EMBARGOED UNTIL 7.00 AM ON 11 JUNE

11 June 2020

TalkTalk Telecom Group PLC
Preliminary results for the year ended 31 March 2020 (FY20)
Headline EBITDA growth of 9.7% (pre-IFRS 16); 34% Fibre customer base growth
Strong FY21 cash conversion; Dividend of 2.5p maintained

Metric	**FY20 IFRS 16** [1]	**FY20 Pre-IFRS 16** [1]	**FY19 Pre-IFRS 16** [1]
Headline [2] revenue (ex-Carrier and Off-net)	£1,518m	£1,518m	£1,544m
Statutory revenue	£1,569m	£1,569m	£1,632m
Headline [2] EBITDA	£308m	£260m	£237m
Statutory operating profit	£197m	£202m	£47m
Statutory profit/(loss) before taxation	£131m	£146m	(£5m)
Net Debt [2,3]	£954m	£775m	£781m
Fibre net adds	605k	605k	490k
Fibre closing base	2,370k	2,370k	1,765k
Closing On-net broadband base	4,220k	4,220k	4,289k
On-net ARPU	£24.35	£24.35	£24.98
On-net churn	1.20%	1.20%	1.20%

Tristia Harrison, Chief Executive of TalkTalk, commented: *"Our priority throughout the COVID-19 pandemic has been to keep the nation connected, while keeping employees safe. Access to reliable, affordable connectivity has never been so important - and low prices matter now more than ever before. As the only scale, value provider, TalkTalk continues to be well positioned to meet this demand. Our strong and resilient network has kept families, friends and communities connected nationwide; and provided vital services for the NHS, care homes and supermarket distribution centres.*

Our FY20 performance has been robust. We have grown our Fibre Broadband base by 34% and grown our Headline EBITDA by 9.7%. Whilst industry wide Voice usage declines and the continued re-contracting of the legacy copper base has led to some revenue decline, this has been more than made up by ongoing cost reduction and simplification. The completion of our HQ move from London to Salford and the sale of our Fibre Assets Business to CityFibre for £206m has made us a simpler and more resilient business.

Looking ahead to FY21, we remain in a robust operational and financial position, with levers in our control to manage costs further, whilst having not required any furlough or government assistance. While the uncertainties of COVID-19 mean we will not be providing formal guidance, based on current trends we would expect to deliver stable Headline EBITDA year on year, after assuming a c.£15m COVID-19 impact. We also expect strong cash conversion and will therefore be maintaining the dividend at 2.5p."

Pre-recorded management presentation link:
https://webcast.merchantcantoscdn.com/webcaster/dyn/4000/7464/16532/121981/Lobby/default.htm

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

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[1] *IFRS 16 has been applied using the modified retrospective approach. Accordingly, the comparative information has not been restated, with FY20 results presented both including and excluding IFRS 16 to allow year on year analysis on a consistent basis. This alternative performance measure (APM) will be presented for one year only until the comparatives also include the adoption of IFRS 16. See note 1 for more information.*
[2] *See note 1 for an explanation of APMs and non-Headline items and note 4 for a reconciliation of Statutory information to Headline information.*
[3] *Total net debt includes £217m lease liability, under IFRS 16, of which £38m relates to finance leases (FY19: £39m finance leases).*

COVID-19

- COVID-19 pandemic has seen good quality, reliable connectivity become an absolute necessity, further validating our position as the only scale, value provider in the market
- Whilst the telecommunications sector has not felt the most severe effects of the COVID-19 pandemic, we will not be completely immune from the longer lasting macroeconomic impacts of the virus
- The wellbeing and safety of our workforce has been a key focus for the management team. Thankfully, given critical worker status, the vast majority have been able to safely work from home. We have managed to navigate the crisis without needing to furlough any TalkTalk employees, with multiple roles re-purposed to help serve our customers
- Worked closely with Government, and have provided connectivity at key locations, including a number of the NHS Nightingale Hospitals, numerous care homes and supermarket distribution centres
- Lockdown measures have resulted in material increases in daytime internet traffic and Voice usage, but our network has had sufficient headroom to handle these increases
- Engineers have been unable to visit customer premises and this, combined with consumers being reticent to switch for fear of losing connectivity, has led to lower gross additions; churn continues to be low based on our underlying improvements in customer experience and repair
- Closure of third party overseas call centres has reduced our call handling capacity, meaning we have prioritised vulnerable customers through this channel. However, all customers have been able to interact with us digitally, accelerating our move to a 'digital first' service model. We will not be returning to pre-COVID-19 contact centre agent levels, further supporting our cost reductions
- The extended lockdown and subsequent economic challenges may lead to an element of negative bad debt recoverability and we will watch revenue carefully as various furlough schemes fall away in the autumn. We continue to have significant flexibility in the cost base to offset these bad debt and / or potential revenue impacts
- In light of this uncertainty we took a £3m provision, with regards to bad debt in FY20, and at present assume a c.£15m impact for FY21, reflecting current demand and bad debt

Operational highlights

- Sale of Fibre Assets Business to CityFibre for £206m completed on 27 March 2020, underpinned by a long-term, competitive wholesale agreement
- Closing Fibre base 34% higher year on year at 2,370k (FY19: 1,765k) with net adds of 605k (FY19: 490k), accounting for 32% share of all new Openreach Fibre to the Cabinet (FTTC) lines in FY20 (FY19: 22%)
- Strong Fibre uptake in both Consumer and B2B throughout FY20, with 78% of new Consumer customers taking a Fibre product (FY19: 58%) and 58% of new Partner connections taking Fibre (FY19: 42%)
- The overall broadband base contracted by 69k to 4,220k, as we continued our strategy of growing the Fibre base and taking a customer lifetime value (CLV) approach to base management, which saw some of our low-value legacy copper customers churn. The base returned to growth in Q4 with 7k net additions
- Ongoing low level of average monthly churn at 1.20% (FY19: 1.20%), with Q4 the lowest ever at 1.04%
- Completed operational transition of HQ from London to Salford, consolidating our employees in a single northern campus with material increases in engagement and productivity, whilst delivering cost savings in line with plan

Financial highlights [1,2,3]

- Headline revenue (ex-Carrier and Off-net) and On-net ARPU down 1.7% and 2.5% respectively, largely due to the lower base and lower Voice usage and call boost revenue across Consumer and B2B. We also accelerated our strategy of re-contracting of our remaining higher ARPU legacy Copper customers onto a Fixed Low Price Plan (FLPP), ahead of regulatory and industry commitments on out of contract pricing, increasing our in-contract base to 71% (Q4 FY19: 68%). These effects were partly offset by increased Fibre penetration
- Statutory revenue contracted by 3.9% mainly due to declining Carrier revenue and lower non-Headline MVNO revenue as we wind down this business
- Headline EBITDA (pre-IFRS 16) grew 9.7% to £260m (FY19: £237m) driven by lower cost to serve due to a reduction in faults and contact centres calls as a result of an increase in more reliable Fibre connections, and the efficiencies from the move to our Salford campus and our new distribution agreement leading to a materially lower cost base
- Statutory operating profit improvement reflects the profit on disposal of the Group's Fibre Assets Business, Headline EBITDA growth and fewer non-Headline items
- Net debt (pre-IFRS 16) broadly flat year on year with the sale of the Group's Fibre Assets Business offset by significant working capital outflows due to settling a key supplier monthly invoice earlier than forecast (resulting in an additional payment year on year), a change in distribution model and accelerated Fibre growth, as well as the cash cost of our HQ move
- Re-financed the Group's borrowings in February 2020 with issuance of £575 million 3.875% senior notes due 2025 (replacing previous £400m 5.375% senior notes due 2022); reduction of RCF from £640m to £430m in April 2020
- Final dividend of 1.50p (FY19: 1.50p); total 2020 dividend of 2.50p (2019: 2.50p)

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Looking forwards

- Whilst we do not expect a significant deviation from our previous FY21 objectives, given the COVID-19 uncertainty, we do not feel it is appropriate to give formal guidance for the year at this stage
- However, based on current trends we would expect to deliver stable Headline EBITDA year on year, assuming a c.£15m COVID-19 impact. The expectation is ongoing flexibility in the cost base, accelerated by COVID-19, should offset any potential negative impact on bad debt or revenues
- We expect strong cash conversion as we continue to de-lever towards our medium term target of 2.0x net debt/Headline EBITDA. This will be driven by materially lower working capital, reduced Capex, lower interest and significantly fewer re-organisation costs. We will therefore maintain the dividend at 2.5p and we will review our dividend policy as we continue to de-lever over the medium term

FY20 financial results [1,2]

Headline revenue (excluding Carrier and Off-net) contracted by 1.7%, with ongoing Voice decline and ARPU dilution partly offset during the year by a continued strong increase in Fibre penetration. Headline EBITDA increased to £308m (including the impact of IFRS 16). Prior to the adoption of IFRS 16, Headline EBITDA grew by 9.7% to £260m (2019: £237m) reflecting the continued focus on reducing the cost base of the business and the lower cost of serving our increasing Fibre customers. Due to the disposal of our Fibre Assets Business, resulting in a profit on disposal of £127m, our Statutory profit before tax increased to £131m (pre-IFRS 16: £146m) from a £5m loss in the prior year. The Board has recommended a final dividend of 1.50p (2019: 1.50p) in line with our stated dividend policy.

Q4 trading – increasing momentum in Fibre base growth and penetration [1,2,4]

Metric	Q4 FY20	Q4 FY19
Headline revenue (ex-Carrier and Off-net)	**£371m**	£387m
Headline On-net revenue	**£306m**	£318m
Headline Off-net revenue	**£3m**	£3m
Headline Corporate revenue	**£70m**	£79m
Headline Data revenue	***£40m***	*£43m*
Headline Voice revenue	***£25m***	*£26m*
Headline Carrier revenue	***£5m***	*£10m*
Fibre Net Adds	**165k**	152k
On-net ARPU	**£24.19**	£24.72
On-net churn	**1.04%**	1.21%
Ethernet Net Adds	**1.5k**	1.3k

Highlights

- **Acceleration of Full Fibre strategy**
  - On 27 March 2020 TalkTalk announced the completion of the sale of its Fibre Assets Business for £206m to CityFibre
- **Continued focus on Fibre in Consumer and B2B**
  - Strong momentum in Fibre net adds continued with 165k during Q4 (Q4 FY19: 152k), accounting for 33% share of all new Openreach Fibre to the Cabinet (FTTC) lines in Q4 (Q4 FY19: 24%)
  - 83% of new Consumer customers took a Fibre product (Q4 FY19: 70%) with 76% of these taking the faster, higher ARPU 80Mbps product (Q4 FY19: 31%)
  - 69% of new Partner customers in our B2B division took a Fibre product (Q4 FY19: 41%)
  - Fibre customers benefit from faster, more reliable connectivity, and are accretive to CLV with lower churn and lower cost to serve, as well as higher ARPU compared to Copper customers
- **Fibre penetration contributing to lowest ever churn**
  - Q4 churn at 1.04% represents our lowest ever monthly churn figure, reflecting higher Fibre penetration of the base, with these customers getting a faster, more reliable service and churning less. COVID-19 also had an impact on customer behaviour, with the closing weeks of the year seeing lower churn as people were confined to their homes and unwilling to lose connectivity by switching providers
- **Consistent strategy in Data business**
  - The Ethernet base grew by 1.5k (Q4 FY19: 1.3k), with 38% of orders for higher ARPU 1Gb lines (Q4 FY19: 29%)
  - Ethernet circuits are high margin products and the 1Gb product has materially higher ARPU and lower churn
- **Revenue and ARPU**
  - Revenue (ex-Carrier and Off-net) contracted by 4.1% year on year due to the industry-wide decline in Voice revenue, a lower average base, the competitive environment and accelerated re-contracting of some higher ARPU legacy customers offset by increased Fibre penetration
  - On-net ARPU was down 2.1% year on year due to legacy Voice decline, ARPU dilution from legacy base re-contracting and the retail/wholesale mix of the base, offset by Fibre penetration
  - Both revenue and ARPU experienced a small impact from COVID-19 with lower sales, the removal of call usage caps and a number of people pausing or cancelling their TV sports boosts when the Premier League stopped

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CEO review

Overview [1,2]

Whilst the global landscape has changed immeasurably, as a result of the COVID-19 pandemic, the vast majority of our reported financial year (FY20) was completed prior to this crisis, and as such, much of this review looks back at the year through that lens. However, there is no escaping the ongoing global economic impact of COVID-19, so we will address the impact it has had, and will likely continue to have, on TalkTalk at the end of this review in a COVID-19 specific section.

The underlying business is strong. We are now three years on since we set out our strategy to be Britain's leading value provider of core fixed connectivity. As we exit the current financial year, our strategy remains unchanged, with our focus on providing our customers the best value for money connectivity, whilst radically simplifying TalkTalk to focus on fewer priorities as a leaner, more efficient business.

Our strategy is underpinned by the sharp growth in demand for data consumption from both consumers and businesses, with data usage continuing to increase exponentially (c.40% year on year), driven by video streaming, online gaming and cloud storage services. This has only been accelerated by COVID-19, with data usage increasing further as people have been confined to their homes and relying on the internet for all manner of things, from working at home, to doing their online shopping, to keeping in touch with loved ones on various video call platforms, to completing a PE class online via YouTube. The internet is increasingly a utility and consequently, the demand for affordable and reliable fixed connectivity continues to rise, as does the consumer demand for higher speed and more resilient broadband.

These market dynamics continue to validate our strategy to focus on fixed connectivity and to specifically narrow our focus on higher bandwidth part-Fibre and Full Fibre broadband, as legacy copper infrastructure fast becomes not fit for purpose. Crucially, alongside this, we are continuing to reduce our cost base, as we remain resolutely focused on having a low cost structure that enables us to profitably provide customers with lower prices. This strategy has led to a 9.7% year on year increase in pre-IFRS 16 Headline EBITDA to £260m (£308m after the application of IFRS 16), including a £3m provision for COVID-19 bad debt. On a Statutory basis pre-IFRS 16 operating profit of £202m (£197m after the application of IFRS 16) was significantly higher than the prior year (£47m pre-IFRS 16) reflecting the profit on disposal of the Group's Fibre Assets Business, EBITDA growth and fewer non-Headline items.

With the increasingly uncertain economic climate, low prices matter even more, and TalkTalk continues to be well positioned to benefit as the only scale, value provider.

Fibre for Everyone

Throughout the year, we have continued to make strong progress on our strategy of converting standard broadband customers from legacy Copper connections to Fibre to the Cabinet (FTTC). These customers benefit from faster, more reliable connectivity, whilst for TalkTalk these customers come with a higher lifetime value. We now have nearly 60% of the total Consumer and B2B base taking a FTTC product. However, as customers continue to demand even faster, more reliable services, our long-term ambition is to transition all customers to new Fibre to the Premise (FTTP) networks as quickly as possible. These FTTP services provide significantly greater speeds, as well as enhanced reliability and quality, meaning fewer faults, and therefore fewer calls to our call centres and reduced demand for engineer visits. As such, we expect this transition will provide customers with access to a superior product that will continue to reduce our cost to serve, enabling us to deliver competitive prices and retain customers for longer.

Supporting this ambition, we created our 'Fibre for Everyone' programme. This is a cross-Group initiative, in an extension of our commercial wholesale FTTC agreements with Openreach, where we will aggregate wholesale FTTP from a range of network operators to provide future-proof connectivity to homes and businesses across the UK. In an acceleration of our Full Fibre strategy, on 27 March 2020, we completed the sale our Fibre Assets Business for £206m to CityFibre. The sale represented an excellent return on investment and is accompanied by a long term, competitive wholesale agreement. We continue to work with CityFibre on a roll-out plan that will enable us to bring FTTP to as many customers as possible, as fast as possible. Separately, we remain in talks with Openreach to gain access to competitive pricing to encourage faster adoption of FTTP throughout the UK. We will also seek to enter into wholesale agreements for FTTP with other altnets where we are able to do so.

We spent much of the first half of the year building the systems and capability to provide FTTP services and throughout the second half of the year have launched Openreach FTTP to customers on trial pricing. We continue to be well placed to succeed in this space. With multiple routes to market through TalkTalk Consumer, Business and Wholesale, as well as a significant existing customer base, we are one of the few scale operators able to offer significant volume commitments to network builders and drive commercial advantage.

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Consumer

Our single-minded focus on Fibre continues to bear fruit as customers are increasingly demanding faster, more reliable services. We saw another meaningful shift from legacy Copper to Fibre, as we delivered 605k Fibre net adds across the Group in FY20, making significant year on year progress (FY19: 490k). Nearly 60% of our total base (Consumer and B2B) is now taking a Fibre product, with the total Fibre base now almost 2.4 million customers.

Our propositions continue to resonate with our Consumer customer base, with an ever-increasing proportion of new customers signing up to a Fibre product. As we exited the year, 85% of new Consumer customers in March signed up to one of our higher speed products compared to 72% at the same stage twelve months ago. Of these new Fibre customers, 49% took our faster, higher ARPU 80Mbps product throughout FY20 (FY19: 30%). Lower wholesale costs from Openreach mean we can continue to migrate more of our base to these faster services more economically.

Continued investment in new 'digital first' self-service tools has led to significant improvements in the customer experience, evidenced by increasing satisfaction scores and NPS. Our online service centre tool provides a digital platform empowering the customer to choose the right customer service option for them, and often allowing customers to identify and resolve issues online without having to speak to an agent. This tool has been rolled out to all of our Consumer base and combined with other self-service methods (e.g. text messaging and live chat), we are seeing a reduction in call volumes, fewer complaints and increased customer satisfaction, which is leading to lower costs to serve. Increasingly, customers are also using the online service centre to self-adopt faster Fibre products, where they can see if their current speed is fit for their usage needs.

During the year, we kept On-net churn flat at 1.20% (FY19: 1.20%), although we saw an improvement from 1.27% in the first half to 1.12% in the second half, with our lowest ever quarter for churn at 1.04% in Q4 (although this was in part due to a slowdown in churn as a result of COVID-19 at the end of March). Throughout FY20 we saw some ARPU dilution as we actively targeted some of our remaining higher ARPU legacy Copper customers to re-contract onto FLPPs, ahead of regulatory and industry commitments on out of contract pricing. As such, our in-contract base increased to 71% (Q4 FY19: 68%). We also made a number of commitments in September 2019 to improve our customers' experience, including making it easier for new and existing customers to access the same deals from January 2020, as well as ensuring vulnerable customers are proactively moved to the best package for their needs. These pre-emptive actions leave us well positioned ahead of any further regulatory intervention on the 'loyalty penalty' paid by existing customers.

TalkTalk Business [4]

We have seen very similar trends in our B2B division, with clients consuming more data and demanding higher speed connections. As such, our strategy is consistent across both divisions, with the upgrade of customers to higher speed Fibre and Data products being the primary focus for both the indirect and Direct B2B business. The majority of new customers in our indirect partner business are now joining on Fibre products, with 58% of gross additions taking Fibre throughout FY20 (FY19: 42%), peaking at 69% in Q4 (Q4 FY19: 41%), delivering the highest ever quarterly Fibre net adds number in B2B.

Throughout the year we strategically locked in a number of our key Broadband and Ethernet partners with long term commitment deals, albeit with some moderate ARPU dilution – in return for contract security (average five years). We grew the overall Ethernet base to 42.6k (FY19: 37.3k), with 5.3k net adds (FY19: 5.3k), representing c.17% share of all new Openreach Ethernet lines, ahead of our market share of c.13%. Importantly within the mix, we saw 36% of orders for our 1Gb service (FY19: 23%), which comes with significantly higher ARPU and lower churn.

Given the success of 'My Online Service Centre' in the Consumer business, we have started to share our proprietary data with our partners to enable them to enhance their end-customer experience. Not only does this lead to more content customers, this also strengthens our relationship with key partners, as we work together to provide the best possible service to customers.

To ensure we maximise the growth potential of our Direct B2B business, we structured it as a stand-alone business division in the prior year with a new dedicated management team. This renewed focus, coupled with some targeted investment, has seen the Direct business prosper, delivering record Fibre net adds.

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Network and connectivity

Our core strategy remains the provision of fixed line connectivity, affordable for all. This means network expansion to stay ahead of demand is our core investment priority to meet rising demand (+40% year on year). Crucially, we are doing this more efficiently by exploiting new technology to reduce our cost per Gb, whilst driving industry changes along the way. Video streaming and online gaming continue to dominate peak bandwidth consumption, contributing to our peak usage record of over 6.4Tbps. To help manage this demand, we have successfully continued our strategy of storing (caching) content as close to the network edge as possible to minimise buffering and optimise required network expansion. We now serve over 90% of Netflix content at the network edge, and with recent market entrants such as Disney+ and Amazon Prime Video driving more over the top content we are working closely with those content providers to adopt similar caching strategies. This, combined with our continued transition to Fibre access technologies, is reflected by our strong position in the Netflix ISP performance rankings for the UK.

Given our focus on core, fixed connectivity it is essential that our foundations are strong and that we are able to adapt to the changing needs of our customers, whilst continuing to scale. As such, we will continue to incur non-Headline items in relation to our multi-year network and IT transformation programme, which will fundamentally restructure the Group's network, IT infrastructure and technology organisation. This programme is expected to run until 2022 and underpins the wider Group strategy.

Our continued use of network data to proactively diagnose connectivity issues, inform customers and recommend the right course of action to resolve remains at the heart of our Consumer connectivity strategy. In the second half of the year we have progressed this into the in-home environment at scale, using cloud-based data analytics and clear guidance to help customers improve their setup at home to fully enjoy the connectivity we supply to them.

Cost reduction

FY20 has seen us continue with our relentless drive to make TalkTalk a simpler, lower cost business, and this has materially fed through into the financials, with a significantly lower cost base. Our focus on core connectivity has seen us continue to sell our non-core products, such as mobile and TV, in a capital-light way. This Fibre-focused strategy, aided by our wholesale discount agreement with Openreach, has seen a big increase in the number of customers taking Fibre, meaning that a greater proportion of the base is benefiting from higher speed and more resilient connections. As a result, we are seeing fewer faults, engineer visits and calls into the call centre. In tandem with this, the full roll-out of 'My Online Service Centre' has seen more and more customers self-serving, further reducing calls to our contact centres, meaning we have significantly reduced our cost to serve year on year.

We have now completed the operational move of our HQ from London to Salford and are well on track to deliver the £25m–£30m annualised savings. With the move now operationally complete, we have seen improved collaboration and a more agile culture, and believe there are further benefits to be had, particularly as we continue to undertake a rigorous review of all external spend now that the majority of the business is located in one place.

We have also fully transitioned to a more targeted digital approach to marketing, which has enabled us to target higher value customers. We have largely moved away from price comparison websites, as well as exiting a distribution agreement with a third party in the prior year, as these routes to market were insufficiently profitable due to high acquisition costs and the acquisition of customers with a higher propensity to churn. Enhanced by a new distribution relationship, a shift to digital channels has enabled us to bring down customer acquisition costs year on year.

Finally, on costs, we re-financed the Group's borrowings, replacing the previous £400m 5.375% senior notes maturing in 2022 with £575m 3.875% senior notes maturing in 2025. Soon after year end, in April 2020, the Group also renewed its revolving credit facilities, reducing the facility size from £640m to £430m with this facility maturing in 2024. This activity provides the Group with a greater proportion of fixed, long-term, lower cost debt.

All of these initiatives will continue to provide ongoing reductions to our cost base into FY21 and beyond, and we see further flexibility in the cost base, accelerated by COVID-19, which will enable us to deliver additional savings.

People

To continue delivering for our customers, we are intent on making sure we have the right resources and skills in place to focus on our mission of being the UK's leading value for money fixed connectivity provider. With the move of our HQ from London to Salford operationally complete, the vast majority of the workforce are now situated in our North West HQ, with a small presence maintained in a satellite office in London. The move has been a great success, creating a strong customer oriented culture, and increased collaboration has led to a 56-point improvement in internal engagement scores since the move was announced in November 2018. We were delighted to make a discretionary payment of £15m to reward all our Executive Committee and employees upon completion of the sale of the Fibre Assets Business. This was to reflect their hard work at a particularly challenging and demanding time, and to enable them to share some of the value arising from the sale.

COVID-19

As we approached the end of FY20, the COVID-19 pandemic escalated globally, and the UK was put into lockdown on 23 March 2020. Whilst only impacting the closing weeks of FY20, this has inevitably had a significant effect on our ongoing operations. What has been most apparent throughout this global crisis has been the accelerated elevation of the internet to an essential utility, with broadband networks being classified as critical national infrastructure, keeping the nation connected in these extraordinary times. Good quality, reliable connectivity is an absolute necessity.

With many businesses across the world under significant pressure, we are very fortunate to work in an industry that is an essential service, and have therefore been able to navigate through the crisis without having to furlough any TalkTalk staff or take any Government support. As critical workers it has been imperative that we have been able to adapt to working remotely, and our flexible working culture has meant that it has been a relatively easy transition for most of our staff. Almost all TalkTalk employees have been able to work from home except for a small skeleton workforce in our Salford HQ and c.35 field and data centre engineers. We could not be more proud of our passionate and engaged people, who have gone above and beyond to help serve our customers during this period at a time where they themselves have been facing the uncertainties and challenges that the crisis has brought.

Network usage was already on the rise, and since the lockdown this has grown, with a c.20% uplift in daytime traffic. Initially there was an increase in voice calls and call duration, as customers used landlines to stay connected with work, family and friends, but this has dropped off with people becoming more accustomed to using video calls over the internet (e.g. Zoom and WhatsApp). In order to ensure the network continues to be optimised to cope with changes in demand and usage, we have been constantly monitoring it to forecast and respond to the ongoing demand. This has enabled us to maintain network stability and maximise customer experience, whilst still having a considerable amount of headroom to handle peaks well above the demand level we are currently managing.

Perhaps the main operational impact in our Consumer business has been in how we serve our customers, with the acceleration of our ‘digital first’ strategy. Our two main third party customer service providers, in Philippines and South Africa, have been impacted by local Government restrictions, which has led to a highly reduced number of customer service agents. We have worked closely with our partners with regards to their return to support, whilst at all times prioritising the welfare of agents. We have implemented some mitigating actions which include moving additional TalkTalk staff into customer facing roles, whilst customers have willingly used our digital service options. The response from colleagues across the business was overwhelming, with hundreds volunteering to help support our customers by responding to queries and helping resolve issues. We have also prioritised voice contact opportunities for our vulnerable customers to help better serve those customers most in need. As a result, we have accelerated our strategy to transition to digital customer service, with customers now empowered to troubleshoot, diagnose, self-serve and action issues online that would have previously required a phone call. Our previous focus and preparation on this ‘digital first’ approach has enabled us to operate more efficiently than many others throughout the crisis.

In terms of Consumer trading, we have shown good resilience. Greater reliance on the internet, as an essential utility, has meant that customers have been less likely to churn during lockdown as they prioritise maintaining service. Like others, we have pulled back on marketing, and this combined with the reduced capacity of Openreach and fewer customers switching has impacted new customer numbers. In spite of this, we have seen good natural demand lead to relatively buoyant gross additions, as consumers look to save money on bills in these uncertain economic times, further validating our position as the only scale, value provider in the market. Significant increases in data consumption, driven by homeworking, video calls and increased gaming and video streaming, mean households are hungry for more bandwidth. Consequently, we have seen as many as 88% of weekly new Consumer customers take a Fibre product, albeit from lower absolute gross additions, in what is again an acceleration of our pre-existing strategy. We are now starting to invest in marketing again and are seeing numbers start to pick up.

Businesses up and down the country have been profoundly impacted by the lockdown measures and we have been focused on informing, reassuring and supporting our B2B customers. With the Government announcing unprecedented measures to help UK businesses in these challenging times, we have been helping to raise awareness around the significant financial assistance on offer and have developed a content hub that is a repository of information for our customers and partners. Sadly, not all businesses will survive COVID-19, which creates uncertainty, but we are doing all that we can to help our B2B clients, from dialling up or down bandwidth requirements for those businesses whose needs have evolved in the wake of COVID-19, to having conversations with businesses about revised payment plans. Alongside Openreach we have launched a ‘soft cease process’ whereby businesses in trouble, and not using their connection, can stop paying their bill whilst their line is temporarily ceased, giving them some financial breathing space. We have also been working closely with the Government throughout COVID-19 and, alongside other ISPs, we have provided connectivity at a number of key locations, including the NHS Nightingale Hospital in London, numerous care homes across the country and supermarket distribution centres.

What this crisis has really emphasised is the need for next generation Full Fibre networks that are fit for purpose and provide customers with good quality, fast and reliable connectivity. Whilst progress has been made over the last twelve months, the UK is still lagging well behind the rest of the world with only c.12% Full Fibre availability (Source: Ofcom, Connected Nations Update – Spring 2020). Encouragingly, some FTTP builds have been able to continue throughout the COVID-19 outbreak, but it is inevitable that the pace of roll-out will be slower than initially planned. With this a Government priority, there will be a desire to accelerate the construction of these future-proofed networks as and when lockdown restrictions are eased. This will no doubt provide much needed employment opportunities for tens of thousands of people over the coming years.

Outlook

The economic impact of the COVID-19 pandemic, whilst uncertain, is likely to be significant. We exit FY20 in a more robust operational and financial position but will not be immune to upcoming challenges. Though we do not expect a significant deviation from our previous FY21 objectives, given this uncertainty, we do not feel it is appropriate to give formal guidance for the year at this stage. However, our strategy remains the same, and we enter FY21 a much simpler, stronger business. We have considered a range of scenarios to understand potential outcomes on our business and to plan appropriately. Based on current trends we would expect:

- Headline EBITDA for FY21 to be stable year on year, assuming a c.£15m COVID-19 impact, with continued cost efficiencies and further flexibility in the cost base, accelerated by COVID-19, offsetting any potential negative impact on bad debt or revenues
- strong cash conversion in FY21 as we continue to de-lever towards our medium term target of 2.0x net debt/Headline EBITDA. This will be driven by materially lower working capital, reduced Capex, lower interest and fewer re-organisation costs
- we will maintain the dividend at 2.50p per share

CFO Review

Financial information

	Headline [1,2]			Statutory [1,2]		
	2020 (IFRS 16) £m	**2020 (pre-IFRS 16) £m**	**2019 (pre-IFRS 16) £m**	**2020 (IFRS 16) £m**	**2020 (pre-IFRS 16) £m**	**2019 (pre-IFRS 16) £m**
Revenue	1,557	1,557	1,609	1,569	1,569	1,632
Cost of sales	(763)	(763)	(759)	(767)	(767)	(770)
Gross profit	794	794	850	802	802	862
Net operating expenses	(486)	(534)	(613)	(404)	(452)	(659)
EBITDA	308	260	237	398	350	203
Depreciation and amortisation	(185)	(132)	(138)	(193)	(140)	(146)
Share of results of joint ventures	(8)	(8)	(10)	(8)	(8)	(10)
Operating profit	115	120	89	197	202	47
Net finance costs	(66)	(56)	(52)	(66)	(56)	(52)
Profit/(loss) before taxation	49	64	37	131	146	(5)
Taxation	12	12	32	22	22	37
Profit for the year attributable to the owners of the Company	61	76	69	153	168	32
Earnings per share						
Basic	5.3	6.6	6.0	13.4	14.7	2.8
Diluted	5.3	6.6	6.0	13.2	14.5	2.8

[1] IFRS 16 has been applied using the modified retrospective approach. Accordingly, the comparative information has not been restated, with FY20 results presented both including and excluding IFRS 16 to allow year on year analysis on a consistent basis. This alternative performance measure (APM) will be presented for one year only until the comparatives also include the adoption of IFRS 16. See note 1 for more information.
[2] See note 1 for an explanation of APMs and non-Headline items and note 4 for a reconciliation of Statutory information to Headline information.

Revenue summary	**2020 £m**	2019 £m
On-net	**1,243**	1,263
Corporate	**303**	333
Off-net	**11**	13
Headline revenue	**1,557**	1,609
Less Carrier	**(28)**	(52)
Less Off-net	**(11)**	(13)
Headline revenue (excluding Carrier and Off-net)	**1,518**	1,544

Throughout this Chief Financial Officer's statement, alternative performance measures (APMs) are presented as well as Statutory measures and these measures are consistent with prior periods, with the exception of the pre-IFRS 16 results which, in absence of restating the prior periods, have been provided to allow year on year analysis on a consistent basis. 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 adopted IFRS 16 'Leases' in the current year and elected to adopt the standard using a modified retrospective approach, recognising the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. As a result comparative information has not been restated to reflect IFRS 16, and therefore where relevant the results for the year ended 31 March 2020 have been presented both including and excluding IFRS 16 to enable year on year analysis on a consistent basis. More details are provided in note 1.

COVID-19
The vast majority of the financial year was completed prior to the full effects of the COVID-19 pandemic being felt. As such, there has not been a material impact on the reported numbers, other than a small increase in bad debt provisioning (£3m). There remains a great deal of uncertainty over the lasting economic impact of COVID-19, meaning we do not feel it is appropriate to give formal guidance at this stage.

Overview
Headline revenue (excluding Carrier and Off-net) contracted by 1.7%, with ongoing Voice decline and ARPU dilution partly offset during the year by a continued strong increase in Fibre penetration. Headline EBITDA increased to £308m (including the impact of IFRS 16). Prior to the adoption of IFRS 16, Headline EBITDA grew by 9.7% to £260m (2019: £237m) reflecting the continued focus on reducing the cost base of the business and the lower cost of serving our increasing Fibre customers. Due to the disposal of our Fibre Assets Business, resulting in a profit on disposal of £127m, our Statutory profit before tax increased to £131m (pre-IFRS 16: £146m) from a £5m loss in the prior year. The Board has recommended a final dividend of 1.50p (2019: 1.50p) in line with our stated dividend policy.

Group revenue
Headline revenue (excluding Carrier and Off-net) of £1,518m was 1.7% lower year on year with On-net revenues down 1.8% and Corporate revenues (excluding Carrier) 2.1% lower. The contraction in On-net revenue reflects continued industry-wide Voice usage decline, lower call boost take-up and a modest decrease in the overall customer base. In addition we targeted our remaining higher ARPU legacy Copper customers to re-contract onto FLPPs, ahead of regulatory and industry commitments on out of contract pricing, which has led to some ARPU dilution, but this has been offset in part by increased penetration of Fibre. Lower Corporate revenue (excluding Carrier) was primarily due to B2B Voice, which was down 13.6% on the prior year, whilst Data revenues grew by 4.6% reflecting the continued shift in the Ethernet base to higher bandwidth products.

The Group's total Headline revenue contracted by 3.2% to £1,557m, which includes a 46.2% decline in Carrier revenue, reflecting our decision to reduce activity in this low margin business, as well as the expected continued decline in Off-net revenues. Statutory revenue declined 3.9% due to the factors above and MVNO (mobile) revenues which are down £11m year on year to £12m as we wind down this business.

Gross margin
Headline gross margin of 51.0% was 180bps lower year on year reflecting the lower revenue noted above and higher costs of sales resulting from the move to Fibre products. This drive towards Fibre products dilutes gross margin percentage and is offset with reduced costs to serve, in line with our strategy.

Statutory gross margin of 51.1% was 170bps lower year on year reflecting the reasons above as well as an improvement in the gross margin of our MVNO proposition.

Net operating expenses
Headline net operating expenses decreased by £127m year on year, of which £48m relates to the implementation of new accounting standards (IFRS 16), whereby lease expenses are now incurred through depreciation and finance costs rather than operating expenses. The remaining £79m improvement is due to savings coming through from the move of our HQ from London to Salford, the benefit of happier customers on Fibre products leading to reduced costs to serve and a continued focus on right-sizing our cost base. The Group has also moved to an alternative customer acquisition and marketing model with different partners, which has delivered savings year on year. As a result of COVID-19, there was a £3m increase in bad debt provisioning in the reported numbers to reflect increased uncertainty of customer payments.

Statutory net operating expenses were down £255m year on year as a result of the planned disposal of our Fibre Assets Business, resulting in a profit on disposal of £127m recognised through non-Headline items. See further information on non-Headline items below.

EBITDA
Headline EBITDA increased by 30.0% to £308m reflecting the adoption of IFRS 16 and the factors noted above. Prior to the adoption of IFRS 16, Headline EBITDA was £260m (2019: £237m), representing 9.7% growth year on year.

Statutory EBITDA has risen by 96.1% to £398m reflecting the adoption of IFRS 16 and the factors noted above. Prior to the adoption of IFRS 16, Statutory EBITDA was £350m (2019: £203m), representing 72.4% growth year on year.

Depreciation and amortisation
Headline depreciation and amortisation expense have increased year on year to £185m (Pre-IFRS 16: £132m, 2019 £138m) largely due to the impact of adopting IFRS 16 with the remaining £6m decrease resulting from lower investments in recent years.

Share of results of joint ventures
Our share of results of joint ventures was broadly flat year on year at a loss of £8m (2019: £10m loss) and consists of the Group's investment in YouView.

Net finance costs
Statutory finance costs for the year were £66m (Pre-IFRS 16: £56m, 2019 £52m). The increase being mainly due to the impact of adopting IFRS 16 and costs incurred as part of the bond re-financing which was completed in February 2020.

Taxation

A Statutory tax credit for the year of £22m (2019: £37m) has arisen due to the profit on disposal of our Fibre Assets Business not being taxable and the deferred tax assets now being recognised at 19% (previously 17%) reflecting the increase in the UK Corporation tax rate.

Non-Headline items [2]

	2020 **£m**	2019 £m
MVNO closure	**7**	3
Fibre Assets Business disposal	**109**	–
Network transformation	**(11)**	(15)
One Team operating model	**(15)**	(22)
EBITDA	**90**	(34)
Depreciation and amortisation	**(8)**	(8)
Taxation	**10**	5
Non-Headline items	**92**	(37)

[2] See note 1 for an explanation of APMs and non-Headline items and note 4 for a reconciliation of Statutory information to Headline information.

Within EBITDA the Group recognised a non-Headline gain of £90m (2019: £34m loss) associated with the profit on disposal of our Fibre Assets Business, offset by the costs involved in moving our head office to Salford and other transformation costs.

Following the Group's announcement in May 2017 to exit our MVNO operations, trading profits of £7m have been recognised, compared to £3m in 2019.

On 27 March 2020, the Group completed the disposal of its Fibre Assets Business resulting in a profit on disposal of £127m. Following the completion of the disposal, a discretionary payment of £15m was made to members of the Executive Committee and all employees of the Group to share some of the value arising on the sale. The Fibre Assets Business incurred an operating loss of £3m during the year prior to disposal.

Our significant multi-year network and IT transformation programme continued during the year incurring costs of £11m (2019: £15m) which will fundamentally restructure the Group's network, IT infrastructure and technology organisation. This programme is expected to run until 2022 and underpins the wider Group strategy.

The Group incurred £15m (2019: £22m) in relation to reorganisation programmes associated with the relocation of our head office to Salford. The costs of this programme have come in higher than the original plan as a result of greater dual running costs and retention payments in order to smooth the transition. The Group expects the finalisation of this fundamental reorganisation within 2020.

Non-Headline depreciation and amortisation largely relate to amortisation of acquisition intangibles. These acquisition intangibles are now fully amortised and therefore no further charge will be incurred in subsequent periods.

Earnings per share

	2020 **£m**	2019 £m
Headline earnings (£m) [1,2]	**61**	69
Basic EPS	**5.3p**	6.0p
Diluted EPS	**5.3p**	6.0p
Statutory earnings (£m)	**153**	32
Basic EPS	**13.4p**	2.8p
Diluted EPS	**13.2p**	2.8p

[1] IFRS 16 has been applied using the modified retrospective approach. Accordingly, the comparative information has not been restated. See note 1 for more information.
[2] See note 1 for an explanation of APMs and non-Headline items and note 4 for a reconciliation of Statutory information to Headline information.

Basic Headline EPS was 5.3p (FY19: 6.0p), representing a small year on year decline as a result of a higher interest charge due to costs incurred as part of the bond re-financing and a lower tax credit in the year, offsetting higher operating profit. On a Statutory basis basic EPS was 13.4p (2019: 2.8p), with the year on year increase largely due to the disposal of our Fibre Assets Business, resulting in a profit on disposal recognised in non-Headline items.

Financial Position
Net assets increased to £406m (2019: £288m), driven by the Group's profit after tax.

Non-current assets increased to £1,562m (2019: £1,359m), driven by the first time adoption of IFRS 16 giving rise to the recognition of right of use assets and an increase in deferred contract costs mainly as a result of the Group moving to an alternative customer acquisition and marketing model with different partners in the prior year. Current assets have remained relatively consistent at £267m (2019: £300m).

Current liabilities have decreased to £470m (2019: £556m) due to a decrease in trade payables driven by the timing of supplier payments. These decreases were partially offset by the recognition of additional lease liabilities under IFRS 16. Non-current liabilities have increased to £953m (2019: £855m). The increase is driven by additional lease liabilities recognised under IFRS 16.

Net debt and cash flow

	2020 £m	2019 £m
Opening net debt (pre-IFRS 16) [1,2]	**(781)**	(776)
IFRS 16 opening adjustment	**(179)**	–
Opening net debt (post-IFRS 16) [1,2]	**(960)**	(776)
Headline EBITDA [2]	**308**	237
Working capital	**(181)**	11
Capital expenditure	**(116)**	(113)
Interest and taxation	**(54)**	(50)
Non-Headline items [2]	**158**	(47)
Acquisitions and investments	**(13)**	(7)
Dividends	**(28)**	(28)
Non-cash movement in leases	**(68)**	(8)
Closing net debt [1,2]	**(954)**	(781)

[1] IFRS 16 has been applied using the modified retrospective approach. Accordingly, the comparative information has not been restated. This alternative performance measure (APM) will be presented for one year only until the comparatives also include the adoption of IFRS 16. See note 1 for more information.
[2] See note 1 for an explanation of APMs and non-Headline items and note 4 for a reconciliation of Statutory information to Headline information.

	2020 £m	2019 £m
Bond and bank debt	**(793)**	(809)
Finance leases	**(38)**	(39)
Cash at bank and in hand	**56**	67
Net debt (pre-IFRS 16)	**(775)**	(781)
Operating leases	**(179)**	–
Closing net debt (post-IFRS 16)	**(954)**	(781)

Total net debt after IFRS 16 is £954m. Before the impact of the application of IFRS 16, net debt was £775m (2019: £781m). Committed headroom at 31 March 2020 was £497m (2019: £306m).The Group had a significant net working capital outflow of £181m (2019: £11m inflow) predominantly due to settling a key supplier monthly invoice earlier than forecast (resulting in an additional payment year on year). In addition to this we saw outflows due to payments relating to a change in third party distribution agreements and the IFRS 15 impact of our accelerated investment in Fibre.

Capital expenditure for the year was £116m (2019: £113m), representing 7.5% (2019: 7.0%) of Headline revenues. Underlying expenditure of £97m represents 6.2% of Headline revenues and was primarily invested in the enhancement of our network capability and online systems. The remaining £19m was investment in the Group's Fibre Assets Business prior to the completion of the sale in March 2020.

Non-Headline items, excluding the sale of the Group's Fibre Assets Business, were £44m (2019: £47m) and relate to the move of our HQ to Salford, the final payment associated with exiting our MVNO operations and the ongoing network transformation programme. Including the net proceeds of the Fibre Assets Business sale (£206m consideration offset by £3m operating loss and £1m of transaction fees) non-Headline items saw an inflow of £158m.

Acquisitions and investments expenditure in the year of £13m (2019: £7m) relates to the YouView joint venture and investing activity in the Fibre Assets Business (including the acquisition of a 20% stake in Makehappen Group Limited).

Dividends
Dividends of £28m paid in the year (2019: £28m) comprised the final dividend for 2019 of 1.50p and the interim dividend for 2020 of 1.00p.

The Board is committed to improving profitability, cash generation and reducing leverage. In this context, the Board has recommended a final dividend of 1.50p (2019: 1.50p) taking the total dividend for the year to 2.50p (2019: 2.50p). Looking beyond 2020, the Board will re-assess the dividend policy once the business has reduced leverage towards the Group's mid-term net debt/Headline EBITDA target of 2.0x.

The final dividend for FY20 will be paid on 7 August 2020, subject to approval at the AGM on 21 July 2020 for shareholders on the register on 10 July 2020 (ex-dividend 9 July 2020).

Funding and capital structure
The Group is financed primarily through a combination of bank facilities, a bond and a receivables purchase facility, which have all been recently renewed.

In February 2020, the Group's £400m bond was replaced with a new bond of £575m maturing in 2025, providing the Group with a larger and lower cost form of financing. The Group's receivables purchase facility of £75m was renewed in September 2019 for a further two years. Soon after year end, in April 2020, following the issuance of the upsized bond and the receipt of the consideration from the disposal of the Group's Fibre Assets Business, the Group renewed its revolving credit facilities, reducing the facility size from £640m to £430m with this facility maturing in 2024. This refinancing activity has resulted in the Group's committed facilities reducing from £1,115m to £1,080m (though was £1,290m at 31 March 2020 prior to the refinancing of the RCF) and has ensured a significantly longer average tenor of the Group's facilities.

At 31 March 2020, £793m (2019: £809m) had been drawn under these facilities, leaving £497m (2019: £306m) of undrawn facilities. The Group was in compliance with the terms of all its facilities, including the financial covenants, at 31 March 2020.

Consolidated income statement

For the year ended 31 March 2020

	Notes	2020 Headline[3] £m	2020 Non-Headline (note 4)[3] £m	2020 Statutory £m	2019[1] Headline[3] £m	2019[1] Non-Headline (note 4)[3] £m	2019[1] Statutory £m
Revenue	2	**1,557**	**12**	**1,569**	**1,609**	**23**	**1,632**
Cost of sales		**(763)**	**(4)**	**(767)**	**(759)**	**(11)**	**(770)**
Gross profit		**794**	**8**	**802**	**850**	**12**	**862**
Operating expenses[2]		**(486)**	**82**	**(404)**	**(613)**	**(46)**	**(659)**
EBITDA[3]		**308**	**90**	**398**	**237**	**(34)**	**203**
Depreciation and amortisation		**(185)**	**(8)**	**(193)**	**(138)**	**(8)**	**(146)**
Share of results of associates and joint ventures		**(8)**	**-**	**(8)**	**(10)**	**–**	**(10)**
Operating profit		**115**	**82**	**197**	**89**	**(42)**	**47**
Net finance costs		**(66)**	**-**	**(66)**	**(52)**	**–**	**(52)**
Profit/(loss) before taxation		**49**	**82**	**131**	**37**	**(42)**	**(5)**
Taxation		**12**	**10**	**22**	**32**	**5**	**37**
Profit for the year attributable to the owners of the Company		**61**	**92**	**153**	**69**	**(37)**	**32**
Earnings per share							
Basic (p)	5			**13.4**			**2.8**
Diluted (p)	5			**13.2**			**2.8**

(1) The year ended 31 March 2019 has not been restated for the adoption of IFRS 16 'Leases' – see note 1 for further information.
(2) Operating expenses includes £13m (2019: £11m) of credit losses on financial assets.
(3) See note 1 for an explanation of alternative performance measures (APMs) and non-Headline items. See note 4 for a reconciliation of Statutory information to Headline information.

There is no other comprehensive income or expenses recognised in either period other than shown in the income statement; consequently no statement of comprehensive income has been presented.

Consolidated balance sheet

Company number: 07105891

As at 31 March 2020

	Notes	2020 £m	2019[1] £m
Non-current assets			
Goodwill		**495**	**495**
Other intangible assets		**205**	**235**
Property, plant and equipment[2]		**339**	**199**
Investment in joint venture and associates		**–**	**2**
Trade and other receivables		**5**	**2**
Contract costs		**383**	**308**
Deferred tax assets		**135**	**118**
		1,562	**1,359**
Current assets			
Inventories		**25**	**34**
Trade and other receivables		**136**	**160**
Contract assets		**49**	**39**
Derivative financial instruments		**1**	**–**
Cash and cash equivalents	7	**56**	**67**
		267	**300**
Assets classified as held for sale		**–**	**47**
Total assets		**1,829**	**1,706**
Current liabilities			
Trade and other payables		**(377)**	**(491)**
Contract liabilities		**(24)**	**(20)**
Lease liabilities	7	**(59)**	**–**
Borrowings	7	**–**	**(10)**
Provisions		**(10)**	(35)
		(470)	**(556)**
Liabilities classified as held for sale		**–**	**(7)**
Non-current liabilities			
Trade and other payables		**–**	**(5)**
Borrowings	7	**(793)**	**(838)**
Lease liabilities	7	**(158)**	**–**
Provisions		**(2)**	**(12)**
		(953)	**(855)**
Total liabilities		**(1,423)**	**(1,418)**
Net assets		**406**	**288**
Equity			
Share capital		**1**	**1**
Share premium		**684**	**684**
Translation reserve		**(64)**	**(64)**
Demerger reserve		**(513)**	**(513)**
Retained earnings and other reserves		**298**	**180**
Total equity		**406**	**288**

(1) The year ended 31 March 2019 has not been restated for the adoption of IFRS 16 ‘Leases’ – see note 1 for further information. Lease liabilities for finance leases under IAS 17 ‘Leases’ were previously disclosed as part of borrowings but following the application of IFRS 16 have been reclassified to lease liabilities.

(2) Right of use assets are included within property, plant and equipment.

Consolidated cash flow statement

For the year ended 31 March 2020

	Notes	2020 £m	2019(1) £m
Operating activities			
Operating profit		**197**	**47**
Share-based payments		**3**	**3**
Depreciation of property, plant and equipment		**114**	**71**
Amortisation of other operating intangible assets		**71**	**67**
Amortisation of acquisition intangibles		**8**	**8**
Share of losses of joint venture and associates		**8**	**10**
Reversal of cost of inventories previously written down		**–**	**(2)**
Gain on disposal of customer base		**(4)**	**(2)**
Gain on disposal of subsidiary undertakings		**(127)**	**–**
Decrease in provisions		**(26)**	**(12)**
Operating cash flows before movements in working capital		**244**	**190**
Decrease in trade and other receivables		**27**	**76**
Increase in contract assets		**(85)**	**(99)**
Decrease/(increase) in inventory		**9**	**(3)**
(Decrease)/increase in trade and other payables		**(120)**	**25**
Increase in contract liabilities		**4**	**4**
Cash flows generated from operating activities		**79**	**193**
Income taxes paid		**–**	**(1)**
Net cash flows generated from operating activities		**79**	**192**
Investing activities			
Investment in joint ventures and associates		**(13)**	**(9)**
Disposal of subsidiary undertakings		**206**	**–**
Disposal of customer bases		**–**	**2**
Investment in intangible assets		**(73)**	**(67)**
Investment in property, plant and equipment		**(43)**	**(37)**
Cash flows generated from/(used in) investing activities		**77**	**(111)**
Financing activities			
Settlement of Group ESOT shares		**1**	**1**
Purchase of own shares		**(1)**	**–**
Repayments of obligations under leases		**(57)**	**(9)**
Repayments of borrowings		**(590)**	**(27)**
Drawdown of borrowings		**577**	**55**
Interest paid		**(40)**	**(41)**
Interest paid in respect of lease obligations		**(12)**	**(2)**
Other finance costs		**(17)**	**(6)**
Equity dividends paid		**(28)**	**(28)**
Cash flows used in financing activities		**(167)**	**(57)**
Net (decrease)/increase in cash and cash equivalents		**(11)**	24
Cash and cash equivalents at the start of the year		**67**	**43**
Cash and cash equivalents at the end of the year	7	**56**	**67**

(1) The year ended 31 March 2019 has not been restated for the adoption of IFRS 16 'Leases' – see note 1 for further information.

Consolidated statement of changes in equity

For the year ended 31 March 2020

	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		1	684	(64)	(513)	172	280
Profit for the year		**–**	**–**	**–**	**–**	**32**	**32**
Total comprehensive income		**–**	**–**	**–**	**–**	**32**	**32**
Transactions with the owners of the Company							
Share-based payments		**–**	**–**	**–**	**–**	**3**	**3**
Settlement of Group ESOT shares		**–**	**–**	**–**	**–**	**1**	**1**
Equity dividends	3	**–**	**–**	**–**	**–**	**(28)**	**(28)**
Total transactions with the owners of the Company		**–**	**–**	**–**	**–**	**(24)**	**(24)**
At 31 March 2019[1]		**1**	**684**	**(64)**	**(513)**	**180**	**288**
Change in accounting policy in respect of IFRS 16 (net of tax)		**–**	**–**	**–**	**–**	**(10)**	**(10)**
At 1 April 2019		**1**	**684**	**(64)**	**(513)**	**170**	**278**
Profit for the year		**–**	**–**	**–**	**–**	**153**	**153**
Total comprehensive income		**–**	**–**	**–**	**–**	**153**	**153**
Transactions with the owners of the Company							
Share-based payments		**–**	**–**	**–**	**–**	**3**	**3**
Purchase of own shares		**–**	**–**	**–**	**–**	**(1)**	**(1)**
Settlement of Group ESOT shares		**–**	**–**	**–**	**–**	**1**	**1**
Equity dividends	3	**–**	**–**	**–**	**–**	**(28)**	**(28)**
Total transactions with the owners of the Company		**–**	**–**	**–**	**–**	**(25)**	**(25)**
At 31 March 2020		**1**	**684**	**(64)**	**(513)**	**298**	**406**

(1) The year ended 31 March 2019 has not been restated for the adoption of IFRS 16 'Leases' – see note 1 for further information.

1. Basis of preparation

The financial information is derived from the Group's consolidated financial statements for the year ended 31 March 2020, which have been prepared on the going concern basis in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union, IFRS Interpretations Committee and those parts of the Companies Act 2006 (the Act) applicable to companies reporting under IFRS. The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments and investments. The financial statements are presented in Sterling, rounded to the nearest million, because that is the currency of the principal economic environment in which the Group operates.

The financial information set out in this announcement does not constitute statutory accounts within the meaning of Sections 434 to 436 of the Companies Act 2006 or contain sufficient information to comply with the disclosure requirements of IFRS, and is an abridged version of the Group's financial statements for the year ended 31 March 2020 which were approved by the Directors on 11 June 2020. Statutory accounts for the year ended 31 March 2019 have been delivered to the Registrar of Companies, the auditor has reported on those accounts, their report was unqualified and did not contain statements under Section 498(2) or (3) of the Companies Act 2006. Statutory accounts for the year ended 31 March 2020 will be delivered in due course following the Company's annual general meeting on 21 July 2020. The auditor has reported on those accounts, their report was unqualified, did not include reference to any matters to which the auditors drew attention without qualifying their report and did not contain statements under Section 498 of the Companies Act 2006.

The financial statements have been prepared on a going concern basis. In adopting the going concern basis the Directors have given consideration to the Group's available financing facilities, business model, strategy, regulatory environment, principle risks and uncertainties, recent financial performance and outlook.

The Group has committed financing facilities at the date of this going concern assessment of £1,080m and further information is provided in note 7.

The Group's long range forecasts, being the annual budget combined with the annual three year plan, which are both approved by the Board, have been used to carry out the assessment of going concern. These cash flow forecasts have taken into account typical cash cycles of the Group, timings of cash inflows and outflows and their effect on period end / covenant date net debt positions and cash management activities of the Group. Due to these factors net debt drawn under the Group's facilities fluctuates throughout the year and may be higher than the amount reported at 31 March 2020.

The assessment has been carried out taking into account the potential impact of certain scenarios arising from the principal risks and uncertainties, which have the greatest potential impact on the Group in the period under review. In particular, the Board has considered the potential impact of COVID-19 (see below) and Brexit on trading performance and the wider business, sustainability of the business model, the impact of customer trust and brand reputation on churn, how the market environment and competitive pressures may impact ARPU, the regulatory environment, advances in technology and the Group's ability to raise long term funding. These risks and their potential impacts reflect the Group's assessment of its principal risks and uncertainties.

Given the unique conditions arising from COVID-19, specific consideration has been given to how the pandemic may affect the results of the Group as part of the going concern assessment, and this scenario planning considered the following possible impacts:

- New connections being down against initial expectations pre-COVID-19 by 27% in Q1, 20% in Q2 and 18% across the year ending 31 March 2021. As this largely reflects a general market slowdown in new customer acquisitions, a reduction in churn, though to a lesser degree than new connections, has also been assumed;
- An over twofold increase in bad debt expense year on year due to an increased risk of financial distress of customers, especially small to medium enterprises; and
- A reduction in operating costs, primarily in relation to subscriber acquisition costs, marketing and third party customer service costs due to lower new connections, the more subdued customer acquisition market and lockdown restrictions.

If faced with the reasonable worst case scenario, the Board also considered possible mitigating activities would be available to the Group to maintain liquidity, such as utilising uncommitted facilities, short term cost reduction actions, reducing or delaying capital expenditure and reducing/suspending dividends.

Based on this assessment, as well as the completion of a reverse stress test assessment, the Directors have a reasonable expectation that the Group has sufficient resources to continue its operations for the foreseeable future, and accordingly, they continue to adopt the going concern basis in preparing these financial statements.

Alternative performance measures (APMs)

The consolidated financial statements include APMs as well as Statutory measures. 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, IFRS 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 and reported to the Board, and the basis of financial measures for senior management's compensation schemes and provides supplementary information that assists the user in understanding the financial performance, position and trends of the Group. The APMs were the same as those that applied to the audited consolidated financial statements for the year ended 31 March 2019 except for the addition of pre-IFRS 16 values which, due to the prior periods not being restated, have been provided to allow users of the financial statements to better understand the impact of the new standard and to enable like for like analysis. See note 4 for a reconciliation of Statutory information to Headline information. Pre-IFRS 16 APMs will not be presented for periods after 31 March 2020 as the current and prior year values will be prepared on the same basis.

The Group often measures performance based on Headline EBITDA. EBITDA is defined as operating profit or loss before depreciation, amortisation, share of results of joint ventures, net finance costs and taxation. Headline EBITDA is defined as EBITDA excluding non-Headline items as presented to the Chief Operating Decision Maker (CODM).

Refer to the Glossary for comprehensive descriptions of all APMs including their relevance in providing supplementary information that assists the user to understand better the financial performance, position and trends of the Group.

Application of significant new or amended EU-endorsed accounting standards

The following amended standards and interpretations were also effective during the year, however, they have not had a material impact on our consolidated financial statements.

• IFRIC 23 Uncertainty over Income Tax Treatments.

• Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28).

During the year, the Group has adopted IFRS 16 'Leases'. The date of the initial application of IFRS 16 for the Group is 1 April 2019.

IFRS 16 introduces new or amended requirements for lease accounting. Under IFRS 16 both lessor accounting and the Group's accounting for existing finance leases will remain unchanged unless a finance lease includes in the future a residual guarantee which will now be measured as an expected amount payable opposed to the maximum amount payable as required under IAS 17. However, IFRS 16 introduces significant changes to accounting where the Group is a lessee and the lease was previously classified as an operating lease under IAS 17. It removes the requirements under IAS 17 to initially define a lease as either an operating lease (which is off balance sheet) or a finance lease and instead requires all leases to be recognised on the balance sheet creating a right of use asset and a lease liability (unless an exemption is taken for leases that are either short term leases or leases of low value assets).

The lease liability recognised at the inception of a lease represents the present value of the consideration the Group will pay over the lease term with the right of use asset being set to an equivalent value plus any initial directly attributable costs. The lease liability is discounted at the interest rate implicit in the lease or in absence of this an incremental borrowing rate based on the underlying asset. The right of use assets are depreciated over the shorter period of the lease term or the useful economic life of the underlying asset and are then tested for impairment in accordance with IAS 36 'Impairment of Assets' rather than the previous requirement under IAS 37 to recognise a provision for any onerous lease contracts.

In concluding whether a contract contains a lease, the Group considers whether there is an identified asset, whether the Group has the right to obtain substantially all the economic benefits of this asset, whether the Group has the right to direct how and for what purpose the asset is used, whether the Group has the right to operate the asset without the supplier having the right to change the operating instructions and whether the Group has designed the asset in a way that predetermines how and for what purpose the asset will be used.

Following the above assessment the Group has concluded the below items, formerly classed as operating leases under IAS 17, contain a lease and have therefore been recognised in accordance with IFRS 16:

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

The Group has also concluded the below arrangements do not contain a lease under IFRS 16 based upon the specific network circumstances:

- the footprint the Group rents from Openreach in the unbundled exchanges and in co-location data centres, as this is not considered to be an identifiable asset that the Group has the right to direct the use of; and
- the copper and fibre lines the Group rents in the 'last mile', comprising copper between the exchange and the customer/business premise for MPF and SMPF customers and a combination of copper and fibre for our FTTC customers, as the Group does not have the ability to control or direct the use of the equipment fully.

The impact of adopting IFRS 16 has been to reduce the Group's operating expenses as lease rentals are no longer recognised straight line as operating expenses and to increase the Group's depreciation and finance costs as the Group depreciates the right of use assets and unwinds the time effect of the related lease liabilities. The overall profile of the expense recognised in the income statement has changed as a higher level of finance costs are recognised earlier in the lease term. The recognition of the lease liabilities has increased the Group's net debt; however, the cash position of the Group and the headroom on financing facilities remains unchanged. The cash flows in the consolidated cash flow statement are split between a principal portion and a finance portion, which are both presented under financing activities; previously under IAS 17 the operating lease payments were presented as operating cash flows.

Details of the Group's accounting policies under IFRS 16 are listed below:

- Lease liabilities are initially measured at the present value of the future lease payments discounted using the interest rate implicit in the lease or if this cannot be readily determined using an incremental borrowing rate calculated by the Group. Lease payments include fixed lease payments less lease incentives, variable lease payments that are dependent on an index or rate measured at the index or rate at the commencement date of the lease, the amount expected to be payable at the end of lease under residual value guarantees, the exercise price of purchase options if the lessee is reasonably certain to exercise the option and payments of penalties for terminating the lease if the lease term reflects the exercise of an option to terminate the lease. The lease liabilities are subsequently measured by increasing the value to reflect the unwind of interest and reducing the value to reflect the lease payments made by the Group.
- The Group remeasures the lease liability when either the lease term changes, the lease payments change due to a change in an index or rate or the lease is modified and the modification does not result in a separate lease. Where a lease liability is remeasured a corresponding entry is made to the right of use asset.
- The right of use assets are valued initially at an equivalent value to the lease liability with the addition of any directly attributable costs. The value of the right of use asset is increased and a provision is recognised for any costs to dismantle/remove an asset or restore the asset to a condition required under the terms of the lease when the Group incurs the obligation. The assets are subsequently measured at cost less accumulated depreciation and impairments.
- The right of use assets are depreciated over the shorter of the lease term or the useful economic life of the underlying asset. Where the Group expects to retain the asset for a period greater than the minimum non-cancellable period management estimates the period it expects it will use the assets using a portfolio approach and reviews this annually. The right of use assets are presented as part of Property, plant and equipment within the same line item as that with which the corresponding underlying assets would be presented if they were owned.
- The Group has used the exemption for leases of low value assets resulting in an expense being recognised straight line in operating expenses. The Group has applied this exemption to tie cables and laptops leading to an expense of £6m being recognised in operating expenses.
- The Group has entered into lease agreements as a lessor with respect to property which it leases (the Group subleases some property). As the Group is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right of use asset arising from the head lease. Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease. Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases.

Transition approach and practical expedients

IFRS 16 has been applied by the Group using the modified retrospective approach. Therefore the Group has not restated prior period balances and has recognised a one-off cumulative debit in opening reserves on 1 April 2019 of £10m including the recognition of a £1m deferred tax asset. In applying the modified retrospective approach, the Group has valued right of use assets on a lease by lease basis using either the approach that IFRS 16 had always been applied (but using the incremental borrowing rate at the date of the application which ranges from 4.2% to 6.8% dependent on the term and underlying asset) or setting the asset at an amount equal to the lease liability on transition. The Group has included initial directly attributable costs as part of the right of use assets on transition remeasuring at an equivalent amount as if it had always been unwinding over the allocated IFRS 16 lease term.

The Group has utilised the below one-off practical expedients allowed by the standard in applying IFRS 16 for the first time:

- the Group has applied a single discount rate to portfolios of leases with reasonably similar characteristics;
- the Group has utilised hindsight in determining the lease term;
- the Group has utilised its assessments under IAS 37 to determine if leases are onerous immediately before the date of initial application and adjusted the right of use assets by the carrying amount of the onerous lease provisions at 1 April 2019 opposed to performing an impairment review under IAS 36; and
- the Group has applied on a lease by lease basis the short term lease exemption for those leases with less than twelve months remaining at the date of transition. The expense relating to these leases was £3m for the period ended 31 March 2020.

The difference between the operating lease commitments disclosed under IAS 17 in the Group's accounts for the year ended 31 March 2019 and the lease liabilities recognised on the date of transition can be explained as follows:

	Total £m
Operating lease commitments disclosed under IAS 17 at 31 March 2019	116
Effect of discounting	(42)
Change in contractual lease terms under IFRS 16	95
Finance leases under IAS 17	39
Other(1)	10
IFRS 16 lease liabilities recognised at 1 April 2019	218

(1) Includes other items such as assets under low value and short term exemptions and revision of lease payments on transition.

The change in contractual lease terms of £95m is as a result of applying a five year lease term for network assets. Under IAS 17 the committed term for these assets was usually less than twelve months.

Critical accounting judgements and key sources of estimation uncertainty

The Group has concluded that applying IFRS 16 has given rise to the below new critical accounting judgements and key sources of estimation uncertainty. These are in addition to the existing judgements and estimates described on page x.

The Group has made a critical accounting judgement in determining the scope of applying IFRS 16 and has concluded that the 'last mile' does not contain a lease.

The adoption of a five to seven year lease term for network assets is assessed to be a key accounting estimate. In reaching this conclusion the Group has considered historical data and its expectation of future changes in the network landscape and the technologies used. Existing technologies have been assessed as having a five year lease term and newer technologies that have been utilised in the network for the first time in the year ended 31 March 2020 have been determined as having a seven year lease term as there is less risk of these assets being replaced through obsolescence. At 31 March 2020, the Group held network assets utilising these lease terms with a combined value of £121m. Sensitivities of these estimates are shown below:

- an increase from five to six years and seven to eight years would impact the balance sheet by increasing the right of use assets by £22m and £2m respectively and increasing the lease liabilities by £18m and £2m respectively at 31 March 2020;
- an increase from five to six years and seven to eight years would impact the income statement by decreasing depreciation by £4m and £nil respectively and increasing finance costs by £1m and £nil respectively for the year ended 31 March 2020;
- a reduction from five to four years and seven to six years would impact the balance sheet by increasing and decreasing the right of use assets by £nil and by £2m respectively and decreasing the lease liabilities by £3m and £2m respectively at 31 March 2020; and
- a reduction from five to four years and seven to six years would impact the income statement by decreasing depreciation by £9m and £nil respectively and decreasing finance costs by £nil and £nil respectively for the year ended 31 March 2020.

Summary of financial impact on consolidated financial statements

The following tables summarise the financial impacts of adopting IFRS 16 on the Group's consolidated income statement for the year ended 31 March 2020 and on the Group's consolidated balance sheet at the date of application (1 April 2019):

Consolidated income statement and other comprehensive income

	Headline Year ended 31 March 2020			Statutory Year ended 31 March 2020		
	Pre-IFRS 16 £m	IFRS 16 adjustments £m	As reported £m	Pre-IFRS 16 £m	IFRS 16 adjustments £m	As reported £m
Revenue	**1,557**	–	**1,557**	**1,569**	–	**1,569**
Cost of sales	**(763)**	–	**(763)**	**(767)**	–	**(767)**
Gross profit	**794**	–	**794**	**802**	–	**802**
Operating expenses	**(534)**	**48**	**(486)**	**(452)**	**48**	**(404)**
EBITDA	**260**	**48**	**308**	**350**	**48**	**398**
Depreciation and amortisation	**(132)**	**(53)**	**(185)**	**(140)**	**(53)**	**(193)**
Share of results of associates and joint ventures	**(8)**	–	**(8)**	**(8)**	–	**(8)**
Operating profit	**120**	**(5)**	**115**	**202**	**(5)**	**197**
Net finance costs	**(56)**	**(10)**	**(66)**	**(56)**	**(10)**	**(66)**
Profit before taxation	**64**	**(15)**	**49**	**146**	**(15)**	**131**
Taxation	**9**	**3**	**12**	**19**	**3**	**22**
Profit for the period attributable to the owners of the Company	**73**	**(12)**	**61**	**165**	**(12)**	**153**
Total comprehensive income			**61**			**153**

Earnings per share

	2020		
	Pre-IFRS 16 £m	IFRS 16 adjustments £m	As reported £m
Statutory profit	**168**	**(15)**	**153**
Headline earnings	**76**	**(15)**	**61**
Weighted average number of shares (million)			
Shares in issue	**1,146**	**–**	**1,146**
Less weighted average holdings by Group ESOT	**(1)**	**–**	**(1)**
For basic EPS	**1,145**	**–**	**1,145**
Dilutive effect of share options	**11**	**–**	**11**
For diluted EPS	**1,156**	**–**	**1,156**

	Pre-IFRS 16 pence	IFRS 16 adjustments pence	As reported pence
Basic earnings per ordinary share			
Statutory	**14.7**	**(1.3)**	**13.4**
Headline	**6.6**	**(1.3)**	**5.3**

	Pre-IFRS 16 pence	IFRS 16 adjustments pence	As reported pence
Diluted earnings per ordinary share			
Statutory	**14.5**	**(1.3)**	**13.2**
Headline	**6.6**	**(1.3)**	**5.3**

Consolidated balance sheet

	As previously reported at 31 March 2019 £m	IFRS 16 adjustments £m	As restated at 1 April 2019 £m
Non-current assets			
Goodwill	495	–	495
Other intangible assets	235	–	235
Property, plant and equipment	199	150	349
Investment in joint venture	2	–	2
Trade and other receivables	2	3	5
Contract costs	308	–	308
Deferred tax assets	118	1	119
	1,359	154	1,513
Current assets			
Inventories	34	–	34
Trade and other receivables	160	–	160
Contract assets	39	–	39
Cash and cash equivalents	67	–	67
	300	–	300
Assets classified as held for sale	47	–	47
Total assets	1,706	154	1,860
Current liabilities			
Trade and other payables	(491)	6	(485)
Contract liabilities	(20)	–	(20)
Borrowings	(10)	10	–
Lease liabilities	–	(57)	(57)
Provisions	(35)	2	(33)
	(556)	(39)	(595)
Liabilities classified as held for sale	(7)	–	(7)
Non-current liabilities			
Trade and other payables	(5)	–	(5)
Borrowings	(838)	29	(809)
Lease liabilities	–	(161)	(161)
Provisions	(12)	7	(5)
	(855)	(125)	(980)
Total liabilities	(1,418)	(164)	(1,582)
Net assets	288	(10)	278
Equity			
Share capital	1	–	1
Share premium	684	–	684
Translation reserve	(64)	–	(64)
Demerger reserve	(513)	–	(513)
Retained earnings and other reserves	180	(10)	170
Total equity	288	(10)	278

Of the total right of use assets of £150m recognised at 1 April 2019, £52m related to leases of property and £98m to leases of network equipment and computer hardware.

Right of use asset movements in the year ended 31 March 2020 is as follows:

	Land and buildings £m	Network and customer premise equipment and computer hardware £m	Total £m
Opening balance at 1 April 2019 as previously reported	–	**61**	**61**
IFRS 16 adjustments	**52**	**98**	**150**
Opening balance at 1 April 2019 as restated	**52**	**159**	**211**
Additions	**5**	**60**	**65**
Disposals	–	**(3)**	**(3)**
Depreciation	**(5)**	**(62)**	**(67)**
Closing balance at 31 March 2020	**52**	**154**	**206**
Cost (gross carrying amount)	**57**	**216**	**273**
Accumulated depreciation and impairment charges	**(5)**	**(62)**	**(67)**
Closing balance at 31 March 2020	**52**	**154**	**206**

The Group's outstanding liability can be further analysed as follows:

	2020 £m	2019[(1)] £m
Less than 1 year	**59**	–
2 to 5 years	**121**	–
Greater than 5 years	**37**	–
	217	–

(1) The year ended 31 March 2019 has not been restated for the adoption of IFRS 16 'Leases'. Lease liabilities for finance leases under IAS 17 'Leases' were previously disclosed as part of borrowings but following the application of IFRS 16 have been reclassified to lease liabilities.

2. Segmental reporting

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

	2020 £m	2019 £m
Statutory revenue	**1,569**	**1,632**
Less MVNO revenue	**(12)**	**(23)**
Headline revenue[(1)]	**1,557**	**1,609**

	2020 £m	2019 £m
Headline EBITDA[(1)]	**308**	**237**
Depreciation of property, plant and equipment	**(114)**	**(71)**
Amortisation of operating intangibles	**(71)**	**(67)**
Share of results of joint ventures	**(8)**	**(10)**
Non-Headline items – gross profit	**8**	**12**
Non-Headline items – operating expenses	**82**	**(46)**
Non-Headline items – depreciation and amortisation	**(8)**	**(8)**
Statutory operating profit (note 4)	**197**	**47**

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

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.

	2020 £m	2019 £m
On-net	1,243	1,263
Corporate	303	333
Off-net	11	13
Headline revenue[1]	**1,557**	**1,609**
Less Carrier	(28)	(52)
Less Off-net	(11)	(13)
Headline revenue (excluding Carrier and Off-net)[1]	**1,518**	**1,544**

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

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

Corporate revenue is further analysed as:

	2020 £m	2019 £m
Carrier	28	52
Data	181	173
Voice	94	108
Corporate revenue	**303**	**333**

Total Statutory revenue can be disaggregated as below:

	2020 £m	2019 £m
Equipment	82	66
Services	1,487	1,566
Total Statutory revenue	**1,569**	1,632

3. Dividends

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

	2020 £m	2019 £m
Ordinary dividends		
Final dividend for the year ended 31 March 2018 of 1.50p per ordinary share	–	17
Interim dividend for the year ended 31 March 2019 of 1.00p per ordinary share	–	11
Final dividend for the year ended 31 March 2019 of 1.50p per ordinary share	17	–
Interim dividend for the year ended 31 March 2020 of 1.00p per ordinary share	11	–
Total ordinary dividends	**28**	**28**

The proposed final dividend for the year ended 31 March 2020 of 1.50p per ordinary share on 1,146 million ordinary shares (approximately £17m) was approved by the Board on 11 June 2020 and will be recommended to shareholders at the AGM on 21 July 2020. The dividend has not been included as a liability as at 31 March 2020. The payment of this dividend will not have any tax consequences for the Group.

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

4. Reconciliation of Statutory information to Headline information

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

Non-Headline items are items that based on their size, nature and/or incidence are assessed to warrant separate disclosure to provide supplementary information to support the understanding of the underlying trading results and performance of the Group. Non-Headline items reflect specific adjusting items, the operating results of discontinued operations or material businesses to be exited and the amortisation of acquisition intangibles. Adjusting items typically comprise discontinued operations, material exited businesses, costs/profits/losses on material acquisitions/disposals/business exits, transformational reorganisation programmes and other material exceptional events. Certain transformation and rationalisation programmes are so fundamental they may impact a number of years. In the event that other items meet the non-Headline criteria, which are applied consistently from year to year, they are also treated as adjusting items. Items that do not have these characteristics are reported within Headline results.

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

Year ended 31 March 2020	Revenue £m	Gross profit £m	EBITDA £m	Depreciation, amortisation and results of joint ventures £m	Operating profit £m	(Loss)/profit before taxation £m	Taxation £m	Profit for the year £m
Statutory results	**1,569**	**802**	**398(1)**	**(201)**	**197**	**131**	**22**	**153**
Network transformation (a)	**–**	**–**	**11**	**–**	**11**	**11**	**(2)**	**9**
OneTeam operating model (b)	**–**	**–**	**15**	**–**	**15**	**15**	**(3)**	**12**
Fibre Assets Business (c)	**–**	**–**	**(109)**	**–**	**(109)**	**(109)**	**(4)**	**(113)**
MVNO operations (d)	**(12)**	**(8)**	**(7)**	**–**	**(7)**	**(7)**	**1**	**(6)**
Amortisation of acquisition intangibles (e)	**–**	**–**	**–**	**8**	**8**	**8**	**(2)**	**6**
Headline results	**1,557**	**794**	**308**	**(193)**	**115**	**49**	**12**	**61**

(1) EBITDA is defined as operating profit or loss before depreciation, amortisation and share of results of joint ventures. See table below for reconciliation of EBITDA to Statutory operating profit.

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

	2020 £m	2019 £m
Operating profit	**197**	**47**
Share of results of joint ventures	**8**	**10**
Depreciation and amortisation	**193**	**146**
EBITDA	**398**	**203**

During the year ended 31 March 2020, cash adjusting items were an inflow of £158m (2019: outflow of £47m).

The above tables show how all APMs are reconciled to Statutory performance measures with the exception of Headline earnings per share (note 5) and net debt (note 7).

(a) Network transformation

During the year ended 31 March 2020, 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 be completed in the year ending 31 March 2022.

This programme has incurred costs of £11m (2019: £15m) including project management, consultancy, dual-running costs and decommissioning costs.

A taxation credit of £2m has been recognised on these costs in the year ended 31 March 2020 (2019: £2m).

(b) OneTeam operating model

Net costs of £15m (2019: £22m) have been incurred in relation to the Group's material restructuring programme to exit the Group's head office in London, relocate the majority of roles to the new head office located in Salford and in turn simplify the Group's organisational structure.

The costs include redundancy payments, dual-running costs, recruitment costs, retention payments and other consultancy costs. The Group expects the finalisation of this fundamental reorganisation within 2020.

A taxation credit of £3m has been recognised on these costs (2019: £3m).

(c) Fibre Assets Business

On 27 March 2020, the Group completed the planned disposal of its Fibre Assets Business resulting in a profit on disposal of £127m. See note 6 for further detail.

Following the successful completion of the disposal, a discretionary payment of £15m was made to employees to share some of the value arising on the sale of the Fibre Asset Business. This one-off incentive is directly associated with the disposal and separate to the annual bonus programme of the Group and therefore classified as non-Headline.

Following the completion of the sale, the operating results of the Fibre Assets Business for the year ended 31 March 2020 have been classified as non-Headline consistent with it being a material exited business and all other income statement items associated with the Fibre Assets Business being classified as non-Headline. The business reported an operating loss of £3m (2019: £nil). The Fibre Assets Business incurred an operating loss of £6m in the year ended 31 March 2019 and this continues to be recognised in Headline items as the disposal occurred in the year ended 31 March 2020.

A taxation credit of £4m has been recognised on these costs (2019: £nil)

(d) MVNO operations

Following the Group's announcement in May 2017 to reassess the Group's mobile strategy and exit its MVNO operations, the Group is now progressing with its alternative mobile distribution strategy. Operating profits of £7m (2019: £3m) associated with the legacy MVNO operations have been earned and treated as non-Headline, as the business is assessed to be a material exited business. The MVNO trading activity will continue to diminish with contractual commitments expiring in 2021.

A taxation charge of £1m has been recognised on these costs (2019: £1m).

(e) Amortisation of acquisition intangibles

An amortisation charge in respect of acquisition intangibles of £8m was incurred during the year (2019: £8m).

A taxation credit of £2m has been recognised on these costs (2019: £1m).

5. Earnings per ordinary share

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

	2020 **£m**	2019(1) £m
Statutory earnings	**153**	**32**
Headline earnings (note 4)	**61**	**69**
Weighted average number of shares (million)		
Shares in issue	**1,146**	**1,146**
Less weighted average holdings by Group ESOT	**(1)**	**(3)**
For basic EPS	**1,145**	**1,143**
Dilutive effect of share options	**11**	**13**
For diluted EPS	**1,156**	**1,156**

(1) The year ended 31 March 2019 has not been restated for the adoption of IFRS 16 'Leases' – see note 1 for further information.

	2020 **Pence**	2019 Pence
Basic earnings per ordinary share		
Statutory	**13.4**	**2.8**
Headline	**5.3**	**6.0**

	2020 **Pence**	2019 Pence
Diluted earnings per ordinary share		
Statutory	**13.2**	**2.8**
Headline	**5.3**	**6.0**

6. Fibre Assets Business disposal

During the year ended 31 March 2020, the Group completed the planned disposal of its Fibre Assets Business for consideration of £206m.

The disposal included its wholly owned subsidiary FibreNation Limited and the Group's controlling interest in Bolt Pro Tem Limited. The assets and liabilities disposed of were as follows:

	2020 £m
Property, plant and equipment	**(16)**
Intangible assets	**(36)**
Goodwill	**(2)**
Investment in joint ventures and associates	**(2)**
Inventories	**(11)**
Loans and other receivables	**(6)**
Bank balances and cash	**(1)**
Deferred tax asset	**(6)**
Deferred tax liability	**1**
Trade and other payables	**7**
Bank balances and cash	**(1)**
Net assets disposed of(1)	**(72)**
Consideration	**206**
Transaction costs	**(7)**
Gains on disposal	**127**
Satisfied by:	
Cash and cash equivalents	**208**
Other payables	**(2)**
Net consideration	**206**

(1) The net assets disposed of were disclosed as held for sale prior to the completion of the sale.

7. Cash and cash equivalents and borrowings

Cash and cash equivalents comprise:

	2020 £m	2019 £m
Cash at bank and in hand	**56**	67

Lease liabilities comprise:

	2020 £m	2019 £m
Current lease liabilities	**59**	**–**
Non-current lease liabilities	**158**	**–**
	217	**–**

Borrowings comprise:

	Maturity	**2020 £m**	2019 £m
Current			
Finance leases(1)		**–**	10
Non-current			
£400m Senior Notes	2022	**–**	**400**
£575m Senior Notes	2025	**575**	**–**
£640m revolving credit facility	2022	**155**	**348**
Finance leases(1)		**–**	**29**
£75m receivables purchase agreement facility	2021	**63**	**61**
Total borrowings		**793**	**848**

(1) The year ended 31 March 2019 has not been restated for the adoption of IFRS 16 'Leases' – see note 1 for further information. Lease liabilities for finance leases under IAS 17 'Leases' following the application of IFRS 16 have been reclassified to lease liabilities.

Net debt comprises:

	2020 £m	2019 £m
Cash at bank and in hand	**(56)**	**(67)**
Leases liabilities	**217**	**–**
Borrowings	**793**	**848**
Net debt	**954**	**781**

Undrawn available committed facilities are as follows:

	Maturity	**2020 £m**	2019 £m
Undrawn available committed facilities (excluding leases)	2021, 2022, 2025	**497**	306

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

	2020 £m	2019 £m
Less than 1 year	**59**	**10**
1 to 2 years	**112**	**71**
2 to 3 years	**194**	**406**
3 to 4 years	**22**	**359**
4 to 5 years	**586**	**2**
>5 years	**37**	**–**
Total borrowings	**1,010**	**848**

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

Borrowing facilities

At 31 March 2020, the Group's committed facilities were £1,290m (2019: £1,115m). The Group's uncommitted facilities were £70m (2019: £90m) giving headroom on committed facilities and uncommitted facilities of £497m (2019: £306m) and £70m (2019: £90m) respectively.

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

Details of the Group's borrowing facilities as at 31 March 2020 are set out below:

£575m Senior Notes

In February 2020, TalkTalk Telecom Group PLC issued the £575m Senior Notes due 2025. 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 and pay dividends subject to compliance with a net debt to EBITDA ratio. 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 3.875% payable semi-annually. The notes have been used to redeem the aggregate amount of the 2022 £400m notes outstanding including redemption premium and unpaid interest. The remaining funds have been used to reduce borrowings in the £640m RCF.

£400m Senior Notes

In February 2020, the £400m Senior Notes due to mature in 2022 were redeemed using the funds raised from the £575m Senior Notes due 2025.

£640m revolving credit facility (RCF)

In 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 with the actual margin dependent on the ratio of net debt to EBITDA calculated in respect of the most recent accounting year.

In April 2020, the Group refinanced its RCF agreement reducing the commitment to £430m and extending the maturity date to November 2024.

£75m receivables purchase agreement

In September 2019, the Group extended its receivables purchase agreement (£75m committed and £5m on an uncommitted basis) to mature in September 2021. Under this arrangement the Group has the ability on a rolling basis to sell its receivables to a third party vehicle in exchange for a discounted consideration. The Group is deemed to control the third party vehicle and therefore continues to consolidate the relevant receivables and the external debt on the grounds that substantially not all the risks and rewards of ownership have been transferred under the programme.

Uncommitted money market facilities and bank overdrafts

These facilities are used to assist in short term cash management and bear interest at a margin over the applicable borrowing rate. In the year ended 31 March 2020 the Group reduced the uncommitted line associated with the receivables purchase agreement from £25m to £5m.

Leases

The Group has applied IFRS 16 for the first time in the year ending 31 March 2020; more information on first time adoption can be found in note 1. The value of the Group's lease arrangements at 31 March 2020 was £217m. Leases recognised on the balance sheet in the year ended 31 March 2019 were those classified as finance leases under IAS 17 and following the application of IFRS 16 have been reclassified to lease liabilities.

8. Analysis of changes in net debt

	Opening £m	Net cash flow £m	IFRS 16 transition adjustment £m	Non-cash movements £m	Closing £m
2020					
Borrowings	**(809)**	**13**	**–**	**3**	**(793)**
Lease liabilities	**(39)**	**69**	**(179)**	**(68)**	**(217)**
Total borrowings	**(848)**	**82**	**(179)**	**(65)**	**(1,010)**
Cash and cash equivalents	**67**	**(11)**	**–**	**–**	**56**
Equity dividends	**(781)**	**71**	**(179)**	**(65)**	**(954)**

	Opening £m	Net cash flow £m	Non-cash movements £m	Closing £m
2019				
Borrowings	(788)	(28)	7	(809)
Lease liabilities	(31)	9	(17)	(39)
Total borrowings	(819)	(19)	(10)	(848)
Cash and cash equivalents	43	24	–	67
Equity dividends	(776)	5	(10)	(781)

For the year ended 31 March 2020, non-cash movements relate to leases entered totalling £56m (2019: £15m) and an interest expense of £12m (2019: £2m). For the year ended 31 March 2020, non-cash movements of £3m (2019: £7m) on borrowing costs relate to the deferral of facility fees partially offset by the amortisation of such costs.

Alternative performance measures

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

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note reference for reconciliation	Definition and purpose
Income statement measure				
Headline revenue (excluding Carrier and Off-net)	Statutory revenue	Excludes non-Headline items, specifically MVNO revenue. In addition, also excludes Carrier and Off-net revenues	Note 2	Represents revenue excluding non-Headline revenue and low margin/volatile Carrier revenue and non-core Off-net revenue. The purpose of this APM is to allow the user to understand the Group's underlying revenue performance on a comparable basis.
EBITDA	Operating profit or loss	Operating profit or loss, before depreciation and amortisation, share of joint ventures, net finance costs and taxation	Note 4	Represents operating profit before depreciation, amortisation and share of results of joint ventures.
Headline earnings before interest, tax, depreciation and amortisation (EBITDA)	Operating profit or loss	Operating profit or loss before non-Headline items, depreciation and amortisation, share of joint ventures, net finance costs and taxation	Note 4	Represents operating profit before non-Headline items, depreciation, amortisation and share of results of joint ventures to assist in the understanding of the Group's performance. The purpose of this APM is to allow the user to understand the Group's underlying financial performance measured by management, reported to the Board and that is a financial measure senior management's compensation schemes.
Headline basic EPS	Basic EPS	Basic EPS excluding non-Headline items	Note 5	Represents basic EPS excluding non-Headline items and provides supplementary information that assists the user in understanding the underlying trading results.
Pre-IFRS 16	Various	Excludes the impact of applying IFRS 16	Note 1	In the absence of restating the prior periods for the impact of IFRS 16, shows current year values under the same basis to aid the users of the financial statements better understand the impact of applying IFRS 16. This APM will be presented until the year ending 31 March 2021 when the current and prior year values will be presented under the same basis.
Balance sheet measure				
Net debt	Total borrowings after derivatives offset by cash and cash equivalents		Note 7	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.