and uncertainties

The Board has reconsidered the principle risks and uncertainties published in the Group's 2018 Annual Report and considered these to remain appropriate. The following risks and uncertainties are those that the Directors believe could have the most significant impact on the Group's business:

- Customer trust and brand reputation
- People
- Competitive landscape
- Changing market structure
- Regulatory compliance
- Data and cyber security
- Resilience and business continuity
- Financial
- Change delivery and execution

These risks and mitigating factors are described in more detail on pages 22 to 26 of the TalkTalk Telecom Group PLC Annual Report 2018, 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 principle risks. The Board will continue to assess the principle risks and uncertainties faced by the Group and will update the risk register and mitigation plans accordingly.

Statement of Directors' responsibilities

The unaudited condensed consolidated interim financial statements for the 6 months ended 30 September 2018 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
T Harrison, Chief Executive Officer
K Ferry, Chief Financial Officer
21 November 2018

Consolidated income statement

For the period ended 30 September 2018

		Six months ended 30 September 2018 Unaudited			Six months ended 30 September 2017 Unaudited (restated) [1]		
	Notes	**Headline [2] £m**	**Non-Headline (note 7) [2] £m**	**Statutory £m**	Headline [2] £m	Non-Headline (note 7) [2] £m	Statutory £m
Revenue	3	**808**	**14**	**822**	801	26	827
Cost of sales		**(383)**	**(8)**	**(391)**	(393)	(22)	(415)
Gross profit		**425**	**6**	**431**	408	4	412
Operating expenses		**(324)**	**(12)**	**(336)**	(333)	(70)	(403)
EBITDA[2]	7	**101**	**(6)**	**95**	75	(66)	9
Depreciation and amortisation	3, 5	**(67)**	**(4)**	**(71)**	(61)	(5)	(66)
Share of results of joint ventures		**(5)**	**–**	**(5)**	(5)	–	(5)
Operating profit/(loss)	5, 7	**29**	**(10)**	**19**	9	(71)	(62)
Net finance costs		**(23)**	**–**	**(23)**	(23)	(10)	(33)
Profit/(loss) before taxation	7	**6**	**(10)**	**(4)**	(14)	(81)	(95)
Taxation		**(1)**	**2**	**1**	(7)	15	8
Profit/(loss) for the period attributable to the owners of the Company	7	**5**	**(8)**	**(3)**	(21)	(66)	(87)
Loss per share							
Basic (p)	8			(0.3)			(9.2)
Diluted (p)	8			(0.3)			(9.0)

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

(2) See note 2 for an explanation of Alternative Performance Measures (APMs), non-Headline items. See note 7 for a reconciliation of Headline information to Statutory information.

Consolidated statement of comprehensive income

For the period ended 30 September 2018

	Six months ended 30 September 2018 Unaudited £m	Six months ended 30 September 2017 Unaudited (restated) [(1)] £m
Loss for the period attributable to the owners of the Company	**(3)**	(87)
Other comprehensive income		
Items that may be reclassified to profit or loss:		
Gains on a hedge of a financial instrument	**–**	2
Loss on a hedge reclassified to income statement	**–**	6
Total other comprehensive income	**–**	8
Total comprehensive expense attributable to the owners of the Company	**(3)**	(79)

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

Consolidated balance sheet

As at 30 September 2018

	Notes	**30 September 2018 Unaudited £m**	30 September 2017 Unaudited (restated) [1] £m	31 March 2018 Unaudited (restated) [1] £m
Non-current assets				
Goodwill		**495**	495	495
Other intangible assets		**242**	254	252
Property, plant and equipment		**223**	232	235
Investment in joint venture		**5**	7	3
Trade and other receivables		**7**	6	7
Contract assets	4	**145**	140	134
Deferred tax assets		**92**	96	83
		1,209	1,230	1,209
Current assets				
Inventories		**46**	17	22
Trade and other receivables		**254**	254	241
Contract assets	4	**109**	80	87
Cash and cash equivalents	9	**37**	56	43
		446	407	393
Assets classified as held for sale		**38**	–	32
Total assets		**1,693**	1,637	1,634
Current liabilities				
Trade and other payables		**(520)**	(534)	(481)
Contract liabilities	4	**(11)**	(8)	(10)
Current income tax payable		**(8)**	(5)	–
Borrowings	9	**(85)**	(77)	(75)
Provisions		**(22)**	(16)	(31)
		(646)	(640)	(597)
Liabilities classified as held for sale		**(11)**	–	(11)
Non-current liabilities				
Borrowings	9	**(752)**	(834)	(723)
Derivative financial instruments		**–**	(1)	–
Contract liabilities	4	**(6)**	(9)	(7)
Provisions		**(26)**	(46)	(28)
		(784)	(890)	(758)
Total liabilities		**(1,441)**	(1,530)	(1,366)
Net assets		**252**	107	268
Equity				
Share capital		**1**	1	1
Share premium		**684**	684	684
Translation reserve		**(64)**	(64)	(64)
Demerger reserve		**(513)**	(513)	(513)
Retained earnings/(losses) and other reserves		**144**	(1)	160
Total equity		**252**	107	268

(1) See note 2 for further details on the restatement of comparative information due to the introduction of IFRS 15 and IFRS 9. See note 1 for further details on the restatement of the assets classified as held for sale.

Consolidated cash flow statement

For the period ended 30 September 2018

	Notes	**Six months ended 30 September 2018 Unaudited £m**	Six months ended 30 September 2017 Unaudited (restated) [1] (re-presented) [2] £m
Operating activities			
Operating profit/(loss)		**19**	(62)
Share-based payments		**3**	5
Depreciation of property, plant and equipment	5	**35**	34
Amortisation of other operating intangible assets	5	**32**	27
Amortisation of acquisition intangibles	5	**4**	5
Share of losses of joint ventures		**5**	5
Impairment of property, plant and equipment		**–**	2
(Decrease)/increase in provisions		**(11)**	26
Operating cash flows before movements in working capital		**87**	42
(Increase)/decrease in trade and other receivables		**(15)**	38
Increase in contract assets		**(33)**	(1)
(Increase)/decrease in inventory		**(24)**	1
Increase/(decrease) in trade and other payables		**51**	(4)
Increase in contract liabilities		**–**	11
Cash generated from operations		**66**	87
Income taxes received		**–**	–
Net cash flows generated from operating activities		**66**	87
Investing activities			
Acquisition of subsidiaries and joint ventures, net of cash acquired		**(6)**	(5)
Investment in intangible assets		**(39)**	(46)
Investment in property, plant and equipment		**(16)**	(17)
Cash flows used in investing activities		**(61)**	(68)
Financing activities			
Settlement of Group ESOT shares		**1**	1
Repayments of obligations under finance leases		**(4)**	–
Repayments of borrowings		**–**	(374)
Drawdown of borrowings		**30**	435
Interest paid		**(21)**	(16)
Other finance costs		**–**	(12)
Equity dividends paid	6	**(17)**	(47)
Cash flows generated used in financing activities		**(11)**	(13)
Net (decrease)/increase in cash and cash equivalents		**(6)**	6
Cash and cash equivalents at the start of the period		**43**	50
Cash and cash equivalents at the end of the period	9	**37**	56

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

(2) See note 1 for further details on the re-presentation of comparative information.

Consolidated statement of changes in equity

For the period ended 30 September 2018

	Notes	Share capital £m	Share premium £m	Translation reserve £m	Demerger reserve £m	Retained earnings and other reserves £m	Total equity £m
At 1 April 2018 as previously reported		**1**	**684**	**(64)**	**(513)**	**104**	**212**
Change in accounting policies in respect of IFRS 9 and IFRS 15 (net of tax)	2	**–**	**–**	**–**	**–**	**56**	**56**
At 1 April 2018 Unaudited (restated)		**1**	**684**	**(64)**	**(513)**	**160**	**268**
Loss for the period		**–**	**–**	**–**	**–**	**(3)**	**(3)**
Other comprehensive expense		**–**	**–**	**–**	**–**	**–**	**–**
Total comprehensive expense		**–**	**–**	**–**	**–**	**(3)**	**(3)**
Transactions with the owners of the Company							
Share-based payments		**–**	**–**	**–**	**–**	**3**	**3**
Settlement of Group ESOT shares		**–**	**–**	**–**	**–**	**1**	**1**
Equity dividends	6	**–**	**–**	**–**	**–**	**(17)**	**(17)**
Total transactions with the owners of the Company		**–**	**–**	**–**	**–**	**(13)**	**(13)**
At 30 September 2018		**1**	**684**	**(64)**	**(513)**	**144**	**252**

	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)	2	–	–	–	–	84	84
At 1 April 2017 Unaudited (restated)		1	684	(64)	(513)	116	224
Loss for the period (restated)		–	–	–	–	(87)	(87)
Other comprehensive income							
Items that may be reclassified to profit or loss:							
Gain on hedge of a financial instrument		–	–	–	–	2	2
Loss on a hedge reclassified to income statement		–	–	–	–	6	6
Total other comprehensive income		–	–	–	–	8	8
Total comprehensive expense (restated)		–	–	–	–	(79)	(79)
Transactions with the owners of the Company							
Share-based payments		–	–	–	–	8	8
Settlement of Group ESOT shares		–	–	–	–	1	1
Equity dividends	6	–	–	–	–	(47)	(47)
Total transactions with the owners of the Company		–	–	–	–	(38)	(38)
At 30 September 2017 (restated)		1	684	(64)	(513)	(1)	107

Notes to the consolidated financial statements

For the period ended 30 September 2018

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. The principal activities of the Group are the provision of telecommunication services to Retail and B2B customers.

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 International Financial Reporting Standards (IFRS) applied in the consolidated financial statements at 31 March 2018 and those standards that have been endorsed by the European Union (see note 2). This report should be read in conjunction with the consolidated financial statements for the year ended 31 March 2018. Full details of the audited consolidated financial statements for the year ended 31 March 2018 are available at www.talktalkplc.com.

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 Group's Statutory accounts were approved by the Directors on 24 May 2018 and have been reported on by its auditor 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 auditor 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.

The preparation of these unaudited condensed consolidated 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 expenses. Actual results may differ from these estimates.

In preparing these unaudited condensed consolidated 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 that applied to the consolidated financial statements for the year ended 31 March 2018.. In addition, management have updated the estimate for the recognition of certain service level related credits from suppliers to compensate the Group where the supplier has not operated within the contractual terms of these arrangements. At 30 September 2018, a receivable of £55m (31 March 2018: £46m) existed in relation to such claims, the resolution of which may give rise to an increase or decrease in the level of receivable recognised. This is without prejudice to the Group's legal position. During the period, management has also ceased a commercial agreement with one of its partners whereby a contingent liability of £25m has not crystallised and the Group has now entered into a new separate commercial agreement with the same partner. Management have concluded that it was appropriate to account for them as two separate arrangements.

During the period 30 September 2018, the Group has restated the assets classified as held for sale as at 31 March 2018 to £32m (31 March 2018: £13m) to include additional non-current assets and inventory reflecting those assets that qualify as held for sale under IFRS 5.

During the year ended 31 March 2018, management reviewed its cash flow presentation. As a result of this review movements in provisions were re-presented within operating cash flows before movements in working capital. This is because management believe it to be more appropriate for movements in provisions not to be part of the Group's working capital. The prior period cash flow has been restated accordingly, resulting in a decrease in operating cash flows before movement in working capital by £11m. There is no impact on cash generated from operations.

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

These unaudited condensed consolidated interim financial statements were authorised for issue by the Company's Board on 21 November 2018.

2. Changes in accounting policies

During the period, the Group have adopted IFRS 9 'Financial Instruments' (IFRS 9) and IFRS 15 'Revenue from Contract with Customers' (IFRS 15). Both standards became mandatory effective on 1 January 2018. As a result of the adoption, changes to the Group's accounting policies have occurred. This note describes the changes made to the Groups accounting policies and details the impact of the adoption of IFRS 9 and IFRS 15 on the consolidated financial statements and also discusses the new accounting policies that have been applied from 1 April 2018, where they are different to those applied in prior periods. This is the first set of the Group's financial statements where IFRS 9 and IFRS 15 have been applied. These changes in accounting policies will be reflected in the Group's consolidated financial statements for the year ended 31 March 2019.

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 1 April 2018 and 30 September 2017 with an opening cumulative effect being recognised in retained earnings as at 1 April 2017.

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 fair value though other comprehensive income (FVTOCI) criteria as measured fair value through profit and 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 model as opposed to an incurred credit loss model under previous accounting policies (IAS 39 'Financial instruments: Recognition and measurement'). The expected credit loss model requires the Group to account for expected credit losses (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 credit event to have occurred before credit losses are recognised. As a consequence of this change, credit losses are recognised earlier than under IAS 39.

The application of IFRS 9's impairment requirements at 1 April 2017 and IFRS 15's collectability assessment resulted in a £5m reduction in the Groups credit allowance, which has been recognised as an increase of the Group's retained earnings as at 1 April 2017. A related net deferred tax liability amounting to £1m has also been recognised.

The expected credit loss allowance decreased by £1m during the six months to 30 September 2018.

IFRS 9 requires the Group to assess the risk profile of its trade receivables and contract assets. The Group analysed the risk profile based on past experience and an analysis of the asset's current financial position, adjusted for factors that are specific to the assets, general economic conditions of the industry in which the assets 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 Business and Consumer customers.

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 period, and has applied the fully retrospective approach meaning the comparative period has been restated and there has been a one-off cumulative credit to retained earnings relating to transition at 1 April 2017 of £78m including the recognition of a £20m 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 obligation in the contract.
5. Recognise revenue when (or as) the entity satisfies a performance obligation.

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

The Group put in place a cross-functional team to assess the impact of IFRS 15, determine appropriate accounting policies, implement appropriate systems and processes so as to be 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 financing 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, however whilst previously such revenue was recognised only to the extent the customer contributes to this hardware, under IFRS 15 revenue is allocated to the hardware based on the relative standalone selling prices of each of the performance obligations of the contract regardless of their contract pricing. Standalone selling prices are determine by reference to the price at which the Group sells the goods or service, 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 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 standalone 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, however 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 standalone 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 were previously recognised 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 (48 - 60 months).
- Directly attributable costs associated with fulfilling the customer contracts previously recognised as incurred are instead now recognised as an asset and amortised over the period in which the corresponding benefit is received.
- A collectability assessment has been performed in relation to all streams of revenue and 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 when the Group has performed its obligations so as the revenue to be due to the Group.

Summary of financial impact on condensed consolidated financial statements

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

Consolidated income statement and other comprehensive income

	Headline Six months ended 30 September 2017			Non-Headline Six months ended 30 September 2017			Statutory Six months ended 30 September 2017		
	Previously reported £m	IFRS 15 & 9 adjustments £m	As restated £m	Previously reported £m	IFRS 15 & 9 adjustments £m	As restated £m	Previously reported £m	IFRS 15 & 9 adjustments £m	As restated £m
Revenue	828	(27)	801	28	(2)	26	856	(29)	827
Cost of sales	(393)	-	(393)	(22)	-	(22)	(415)	-	(415)
Gross profit	435	(27)	408	6	(2)	4	441	(29)	412
Operating expenses	(340)	7	(333)	(72)	2	(70)	(412)	9	(403)
EBITDA	95	(20)	75	(66)	-	(66)	29	(20)	9
Depreciation and amortisation	(61)	-	(61)	(5)	-	(5)	(66)	-	(66)
Share of results of joint ventures	(5)	-	(5)	-	-	-	(5)	-	(5)
Operating profit/(loss)	29	(20)	9	(71)	-	(71)	(42)	(20)	(62)
Net finance costs	(23)	-	(23)	(10)	-	(10)	(33)	-	(33)
Profit/(loss) before taxation	6	(20)	(14)	(81)	-	(81)	(75)	(20)	(95)
Taxation	(11)	4	(7)	15	-	15	4	4	8
Loss for the period attributable to the owners of the Company	(5)	(16)	(21)	(66)	-	(66)	(71)	(16)	(87)
Total comprehensive expense							(63)	(16)	(79)

Consolidated balance sheet

	30 September 2017 Unaudited Previously reported £m	IFRS 15 & 9 adjustments £m	As restated £m
Non-current assets			
Goodwill	495	–	495
Other intangible assets	254	–	254
Property, plant and equipment	232	–	232
Investment in joint venture	7	–	7
Trade and other receivables	6	–	6
Contract costs	–	140	140
Deferred tax assets	112	(16)	96
	1,106	124	1,230
Current assets			
Inventories	17	–	17
Trade and other receivables	356	(102)	254
Contract assets	–	80	80
Cash and cash equivalents	56	–	56
	429	(22)	407
Total assets	1,535	102	1,637
Current liabilities			
Trade and other payables	(517)	(17)	(534)
Contract liabilities	–	(8)	(8)
Current income tax payable	(5)	–	(5)
Borrowings	(77)	–	(77)
Provisions	(16)	–	(16)
	(615)	(25)	(640)
Non-current liabilities			
Borrowings	(834)	–	(834)
Derivative financial instruments	(1)	–	(1)
Contract liabilities	–	(9)	(9)
Provisions	(46)	–	(46)
	(881)	(9)	(890)
Total liabilities	(1,496)	(34)	(1,530)
Net assets	39	68	107
Equity			
Share capital	1	–	1
Share premium	684	–	684
Translation reserve	(64)	–	(64)
Demerger reserve	(513)	–	(513)
Retained earnings and other reserves	(69)	68	(1)
Total equity	39	68	107

	31 March 2018 Unaudited		
	Previously reported (restated) (1) £m	IFRS 15 & 9 adjustments £m	As restated £m
Non-current assets			
Goodwill	495	–	495
Other intangible assets	252	–	252
Property, plant and equipment	235	–	235
Investment in joint venture	3	–	3
Trade and other receivables	7	–	7
Contract costs	–	134	134
Deferred tax assets	97	(14)	83
	1,089	120	1,209
Current assets			
Inventories	22	–	22
Trade and other receivables	356	(115)	241
Contract assets	–	87	87
Cash and cash equivalents	43	–	43
	421	(28)	393
Assets classified as held for sale	32	–	32
Total assets	1,542	92	1,634
Current liabilities			
Trade and other payables	(462)	(19)	(481)
Contract liabilities	–	(10)	(10)
Borrowings	(75)	–	(75)
Provisions	(31)	–	(31)
	(568)	(29)	(597)
Liabilities classified as held for sale	(11)	–	(11)
Non-current liabilities			
Borrowings	(723)	–	(723)
Contract liabilities	–	(7)	(7)
Provisions	(28)	–	(28)
	(751)	(7)	(758)
Total liabilities	(1,330)	(36)	(1,366)
Net assets	212	56	268
Equity			
Share capital	1	–	1
Share premium	684	–	684
Translation reserve	(64)	–	(64)
Demerger reserve	(513)	–	(513)
Retained earnings and other reserves	104	56	160
Total equity	212	56	268

(1) See note 1 for further details.

Consolidated cash flow statement

Impact on cash generated from operations:	Six months ended 30 September 2017 Unaudited Previously reported £m	IFRS 15 & 9 adjustments £m	As restated £m
Operating activities			
Operating loss	(42)	(20)	(62)
Share-based payments	5	–	5
Depreciation of property, plant and equipment	34	–	34
Amortisation of other operating intangible assets	27	–	27
Amortisation of acquisition intangibles	5	–	5
Share of losses of joint ventures	5	–	5
Impairment of property, plant and equipment	2	–	2
Increase in provisions	26	–	26
Operating cash flows before movements in working capital	62	(20)	42
Decrease in trade and other receivables	28	10	38
Increase in contract assets	–	(1)	(1)
Decrease in inventory	1	–	1
Decrease in trade and other payables	(4)	–	(4)
Increase in contract liabilities	–	11	11
Cash generated from operations	87	–	87

Future accounting developments

IFRS 16

The Group will implement IFRS 16 'Leases' (IFRS 16) for the year ended 31 March 2020. The Group has completed an initial assessment of the potential impact on its consolidated financial statements and the adoption is expected to have a material impact on the presentation of the Group's assets and liabilities, mainly relating to network infrastructure leases. Due to the quantity of contracts under review, management has not completed the impact assessment of the new accounting standard, and therefore a quantification of the impact on the Group's results cannot currently be reliably estimated. However, it can be noted that total assets will increase as leased assets are brought on to the balance sheet, total liabilities will increase as lease liabilities are recognised and EBITDA will improve as lease expenses are replaced by depreciation and finance costs.

Alternative Performance Measures (APMs)

The condensed consolidated interim 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 to understand better 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 7 for reconciliation of Headline information to Statutory information.

3. 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.

	Six months ended 30 September 2018 Unaudited £m	Six months ended 30 September 2017 Unaudited (restated) £m
Statutory revenue	**822**	827
Less MVNO revenue	**(14)**	(26)
Headline revenue (1)	**808**	801

Headline EBITDA (1)	**101**	75
Depreciation of property, plant and equipment	**(35)**	(34)
Amortisation of operating intangibles	**(32)**	(27)
Amortisation of acquisition intangibles	**(4)**	(5)
Share of results of joint ventures	**(5)**	(5)
Non-Headline items – gross profit (note 7)	**6**	4
Non-Headline items – operating expenses (note 7)	**(12)**	(70)
Statutory operating profit/(loss) (note 7)	**19**	(62)

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.

	Six months ended 30 September 2018 Unaudited £m	Six months ended 30 September 2017 Unaudited (restated) (1) £m
On-net	**629**	608
Corporate	**172**	179
Off-net	**7**	14
Headline revenue (1)	**808**	801
Less Carrier	**(30)**	(45)
Less Off-net	**(7)**	(14)
Headline revenue (excluding Carrier and Off-net) (1)	**771**	742

(1) See note 2 for an explanation of Alternative Performance Measures (APMs), non-Headline items and further details on the restatement of comparative information due to the introduction of IFRS 15 and IFRS 9. See note 7 for a reconciliation of Headline information to Statutory information.

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

Corporate revenue is further analysed as:

	Six months ended 30 September 2018 Unaudited £m	Six months ended 30 September 2017 Unaudited (restated) £m
Carrier	**30**	45
Data	**86**	78
Voice	**56**	56
Corporate revenue	**172**	179

4. Revenue

Disaggregation of revenue

Group's revenue is derived from contracts with customers and has been disaggregated within Note 3.

Contract balances

The following table provides information about contract assets and liabilities from contracts with customers.

	30 September 2018 Unaudited £m	30 September 2017 Unaudited (restated) £m	31 March 2018 Unaudited (restated) £m
Current contract assets	**109**	80	87
Current contract liabilities	**(11)**	(8)	(10)
Non-current contract assets	**145**	140	134
Non-current contract liabilities	**(6)**	(9)	(7)

The contract assets primarily relate costs to obtain and costs to fulfil customer contracts and to the Group's rights to consideration for work completed but not billed at the reporting date. Remaining balances are transferred to receivables when the rights become unconditional. Costs to obtain and fulfil customer contracts are amortised on a straight line basis.

The contract liabilities primarily relate to the advance consideration received from customers for which revenue is recognised over time.

5. Operating profit/(loss)

Operating profit/(loss) is stated after charging/(crediting):

	Six months ended 30 September 2018 Unaudited £m	Six months ended 30 September 2017 Unaudited (restated) £m
Depreciation of property, plant and equipment	**35**	34
Amortisation of other operating intangible assets	**32**	27
Amortisation of acquisition intangibles	**4**	5
Service level related disputes (1)	**(9)**	-
Supplier rebates	**(4)**	-
Non-Headline items (note 7)	**6**	66

(1) Included in operating profit are associated increased costs relating to these service level related disputes.

6. 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 period in which they are approved by the relevant shareholders. Interim dividends are recognised in the period in which they are paid.

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

	Six months ended 30 September 2018 Unaudited £m	Six months ended 30 September 2017 Unaudited (restated) £m
Ordinary dividends		
Final dividend for the year ended 31 March 2017 of 5.00p per ordinary share	**–**	47
Final dividend for the year ended 31 March 2018 of 1.50p per ordinary share	**17**	–
Total ordinary dividends	**17**	47

The proposed interim dividend for the period ended 30 September 2018 is 1.00p (2018: 2.50p) per ordinary share on approximately 1,143 million (2018: 950 million) ordinary shares and was approved by the Board on 20 November 2018. The expected cost of this dividend is £11m and has not been included as a liability as at 30 September 2018. The payment of this dividend will not have any tax consequences for the Group.

The Group employee share option trust (ESOT) has waived its rights to receive dividends in the current and prior year and this is reflected in the analysis above.

7. Reconciliation of Headline information to Statutory information

Accounting policy – non-Headline items

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

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

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

Significant judgements in applying the Group's accounting policy

The classification of items as non-Headline is subjective in nature and therefore judgement is required to determine whether the item is in line with the accounting policies outlined above. Determining whether an item is non-Headline is a matter of qualitative assessment.

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

Period ended 30 September 2018	**Revenue £m**	**Gross profit £m**	**EBITDA £m**	**Operating profit/(loss) £m**	**Profit/(loss) before taxation £m**	**Taxation £m**	**Profit/(loss) for the period £m**
Headline results	**808**	**425**	**101**	**29**	**6**	**(1)**	**5**
Exceptional items – Network transformation (a)	**–**	**–**	**(7)**	**(7)**	**(7)**	**2**	**(5)**
MVNO operating profit (b)	**14**	**6**	**1**	**1**	**1**	**–**	**1**
Amortisation of acquisition intangibles (c)	**–**	**–**	**–**	**(4)**	**(4)**	**–**	**(4)**
Statutory results	**822**	**431**	**95**	**19**	**(4)**	**1**	**(3)**

Period ended 30 September 2017 (restated)	Revenue £m	Gross profit £m	EBITDA £m	Operating profit/(loss) £m	Loss before taxation £m	Taxation £m	Loss for the period £m
Headline results (restated)	801	408	75	9	(14)	(7)	(21)
Exceptional items – Operating efficiencies – MTTS (d)	–	–	(3)	(3)	(3)	1	(2)
Exceptional items – Operating efficiencies – property (e)	–	–	(8)	(8)	(8)	2	(6)
Exceptional items – Network transformation (a)	–	–	(8)	(8)	(8)	1	(7)
Exceptional items – Mobile proposition (f)	–	–	(31)	(31)	(31)	6	(25)
MVNO operating loss (b)	26	4	(7)	(7)	(7)	1	(6)
Exceptional items – Business reorganisation (g)	–	–	(9)	(9)	(9)	2	(7)
Exceptional items – Finance expense (h)	–	–	–	–	(10)	2	(8)
Amortisation of acquisition intangibles (c)	–	–	–	(5)	(5)	–	(5)
Statutory results (restated)	827	412	9	(62)	(95)	8	(87)

During the period ended 30 September 2018, cash exceptional items were £20m (2017: £21m).

The above table shows how all APMs are reconciled to Statutory performance measures with the exception of Headline earnings per share (note 8) and net debt.

Net debt of the Group comprises:

	30 September 2018 Unaudited £m	30 September 2017 Unaudited £m	31 March 2018 Unaudited £m
Headline net debt (1)	**(760)**	(837)	(724)
Finance leases	**(40)**	(18)	(31)
Net debt	**(800)**	(855)	(755)

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

(a) Network transformation
During the period ended 30 September 2018, 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 £7m (2017: £8m) of costs including project management, consultancy, dual running costs and decommissioning costs.

A total taxation credit of £2m has been recognised on these costs in the period ended 30 September 2018 (2017: £1m).

(b) 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 £1m (2017: loss of £7m) associated with the MVNO strategy have been incurred, given this one-off strategic decision, management consider 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 credit of £nil has been recognised on these costs (2017: £1m).

(c) Amortisation of acquisition intangibles
An amortisation charge in respect of acquisition intangibles of £4m was incurred during the period (2017: £5m).

(d) Operating efficiencies – Making TalkTalk Simpler (MTTS)
During the year ended 31 March 2018, the Group completed its wide-ranging transformation programme that is delivering material improvements to customer experience, driving operating cost savings, and reducing SAC through lower churn and costs per add.

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

These programmes resulted in £3m of costs including project management, redundancy, consultancy, migration, call centre costs and accelerated depreciation costs.

A total taxation credit of £1m has been recognised on these costs in the period ended 30 September 2017.

(e) Operating efficiencies – fundamental property rationalisation

The Group has fundamentally rationalised the sites from which it operates including the relocation of its Warrington and Irlam sites to one site at the Soapworks in Salford together with the rationalisation of its London property footprint. The revised estimated cost of this property rationalisation programme was provided for giving rise to additional costs of £8m during the prior period.

A total taxation credit of £2m has been recognised on these costs in the period ended 30 September 2017.

(f) 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 £31m for the period ended 30 September 2017.

A total taxation credit of £6m has been recognised on these costs in the period ended 30 September 2017.

(g) Business reorganisation

Net costs of £9m were incurred in the period ended 30 September 2017 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 £2m has been recognised on these costs in the period ended 30 September 2017.

(h) Finance expense
During the period ended 30 September 2017, 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 period.

A total taxation credit of £2m was recognised on these items in the period ended 30 September 2017.

8. 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.

	Six months ended 30 September 2018 Unaudited £m	Six months ended 30 September 2017 Unaudited (restated) £m
Headline earnings (note 7)	**5**	(21)
Statutory loss	**(3)**	(87)
Weighted average number of shares (millions)		
Shares in issue	**1,146**	955
Less weighted average holdings by Group ESOT	**(3)**	(5)
For basic EPS	**1,143**	950
Dilutive effect of share options	**13**	14
For diluted EPS	**1,156**	964

	Six months ended 30 September 2018 Unaudited Pence	Six months ended 30 September 2017 Unaudited (restated) Pence
Basic earnings/(loss) per ordinary share		
Headline	**0.4**	(2.2)
Statutory	**(0.3)**	(9.2)

	Six months ended 30 September 2018 Unaudited Pence	Six months ended 30 September 2017 Unaudited (restated) Pence
Diluted earnings/(loss) per ordinary share		
Headline	**0.4**	(2.2)
Statutory	**(0.3)**	(9.0)

9. Cash and cash equivalents and borrowings

(a) Cash and cash equivalents comprise:

	30 September 2018 Unaudited £m	30 September 2017 Unaudited £m	31 March 2018 Unaudited £m
Cash at bank and in hand	**37**	56	43

The effective interest rate on bank deposits and money market funds was 0.5% (2017: 0.1%).

(b) Borrowings comprise:

	Maturity	**30 September 2018 Unaudited £m**	30 September 2017 Unaudited £m	31 March 2018 Unaudited £m
Current				
£75m receivables purchase facility	2019	**75**	73	67
Finance leases	2020-2023	**10**	4	8
Current borrowings		**85**	77	75

	Maturity	30 September 2018 Unaudited £m	30 September 2017 Unaudited £m	31 March 2018 Unaudited £m
Non-current				
£400m Senior Notes	2022	**400**	400	400
£640m revolving credit facility	2022	**322**	420	300
Finance leases	2020-2023	**30**	14	23
Non-current borrowings		**752**	834	723
Total borrowings		**837**	911	798

Total borrowings comprise:

	30 September 2018 Unaudited £m	30 September 2017 Unaudited £m	31 March 2018 Unaudited £m
Headline debt	**797**	893	767
Finance leases	**40**	18	31
Total borrowings	**837**	911	798

Undrawn available committed facilities are as follows:

	Maturity	30 September 2018 Unaudited £m	30 September 2017 Unaudited £m	31 March 2018 Unaudited £m
Undrawn available committed facilities	2019, 2022	**310**	222	348

The book value and fair value of the Group's Headline debt is as follows:

	30 September 2018 Unaudited £m	30 September 2017 Unaudited £m
Less than 1 year	**75**	73
3 to 4 years	**722**	–
4 to 5 years	–	820
Total borrowings	**797**	893

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

Borrowing facilities

The Group's committed facilities total £1,115m (2017: £1,115m). The Group's uncommitted facilities total £90m (2017: £111m) giving headroom on committed facilities and uncommitted facilities of £310m (2017: £222m) and £90m (2017: £111m) 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 facility and non-Headline items. The Group was in compliance with its covenants throughout the current and prior periods.

The Group is financed through a combination of bank facilities, Senior Notes, debtor securitisation, working capital management, finance leases, 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.

Details of the Group's borrowing facilities as at 30 September 2018 are set out below:

£400m Senior Notes

The Senior Notes due 2022 include incurrence-based covenants customary for this type of debt, including limitations on the Groups 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 and consideration from share issues 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 2022. The interest rate payable in respect of drawings under this facility is at a margin over LIBOR and for the appropriate period. The actual margin applicable to any drawing depends on the ratio of net debt to EBITDA calculated in respect of the most recent accounting period.

£75m receivables purchase agreement facility

During the period, the Group extended the scheduled facility termination date on the £75m receivables purchase agreement facility, which now matures in September 2019 and is included within committed facilities. The Group has the ability on a rolling basis to sell its receivables to a third party vehicle in exchange for a discounted consideration. The Group is deemed to control the third party vehicle and therefore continues to consolidate the relevant receivables on the grounds that substantially not all the risks and rewards of ownership have been transferred under the programme.

Uncommitted money market facilities and bank overdrafts

These facilities are used to assist in short term cash management and bear interest at a margin over the Bank of England base rate.

Finance leases

The Group uses finance leases as an alternative source of financing for significant items of capital expenditure, matching the cash profile with the life of the asset and offering flexibility regarding ownership of the lease at the end of the finance term. Finance leases at 30 September 2018 were £40m (2017: £18m).

10. Assets held for sale

On 7 February 2018, the Group announced that it had agreed terms with Infracapital, the infrastructure equity investment arm of M&G Prudential, to provide FTTP to more than three million homes and businesses in the UK. The Group has now launched FibreNation, a company to hold the Group's assets in relation to FTTP and commence the network rollout in Harrogate, Ripon and Knaresborough. The Group is in talks with Infracapital and other potential investors to find the right long-term capital structure. The Group's FTTP assets and liabilities have been determined as qualifying as assets and liabilities held for sale under IFRS 5 and disclosed as such within the consolidated balance sheet.

11. Financial instruments fair value disclosures

The financial instruments included on the Group balance sheet are measured at fair value or amortised cost. The Directors consider that the carrying value amounts of financial assets and liabilities recorded at amortised cost in the financial statements are approximately equal to their fair values.

The measurement of this fair value can in some cases be subjective and can depend on the inputs used in the calculations. The different valuation methods are called 'hierarchies' and are described below:

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

The Group had no financial instruments in the current or prior periods with fair values that are determined by reference to significant unobservable inputs (level 3 in the fair value hierarchy), nor have there been any transfers of assets or liabilities between levels of fair value hierarchy. There are no non-recurring fair value measurements.

The book value and fair value of the Group's financial assets, liabilities and derivative financial instruments [1], are as follows:

	30 September 2018 Unaudited £m	30 September 2017 Unaudited (restated) £m	31 March 2018 Unaudited (restated) £m
Financial assets (level 1) [1]			
Cash and cash equivalents	**37**	56	43
Contract assets	**109**	80	87
Trade and other receivables [2]	**254**	254	241
Non-current investments and investment in joint venture	**5**	7	3
Non-current trade and other receivables	**7**	6	7
Non-current contract assets	**145**	140	134
Financial assets (level 2) [1]			
Derivative instruments in designated hedge accounting relationships:			
Derivative financial instrument	**–**	–	–
Financial liabilities (level 1) [1]			
Contract liabilities	**(11)**	(8)	(10)
Trade and other payables	**(520)**	(534)	(481)
Current borrowings (note 9)	**(85)**	(77)	(75)
Non-current contract liabilities	**(6)**	(9)	(7)
Non-current borrowings (note 9)	**(752)**	(834)	(723)
Financial liabilities (level 2) [1]			
Derivative instruments in designated hedge accounting relationships:			
Derivative financial instruments (level 2)	**–**	(1)	–

(1) The Group has no financial instruments designated as fair value through the profit and loss (FVTPL).

(2) Accrued income has been included within the other receivables so as to give completeness over the Group's future cash inflows.

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.

12. Analysis of changes in net debt

	Opening £m	**Net cash flow £m**	**Non-cash movements £m**	**Closing £m**
2018				
Cash and cash equivalents	43	**(6)**	–	**37**
Borrowings	(767)	**(30)**	–	**(797)**
Headline debt (note 9)	(767)	**(30)**	–	**(797)**
Headline net debt (note 7)	(724)	**(36)**	–	**(760)**
Finance leases (note 9)	(31)	**4**	**(13)**	**(40)**
Net debt (note 7)	(755)	**(32)**	**(13)**	**(800)**

	Opening £m	**Net cash flow £m**	**Non-cash movements £m**	**Closing £m**
2017 (restated)				
Cash and cash equivalents	50	6	–	56
Borrowings	(871)	(22)	–	(893)
Derivatives	39	(39)	–	–
Headline debt (note 9)	(832)	(61)	–	(893)
Headline net debt (note 7)	(782)	(55)	–	(837)
Finance leases (note 9)	–	–	(18)	(18)
Net debt (note 7)	(782)	(55)	(18)	(855)

13. 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 2018, expenditure contracted but not provided for in these financial statements amounted to £170m (September 2017: £221m, March 2018: £203m). Of this amount, £91m (September 2017: £126m, March 2018: £100m) related to supply for core network, IT and customer equipment, £79m (September 2017: £66m, March 2018: £82m) related to capital commitments and £nil (September 2017: £29m, March 2018: £21m) related to the supply of customer equipment.

INDEPENDENT REVIEW REPORT TO TALKTALK TELECOM GROUP PLC

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2018 which comprises the condensed consolidated income statement, statement of comprehensive income, balance sheet, cash flow statement, statement of changes in equity and the related notes 1 to 13. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors’ responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom’s Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” as adopted by the European Union.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom’s Financial Conduct Authority.

Deloitte LLP
Statutory Auditor
London, United Kingdom
21st November 2018