EMBARGOED UNTIL 7.00 AM ON 24th MAY 2018

24 May 2018

TalkTalk Telecom Group PLC

Preliminary results for the year ended 31 March 2018

Operational Highlights

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

Financial Highlights

- Total Headline revenue (ex-Carrier and Off-net)(2) +1% to £1,564m (2017: £1,555m); Q4 Headline revenue (ex-Carrier and Off-net)(2) +2%
- Statutory Revenue £1,708m (2017: £1,783m), 4% decline
- Headline EBITDA(2) in line with consensus(3) at £233m (2017: £361m)
- EBITDA movement driven significantly by investment in base growth and FLPP ARPU dilution
- Statutory operating loss £18m (2017: profit £95m); Statutory loss before taxation £73m (2017: profit £70m), after £119m of one-off costs associated with re-organising and simplifying the business
- Net debt/Headline EBITDA(4) 3.0x (2017: 2.2x).
- Final dividend 1.50p (2017: 5.00p), total FY18 dividend 4.00p (2017: 10.29p)

Looking forward

- Headline revenue growth
- Stabilising ARPU
- Base growth in line with previous guidance at more than 150k
- Continuing strong Ethernet base growth in TTB consistent with FY18
- Before adjusting for the impact of the Daisy transaction (c.£15m Headline EBITDA in FY19) we still expect to deliver 15% Headline EBITDA(2) growth in FY19, as per our previous guidance, as a result of a larger customer base, stabilising ARPU, material WLA savings and other significant cost reductions
- Non-Headline items, both P&L and cash, expected to be lower year on year

Tristia Harrison, Chief Executive of TalkTalk commented:

"When we reset TalkTalk a year ago, we said we would focus on delivering sustained customer growth whilst radically simplifying the business. One year into the strategy, we are making good progress on both. Our customer base grew by 192k in FY18, underpinned by our unique propositions and our lowest ever churn. We have also made real progress in simplifying the business to focus on core, fixed connectivity. This will continue into FY19 with the sale of our direct B2B business, as we focus on cementing our position as the market leader in our core B2B markets, Partner and Wholesale, which represent over 80% of our B2B business and continues to grow strongly.

As expected, our decision to invest in growth has come with short-term implications for EBITDA, but positions us well for FY19, where the benefits of a bigger base, regulatory tailwinds and ongoing cost reduction mean we remain on track for EBITDA improvement of 15% (before Daisy) and Headline revenue growth.

We have also set out our strategy to be at the heart of Britain's full fibre future, in partnership with Infracapital. I am delighted to announce that Paul Reynolds will Chair the new company, with Charles Bligh having been appointed CEO, to oversee the roll out of a full fibre network to over 3 million homes and businesses, guaranteeing our long-term position as Britain's leading value provider of fixed connectivity."

(1) All customer KPIs relate to the On-net base. The closing Off-net base amounted to 43k at the end of FY18 (2017: 62k), representing c.1% of the total broadband base.

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

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

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

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
8.00am – Registration and coffee
8.30am – Presentation

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Live Dial-in: +44 (0) 20 3003 2666

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.

Replay (available for 7 days)

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Webcast: http://cache.merchantcantos.com/webcast/webcaster/4000/7464/16532/103166/Lobby/default.htm

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

We are also pleased to announce that Charles Bligh will become the CEO of the new company. Charles currently serves as Chief Operating Officer of TalkTalk. He has also served on the TalkTalk PLC board since 2014. Prior to this he was the Managing Director of TalkTalk Business, Technology and Security. Charles was also responsible for the initial TalkTalk JV starting the FTTP journey 4 years ago. Charles worked at IBM for almost 22 years where he held a number of senior executive and board roles and has worked internationally in Australia, US, China and Japan. He will remain on the TalkTalk Board until the end of June and leave TalkTalk once the new entity has been formed.

About Daisy
The Daisy Group is the largest independent provider of end-to-end technology, communications and cloud solutions to UK business. The group has revenues of c.£700m and 3,700 employees in over 30 locations across the UK.

Established in 2001, Daisy has grown its capabilities in line with the converging business communications and IT services markets. Daisy has a comprehensive product and service portfolio which includes lines and calls, data connectivity, security, mobile, LAN and WiFi, hybrid cloud, IT managed services and business continuity.

Daisy serves small, mid-market and enterprise businesses both directly and indirectly and it does this through its specialist business units – Daisy Retail, Daisy Wholesale, Daisy Distribution, Daisy Corporate Services and Daisy Partner Services.

Q4 trading – acceleration in net adds growth

In line with our guidance at Q3, we saw a substantial step up in broadband net adds[(1)], delivering materially higher base growth of +109k (Q4 2017: +22k, Q3 FY18: +37k), with growth once again split across both our Consumer and B2B divisions. This represents our highest ever quarterly net adds number and is the fifth consecutive quarter of broadband base growth. Q4 net adds exceeded guidance due to particularly strong performance in Wholesale.

We continued to see a strong demand for our FLPP, with both re-contracting and new acquisition activity driving the total number of customers on FLPP to over 2m by the end of the quarter (Q4 2017: 1.0m, Q3 FY18: 1.8m), representing nearly 70% of the Consumer base. We continue to see customers skewing towards 18 months (55%) and 24 months (32%) contracts, highlighting the importance of price certainty for consumers. Demand for fibre (+98k) was again very strong (Q4 2017: 73k, Q3 FY18: 89k) with 45% of new acquisition Consumer customers choosing to take the product.

The growth of the in-contract base (now 69%), alongside other operational and customer experience improvements, continues to contribute to improvements in churn, which fell to 1.16%[(1)] during the quarter (Q4 2017: 1.40%, Q3 FY18: 1.25%).

There continues be growth in the B2B Ethernet & EFM base, with 2.7k new lines added taking the total installed base to over 51k. This product will continue to be core to the B2B business post the Daisy transaction.

Headline revenues[(2)] (excluding Carrier of £7m and Off-Net of £2m) of £407m increased by 2.3% year-on-year during the quarter. This continues the improving trends in Group revenues (excluding Carrier and Off-Net) versus Q2 revenue growth of 0.8% and Q3 revenue growth of 1.0%. On-net revenues at £317m were down 2.8% on the same period in the prior year, impacted predominantly by the dilutive effect of re-contracting activity. Corporate revenues of £90m (excluding Carrier) grew strongly by 25.0% (Q4 2017: +9.1%, Q3 FY18: +5.9%).

On 8 February 2018, we successfully raised £201m (net of issue costs) from the placing of an aggregate of 190,654,206 new ordinary shares at a price of 107 pence per Placing Share to strengthen the Group's balance sheet, support continued customer growth and invest in long-term FTTP plans.

Looking forward

As we enter FY19, we are looking to maintain our growth momentum and are targeting net add growth of more than 150k consistent with our guidance given at Q3. Given our higher average base and stabilising ARPU we also expect to deliver growth in Headline revenue.

The recent Wholesale Local Access Market Review (WLA) ruling by Ofcom on the FTTC 40/10 product pricing will see cost of goods sold savings, enabling us to deliver margin expansion in FY19, whilst our move to radical self-serve will see significant cost efficiencies in cost to serve, and reviews of all spend across the business, will provide other operational cost savings. As a result of this, we remain on track to deliver 15% EBITDA growth in FY19, before adjusting for the impact of the Daisy transaction (c.£15m EBITDA for FY19).

At a Statutory level we will be reducing our non-Headline items in FY19 with the bulk of our transformational costs having now been incurred. As such P&L non-Headline items are expected to reduce materially. Whilst cash non-Headline items are expected to reduce, they will be higher than the P&L expense due to the phasing of payments.

CEO Review

It is just over a year since we reset TalkTalk to focus on sustained customer growth and radically simplifying the business on core, fixed connectivity. We made strong progress on both in FY18, whilst also taking long-term decisions to set the business up for future success, with a strengthened balance sheet and the launch of our full fibre strategy.

Market Context
We enter FY19 with a clear market opportunity for a value provider of fixed services. As the internet becomes an ever more important utility for families and businesses, consumer demand for connectivity continues to rise. Bandwidth requirements on our network rose by 43% last year, creating strong demand for higher capacity, higher value products.

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

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

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

The growth was driven in part by our unique FLPP. Over 2 million customers have now taken one of the plans. A materially higher proportion of the base is now in contract (69%), which, combined with service improvements, means churn continues to fall. FY18 saw us record our lowest ever full year churn of 1.22%, a material improvement on 2017 (1.45%). That means we exit the year with a larger, more stable customer base, setting the platform for revenue growth in FY19. The early behaviour of FLPP customers coming out of contract has been encouraging with churn below expectation.

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

TalkTalk Business continued its base growth, driven by particularly good performance in indirect services, sold through our network of partner and wholesale channels. FY18 saw TalkTalk Business surpass BT Wholesale to become the largest provider of wholesale broadband in the UK, with more than 50% market share. We see real opportunity to build upon our strength in that market in FY19 and are structuring the business accordingly.

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

However, as expected, Headline EBITDA(2) declined to £233m (2017: £361m) reflecting the planned investment in base growth and FLPP ARPU dilution.

Simplifying the business and sale of direct B2B business to Daisy
We made strong progress in simplifying the business as we focus on core fixed connectivity throughout FY18.

We completed a strategic partnership with O2, to distribute 4G SIMS to our base at discounted prices. The partnership allows us to continue offering great value mobile services to TalkTalk customers, but does so in a capital-light way that allows us to ruthlessly prioritise Capex on core, fixed connectivity. Early conversion rates are promising and the deal provides a profitable, ongoing revenue stream into FY19 and beyond.

We are also announcing further simplification in TalkTalk Business, having reached Heads of Terms on the sale of all the direct B2B business to Daisy for £175m. c.80,000 small, medium and large direct business customers will be transferred to Daisy, which will reduce EBITDA by c.£15m in FY19. As an existing strategic partner, Daisy are well placed to serve all of our direct customers, who will remain on our network and provide ongoing revenue. The deal allows TalkTalk Business to further prioritise the indirect market, where it has real strength and where we see opportunity to grow at pace. It also allows us to remove significant cost and complexity from the business.

As we continue to simplify the business to focus on fewer priorities, we are making significant Opex and Capex reductions, which we expect to drive material cost improvements in FY19. We go into the year as a leaner, more efficient business and that cost discipline will continue to underpin our value propositions.

Setting the business up for future success

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

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

Full Fibre

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

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

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

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

Looking into FY19
We enter FY19 with strong growth momentum. We will maintain our focus on growing the base, and forecast net adds of more than 150k, in line with our previous guidance.

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

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

At a statutory level we will be reducing our non-Headline items in FY19 with the bulk of our transformational costs having now been incurred. As such P&L non-Headline items are expected to reduce materially. Whilst cash non-Headline items are expected to reduce, they will be higher than the P&L expense due to the phasing of payments.

In summary, a year into the reset, we have made good progress. We have returned the base to growth, laid the foundations to continue to simplify our operations and strengthened the business. We will now see the benefit of that as we move into FY19. There is a lot more to do, but we have strong growth momentum and a clear opportunity to fulfil our potential as Britain's value provider of simple, affordable, reliable and fair connectivity.

CFO Review

Financial information

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

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

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

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

Overview

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Non-Headline items (2)

	2018 £m	2017 (restated (2)) £m
MVNO closure	**(46)**	(77)
Network transformation	**(17)**	(8)
Business reorganisation	**(19)**	-
Operating efficiencies – Property	**(12)**	(8)
Operating efficiencies – Making TalkTalk Simpler (MTTS)	**(3)**	(24)
Other	**-**	3
EBITDA	**(97)**	(114)
Depreciation and amortisation	**(12)**	(15)
Finance costs	**(10)**	-
Taxation	**22**	33
Non-headline items	**(97)**	(96)

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

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

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

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

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

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

Earnings per share

	2018	2017 (restated (2))
Headline earnings (£m)	**18**	154
Basic EPS	**1.8p**	16.2p
Diluted EPS	**1.8p**	16.1p
Statutory earnings (£m)	**(79)**	58
Basic EPS	**(8.1)p**	6.1p
Diluted EPS	**(8.0)p**	6.0p

EPS on a Headline basis is provided alongside our Statutory measures to assist in providing supplementary information that assists the user to understand better the financial performance, position and trends of the Group. A full reconciliation to Statutory results can be found in note 5.

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

Net debt and cash flow

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

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

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

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

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

Capital expenditure for the year was £128m (2017: £133m), representing 7.7% (2017: 7.7%) of Headline revenues. This expenditure is primarily for continued investment and enhancement of our network capability and investment in our online systems to support the launch of new propositions. We expect capital expenditure in FY19 to fall within our capex/revenue target of 6%–7%.

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

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

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

Dividends

Dividends of £71m paid in the year (2017: £150m) comprised the final dividend for 2017 of 5.00p and the interim dividend for FY18 of 2.50p.

The Board is committed to returning the business to revenue and customer base growth, improving cash generation and reducing leverage, and in this context has declared a final dividend for FY18 of 1.50p (2017: 5.00p), taking the total dividend for the year to 4.00p (2017: 10.29p). For FY19 the Board expects to declare an interim cash dividend of 1.00p (FY18: 2.50p) and 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 final dividend for FY18 will be paid on 3 August 2018, subject to approval at the AGM on 18 July 2018 for shareholders on the register on 6 July 2018 (ex-dividend 5 July 2018).

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

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

At 31 March 2018, the Group had total committed facilities, of £1,115m (2017: £1,244m), further detail of which is given in note 7. At 31 March 2018, £767m (2017: £832m) had been drawn under these facilities, leaving £348m (2017: £412m) of undrawn facilities.

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

Consolidated income statement

For the year ended 31 March 2018

	Notes	2018 Headline £m	2018 Non-Headline (note 5) £m	2018 Statutory £m	2017 (restated [1]) Headline £m	2017 (restated [1]) Non-Headline (note 5) £m	2017 (restated [1]) Statutory £m
Revenue	2	**1,658**	**50**	**1,708**	1,720	63	1,783
Cost of sales		**(774)**	**(38)**	**(812)**	(767)	(46)	(813)
Gross profit		**884**	**12**	**896**	953	17	970
Operating expenses excluding amortisation and depreciation		**(651)**	**(109)**	**(760)**	(592)	(131)	(723)
EBITDA	5	**233**	**(97)**	**136**	361	(114)	247
Depreciation and amortisation	3	**(131)**	**(12)**	**(143)**	(126)	(15)	(141)
Share of results of joint ventures		**(11)**	**–**	**(11)**	(11)	–	(11)
Operating (loss)/profit	3, 5	**91**	**(109)**	**(18)**	224	(129)	95
Net finance costs		**(45)**	**(10)**	**(55)**	(25)	–	(25)
(Loss)/profit before taxation	5	**46**	**(119)**	**(73)**	199	(129)	70
Taxation		**(28)**	**22**	**(6)**	(45)	33	(12)
(Loss)/profit for the year attributable to the owners of the Company	5	**18**	**(97)**	**(79)**	154	(96)	58
(Loss)/earnings per share							
Basic (p)	6			**(8.1)**			6.1
Diluted (p)	6			**(8.0)**			6.0

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

Consolidated statement of comprehensive income

For the year ended 31 March 2018

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

Consolidated balance sheet

As at 31 March 2018

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

Consolidated cash flow statement

For the year ended 31 March 2018

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

(1) See note 1 for details on cashflow presentation.

Consolidated statement of changes in equity

For the year ended 31 March 2018

	Notes	Share capital £m	Share premium £m	Translation reserve £m	Demerger reserve £m	Retained earnings and other reserves £m	Total equity £m
At 1 April 2016		1	684	(64)	(513)	123	231
Profit for the year		–	–	–	–	58	58
Other comprehensive expense							
Items that may be reclassified to profit or loss:							
Loss on hedge of a financial instrument		–	–	–	–	(5)	(5)
Total other comprehensive expense		–	–	–	–	(5)	(5)
Total comprehensive income		–	–	–	–	53	53
Transactions with the owners of the Company							
Share-based payments		–	–	–	–	3	3
Settlement of Group ESOT shares		–	–	–	–	3	3
Equity dividends	4	–	–	–	–	(150)	(150)
Total transactions with the owners of the Company		–	–	–	–	(144)	(144)
At 31 March 2017		1	684	(64)	(513)	32	140
Loss for the year		**–**	**–**	**–**	**–**	**(79)**	**(79)**
Other comprehensive income							
Items that may be reclassified to profit or loss:							
Gain on hedge of a financial instrument		**–**	**–**	**–**	**–**	**2**	**2**
Loss on a hedge reclassified to income statement		**–**	**–**	**–**	**–**	**6**	**6**
Total other comprehensive income		**–**	**–**	**–**	**–**	**8**	**8**
Total comprehensive expense		**–**	**–**	**–**	**–**	**(71)**	**(71)**
Transactions with the owners of the Company							
Share-based payments		**–**	**–**	**–**	**–**	**12**	**12**
Settlement of Group ESOT shares		**–**	**–**	**–**	**–**	**1**	**1**
Issue of shares	8	**–**	**–**	**–**	**–**	**201**	**201**
Equity dividends	4	**–**	**–**	**–**	**–**	**(71)**	**(71)**
Total transactions with the owners of the Company		**–**	**–**	**–**	**–**	**143**	**143**
At 31 March 2018		**1**	**684**	**(64)**	**(513)**	**104**	**212**

Notes to the consolidated financial statements

1. Basis of preparation

The financial information is derived from the Group's consolidated financial statements for the year ended 31 March 2018, which have been prepared on the going concern basis in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union, IFRS Interpretations Committee and those parts of the Companies Act 2006 (the Act) applicable to companies reporting under IFRS. There are no new or revised standards and interpretations that have had a material impact on the Group during the year. The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments and investments. The financial statements are presented in Sterling, rounded to the nearest million, because that is the currency of the principal economic environment in which the Group operates.

The consolidated financial statements were approved by the Directors on 24 May 2018.

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

The Company's auditors, Deloitte LLP, have given an unqualified report on the consolidated financial statements for the year ended 31 March 2018, which did not include reference to any matters to which the auditors drew attention without qualifying their report and did not contain any statement under section 498 of the Companies Act 2006. Subject to approval by the Company's shareholders, the consolidated financial statements will be filed with the Registrar of Companies following the Company's Annual General Meeting on 18 July 2018.

Alternative Performance Measures

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

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

Further explanation of what each APM comprises and reconciliations between Statutory reported measures and Headline measures are shown in notes 2, 5 and 6. Refer to the Glossary for comprehensive descriptions of all APMs including their relevance in providing supplementary information that assists the user to understand better the financial performance, position and trends of the Group. In addition, in response to the Guidelines on APMs issued by ESMA and the FRC and with a view to simplifying the Group's reporting, the Group has reduced the number of APMs used compared to the prior year. The APMs no longer used by the Group are Headline revenue, Headline EBITDA margin, Headline operating profit, Headline profit before taxation, Headline profit after taxation, Headline free cash flow and Headline leverage.

Headline measures represent trading results before non-Headline items which are defined in note 5. The directors believe that presentation of the Group results in this way is relevant to an understanding of the Group's financial performance, as non-Headline items are identified by virtue of their size, nature and/or incidence. This presentation is consistent with the way that financial performance is measured by management, reported to the Board, the basis of financial measures for senior management's compensation schemes and assists in providing supplementary information that assists the user to understand better the financial performance, position and trends of the Group. In determining whether an event or transaction is non-Headline, the Board considers both quantitative and qualitative factors such as the frequency or predictability of occurrence.

During the year, the Group has refined its policy in relation to non-Headline items so as to streamline its application, simplify the Group's reporting and ensure consistency between Headline and non-Headline performance. In particular, the Board considers the recognition of service level related credits should be included in Headline performance, consistent with the recognition of the associated costs for which the Group is being compensated. The MVNO operating loss, being in relation to an exited business, has also been recognised within non-Headline results. On this basis prior year results have been restated, giving rise to a decrease in the Group's Headline revenue of £63m, an increase in the Group's Headline EBITDA of £57m and an increase in Group's Headline profit before taxation of £66m. There is no impact on the Statutory performance of the Group or the Group's consolidated balance sheet, further detail is set out in note 5. The APMs used by the Group are not defined terms under IFRS and may therefore not be comparable with similarly titled measures reported by other companies. They are not intended to be a substitute for, or superior to, GAAP measures. All APMs relate to the current year results and comparative periods where provided.

Cash flow statement presentation

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

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

2. Segmental reporting

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

	2018 £m	2017 (restated (1)) £m
Statutory revenue	**1,708**	1,783
Less MVNO revenue	**(50)**	(63)
Headline revenue	**1,658**	1,720
Headline EBITDA	**233**	361
Depreciation of property, plant and equipment	**(69)**	(67)
Amortisation of operating intangibles	**(62)**	(59)
Share of results of joint ventures	**(11)**	(11)
Amortisation of acquisition intangibles	**(9)**	(10)
Non-Headline items – gross profit	**12**	17
Non-Headline items – operating expenses excluding amortisation and depreciation (note 5)	**(109)**	(131)
Non-Headline items – depreciation and amortisation	**(3)**	(5)
Statutory operating (loss)/profit (note 5)	**(18)**	95

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

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

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

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:

	2018 £m	2017 £m
Carrier	**72**	121
Data	**168**	157
Voice	**133**	119
Corporate revenue	**373**	397

3. Operating (loss)/profit

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

	2018 £m	2017 (restated [2]) £m
Depreciation of property, plant and equipment	**69**	69
Amortisation of other operating intangible assets	**62**	59
Amortisation of acquisition intangibles	**9**	10
Profit on disposal of property, plant and equipment	**–**	(2)
Impairment of operating intangibles	**2**	–
Gain on disposal of joint venture	**(1)**	–
Impairment loss recognised on trade receivables	**37**	60
Employee costs	**152**	136
Cost of inventories recognised in expenses	**48**	55
Rentals under operating leases	**101**	105
Supplier rebates	**(8)**	(13)
Service level related disputes [1]	**(14)**	(56)
Auditor's remuneration	**1**	1
Non-Headline items (note 5)	**97**	114
Non-Headline items – depreciation (note 5)	**3**	5

(1) Included in operating profit are associated increased costs relating to these service level related disputes.
(2) See note 1 for an explanation of APMs, non-Headline items, and further details regarding the restatement of the 2017 results.

4. Dividends

Accounting policy

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

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

	2018 £m	2017 £m
Ordinary dividends		
Final dividend for the year ended 31 March 2016 of 10.58p per ordinary share	**–**	100
Interim dividend for the year ended 31 March 2017 of 5.29p per ordinary share	**–**	50
Final dividend for the year ended 31 March 2017 of 5.00p per ordinary share	**47**	–
Interim dividend for the year ended 31 March 2018 of 2.50p per ordinary share	**24**	–
Total ordinary dividends	**71**	150

The proposed final dividend for the year ended 31 March 2018 of 1.50p (2017: 5.0p) per ordinary share on approximately 1,142 million (2017: 950 million) ordinary shares (approximately £17m) was approved by the Board on 24 May 2018 and will be recommended to shareholders at the AGM on 18 July 2018. The dividend has not been included as a liability as at 31 March 2018. The payment of this dividend will not have any tax consequences for the Group.

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

5. Reconciliation of Headline information to statutory information

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

Accounting policy – non-Headline items

As explained within note 1, during the year the Group has refined its policy in relation to non-Headline items. Headline measures represent trading results before non-Headline items. The directors believe that presentation of the Group results in this way is relevant to an understanding of our financial performance, as non-Headline items are identified by virtue of their size, nature and/or incidence. This presentation is consistent with the way that financial performance is measured by management, reported to the Board, the basis of financial measures for senior management's compensation schemes and assists in providing supplementary information that assists the user to understand better the financial performance, position and trends of the Group. In determining whether an event or transaction is non-Headline, the Board considers both quantitative and qualitative factors such as the frequency or predictability of occurrence.

During the periods under review, the non-Headline items excluded from operating profit in arriving at Headline operating profit were amortisation 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.

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

The following table includes details of non-Headline items:

Year ended 31 March 2018	**Revenue £m**	**Gross profit £m**	**EBITDA £m**	**Operating (loss)/profit £m**	**(Loss)/profit before taxation £m**	**Taxation £m**	**(Loss)/profit for the year £m**
Headline results	**1,658**	**884**	**233**	**91**	**46**	**(28)**	**18**
Exceptional items – Operating efficiencies – MTTS (a)	–	–	**(3)**	**(4)**	**(4)**	–	**(4)**
Exceptional items – Operating efficiencies – property (b)	–	–	**(12)**	**(12)**	**(12)**	**2**	**(10)**
Exceptional items – Network transformation (c)	–	–	**(17)**	**(19)**	**(19)**	**4**	**(15)**
Exceptional items – Mobile proposition (d)	–	–	**(33)**	**(33)**	**(33)**	**6**	**(27)**
MVNO operating loss (e)	**50**	**12**	**(13)**	**(13)**	**(13)**	**2**	**(11)**
Exceptional items – Business reorganisation (f)	–	–	**(19)**	**(19)**	**(19)**	**4**	**(15)**
Exceptional items – Finance expense (g)	–	–	–	–	**(10)**	**2**	**(8)**
Amortisation of acquisition intangibles (k)	–	–	–	**(9)**	**(9)**	**2**	**(7)**
Statutory results	**1,708**	**896**	**136**	**(18)**	**(73)**	**(6)**	**(79)**

Year ended 31 March 2017 (restated [(1)])	Revenue £m	Gross profit £m	EBITDA £m	Operating (loss)/profit £m	(Loss)/profit before taxation £m	Taxation £m	(Loss)/profit for the year £m
Headline results	1,720	953	361	224	199	(45)	154
Exceptional items – Operating efficiencies – MTTS (a)	–	–	(24)	(24)	(24)	5	(19)
Exceptional items – Operating efficiencies – property (b)	–	–	(8)	(8)	(8)	2	(6)
Exceptional items – Network transformation (c)	–	–	(8)	(11)	(11)	2	(9)
Exceptional items – Mobile proposition (d)	–	–	(49)	(49)	(49)	10	(39)
MVNO operating loss (e)	63	17	(28)	(30)	(30)	5	(25)
Exceptional items – Acquisitions and disposals (i)	–	–	1	1	1	–	1
Exceptional items – Operating expenses – cyber attack (j)	–	–	2	2	2	(1)	1
Exceptional items – Taxation items (h)	–	–	–	–	–	8	8
Amortisation of acquisition intangibles (k)	–	–	–	(10)	(10)	2	(8)
Statutory results	1,783	970	247	95	70	(12)	58

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

During the year ended 31 March 2018, cash exceptional items were £60m (2017: £45m).

The above table shows how all APMs are reconciled to Statutory performance measures with the exception of Headline earnings per share (note 6) and net debt.

Net debt of the Group comprises:

	2018 £m	2017 £m
Headline net debt [(2)]	**(724)**	(782)
Finance leases	**(31)**	–
Net debt	**(755)**	(782)

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

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

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

These programmes have resulted in £4m (2017: £24m) of costs including project management, redundancy, consultancy, migration, call centre costs and accelerated depreciation costs.

A total taxation credit of £5m has been recognised on these costs in the year ended 31 March 2017.

(b) Operating efficiencies – fundamental property rationalisation
The Group has fundamentally rationalised the sites from which it operates including the relocation of its Warrington and Irlam sites to one site at the Soapworks in Salford together with the rationalisation of our London property footprint. The revised estimated cost of this property rationalisation programme has been provided for during the year and has given rise to additional costs of £12m (2017: £8m).

A total taxation credit of £2m has been recognised on these costs in the year ended 31 March 2018 (2017: £2m).

(c) Network transformation
During the year ended 31 March 2017, the Group embarked on a significant multi-year transformation programme which will fundamentally restructure the Group's network, IT infrastructure and technology organisation. The change the Group is undertaking will ensure it is fit for the future and underpins the wider Group strategy in providing a great service to our customers as a value provider in the industry. This is a discrete project expected to run until 2021.

This programme has resulted in £19m (2017: £11m) of costs including project management, consultancy, dual running costs, decommissioning costs and accelerated depreciation costs.

A total taxation credit of £4m has been recognised on these costs in the year ended 31 March 2018 (2017: £2m).

(d) Mobile proposition

Following the Group's announcement in May 2017 to reassess the Group's mobile strategy net exceptional costs have been incurred in relation to decommissioning costs, asset write offs, provision releases, onerous supplier commitments and redundancies amounting to £33m (2017: £49m).

A total taxation credit of £6m has been recognised on these costs in the year ended 31 March 2018 (2017: £10m).

(e) MVNO operating loss

Following the Group's announcement in May 2017 to reassess the Group's mobile strategy, the Group is now progressing with its alternative mobile distribution strategy. Operating losses of £13m (2017: £30m) associated with the MVNO strategy have been incurred, given this one-off strategic decision, management consider these material losses are non-Headline items though they do not meet the criteria under IFRS 5 for separate disclosure as discontinued operations. The MVNO trading activity will continue to diminish as contractual commitments expire, with the expectation that a loss will arise in 2019.

A taxation credit of £2m has been recognised on these costs (2017: £5m).

(f) Business reorganisation

Net costs of £19m (2017: £nil) have been incurred associated with implementing changes to the Group's organisational structure following the Group reorganising the business under the new leadership team.

The costs include redundancy, other rationalisation costs and consultancy costs. The Group expects the finalisation of this fundamental reorganisation within 2019.

A taxation credit of £4m has been recognised on these costs (2017: £nil).

(g) Finance expense
During the year ended 31 March 2018, the Group completed the repurchase of its $185m US Private Placement Notes. This resulted in incremental costs of £8m (2017: £nil) relating to the settlement of derivative instruments in designated hedge accounting relationships and associated fees. The Group also refinanced its revolving credit facilities, resulting in the accelerated amortisation of arrangement fees relating to the previous facilities leading to a £2m (2017: £nil) charge in the period.

A total taxation credit of £2m has been recognised on these items in the year ended 31 March 2018 (2017: £nil).

(h) Taxation items
During the year ended 31 March 2017, the Group resolved a longstanding enquiry with HMRC in relation to the tax treatment of £85m of losses in respect of TalkTalk Brands Limited. This resulted in a tax credit of £8m.

(i) Acquisitions and disposals
During the year ended 31 March 2017, final migrations of prior year customer base acquisitions were completed. Following completion any amounts provided for but not utilised were released resulting in a credit of £1m.

(j) Cyber attack
During the year ended 31 March 2017, the Group received insurance proceeds of £3m in relation to specific cyber related costs incurred in the prior year, these were offset by £1m of costs incurred in the prior year.

A total taxation charge of £1m was recognised on these items in the year ended 31 March 2017.

(k) Amortisation of acquisition intangibles
An amortisation charge in respect of acquisition intangibles of £9m was incurred in the year ended 31 March 2018 (2017: £10m).

A total taxation credit of £2m (2017: £2m) has been recognised in relation to the charge in the year ended 31 March 2018.

6. (Loss)/earnings per ordinary share

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

	2018 £m	2017 (restated (1)) £m
Headline earnings (note 5)	**18**	154
Statutory (loss)/earnings	**(79)**	58
Weighted average number of shares (millions)		
Shares in issue	**979**	955
Less weighted average holdings by Group ESOT	**(4)**	(7)
For basic EPS	**975**	948
Dilutive effect of share options (note 5)	**12**	11
For diluted EPS	**987**	959

	2018 Pence	2017 Pence
Basic earnings per ordinary share		
Headline	**1.8**	16.2
Statutory	**(8.1)**	6.1

	2018 Pence	2017 Pence
Diluted earnings per ordinary share		
Headline	**1.8**	16.1
Statutory	**(8.0)**	6.0

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

7. Cash and cash equivalents and borrowings

(a) Cash and cash equivalents comprise:

	2018 £m	2017 £m
Cash at bank and in hand	**43**	50

The effective interest rate on bank deposits and money market funds was 0.2% (2017: 0.1%).

(b) Borrowings comprise:

	Maturity	**2018 £m**	2017 £m
Current			
£75m receivables purchase facility	2018	**67**	–
Finance leases	2018	**8**	–
		75	–

	Maturity	**2018 £m**	2017 £m
Non-current			
$185m US Private Placement (USPP) Notes	2021, 2024, 2026	–	148
£560m revolving credit facility	2019	–	165
£50m bilateral agreements	2019	–	50
£100m term loan	2019	–	50
£75m receivables purchase agreement facility	2018	–	58
£400m Senior Notes	2022	**400**	400
£640m revolving credit facility	2022	**300**	–
Finance leases	2019, 2020, 2021, 2022, 2023	**23**	–
Non-current borrowings before derivatives		**723**	871
Total borrowings before derivatives		**798**	871
Derivatives		–	(39)
Total borrowings after derivatives		**798**	832

Total borrowings after derivatives comprise:

	2018 £m	2017 £m
Headline debt	**767**	832
Finance leases	**31**	–
Total borrowings after derivatives	**798**	832

Undrawn available committed facilities are as follows:

	Maturity	**2018 £m**	2017 £m
Undrawn available committed facilities	2018, 2022	**348**	412

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

	2018 £m	2017 £m
Less than 1 year	**75**	–
1 to 2 years	**7**	58
2 to 3 years	**7**	265
3 to 4 years	**406**	–
4 to 5 years	**303**	482
Greater than 5 years	–	27
Total borrowings after derivatives	**798**	832

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

Borrowing facilities

The Group's committed facilities total £1,115m (2017: £1,244m). The Group's uncommitted facilities total £110m (2017: £116m) giving headroom on committed facilities and uncommitted facilities of £348m (2017: £412m) and £110m (2017: £116m) respectively.

The financial covenants included in each bank facility and the USPP Notes restrict the ratio of net debt to EBITDA and require minimum levels of interest cover. The amounts used in the covenant calculations are subject to adjustments for the receivables purchase facility and non-Headline items. The Group was in compliance with its covenants throughout the current and prior periods.

Details of the Group's borrowing facilities as at 31 March 2018 are set out below:

£400m Senior Notes

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

£640m revolving credit facility (RCF)

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

Receivables purchase agreement

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

Uncommitted money market facilities and bank overdrafts

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

Finance leases

The Group uses finance leases as an alternative source of financing for significant items of capital expenditure, matching the cash profile with the life of the asset and offering flexibility regarding ownership of the lease at the end of the finance term. Finance leases at 31 March 2018 were £31m (2017: £nil).

$185m USPP Notes

In August 2017, the Group re-purchased 100% of the $185m of USPP Notes originally maturing in three tranches ($139m in 2021, $25m in 2024 and $21m in 2026).

£560m revolving credit facility (RCF), £50m bilateral agreement and £100m term loan

In May 2017, the Group refinanced the 2014 RCF, the 2014 bilateral agreement and the £100m term loan repaying the outstanding debt with the proceeds from the new £640m RCF, which matures in May 2022.

8. Share capital

	2018 million	2017 million	**2018 £m**	2017 £m
Authorised, issued and fully paid				
Ordinary shares of 0.1p each	**1,146**	955	**1**	1

The Company has one class of ordinary share that carries no right to fixed income. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

On 8 February 2018, the Group placed an aggregate of 190,654,206 new ordinary shares of 0.1 pence at a price of 107 pence per Placing Share to raise net proceeds of £201m after expenses. The Placing Shares represented approximately 19.95% of the Company's existing issued share capital. The placing utilised a cash box structure, whereby the cash box entity issued redeemable preference shares in consideration for the receipt of the cash proceeds (net of issue costs) arising from the placing. The Company's ordinary shares were issued as consideration for the transfer to it of the shares, which it did not already own, in the cash box entity. As a result, in the opinion of the Board, the placing qualified for merger relief under section 612 of Companies Act 2006 so that the excess of the value of the acquired shares in the cash box entity over the nominal value of the ordinary shares issued by the Company was credited to the Company's other reserves.

The Placing Shares, ranked pari passu in all respects with the existing Ordinary Shares, including the right to receive all dividends and other distributions declared, made or paid after the date of issue.

9. Analysis of changes in net debt

	Opening £m	Net cash flow £m	Non-cash movements £m	Closing £m
2018				
Cash and cash equivalents	**50**	**(7)**	–	**43**
Borrowings	**(871)**	**104**	–	**(767)**
Derivatives	**39**	**(39)**	–	–
Headline debt (note 7)	**(832)**	**65**	–	**(767)**
Headline net debt	**(782)**	**58**	–	**(724)**
Finance leases (note 7)	–	–	**(31)**	**(31)**
Net debt (1)	**(782)**	**58**	**(31)**	**(755)**

	Opening £m	Net cash flow £m	Non-cash movements £m	Closing £m
2017				
Cash and cash equivalents	10	40	–	50
Borrowings	(709)	(143)	(19)	(871)
Derivatives	20	–	19	39
Headline debt	(689)	(143)	–	(832)
Headline net debt and net debt (1)	(679)	(103)	–	(782)

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

10. Post balance sheet events

On 24 May 2018, the Group announced plans to sell its direct B2B business to The Daisy Group for £175m. The transaction includes all direct business customers, who will be served by Daisy but will remain on Group's network via a new wholesale agreement. The transaction represents a non-adjusting post balance sheet event and underpins the Group's strategy to focus on core, high-growth partner and wholesale B2B channels.

Glossary: Alternative Performance Measures

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

APM	**Closest equivalent IFRS measure**	**Adjustments to reconcile to IFRS measure**	**Note reference for reconciliation**	**Definition and purpose**
Income statement measures				
Headline revenue (excluding Carrier and Off-net)	Statutory Revenue	Excludes non-Headline items, specifically MVNO Revenue. In addition, also excludes Carrier and Off-net revenues	Note 2	Represents revenue excluding non-Headline revenue (currently comprising businesses being exited), low margin/volatile Carrier revenue and non-core Off-net revenue
Headline earnings before interest, tax, depreciation and amortisation (EBITDA)	Operating profit	Operating profit excluding exceptional items, MVNO operating loss, depreciation and amortisation	Note 5	Represents operating profit before non-Headline items, depreciation, amortisation and share of results of joint ventures to assist in the understanding of the Group's performance and trends
Headline basic EPS	Basic EPS	Basic EPS excluding non-Headline items	Note 6	Represents Basic EPS excluding non-Headline items and assists in providing supplementary information that allows the user to understand better the underlying trading results
Balance sheet measure				
Headline net debt	Total borrowings after derivatives offset by cash and cash equivalents excluding finance leases	Senior Notes and bank borrowings facilities offset by cash and cash equivalents	Note 5	Represents all drawn amounts on Senior Notes and bank borrowings facilities offset by cash and cash equivalents. It is a useful measure of the progress in generating cash and strengthening of the Group balance sheet position
Net debt	Total borrowings after derivatives offset by cash and cash equivalents	Headline net debt and finance leases	Note 5	Represents total borrowings after derivatives offset by cash and cash equivalents. It is a useful measure of the progress in generating cash and strengthening of the Group balance sheet position and is a measure widely used by various stakeholders