THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION

17 December 2020

TalkTalk Telecom Group PLC
Interim results for the half year to 30 September 2020 (H1 FY21)
Strong Ethernet and Fibre net adds; resilient network performance

Operational highlights

- Robust operational performance despite ongoing impact of COVID-19. Data usage has soared by over 40% since the start of the pandemic and the importance of fast, reliable and affordable connectivity has never been clearer.
- Although trading has been impacted by COVID-19, we saw 187k Fibre net adds (H1 FY20: 292k). Significant improvement in Q2 of 120k (Q1 FY21: 67k), returning close to previous levels (FY20 quarterly average: 151k), accounting for 37% of all new Openreach Fibre to the Cabinet (FTTC) lines (Q2 FY20: 33%).
- Improving On-net ARPU trends with Q2 (£23.40) up on Q1 (£23.20) driven by growth of Fibre products and return of live sports seeing customers turn their sports boosts back on.
- Lowest levels of On-net monthly churn at 0.91% for the half (H1 FY20: 1.27%, H2 FY20: 1.12%).
- Strong Ethernet net adds of 2.1k (H1 FY20: 2.1k), with 1.7k in Q2 accounting for 24% of all new Openreach Ethernet connections, which is significantly above our market share.
- Launch of Fibre to the Premise (FTTP) services on CityFibre and Openreach networks. Our national FTTP footprint provides access to c.3m marketable homes and businesses, rising to over 4m by the end of the financial year.
- Recommended cash offer for TalkTalk by Tosca IOM Limited (a company newly formed at the direction of Toscafund Asset Management LLP and Penta Capita LLP) announced separately today.

Tristia Harrison, Chief Executive of TalkTalk, commented: *“Our financials have been resilient in the first half, albeit with some impact of COVID-19 on Headline revenue and EBITDA. Lockdown has taught us that fast, reliable and affordable connectivity is more important than ever, and we have seen excellent network performance despite a 40%+ increase in data usage.*

“We have added 187k FTTC customers during the first half, with 120k in Q2 representing over a third of all new Openreach FTTC connections; and over 80% of new retail customers are choosing Fibre products. Customers will benefit from even greater speeds as we transition to the next generation after FTTC – Full Fibre.

“Our B2B Wholesale and Ethernet business has seen a very robust performance. We’re adding Ethernet connections significantly above our market share, with a growing proportion of higher speed circuits. B2B is a crucial area of our business going forwards and I’m delighted at the sustained progress we’re making.”

Financial highlights [1]

- Despite providing a critical service, we have not been immune to the effects of the pandemic, with an estimated £9m [2] impact to Headline EBITDA in the period primarily due to trading restrictions, the removal of call usage caps, ARPU dilution from early re-contracting in search of better value deals and an increase in bad debt provisioning, partially offset by additional cost savings in key areas such as contact centres, engineers and marketing.
- Headline revenue (excluding Carrier and Off-net) £717m (H1 FY20: £764m), contracted by 6.2% year on year (YoY), primarily due to COVID-19 impacts outlined above. The remainder is driven by ongoing industry-wide Voice decline and a lower average base YoY. This has been partly offset by a continued increase in Fibre penetration.
- YoY revenue trend improved from Q1 (-7.5%) to Q2 (-4.8%), with further improvement expected in the second half.
- Statutory revenue £740m (H1 FY20: £792m), contracted by 6.6% mainly due to the reasons outlined above combined with declining Carrier revenue and lower non-Headline MVNO revenue as we wind down this business.
- Headline EBITDA £122m (H1 FY20: £140m), represented a YoY reduction of 12.9% reflecting the lower revenue partially offset by savings in our cost base primarily due to the lower cost of serving our increasing Fibre customers and other cost initiatives including COVID-19 mitigating actions. c.£9m of the YoY delta relates to COVID-19, with the remainder as expected due to legacy Voice drags and the lower average base.
- Statutory operating profit £20m (H1 FY20: £29m), declined YoY with the contraction in Headline EBITDA offset by the ongoing reduction in non-Headline items which occurred during the period.
- Small increase in net debt in the period to £967m (FY20: £954m) [3] with improved free cash flow generation YoY offset by higher non-Headline items primarily relating to cash payments associated with the sale of the Fibre Assets Business in the prior year and the purchase of shares by the employee share ownership trust (ESOT).

Outlook

- As highlighted in this announcement, COVID-19 has had some impact on the TalkTalk Group. Given the ongoing uncertainty created by COVID-19, we will be withdrawing the current full year EBITDA guidance and we will not be providing updated formal guidance.

[1] See note 2 for an explanation of Alternative Performance Measures (APMs) and non-Headline items and note 7 for a reconciliation of Statutory information to Headline information.
[2] The estimated £9m impact is calculated by tracking key metrics, both pre and post COVID-19, and using run-rate analysis to determine any material changes. This showed a marked drop off in gross additions and churn volumes, as well as an increase in out of contract customers re-contracting earlier to secure better rates, impacting revenue and margin. Within the cost base, lockdowns saw fewer agents at third party call centres and lower engineer fees and marketing spend due to trading restrictions, offset by a small increase in bad debt provisioning to reflect customers’ propensity to pay.
[3] Total net debt includes £220m lease liability (H1 FY20: £211m lease liability).

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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H1 FY21 financial results [1]

Headline revenue (excluding Carrier and Off-net) contracted by 6.2%, predominantly due to COVID-19 trading restrictions, as well as continued industry-wide Voice declines and the impact of a lower average base YoY. This has been partly offset by a continued increase in Fibre penetration. Headline EBITDA of £122m represented a reduction of 12.9% reflecting the lower revenue partially offset by savings in our cost base primarily due to the lower cost of serving our increasing Fibre customers and other cost initiatives, including COVID-19 mitigating actions. Our statutory loss before tax reduced to £4m from a profit of £1m in the prior year, with the contraction in Headline EBITDA offset by fewer non-Headline items in the period.

Q2 trading update – continued momentum in Fibre base growth and penetration [1,4]

- **Continued focus on Fibre in Consumer and B2B**
  - Improved Fibre net adds of 120k in Q2, after COVID-19 impacted Q1 (67k), accounting for 37% share of all new Openreach Fibre to the Cabinet (FTTC) lines in Q2 (Q2 FY20: 33%, Q4 FY20: 33%).
  - 85% of new Consumer customers in Q2 took a Fibre product (Q2 FY20: 79%). Encouragingly, we now have 31% of the Consumer base on the higher ARPU 80Mbps product (H1 FY20: 24%).
  - 69% of new Partner customers in our B2B division took a Fibre product (Q2 FY20: 56%).
  - Fibre customers benefit from faster, more reliable connectivity, and are accretive to customer lifetime value with lower churn and lower cost to serve, as well as higher ARPU compared to Copper customers.
- **Fibre penetration contributing to low levels of churn**
  - Q2 remained low at 1.14% (Q2 FY20: 1.26%) after COVID-19 impacted Q1 record low of 0.68%.
- **Consistent strategy in Data business**
  - The Ethernet base grew by 1.7k (Q2 FY20: 1.1k), with a third of orders for higher ARPU 1Gb lines.
  - 24% share of new Openreach Ethernet connections in Q2 compared to our market share of c.13%.
  - Ethernet circuits are high margin products and the 1Gb product has materially higher ARPU and lower churn.
- **Revenue and ARPU**
  - Headline revenue (excluding Carrier and Off-net) £359m down 4.8% YOY (Q2 FY20: £377m). Contraction driven by the impact of COVID-19 (lower connections, removal of call usage caps and ARPU dilution from early re-contracting in search of better value deals), as well as ongoing industry-wide declines in Voice usage and a lower average base.
  - Consequently, On-net ARPU at £23.40 was down 3.7% YoY (Q2 FY20: £24.29), but there was a sequential improvement from Q1 (£23.20) into Q2.

[1] See note 2 for an explanation of Alternative Performance Measures (APMs) and non-Headline items and note 7 for a reconciliation of Statutory information to Headline information.
[4] Q2 FY21 revenue split: Consumer and Wholesale B2B2C (On-net): £293m, B2B (Corporate): £73m (Data: £45m, Voice: £21m and Carrier: £7m) and Off-net: £3m. Q2 FY20: Consumer and Wholesale B2B2C (On-net): £310m, B2B (Corporate): £76m (Data: £43m, Voice: £24m and Carrier: £9m) and Off-net: £2m.

CEO review

Overview [1,2]

As we reflect on the first half of the year, much of our focus has been on adapting to the widespread impacts of the COVID-19 pandemic. In the face of unprecedented circumstances, we successfully navigated the initial lockdown period, whilst maintaining service to all customers.

The internet has undoubtedly become an essential utility and the importance of fast, reliable, and affordable connectivity has never been clearer. As such, our strategy remains unchanged, with our focus on providing our customers with the best value for money connectivity, increasingly Fibre, whilst radically simplifying TalkTalk to focus on fewer priorities as a leaner, more efficient business. With the uncertain economic climate, low prices matter even more, and TalkTalk continues to be well positioned to benefit as the only scale, value provider.

Despite providing a critical service, we have not been immune to the effects of the pandemic. Throughout the half we have experienced operational challenges, like the closure of third party overseas call centres, leading to customer service challenges, and lower gross customer additions due to engineers being unable to visit customer premises for installations. These challenges, amongst others, have ultimately impacted the Group's financials with lower revenues YoY. Despite significant mitigating activity in our cost base Headline EBITDA of £122m is 12.9% lower YoY (H1 FY20: £140m). We estimate that c.£9m of the YoY delta is related to COVID-19, with the remainder predominantly due to the continued industry-wide decline in Voice revenue and a contraction of the average customer base.

Whilst a number of the financial impacts from COVID-19 in the first half will flow through into the second half, we have seen no material impact from the second national lockdown introduced in November 2020, with our key performance measures remaining at pre-lockdown levels.

Fibre for Everyone

Throughout the period we have continued to make strong progress on our cross-Group "Fibre for Everyone" initiative. This is a fundamental pillar of our strategy and involves migrating as many customers as possible onto our Fibre to the Cabinet (FTTC) and Fibre to the Premise (FTTP / Full Fibre) products as quickly as possible. These customers benefit from faster, more reliable connectivity, whilst for TalkTalk these customers come with a higher lifetime value. Despite a reduction in industry switching volumes due to the first nationwide lockdown we have been able to continue upgrading customers at scale and now have over 60% of our total Consumer and B2B customer base taking a FTTC product. We added 187k to our Fibre base across the half (H1 FY20: 292k), with Q2 returning towards pre-COVID-19 levels at 120k (FY20 quarterly average: 151k).

As customers continue to demand even faster, more reliable services, our longer-term ambition is to transition all customers to new FTTP networks as quickly as possible. In an extension of our commercial wholesale FTTC agreements with Openreach, we will aggregate wholesale FTTP from a range of network operators to provide future-proof connectivity to homes and businesses across the UK. 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. Our differentiated value positioning leaves us well placed to capitalise on the transition to FTTP becoming the scale provider of simple, affordable Full Fibre connectivity as demand for data continues to grow exponentially driven by Over the Top (OTT) video (e.g. Netflix, Amazon Prime and Disney+), online gaming (e.g. Fortnite and Call of Duty) and increasingly working from home.

Having sold our Fibre Assets Business (FibreNation Ltd and Bolt Pro Tem Ltd) to CityFibre Holdings for £206m in March 2020, we have continued to connect customers in the FibreNation footprint (York and surrounding areas) throughout the period and have now started to connect our first customers in Milton Keynes on the wider CityFibre footprint. As part of our long-term, competitive wholesale agreement with CityFibre we are also now connecting customers on a trial basis to CityFibre products in Aberdeen, Bolton and Peterborough. We will imminently be connecting to a further 12 cities including Newcastle and Worthing and will commence selling at scale in the new year. We are now also at scale across the Openreach footprint for both new and existing customers across both Consumer and B2B. As at today, TalkTalk's national Full Fibre footprint provides us with access to approximately 3 million marketable homes and businesses, and we expect to increase this coverage to in excess of 4 million premises by the end of the financial year.

[1] See note 2 for an explanation of Alternative Performance Measures (APMs) and non-Headline items and note 7 for a reconciliation of Statutory information to Headline information.
[2] See footnote 2 on front page for more details.

Consumer

Despite some of the significant customer service challenges posed by the initial COVID-19 lockdown we have managed to retain a resilient service for our customers throughout the period. With the temporary closure of our two main third party call centres in Philippines and South Africa, we had to run with a significantly reduced number of customer service agents. This limited the availability of voice contact opportunities, which were prioritised for our vulnerable customers to help serve those customers most in need. As a consequence, there has been an acceleration of our 'digital first' strategy, 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 acceleration has only been possible because of our previous focus and preparation on this 'digital first' approach which has enabled us to operate more efficiently than many others throughout the crisis. Visits to our online 'Service Centre' have almost doubled from pre-COVID-19 levels, and this increase combined with other self-service methods (e.g. text messaging and live chat) means we are seeing a reduction in call volumes, enabling us to run with c.1,200 fewer customer service agents than this time twelve months ago, with a greater proportion of these agents now onshore.

In the midst of the initial lockdown we pulled back on marketing, and this combined with the reduced capacity of Openreach engineers and fewer customers switching has impacted new customer additions. This has led to a modest base decline in spite of our lowest ever churn in the six month period at 0.91% (H1 FY20: 1.27%), consisting of a record low of 0.68% in Q1 (Q1 FY20: 1.29%) before returning to more normal levels in Q2 of 1.14% (Q2 FY20: 1.26%).

Significant increases in data consumption, driven by homeworking, video calls and increased gaming and video streaming, mean households are hungry for more bandwidth. Our Fibre propositions continue to resonate with our customer base, with now over 70% of the Consumer base taking Fibre and an ever-increasing proportion of new customers signing up to take a Fibre product. Throughout the half, 84% of new Consumer customers signed up to one of our higher speed products compared to 74% during the same period last year. Almost all these new customers are joining us on the 80Mbps product, meaning 31% of our Fibre customers in the Consumer division are taking our higher ARPU product (H1 FY20: 24%). The increasing mix of Fibre customers within the base, coupled with some more rational pricing is seeing ARPU start to inflect, with incremental ARPU from Fibre customers beginning to outweigh the headwinds from re-contracting activity and legacy Voice decline. With the launch of higher ARPU FTTP products we expect a further uplift to ARPU in the second half and beyond.

As mentioned above, we have continued to see some ARPU dilution as we actively target 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. We also remain committed to 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.

Many of the above actions – the move to a 'digital first' strategy, onshoring of call centre agents and a greater mix of Fibre customers in the base – have meant that we have seen some excellent progress on customer experience metrics. Our 'First Time Fix' percentage reached its highest ever level in September and we recently recorded our highest ever in-life Fibre NPS score. Whilst Ofcom complaints saw an uptick in March and April when the initial closure of our third party call centres impacted our ability to take calls, we have seen them return to some of our lowest levels both in terms of absolute and share of complaints in Q2. Over the last six months we have also seen a significant improvement in positive sentiment and a reduction in backlog of complaints on social media. As a result of all the above, we are seeing a reduction in call volumes, fewer complaints and increased customer satisfaction, which is leading to lower costs to serve.

We have also implemented flexible payment options for our customers to settle their bills, enabling them to alter their payment date to suit their circumstances. As a consequence, we have been encouraged that customer debt in Consumer has been better than expected. One thing remains clear, with consumers looking to save money on bills in these uncertain economic times, it only goes to further validate our position as the only scale, value provider in the market.

TalkTalk Business

In the face of unprecedented circumstances, our B2B division has been resilient and performed well in the first half of the year, working on behalf of partners and customers to keep Britain connected. Like the Consumer business, B2B clients are 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. More and more of our new customers in our indirect partner business are now joining on Fibre products, with 69% of gross additions taking Fibre in Q2 (Q2 FY20: 56%). Alongside this, our reactive and agile direct business continues to prosper as a stand-alone division, delivering their highest ever quarter of Fibre net adds in Q2. We have also seen some good early interest in FTTP products from both direct and indirect channels, with nearly 100 partners signed up to take FTTP when it is available to them.

Throughout the half, we grew the overall Ethernet base to 44.7k, with 2.1k net adds (H1 FY20: 2.1k). Q1 net adds of 0.4k were heavily impacted by the nationwide lockdown, with installs restricted, but Q2 returned strongly with 1.7k net adds. This accounted for 24% of all new Openreach Ethernet connections in Q2, significantly ahead of our Ethernet market share of c.13%. We also enter the second half of the year with a strong backlog of orders awaiting install and a good pipeline of future sales. Importantly within the mix, we continue to see customers skewing towards our 1Gb service, with a third of orders for the higher bandwidth product, which comes with significantly higher ARPU and lower churn.

There is no doubt that businesses up and down the country have been profoundly impacted by COVID-19. We have taken a very customer focused approach to ensure that we inform, reassure and support all of our B2B customers. The full economic impact of the pandemic is yet to be fully known, but with connectivity at the heart of businesses, we continue to do all that we can to help our B2B clients with flexible solutions, 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. Clearly, the longer the pandemic continues, there remains potential for additional bad debt in the business market, and whilst this is yet to fully materialise, we continue to monitor the situation carefully.

In response to the pandemic and the new ways of working, we have launched a new homeworker proposition for businesses and their employees. The initial response has been good, and we have a growing pipeline of sales. We have also worked closely with the Government and, alongside other ISPs, we have provided connectivity at a number of key locations, including a number of NHS Nightingale Hospitals, numerous care homes across the country and supermarket distribution centres. Off the back of this, we are extremely proud that two of our colleagues, Peter Harding and Andy Miller, have been awarded MBE's for their outstanding services to Telecommunications. At the peak of the pandemic, these sites of national critical infrastructure urgently needed extra connectivity and Peter and Andy have been recognised for the crucial part they played in co-ordinating an incredible 1,200 connections to sites designated as critical by the Government, whilst developing new processes and collaborating closely with our key partners.

Network and connectivity

Network usage has been consistently on the rise and this has only been accelerated by COVID-19, particularly with regards daytime traffic due to the millions of people now working from home. 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. With the network built to manage evening peaks, we have been able to cope well with the unprecedented daytime usage. This is because we are simply filling up the daytime troughs rather than overstretching the network looking for additional capacity to meet the evening peaks. That being said, we hit a new evening peak of 7.23Tbps on 6th December driven by continued COVID-19 restrictions leaving many people under the tier system still confined to their homes, with the streaming of live Premier League football and films being the main contributors to the peak. We expect even greater demand during the Christmas period.

To help manage this increase in 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 serve over 90% of Netflix content at the network edge, and with more 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, as well as comparing well versus our peers in Ofcom's rankings for network performance.

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. 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

Our Fibre-focused strategy means that a greater proportion of the base is benefiting from higher speed and more resilient connections, leading to fewer faults, engineer visits and calls into the call centre. This, combined with more customers self-serving using our 'Service Centre', is further reducing calls to our contact centres, meaning we have continued to significantly reduce our cost to serve. Albeit there has been some incremental savings in this area related to COVID-19 in the first half due to the reduced volume of call centre agents and engineer visits.

Further to this, we continue to see the benefits of the completion of our HQ move from London to Salford in operating costs, our more targeted digital approach to marketing continues to bring down customer acquisition costs and the re-financing of the Group's borrowings towards the end of FY20 is leading to lower interest costs YoY. These initiatives will continue to provide ongoing reductions to our cost base throughout FY21 and beyond, and we continue to see further flexibility in the cost base, accelerated by COVID-19, which will enable us to deliver additional savings.

People

Alongside keeping our customers connected, our principal focus throughout the pandemic has been on the safety and wellbeing of our workforce. 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, with almost all employees able to work from home. We have sent over 1,000 pieces of office equipment home to employees to make this transition even easier. Throughout the pandemic, our offices have remained open in a safe and secure way, in fact we have recently been certified to ISO 45001 Health and Safety Management Standard, providing reassurances to all employees that we are fully compliant with health and safety legislation and follow best practice.

We are now a North-West based business operating from a single campus, with only a small presence maintained in a satellite office in London. We continue to see superb employee engagement scores since the move of our HQ, with the September survey showing a score of +42 (up from +40 in May 2020). It has been particularly pleasing to see very positive scores on questions specifically related to COVID-19 and how we have handled the situation. In order to ensure employee wellbeing and engagement we launched a People Charter that gives advice and guidelines on working from home effectively, recommending regular team catch-ups, use of video calls where possible and encourages a company lunch hour to get people away from their desks. We have also kept employees connected by running various online events for example a cook-along with the Hairy Bikers and a fitness class with Mr Motivator. In addition to continued strong employee engagement scores, we are thrilled to have been recognising as a leader of equality, diversity and inclusion, being placed number 27 on this year's 'Inclusive Top 50 UK Employers List' for demonstrating best practice across all strands of diversity including age, disability, gender, LGBT, race, faith and religion.

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. In fact, we have continued to recruit and employ throughout the half, with 164 new starters onboarded with a new virtual process in the period. We have also launched a Government funded 'Kickstart' program where we will create c.40 job placements for young people (between the age of 16 and 24) on Universal Credit who are at risk of long-term unemployment, allowing them to develop their employability skills whilst being paid the national living wage.

Outlook

As highlighted in this announcement, COVID-19 has had some impact on the TalkTalk Group. Given the ongoing uncertainty created by COVID-19, we will be withdrawing the current full year EBITDA guidance and we will not be providing updated formal guidance.

CFO Review

Financial information

	Six months ended 30 September 2020 Unaudited			Six months ended 30 September 2019 Unaudited		
	Headline (1)	**Non-Headline (1)**	**Statutory**	Headline (1)	Non-Headline (1)	Statutory
	£m	**£m**	**£m**	£m	£m	£m
Revenue	**736**	**4**	**740**	786	6	792
Cost of sales	**(378)**	**(1)**	**(379)**	(384)	(2)	(386)
Gross profit	**358**	**3**	**361**	402	4	406
Operating expenses	**(236)**	**(6)**	**(242)**	(262)	(14)	(276)
EBITDA	**122**	**(3)**	**119**	140	(10)	130
Depreciation and amortisation	**(95)**	**–**	**(95)**	(92)	(4)	(96)
Share of results of associates and joint ventures	**(4)**	**–**	**(4)**	(5)	–	(5)
Operating profit	**23**	**(3)**	**20**	43	(14)	29
Net finance costs	**(23)**	**–**	**(23)**	(28)	–	(28)
(Loss)/profit before taxation	**–**	**(3)**	**(3)**	15	(14)	1
Taxation	**(2)**	**1**	**(1)**	(3)	3	–
(Loss)/profit for the year attributable to the owners of the Company	**(2)**	**(2)**	**(4)**	12	(11)	1
(Loss)/earnings per share						
Basic (p)	**(0.2)**		**(0.3)**	1.0		0.1
Diluted (p)	**(0.2)**		**(0.3)**	1.0		0.1

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

Revenue summary	**Six months ended 30 September 2020 £m**	Six months ended 30 September 2019 £m
On-net	**586**	627
Corporate	**145**	154
Off-net	**5**	5
Headline revenue	**736**	786
Less Carrier	**(14)**	(17)
Less Off-net	**(5)**	(5)
Headline revenue (excluding Carrier and Off-net)	**717**	764

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

Overview
Headline revenue (excluding Carrier and Off-net) contracted by 6.2%, predominantly due to COVID-19 trading restrictions, as well as continued industry-wide Voice declines and the impact of a lower average base YoY. This has been partly offset by a continued increase in Fibre penetration. Headline EBITDA of £122m represented a reduction of 12.9% reflecting the lower revenue partially offset by savings in our cost base primarily due to the lower cost of serving our increasing Fibre customers and other cost initiatives, including COVID-19 mitigating actions. Our statutory loss before tax reduced to £4m from a profit of £1m in the prior year, with the contraction in Headline EBITDA offset by fewer non-Headline items in the period.

COVID-19 [2]
In the six months to 30 September 2020, the COVID-19 pandemic had an estimated negative impact on the Group's Headline EBITDA of c.£9m. This was largely a result of a contraction in gross margin, with reduced connections, cancelled Sports boosts and customers re-contracting early in search of better value deals, as well as higher customer credits due to our commitment to ensuring customers could stay connected for longer by extending our 60 minute limit for free calls to 180 minutes. In addition, bad debt provisioning increased by £3m YoY. The Group has partially offset these impacts with additional cost savings in key areas such as contact centres and marketing.

Group revenue
Headline revenue (excluding Carrier and Off-net) of £717m was 6.2% lower YoY with On-net revenues down 6.5% and Corporate revenues (excluding Carrier) 4.4% lower. The contraction in On-net revenue reflects the COVID-19 impacts mentioned above, as well as the continued industry-wide Voice usage decline, continued ARPU dilution as customers re-contract onto better value packages and a lower average customer base YoY, partially offset by increased Fibre penetration. Lower Corporate revenue (excluding Carrier) was primarily due to B2B Voice, which was down 12.8% on the prior year, whist Data revenues were flat reflecting the continued shift in the Ethernet base to higher bandwidth products, offset by some ARPU dilution due to a competitive market.

The above meant the Group's total Headline revenue contracted by 6.4% to £736m, including a 17.6% decline in Carrier revenue, reflecting our decision to reduce activity in this low margin business. Statutory revenue declined 6.6% due to the factors above and MVNO (mobile) revenues which are down £2m YoY to £4m as we wind down this business.

Gross margin
Headline gross margin of 48.6% was 250bps lower YoY 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. This was partially offset by TV wholesale cost savings, with sports boosts paused during lockdown, and lower connection costs due to fewer customer installs throughout the COVID-19 lockdown period.

Statutory gross margin of 48.8% was also 250bps lower YoY reflecting the reasons above.

Net operating expenses
Headline net operating expenses decreased by £26m YoY. A large proportion of this relates to lower costs to serve, as a result of the benefit of happier customers on Fibre products leading to reduced costs to serve and the impacts of COVID-19 resulting in savings from contact centres and the level of engineers required. Offsetting this there was a £3m increase in bad debt provisioning to reflect increased uncertainty of customer payments as a result of wider COVID-19 economic impacts.

Statutory net operating expenses were down £34m YoY due to the above as well as lower non-Headline items. See further information on non-Headline items below.

EBITDA
Headline EBITDA and Statutory EBITDA reduced by 12.9% and 8.5% to £122m and £119m respectively reflecting the factors noted above.

Depreciation and amortisation
Headline depreciation and amortisation expense have increased YoY to £95m as we continue to invest in the future growth of the business.

Share of results of associates and joint ventures
Our share of results of associates and joint ventures was broadly flat YoY at a loss of £4m (H1 FY20: £5m loss) and predominantly consists of the Group's investment in YouView.

Net finance costs
Statutory finance costs for the period were £23m (H1 FY20: £28m). The reduction is due to a number of factors including lower interest costs on the upsized bond, refinanced in February 2020, and a lower drawn debt balance through the period following the sale of the Fibre Assets Business in March 2020.

Taxation
The Statutory tax charge for the year was £1m implying an effective Statutory rate of -40% (2019: 23%) against a Statutory rate of 19%.

[2] *See footnote 2 on front page for more details.*

Non-Headline items [1]

	Six months ended 30 September 2020 £m	Six months ended 30 September 2019 £m
MVNO closure	**2**	2
Network transformation	**(5)**	(5)
One Team operating model	**–**	(7)
EBITDA	**(3)**	(10)
Depreciation and amortisation	**–**	(4)
Taxation	**–**	3
Non-Headline items	**(3)**	(11)

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

Within EBITDA the Group recognised a non-Headline loss of £3m (H1 FY20: £10m loss) associated with business transformation costs partially offset by MVNO trading profits.

Our significant multi-year network and IT transformation programme continued during the period incurring costs of £5m (H1 FY20: £5m) 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.

Following the Group’s announcement in May 2017 to exit our MVNO operations, trading profits of £2m have been recognised, compared to £2m in H1 FY20.

In the prior year there was a non-Headline depreciation and amortisation charge related to amortisation of acquisition intangibles. These are now fully amortised and therefore there is no further charge in the period.

Earnings per share

	Six months ended 30 September 2020 £m	Six months ended 30 September 2019 £m
Headline earnings (£m) [1]	**(2)**	12
Basic EPS	**(0.2)p**	1.0
Diluted EPS	**(0.2)p**	1.0
Statutory (loss)/earnings (£m)	**(4)**	1
Basic EPS	**(0.3)p**	0.1p
Diluted EPS	**(0.3)p**	0.1p

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

Both Headline and Statutory EPS saw a modest decline YoY as a result of lower earnings, driven by reduced revenue and margin, offset by a lower cost base.

Financial Position

Net assets increased to £369m (H1 FY20: £263m), primarily driven by a decrease in borrowings due to the net proceeds received from the sale of our Fibre Assets Business in the second half of the prior year.

Non-current assets increased to £1,563m (H1 FY20: £1,516m), driven by 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 FY19. The new model enables certain upfront customer acquisition costs to be deferred under IFRS 15, and this combined with our continued strong growth in Fibre and Ethernet products, where provisioning fees are also deferred under IFRS 15, has seen an increase in deferred contract costs. Current assets have increased to £264m (H1 FY19: £231m) due to a £26m increase in cash.

Current liabilities have increased to £575m (H1 FY20: £543m) due to the maturity date of the receivables purchasing agreement, which was payable within 12 months as of 30 September 2020 but has subsequently been extended until September 2022. Non-current liabilities have reduced to £883m (H1 FY20: £992m). The reduction is driven by the classification of the receivables purchase agreement as described above and a reduction in borrowings driven by the sale of our Fibre Assets Business in the second half of the prior year.

Net debt and cash flow

	Six months ended 30 September 2020 £m	Six months ended 30 September 2019 £m
Opening net debt [1]	**(954)**	(960)
Headline EBITDA [1]	**122**	140
Working capital	**41**	(80)
Capital expenditure	**(46)**	(50)
Interest and taxation	**(21)**	(22)
Non-Headline items [1]	**(31)**	(19)
Acquisitions and investments	**(4)**	(9)
ESOT share purchase	**(19)**	–
Dividends	**(17)**	(17)
Non-cash movement in leases	**(38)**	(24)
Closing net debt [1]	**(967)**	(1,041)

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

	Six months ended 30 September 2020 £m	Six months ended 30 September 2019 £m
Bond and bank debt	**(785)**	(842)
Leases	**(220)**	(211)
Cash at bank and in hand	**38**	12
Closing net debt	**(967)**	(1,041)

Total net debt is £967m. Committed headroom at 30 September 2020 was £295m (H1 FY20: £278m).

The Group had a net working capital inflow of £41m (H1 FY20: £80m outflow) predominantly due to the timing benefit of a key supplier payment, partially offset by the IFRS 15 impact of our accelerated investment in Fibre.

Capital expenditure for the year was £46m (H1 FY20: £50m), representing 6.3% of Headline revenues (H1 FY20: 6.4%). Expenditure primarily related to the enhancement of our network capability and online systems.

Non-Headline items were £31m (H1 FY20: £19m) of which £21m related to the completion of the Fibre Assets Business sale, with a discretionary payment of £15m made to all employees of the Group to share some of the value arising on the sale, as well as £6m of transaction and advisor fees. Other amounts relate to the final cash spend associated with the move of our HQ to Salford (£5m) and the ongoing network transformation programme (£7m), offset by MVNO trading profits (£2m).

Acquisitions and investments expenditure in the year of £4m (H1 FY20: £9m) relates to the YouView joint venture. This is lower YoY because the prior year included some investing activity in the FibreNation business (including the acquisition of a 20% stake in the company Makehappen Group Limited).

In the period, the employee share ownership trust (ESOT) purchased 24m shares at a cost of £19m reflecting a decision taken by the trustees of the ESOT to reassess the number of shares required to satisfy the ESOT's obligations under the Group's long-term incentive plans.

Dividends

Dividends of £17m paid in the period (H1 FY20: £17m) comprised the final dividend for FY20 of 1.50p.

In light of the recommended acquisition of TalkTalk announced today, there will be no interim dividend declared and paid. Should this transaction not complete, the Board will make a decision at that time about any interim dividend.

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.

At 30 September 2020, the Group had total committed facilities of £1,080m (H1 FY20: £1,115m), further detail of which is given in note 11 to the Interim financial statements.

At 30 September 2020, £785m (H1 FY20: £837m) had been drawn under these facilities, leaving £295m (H1 FY20: £278m) of undrawn facilities. The Group was in compliance with the terms of all its facilities, including the financial covenants, at 30 September 2020 and throughout the year and expects to remain in compliance with the terms going forward.

Going concern

The Directors have acknowledged the requirements of the UK Corporate Governance Code and the FRC guidance published in September 2014 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' in relation to the going concern basis assessment for interim financial statements.

The Group has committed credit facilities throughout the 12 month going concern assessment period of £1,080m comprising a bond of £575m, an RCF of £430m and a receivable purchase agreement of £75m. The receivable purchase agreement was extended in October 2020 to mature in September 2022. As of 30 September 2020, the Group has undrawn credit facilities of £295m.

The Group's internal forecasts since the March 2020 financial statements have been updated to reflect actual results for the first half of FY21. The Group has also revisited reasonably possible downside sensitivities in light of the latest economic events.

These updated forecasts have then been used to carry out the assessment of going concern. These cash flow forecasts have taken into account expected cash cycles of the Group, cash management activities of the Group and timings of cash inflows and outflows and their effect on period end/covenant date net debt positions. 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 30 September 2020.

In carrying out the assessment of going concern, the Directors have given consideration to the recommended acquisition of TalkTalk by Tosca IOM Limited. As part of the assessment of this potential transaction it has been noted that the terms and conditions of the bond include a clause that restricts a change in control of the Group. It is not considered that a change in control will arise from the potential transaction or in the going concern assessment period.

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 – further information on these risks can be found on the next page.

Given the unique conditions arising from COVID-19, specific scenario planning has been carried out to consider how the pandemic may affect the results of the Group as part of the going concern assessment, utilising the knowledge of the impact of COVID-19 in H1 FY21. This scenario planning considered the following main possible impacts:

- new connections being down against initial expectations pre-COVID-19 by c.50% in H2 FY21. This largely reflects a general market slowdown in new customer acquisitions. A reduction in churn has also been assumed, though is expected to impact by a lesser degree than new connections;
- 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 and reducing or delaying capital expenditure.

The Directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, being a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing these condensed financial statements.

Risks and uncertainties

Principal risks and uncertainties

The Board has reconsidered the principal risks and uncertainties published at the full year 2020. The following risks and uncertainties are those that the Directors believe could have the most significant impact on the Group's business:

- **COVID-19** – the pandemic could impact the Group's employees, operations, suppliers and customers, through lockdowns, disrupted supply chains, social distancing measures and wider impacts on the UK economy.
- **Customer trust and brand reputation** – there is a risk that TalkTalk is perceived as a 'budget' provider, associated with price rather than quality and service. In addition, cyber threats, scam calls or poor customer experience present a risk to brand reputation and trust.
- **People capability** – the main focus continues to be attracting and retaining the required talent and competencies in a competitive local employment environment. Failure to do so may negatively impact our ability to deliver on performance targets and strategic objectives.
- **Competitive landscape** – TalkTalk is established as a value for money connectivity provider in a highly competitive market. The future acceleration of FTTP rollout may also drive more new entrants to the market which will further increase the competitive landscape.
- **Changing market structure** – the Government and Ofcom are committed to promoting investment in FTTP networks through infrastructure competition in the UK telecommunications market.
- **Regulatory compliance** – the telecommunications sector is highly regulated, with compliance over key customer-focused regulations monitored by the governing body, Ofcom. Failure to comply with regulatory obligations may result in negative customer impact and/or significant regulatory fines.
- **Data and cyber security** – security of customer, commercial and colleague data poses increasing reputational and financial risk.
- **Resilience and business continuity** – TalkTalk is reliant on its infrastructure as well as key third party suppliers and partners in order to deliver quality products and services to its customers. Network, system or third party failure could result in significant disruption to services or business processes.
- **Financial** – as with many organisations, TalkTalk must actively manage its liquidity risk, ensuring the availability of sufficient long-term funding and the Group's compliance with associated covenants and other terms of the funding arrangements. In addition, the Group must manage other financial risks such as foreign exchange, interest rate and credit risk.
- **Change delivery and execution** – delivery of performance and strategic objectives and development of the business is reliant on the ability to successfully deliver innovation and other operational changes required to support growth and performance.

These risks and mitigating factors are described in more detail on pages 20 to 25 of the TalkTalk Telecom Group PLC Annual Report 2020, a copy of which is available on the Group's website.

These principal risks and uncertainties continue to have the potential to impact the Group's results or financial position during the remaining six months of the financial year. Since the publication of the 2020 Annual Report, the risks landscape has developed, particularly in relation to COVID-19 and changing market structure.

- **COVID-19** – despite a successful operational response to date, COVID-19 continues to impact the Group's colleagues, operations, suppliers and customers. Key COVID-19 risks relate to a general market slowdown in new customer acquisitions and financial distress and insolvency of the Group's small and medium enterprise customers. This is partially offset by reduced customer churn and a reduction in operating costs, primarily in relation to marketing spend and third party customer service costs due to lockdowns in overseas contact centres and lower new connections. The future prevalence of the virus and the long-term economic impacts are uncertain. We continue to monitor emerging exposures and our ability to manage them, defining and agreeing actions as required.
- **Changing market structure** – as customers continue to demand even faster, more reliable services, our longer-term ambition is to transition all customers to new FTTP networks as quickly as possible. Having disposed of our Fibre Assets Business to CityFibre Holdings in March 2020, we do not own the underlying FTTP infrastructure necessary to deliver Full Fibre connections to end users. As such, we rely on wholesale agreements with FTTP infrastructure networks, such as CityFibre, in order to facilitate the migration of our customer base to Full Fibre services. Given that the regulatory and commercial landscape for FTTP is still largely undeveloped, we may not be able to gain access to Fibre network infrastructure or may not be able to gain access at prices similar to those we currently incur for broadband connections, including backhaul, for the last mile of FTTP networks. This could render us unable to provide our existing customer base with a broadband connection and prevent us from acquiring new FTTP customers in particular areas. We have secured a long-term competitive wholesale agreement with CityFibre and will connect customers at scale on their network. We have soft launched FTTP products to Consumers and Businesses in the Openreach footprint on trial pricing for new customers and will soon be connecting existing customers in these areas. We continue to discuss a competitive long-term deal with Openreach.

Emerging risks
TalkTalk faces emerging risks and uncertainties that could potentially be significant to our long-term strategy but cannot be fully defined or managed at present.

- **Brexit** – the UK Government has been considering how Brexit will impact the future of telecoms regulation in the UK and final decisions will be subject to terms of the UK's future relationship with the EU. It is assessed that the Group has limited direct exposure to Brexit as it only provides services within the UK, has limited non-UK suppliers and contingency plans are in place for identified risks. However, the longer-term potential implications of a new relationship with the EU will depend on the outcome of the current trade negotiations and cannot be reliably identified at present.
- **Climate change** – long-term climate change and environmental impacts may result in risks due to changes in UK market behaviours and government actions which cannot be fully defined.

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

Statement of Directors responsibilities
The unaudited interim condensed financial statements for the 6 months ended 30 September 2020 have been prepared in accordance with IAS 34 'Interim Financial Reporting', as adopted by the European Union and the Disclosure and Transparency Directive Rules ('DTR'). The interim management report herein includes a fair review of the important events during the first 6 months and description of principal risks and uncertainties for the remainder of the financial period, as required by DTR 4.2.7R, and a fair review of disclosure of related party transactions and changes therein, as required by DTR 4.2.8R.

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

On behalf of the Board
T Harrison, Chief Executive Officer
K Ferry, Chief Financial Officer
17 December 2020

Condensed consolidated income statement

For the period ended 30 September 2020

		Six months ended 30 September 2020 Unaudited			Six months ended 30 September 2019 Unaudited		
		Headline[(1)]	**Non-Headline**	**Statutory[(1)]**	Headline[(1)]	Non-Headline	Statutory[(1)]
	Notes	**£m**	**£m**	**£m**	£m	£m	£m
Revenue	2	**736**	**4**	**740**	786	6	792
Cost of sales		**(378)**	**(1)**	**(379)**	(384)	(2)	(386)
Gross profit		**358**	**3**	**361**	402	4	406
Operating expenses		**(236)**	**(6)**	**(242)**	(262)	(14)	(276)
EBITDA[(1)]		**122**	**(3)**	**119**	140	(10)	130
Depreciation and amortisation		**(95)**	**–**	**(95)**	(92)	(4)	(96)
Share of results of associates and joint ventures		**(4)**	**–**	**(4)**	(5)	–	(5)
Operating profit/(loss)		**23**	**(3)**	**20**	43	(14)	29
Net finance costs	4	**(23)**	**–**	**(23)**	(28)	–	(28)
(Loss)/profit before taxation		**–**	**(3)**	**(3)**	15	(14)	1
Taxation	5	**(2)**	**1**	**(1)**	(3)	3	–
(Loss)/profit for the period attributable to the owners of the Company		**(2)**	**(2)**	**(4)**	12	(11)	1
(Loss)/earnings per share							
Basic (p)	8			**(0.3)**			0.1
Diluted (p)	8			**(0.3)**			0.1

(1) See note 2 for explanation of alternative performance measures and note 7 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.

Condensed consolidated balance sheet

As at 30 September 2020

	Notes	**30 September 2020 Unaudited £m**	30 September 2019 Unaudited £m	31 March 2020 Audited £m
Non-current assets				
Goodwill		**495**	495	495
Other intangible assets		**199**	223	205
Property, plant and equipment	9	**326**	325	339
Investment in joint venture and associates		**–**	2	–
Trade and other receivables		**5**	4	5
Contract costs		**403**	348	383
Deferred tax assets		**134**	119	135
		1,562	1,516	1,562
Current assets				
Inventories		**38**	28	25
Trade and other receivables		**147**	148	136
Contract assets		**41**	43	49
Derivative financial instruments		**–**	–	1
Cash and cash equivalents		**38**	12	56
		264	231	267
Assets classified as held for sale	12	**–**	58	–
Total assets		**1,826**	1,805	1,829
Current liabilities				
Trade and other payables		**(429)**	(426)	(377)
Contract liabilities		**(20)**	(23)	(24)
Lease liabilities	10	**(58)**	(60)	(59)
Borrowings	11	**(66)**	(5)	-
Provisions		**(2)**	(29)	(10)
		(575)	(543)	(470)
Liabilities classified as held for sale	12	**-**	(7)	-
Non-current liabilities				
Borrowings	11	**(719)**	(837)	(793)
Lease liabilities	10	**(162)**	(151)	(158)
Provisions		**(2)**	(4)	(2)
		(883)	(992)	(953)
Total liabilities		**(1,458)**	(1,542)	(1,423)
Net assets		**368**	263	406
Share capital		**1**	1	1
Share premium		**684**	684	684
Translation reserve		**(64)**	(64)	(64)
Demerger reserve		**(513)**	(513)	(513)
Retained earnings and other reserves		**260**	155	298
Total equity		**368**	263	406

Condensed consolidated cash flow statement

For the period ended 30 September 2020

	Notes	**Six months ended 30 September 2020 Unaudited £m**	Six months ended 30 September 2019 Unaudited £m
Operating activities			
Operating profit		**20**	29
Share-based payments		**2**	2
Depreciation of property, plant and equipment		**61**	58
Amortisation of other operating intangible assets		**34**	34
Amortisation of acquisition intangibles		**–**	4
Impairment of property, plant and equipment		**1**	–
Share of losses of joint ventures		**4**	5
Decrease in provisions		**(8)**	(5)
Operating cash flows before movements in working capital		**114**	127
(Increase)/decrease in trade and other receivables		**(10)**	7
Increase in contract assets and contract costs		**(12)**	(44)
(Increase)/decrease in inventory		**(13)**	6
Increase/(decrease) in trade and other payables		**57**	(61)
(Decrease)/increase in contract liabilities		**(4)**	3
Net cash flows generated from operating activities		**132**	38
Investing activities			
Acquisition of subsidiaries, associates and joint ventures, net of cash acquired		**(4)**	(6)
Investment in intangible assets		**(30)**	(36)
Investment in property, plant and equipment		**(16)**	(14)
Cash flows used in investing activities		**(50)**	(56)
Financing activities			
Purchase of own shares		**(19)**	–
Repayments of obligations in respect of leases		**(29)**	(26)
Repayments of borrowings		**(10)**	–
Drawdown of borrowings		**3**	33
Interest paid		**(23)**	(25)
Other finance costs		**(5)**	(2)
Equity dividends paid	6	**(17)**	(17)
Cash flows generated used in financing activities		**(100)**	(37)
Net decrease in cash and cash equivalents		**(18)**	(55)
Cash and cash equivalents at the start of the period		**56**	67
Cash and cash equivalents at the end of the period		**38**	12

Condensed consolidated statement of changes in equity

For the period ended 30 September 2020

	Notes	Share capital £m	Share premium £m	Translation reserve £m	Demerger reserve £m	Retained earnings and other reserves £m	Total equity £m
At 30 March 2019 as previously reported		1	684	(64)	(513)	180	288
Change in accounting policies in respect of IFRS 16 (net of tax)		–	–	–	–	(10)	(10)
At 1 April 2019 (restated)		1	684	(64)	(513)	170	278
Profit for the period		–	–	–	–	1	1
Total comprehensive income		–	–	–	–	1	1
Transactions with the owners of the Company							
Share-based payments		–	–	–	–	2	2
Settlement of Group ESOT shares		–	–	–	–	(1)	(1)
Equity dividends	6	–	–	–	–	(17)	(17)
Total transactions with the owners of the Company		–	–	–	–	(16)	(16)
At 30 September 2019 (unaudited)		1	684	(64)	(513)	155	263

	Notes	Share capital £m	Share premium £m	Translation reserve £m	Demerger reserve £m	Retained earnings and other reserves £m	Total equity £m
At 30 September 2019 (unaudited)		1	684	(64)	(513)	155	263
Profit for the period		–	–	–	–	152	152
Total comprehensive income		–	–	–	–	152	152
Transactions with the owners of the Company							
Shared-based payments		–	–	–	–	1	1
Purchase of own shares		–	–	–	–	(1)	(1)
Settlement of Group ESOT shares		–	–	–	–	2	2
Equity dividends		–	–	–	–	(11)	(11)
Total transactions with the owners of the Company		–	–	–	–	(9)	(9)
At 31 March 2020		1	684	(64)	(513)	298	406

	Notes	**Share capital £m**	**Share premium £m**	**Translation reserve £m**	**Demerger reserve £m**	**Retained earnings and other reserves £m**	**Total equity £m**
At 31 March 2020		**1**	**684**	**(64)**	**(513)**	**298**	**406**
Loss for the period		–	–	–	–	**(4)**	**(4)**
Total comprehensive expense		–	–	–	–	**(4)**	**(4)**
Transactions with the owners of the Company							
Share-based payments		–	–	–	–	**2**	**2**
Purchase of own shares		–	–	–	–	**(19)**	**(19)**
Equity dividends	6	–	–	–	–	**(17)**	**(17)**
Total transactions with the owners of the Company		–	–	–	–	**(34)**	**(34)**
At 30 September 2020 (unaudited)		**1**	**684**	**(64)**	**(513)**	**260**	**368**

Notes to the condensed consolidated financial statements

For the period ended 30 September 2020

1. General Information

The information for the year ended 31 March 2020 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor reported on those accounts; their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

2. Basis of preparation

The annual financial statements of TalkTalk Telecom Group plc are prepared in accordance with IFRSs as adopted by the European Union.

The condensed interim financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the European Union and Disclosure and Transparency Rules of the United Kingdom Financial Conduct Authority.

The accounting policies adopted in the preparation of the condensed interim financial statements are consistent with those followed in the preparation of the consolidated annual financial statements for the year ended 31 March 2020.

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

- Amendments to References to the Conceptual Framework in IFRS Standards
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (amendments to IAS 1 and IAS 8)
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS7)

This report should be read in conjunction with the consolidated annual financial statements for the year ended 31 March 2020. Full details of the audited consolidated financial statements for the year ended 31 March 2020 are available at www.talktalkplc.com.

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

In preparing these unaudited condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies were consistent with those that applied to the consolidated financial statements for the year ended 31 March 2020.

In addition, the Group continues to recognise certain service level related credits from suppliers to compensate the Group where the supplier has not operated within the contractual terms of these arrangements**.** At 30 September 2020, a receivable of £12m (September 2019: £6m, March 2020: £11m) existed in relation to claims where the supplier has not operated within contractual terms, the resolution of which may give rise to an increase or decrease in the level of receivable recognised. This is without prejudice to the Group's legal position.

Management has reviewed the potential impact of Brexit on these interim financial statements and continues to believe the impact will be limited, this includes any impact on the IFRS 9 expected loss model which includes consideration of the macro economic environment. See below for impact of Brexit in relation to the going concern assessment. The Board also notes no changes to this assessment from a post balance sheet event perspective.

These unaudited condensed consolidated interim financial statements were authorised for issue by the Company's Board on 17 December 2020.

Going concern

The Directors have acknowledged the requirements of the UK Corporate Governance Code and the FRC guidance published in September 2014 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' in relation to the going concern basis assessment for interim financial statements.

The Group has committed credit facilities throughout the 12 month going concern assessment period of £1,080m comprising a bond of £575m, an RCF of £430m and a receivable purchase agreement of £75m. The receivable purchase agreement was extended in October 2020 to mature in September 2022. As of 30 September 2020, the Group has undrawn credit facilities of £295m.
The Group's internal forecasts since the March 2020 financial statements have been updated to reflect actual results for the first half of FY21. The Group has also revisited reasonably possible downside sensitivities in light of the latest economic events.

These updated forecasts have then been used to carry out the assessment of going concern. These cash flow forecasts have taken into account expected cash cycles of the Group, cash management activities of the Group and timings of cash inflows and outflows and their effect on period end/covenant date net debt positions. 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 30 September 2020.

In carrying out the assessment of going concern, the Directors have given consideration to the recommended acquisition of TalkTalk by Tosca IOM Limited. As part of the assessment of this potential transaction it has been noted that the terms and conditions of the bond include a clause that restricts a change in control of the Group. It is not considered that a change in control will arise from the potential transaction or in the going concern assessment period.

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 – further information on these risks can be found in the risks and uncertainties section.

Given the unique conditions arising from COVID-19, specific scenario planning has been carried out to consider how the pandemic may affect the results of the Group as part of the going concern assessment, utilising the knowledge of the impact of COVID-19 in H1 FY21. This scenario planning considered the following main possible impacts:

- new connections being down against initial expectations pre-COVID-19 by c.50% in H2 FY21. This largely reflects a general market slowdown in new customer acquisitions. A reduction in churn has also been assumed, though is expected to impact by a lesser degree than new connections;
- 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 and reducing or delaying capital expenditure.

The Directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, being a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing these condensed financial statements.

Alternative performance measures (AP)

The consolidated financial statements include APMs as well as statutory measures. These APMs used by the Group are not defined terms under IFRS and may therefore not be comparable with similarly titled measures reported by other companies. They are not intended to be a substitute for, or superior to, GAAP measures. All APMs relate to the current year results and comparative periods where provided. This presentation is also consistent with the way that financial performance is measured by management, reported to the Board, the basis of financial measures for senior management's compensation schemes and provides supplementary information that assists the user in understanding the financial performance, position and trends of the Group. The APMs have been applied consistently in the period ended 30 September 2020 as defined in the consolidated annual financial statements for the year ended 31 March 2020 except for the removal of pre-IFRS 16 values which are no longer used as the current period and prior period comparatives are both now prepared under the same basis. See note 7 for reconciliation of statutory information to headline information.

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).

Other APMs used include:

- Headline revenue – excludes non-headline items, specifically Mobile Virtual Network Operator ("MVNO") revenue;
- Headline basic EPS – basic EPS excluding non-headline items; and
- Net debt – total borrowings after derivatives offset by cash and cash equivalents.

3. Segmental reporting

IFRS 8 'Operating Segments' requires the segmental information presented in the financial statements to be that used by the Chief Operating Decision Maker (CODM) to evaluate the performance of the business and decide how to allocate resources. The Group has identified the Board as its CODM. The Board considers the results of the business in its entirety 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.

	Six months ended 30 September 2020 Unaudited £m	Six months ended 30 September 2019 Unaudited £m
Statutory revenue	**740**	792
Less MVNO revenue	**(4)**	(6)
Headline revenue (1)	**736**	786
Headline EBITDA (1)	**122**	140
Depreciation of property, plant and equipment	**(61)**	(58)
Amortisation of operating intangibles	**(34)**	(34)
Amortisation of acquisition intangibles	**-**	(4)
Share of results of joint ventures	**(4)**	(5)
Non-headline items – gross profit (1)	**3**	4
Non-headline items – operating expenses (1)	**(6)**	(14)
Statutory operating profit (1)	**20**	29

Total statutory revenue can be disaggregated as below:

	Six months ended 30 September 2020 Unaudited £m	Six months ended 30 September 2019 Unaudited £m
Equipment	**15**	40
Services	**725**	752
	740	792

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

	Six months ended 30 September 2020 Unaudited £m	Six months ended 30 September 2019 Unaudited £m
On-net	**586**	627
Corporate	**145**	154
Off-net	**5**	5
Headline revenue (1)	**736**	786
Less Carrier	**(14)**	(17)
Less Off-net	**(5)**	(5)
Headline revenue (excluding Carrier and Off-net) (1)	**717**	764

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

Corporate revenue is further analysed as:

	Six months ended 30 September 2020 Unaudited £m	Six months ended 30 September 2019 Unaudited £m
Carrier	**14**	17
Data	**90**	90
Voice	**41**	47
Corporate revenue	**145**	154

(1) see note 7 for reconciliation of statutory information to headline information.

4. Net finance costs

Net finance costs are analysed as follows:

	Six months ended 30 September 2020 Unaudited £m	Six months ended 30 September 2019 Unaudited £m
Interest on senior notes, bank loans and overdrafts	**15**	20
Interest on lease liabilities	**6**	5
Amortisation of deferred facility fees and other finance costs	**2**	3
	23	28

5. Tax

The Headline tax charge for the year was £2m (2019: £3m) and the Statutory tax charge was £1m (2019: £nil).

6. Dividends

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

	Six months ended 30 September 2020 Unaudited £m	Six months ended 30 September 2019 Unaudited £m
Ordinary dividends		
Final dividend for the year ended 31 March 2019 of 1.50p per ordinary share	-	17
Final dividend for the year ended 31 March 2020 of 1.50p per ordinary share	**17**	-
Total ordinary dividends	**17**	17

No interim dividend has been proposed, this was approved by the Board on 17 December 2020.

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

7. Reconciliation of statutory information to headline information

Accounting policy** – **non-headline items

Headline information is provided because the Directors consider that it provides assistance in understanding the Group's underlying performance. The policy in relation to non-headline items has been consistent and consistently applied in the preparation of these unaudited condensed consolidated interim financial statements as those used in the preparation of the financial statements for the year ended 31 March 2020.

The following table includes details of non-headline items and reconciles statutory information to headline information:

Period ended 30 September 2020	**Revenue £m**	**Gross profit £m**	**EBITDA £m**	**Operating profit £m**	**Loss before taxation £m**	**Taxation £m**	**Loss for the period £m**
Statutory results	**740**	**361**	**119**	**20**	**(3)**	**(1)**	**(4)**
MVNO operating profit (a)	**(4)**	**(3)**	**(2)**	**(2)**	**(2)**	**-**	**(2)**
Network transformation (b)	-	-	**5**	**5**	**5**	**(1)**	**4**
Headline results	**736**	**358**	**122**	**23**	**-**	**(2)**	**(2)**

Period ended 30 September 2019	Revenue £m	Gross profit £m	EBITDA £m	Operating profit £m	Profit before taxation £m	Taxation £m	Profit for the period £m
Statutory results	**792**	**406**	**130**	**29**	**1**	–	**1**
MVNO operating profit (a)	**(6)**	**(4)**	**(2)**	**(2)**	**(2)**	–	**(2)**
Network transformation (b)	**–**	**–**	**5**	**5**	**5**	**(1)**	**4**
OneTeam operating model (c)	**–**	**–**	**7**	**7**	**7**	**(2)**	**5**
Amortisation of acquisition intangibles (d)	–	–	–	**4**	**4**	–	**4**
Headline results	**786**	**402**	**140**	**43**	**15**	**(3)**	**12**

During the period ended 30 September 2020, cash exceptional items were £31m (2019: £19m).

The above table shows how all APMs are reconciled to statutory performance measures with the exception of headline earnings per share (note 8).

(a) MVNO operating profit
Following the Group's announcement in May 2017 to reassess the Group's mobile strategy, the Group is now progressing with its alternative mobile distribution strategy. Operating profits of £2m (2019: £2m) associated with the MVNO strategy 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 credit of £nil has been recognised on these costs (2019: £nil).

(b) Network transformation
During the period ended 30 September 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 resulted in £5m (2019: £5m) of costs including project management, consultancy, dual running costs and decommissioning costs.

A total taxation credit of £1m has been recognised on these costs in the period ended 30 September 2020 (2019: £1m).

(c) OneTeam operating model
Costs of £nil (2019: £7m) 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 prior period costs include redundancy payments, dual-running costs, recruitment costs, retention payments and other consultancy costs. This programme was completed in the year ended 31 March 2020.

A taxation credit of £nil has been recognised on these costs in the period ended 30 September 2020 (2019: £2m).

(d) Amortisation of acquisition intangibles
An amortisation charge in respect of acquisition intangibles of £nil was incurred during the period (2019: £4m) as the acquisition intangibles are now fully amortised to nil. Management considers amortisation of acquisitions of intangibles to be a non-headline item due to it being inherently linked to historic acquisitions of businesses in accordance with the Group's non-headline accounting policy.

8. (Loss)/earnings per ordinary share

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

	Six months ended 30 September 2020 Unaudited £m	Six months ended 30 September 2019 Unaudited £m
Headline (loss)/profit (note 7)	**(2)**	12
Statutory (loss)/profit	**(4)**	1
Weighted average number of shares (millions)		
Shares in issue	**1,146**	1,146
Less weighted average holdings by Group ESOT	**(7)**	(1)
For basic EPS	**1,139**	1,145
Dilutive effect of share options	**8**	5
For diluted EPS	**1,147**	1,150

	Six months ended 30 September 2020 Unaudited Pence	Six months ended 30 September 2019 Unaudited Pence
Basic (loss)/earnings per ordinary share		
Headline	**(0.2)**	1.0
Statutory	**(0.3)**	0.1

	Six months ended 30 September 2020 Unaudited Pence	Six months ended 30 September 2019 Unaudited Pence
Diluted (loss)/earnings per ordinary share		
Headline	**(0.2)**	1.0
Statutory	**(0.3)**	0.1

9. Property, plant and equipment

Right of use assets of £209m (2019: £200m) are presented within property, plant and equipment.

During the period, the Group had additions of £52m (2019: £34m), of which £42m (2019: £21m) were right of use assets, an impairment of £1m (2019: £nil) and disposals of £2m (2019: £1m). The impairment and disposals were in relation to right of use assets. The Group recognised £61m (2019: £58m) of depreciation, of which £35m (2019: £32m) was in relation to right of use assets.

See note 14 for commitments in relation to property, plant and equipment.

10. Leases

During the period ended 30 September 2020, the Group recognised £6m (2019: £5m) of finance costs and £4m (2019:£3m) of operating expenses for leases under the low value exemption in the income statement.

At 30 September 2020, the Group has lease liabilities amounting to £220m (2019: £211m) which expire between 2021 and 2047.

11. Borrowings

The Group's committed debt facilities total £1,080m (2019: £1,115m), which expire between 2021 and 2025. The Group's uncommitted debt facilities total £70m (2019: £70m).

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

In October 2020, the Group signed a 12 month extension on its £75m receivables purchase agreement, extending the maturity date of this facility to September 2022.

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 pre-IFRS 16 and adjustments are made for the receivables purchasing agreement, non-headline items (note 7) and other adjusting items which are deemed exceptional under the agreements. The Group was in compliance with its covenants throughout the current and prior periods.

12. Assets and liabilities held for sale

The major classes of assets and liabilities classified as held for sale are as follows:

	30 September 2020 Unaudited £m	30 September 2019 Unaudited £m
Assets classified as held for sale		
Goodwill	–	2
Investment in joint ventures and associates	–	2
Other non-current assets	–	41
Current assets	–	13
Total assets classified as held for sale	–	58
Liabilities associated with assets classified as held for sale		
Current payables	–	(7)
Total liabilities associated with assets classified as held for sale	–	(7)

The assets and liabilities of the Fibre Assets Business were classified as held for sale in the prior period, the Group completed the disposal of the business in the year ended 31 March 2020 (see note 13 of the Group's consolidated annual financial statements for the year ended 31 March 2020).

13. Financial instruments fair value disclosures

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

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

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

The fair value measurement is classified as Level 2 (2019: Level 2), derived from other observable market data; this means that their fair value is based upon the mark to market valuation at the balance sheet date. Fair value measurement at Level 2 gives consideration to interest rates, yield curves and foreign exchange rates at commonly quoted intervals for relevant currencies. The Group has also assessed the credit risk within its financial instruments.

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

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

	30 September 2020 Unaudited £m	30 September 2019 Unaudited £m	30 March 2020 Audited £m
Cash and cash equivalents	**38**	12	56
Contract costs	**403**	348	383
Current Trade and other receivables	**147**	148	136
Non-current trade and other receivables	**5**	4	5
Contract asset	**41**	43	49
Financial assets at amortised cost	**634**	555	629
Derivative financial instrument	–	–	1
Fair value through profit and loss	–	–	1
Contract liabilities	**(20)**	(23)	(24)
Current trade and other payables	**(429)**	(426)	(377)
Current borrowings	**(66)**	(5)	**–**
Non-current borrowings	**(719)**	(837)	(793)
Financial liabilities at amortised cost	**(1,234)**	(1,291)	(1,194)
Total financial instruments	**(600)**	(736)	(564)

14. Commitments

The Group has in the normal course of business entered into various multi-year supply and working capital agreements for core network, IT and customer equipment. As at 30 September 2020, expenditure contracted but not provided for in these financial statements amounted to £69m (September 2019: £167m, March 2020: £79m). Of this amount, £4m (September 2019: £99m, March 2020: £22m) related to supply for core network, IT and customer equipment, £59m (September 2019: £68m, March 2020: £51m) related to capital commitments and £6m (September 2019: £6m, March 2020: £6m) to fund its joint ventures.

15. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

During the period, TalkTalk Telecom Holdings Employee Share Ownership Trust (the ESOT"), purchased 24 million Ordinary Shares of 0.1p each in the capital of the Company for a total consideration of £19m. The ESOT holds Shares for the benefit of the Company's employees, and in particular for satisfying the vesting of awards made under the Company's various employee share schemes. The Trustees of the ESOT decide whether to vote or abstain.

The freehold interest of certain of properties leased to the Group is owned by a company of which the Executive Chairman is a controlling owner, one such lease was entered into during the period. The terms of these leases are considered to be at market rates by reference to rental charges offered on other similar properties.

16. Contingent liability

On 2 September 2020, following recent judgments of the Court of Justice of the European Union (CJEU), HMRC gave an update on the VAT treatment of compensation and similar payments. Previous HMRC guidance said when customers are charged to withdraw from agreements to receive goods or services, these charges were not generally for a supply and were outside the scope of VAT. HMRC guidance on charges described as compensation or early termination fees in a contract, has been changed to state that they are generally liable for VAT. The Group has proactively engaged with HMRC in respect of this policy paper. The VAT that would be payable in respect of early termination fees invoiced totals £7m for the period under review.

17. Post balance sheet event

On 17 December 2020, the Directors recommended an offer from Tosca IOM Limited to acquire the entire ordinary share capital of TalkTalk Telecom Group plc.

During December 2020, one of the Group's suppliers has opened legal proceedings in respect of amounts withheld from the supplier. The Directors consider this is a non-adjusting post balance sheet event.