EMBARGOED UNTIL 7.00 AM ON 15th NOVEMBER 2017

15 November 2017

TalkTalk Telecom Group PLC

Interim results for the 6 months to 30 September 2017 (H1FY18)

Strong growth momentum; acceleration in net adds

- Net adds +46k (H1FY17: -29k) with double-digit growth in both Retail and Wholesale bases; opportunity to step up investment in growth to deliver further strong net adds progress in H2
- Return to on-net revenue growth in Q2 (+1.3%)
- Continued reduction in churn to 1.3% (H2 FY17: 1.5%)
- 1.6m customers now on FLPP (31 March 2017: 1.0m) - over 50% of Retail base
- Strong growth in fibre (+161k) and TV (+19k); sustained growth in Ethernet base (+4.3k)
- Simple and compelling new mobile proposition to be launched in Q3
- Continue to explore co-investment opportunities in FTTP; begun build of further 40,000 homes in York
- Investment in growth to drive FY Headline EBITDA(1,2) towards lower end of £270m-£300m guidance

H1FY18 Financial Highlights

- Headline EBITDA*(1,2)* £95m, excluding MVNO loss (H1FY17: £144m excluding MVNO loss)
- Statutory operating loss £42m (H1FY17: £44m profit)
- Headline Revenue*(1,2)* -1.8% excluding Carrier (H1FY17: -3.4%; H2FY17: -3.1%)
- Statutory Revenue £856m (H1FY17: £902m)
- On-net revenue -1.1%; Corporate (ex-Carrier) +2.2%; Data +10.7 %, Legacy Voice -8.2%
- Headline*(1,2)* operating cash flow £46m (H1FY17: £-28m)
- Statutory loss before tax £75m (H1FY17: profit £30m); statutory EPS -7.5p (H1FY17: 2.2p)
- H1 dividend 2.50p (H1FY17: 5.29p); H1 Headline net debt/EBITDA*(1,3)* 2.88x (H1FY17: 2.51x)

Tristia Harrison, Chief Executive of TalkTalk commented:

"When we simplified and reset the business in May we said our priorities were growth, cash and EBITDA, in that order. The first half performance shows we are delivering on that plan. We have now delivered a third consecutive quarter of growth in our broadband base, with both Retail and Wholesale bases growing; returned to on-net revenue growth; and delivered lower churn than a year ago. Our clear value proposition is resonating strongly against an uncertain economic environment and underpins our plan to simplify and focus all our investment in delivering affordable, reliable fixed connectivity to both homes and businesses".

"We expect to step up our planned investment in growth in the second half, as we take advantage of the strong demand we are seeing for our fixed low price plans; fibre take up and affordable propositions in both our residential and B2B markets. Our revised strategy of focusing the business on fewer, clearer priorities is re-establishing TalkTalk as the value provider of choice in the UK fixed connectivity market."

(1) Headline measures represent trading results before adjusting items which are defined in note 1 to the interim condensed consolidated financial statements. The directors believe the presentation of the Group results in this way is relevant to an understanding of our financial performance, as adjusting items are identified by virtue of their size, nature or incidence. Further details regarding Headline measures are disclosed in note 1 to the interim condensed financial statements. Reconciliations between Headline measures and statutory reported measures are shown in notes 6, 9 and 10 to the interim condensed financial statements.

(2) Headline EBITDA excludes losses from MVNO proposition during the period of £7m (H1FY17: £14m). Headline Revenue excludes revenues from MVNO proposition of £28m (H1FY17: £33m).

(3) As calculated for the purposes of the Group's borrowings, see note 1 to the interim condensed consolidated financial statements.

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Q2 trading – Acceleration in net adds growth and return to on-net revenue growth

We saw continuing strong demand for our new Fixed Low Price Plans ("FLPP") in Q2, both from existing customers wishing to re-contract and from new customers. The total FLPP base grew to 1.62m and with churn contained at 1.37% (Q2FY17: 1.43%), we delivered 26k net adds during the quarter with both Retail and Wholesale bases growing. Demand for fibre remained strong (+89k), with nearly 40% of new customers choosing to take fibre. We also saw significantly improved demand for TV with net adds of 24k (Q2FY17: -33k) and another quarter of Ethernet growth (+2k).

On-net revenue growth of 1.3% and Data growth of +5.1% were offset by declines in off-net of 58% and legacy voice of 9.4%, broadly in line with previous periods. As a result Group Headline Revenues[1, 2] (ex-Carrier) declined by 1% year on year.

H1 financial results

The Headline financial results[1] for the half reflect our planned investment in base growth, reflected in the impact on revenues and gross profit from strong re-contracting activity, higher cost to serve and SAC and Marketing. Group Headline Revenues[1,2] (excluding Carrier) fell by 1.8% with On-net revenues down 1.1%, Corporate (excluding Carrier) +2.2% and Off-net (less than 2% of total; H1FY17: 3%) declining by 42%. The decline in On-net revenues reflects the lower average Retail base during the period, and on-net ARPU which was 0.8% lower year on year at £26.45, reflecting the dilutive impact of strong re-contracting volumes on FLPP, offset in part by increased fibre penetration and price increases on legacy propositions.

Corporate revenue growth of 2.2% was driven by Data revenues (+10.7%) which benefited from Ethernet and EFM average base growth of 8k. Growth in Data was partially offset by the now established decline in Legacy Voice revenues (-8.2%). As expected Carrier revenues declined year on year (-37.5%) against last year's significant comparative (+30.9%).

Headline EBITDA[1] of £95m (H1FY17: £144m) reflects the impact on gross profits of lower on-net revenues during the period, the planned investment in subscriber acquisition costs (SAC) and marketing, and £10m of savings from annualising cost programmes.

Statutory revenues of £856m (H1FY17: £902m) were 5.1% lower year on year. The statutory operating loss of £42m (H1FY17: profit £44m) reflects the impact of adjusting items, including exceptionals of £59m (H1FY17: £11m) and the MVNO operating loss of £7m (H1FY17: £14m).

Headline net debt[3] at 30 September 2017 was £837m (31 March 2017: £782m), with Headline net debt/EBITDA of 2.88x[3] . The Board has declared an interim dividend of 2.50p (H1FY17: 5.29p).

FY18 outlook and guidance

We see continuing strong demand for our competitively priced propositions for consumers and businesses and an opportunity to step up H2 investment in driving materially higher base growth, continued re-contracting activity, and further fibre take-up. As a result, we expect FY18 Headline EBITDA[1,2] to be towards the lower end of our guidance range, and will enter FY19 with a materially higher quality, lower churning and larger customer base.

(1) Headline measures represent trading results before adjusting items which are defined in note 1 to the interim condensed consolidated financial statements. (2) Headline EBITDA excludes losses from MVNO proposition during the period of £7m (H1FY17: £14m). Headline Revenue excludes revenues from MVNO proposition of £28m (H1FY17: £33m). (3) As calculated for the purposes of the Group's borrowings, see note 1 to the interim condensed consolidated financial statements.

SUMMARY FINANCIALS

Key Performance Indicators	**Six months ended 30 September 2017 Unaudited**	Six months ended 30 September 2016 Unaudited
On-net Broadband Net Adds ('000)	**46**	(29)
On-net Churn (%)	**1.26%**	1.40%
TV as % of Broadband base	**35%**	37%
Fibre as % of Broadband base	**29%**	21%
EFM & Ethernet Net Adds ('000)	**3.8**	4.2
Headline Profit & Loss (1)	**Six months ended 30 September 2017 Unaudited**	Six months ended 30 September 2016 Unaudited (restated)(4)
Revenue (£m)	**828**	869
EBITDA (£m)	**95**	144
Basic EPS (p)	**(0.5)**	5.0
Interim dividend per share (p)	**2.50**	5.29
Adjusting items (1)	**Six months ended 30 September 2017 Unaudited**	Six months ended 30 September 2016 Unaudited (restated)(4)
Revenue (£m)	**28**	33
EBITDA (£m)	**(66)**	(25)
Statutory Profit & Loss	**Six months ended 30 September 2017 Unaudited**	Six months ended 30 September 2016 Unaudited (restated)(4)
Revenue (£m)	**856**	902
EBITDA (£m)	**29**	119
Operating (loss)/profit (£m)	**(42)**	44
(Loss)/profit before taxation (£m)	**(75)**	30
(Loss)/profit after taxation (£m)	**(71)**	21
Basic EPS (p)	**(7.5)**	2.2
Cash flow (£m)	**Six months ended 30 September 2017 Unaudited**	Six months ended 30 September 2016 Unaudited (restated)(4)
Headline operating cash flow (1)	**46**	(28)
Interest and taxation	**(28)**	(11)
Headline free cash flow	**18**	(39)
Exceptional items	**(21)**	(15)
Acquisitions	**(5)**	(14)
Dividends	**(47)**	(100)
Headline net debt (3)	**(837)**	(847)
Headline net debt/EBITDA (3)	**2.88x**	2.51x

(1) Headline measures represent trading results before adjusting items which are defined in note 1 to the interim condensed consolidated financial statements. Adjusting items are defined and reconciled in Note 9 to the interim condensed consolidated financial statements and predominantly relate to property, network and organisational transformation and a change in mobile strategy. (2) Headline EBITDA excludes losses from MVNO proposition during the period of £7m (H1FY17: £14m loss). Headline Revenue excludes revenues from MVNO proposition of £28m (H1FY17: £33m). (3) As calculated for the purposes of the Group's borrowings, see note 1 to the interim condensed consolidated financial statements.(4) Prior period results have been restated following the change in the Group's definition of adjusting Items compared to prior periods, to include the Mobile Virtual Network Operator (MVNO) operating loss. Further detail is set out in note 1 and 9 of the interim condensed consolidated financial statements.

H1 Business Review

At the time of our FY17 preliminary results in May 2017 we set out a number of clear priorities to drive profitable growth through a simpler operating structure and a more disciplined, less capital-intensive approach to initiatives such as mobile. We see a strong market opportunity for TalkTalk in both consumer and B2B, with our simple, clear and affordable propositions resonating powerfully against an uncertain economic environment. Our focus in FY18 is to deliver growth in the on-net base and on-net revenues; sustain strong growth in TTB; continue to improve and future-proof our network; and drive continuing improvement in the customer experience. We have made good progress during the first half across all these areas.

1. Driving growth in the base, ARPU and revenues

The on-net base grew by 46k during H1, with double-digit growth across both Retail and Wholesale bases. We saw continuing strong momentum in demand for FLPP driving the strongest share of the switching market in three years. As a result we exited the half with 1.62m customers on FLPP - the highest in-contract penetration in five years, and a key driver of improving churn. Nearly a third of the FLPP base has chosen to contract for 24 months, testament to the strong resonance of price certainty amongst customers.

Demand for fibre also remained strong, with nearly 40% of new customers in Q2 choosing our Faster or Fastest packages, and growing take up from re-contracting customers and upsell activity. As a result we exited the half with over 1m fibre customers.

The TV base returned to growth in Q2 (+24k) after seven quarters of decline, as we saw the benefits of our new pricing structure and growing engagement with our next generation YouView TV platform. In H2 we expect to launch a multi-room proposition allowing us to address a new segment in the market, and a new multi-screen platform, which will offer consistent access to Video On Demand and linear content, complementing the YouView set top box experience.

The mobile base declined by 61k during H1 as we prepared the business for the launch of our new proposition. We will be launching a simple and compelling new mobile proposition in Q3.

On-net revenues returned to growth in Q2 (+1.3%), driven by base growth and ARPU progress, with Retail ARPU benefiting from pricing activity on the legacy (non-FLPP) base and successful upselling of fibre and TV.

2. Sustaining momentum in TalkTalk Business

TTB’s wholesale broadband and FTTC business (part of the Group’s on-net base) continued to grow strongly in H1 driven by new contract wins and volume growth through existing partners, delivering year-on-year revenue growth. We expect these trends to continue through H2, helping to deliver another half of revenue growth in the Wholesale on-net business.

The Ethernet base once again grew steadily during H1, with over 4k lines added, taking the installed base to over 30k and TTB’s share of new 100Mb installations to nearly 25%.

Data revenues grew by 10.7% to £83m (Q2FY18: +5.1%), with the percentage growth rate beginning to normalise as the business scales up and re-invests input cost reductions into pricing.

3. Continuing improvements in network performance

In May, we announced our strategic decision to focus investment on our fixed line network to deliver a fully upgraded access layer (switches and backhaul) with over 1,000 exchanges equipped with 10Gb backhaul circuits, and support growing FTTC penetration, FTTP and data usage.

In H1, we continued to invest in our Core and Access network layers to cope with increasing capacity demands – we have passed the 3tb per second mark for our peak bandwidth. We continued to roll out our plans for upgrading the access network layer with over 750 exchanges now equipped with 10Gb backhaul; invested in our core network equipment to manage capacity demands and completed our migration to the new DLM (Dynamic Line Management) and DNS (Domain Name Server) platforms for our residential and business customers. As a result we have maintained a consistently congestion-free network and retained our top ranking for FTTC customers with *SamKnows*™.

During H2, we plan to deploy additional automation in the core network to manage traffic routing and efficiency; evaluate trunk network fibre opportunities across the UK to further our fibre network footprint and extend our cost advantage further; and begin the planning for a significant investment in in-home technologies for rollout during FY19 to improve monitoring, self-optimisation and performance within customers' homes.

Take-up of FTTP in York has continued to grow with penetration at over 30% (delivered two years ahead of plan) and the TalkTalk share of the market is significantly ahead of our share of the national broadband market. We began work on extending the network to a further 40,000 premises across the rest of York in October, and expect to complete the build within two years. Beyond this, we continue to actively explore FTTP co-investment opportunities to leverage our clear learnings from York to further cities across the UK.

4. Continuing focus on improving customer experience

During H1, we focused on making a difference to those customer journeys that matter most and therefore generate the highest call volumes: selecting and joining TalkTalk, moving home, getting the best from broadband and technical support. To that end we have improved communication during the joining journey to provide clarity & support to customers; allowed customers to retain their existing contractual commitments during their home move journey; and implemented an end to end case management solution for all technical support interactions, providing a seamless experience and case handling support for complex issues. These measures in combination with the clarity and certainty that FLPP offers have driven good improvements in both our Net Promoter Score ("NPS"), brand perception metrics, and on-net churn which improved year on year to 1.3% (H1FY17: 1.4%; H2 FY17: 1.5%).

In H2, we will focus further on critical customer journeys to provide: a brand new personalised experience for customers joining TalkTalk based on the needs of their particular household and recognising in-home technical support when its needed; an online tool to access network incident information & broadband diagnostic tools to allow customers to compare and report technical in-home questions with underlying faults; and access to convenient "in-app" and call-induced text messaging solutions that provide an alternative to traditional call centre interactions. This means customers will be able to send and pick up messages when it suits them and have a real omni-channel choice of calling, texting, e-chatting and app messaging.

H1 Finance Review

Consolidated Income Statement

	Six months ended 30 September 2017 Unaudited			Six months ended 30 September 2016 Unaudited (restated)		
	Headline(1) £m	**Adjusting items £m**	**Statutory £m**	Headline(1) £m	Adjusting items £m	Statutory £m
Revenue	**828**	**28**	**856**	869	33	902
Cost of sales	**(393)**	**(22)**	**(415)**	(410)	(23)	(433)
Gross profit	**435**	**6**	**441**	459	10	469
Operating expenses	**(239)**	**(64)**	**(303)**	(234)	(22)	(256)
SAC & Marketing	**(101)**	**(8)**	**(109)**	(81)	(13)	(94)
EBITDA	**95**	**(66)**	**29**	144	(25)	119
Depreciation and Amortisation	**(61)**	**(5)**	**(66)**	(64)	(6)	(70)
Share of results of JVs	**(5)**	**–**	**(5)**	(5)	–	(5)
Net finance costs	**(23)**	**(10)**	**(33)**	(14)	–	(14)
(Loss)/profit before taxation	**6**	**(81)**	**(75)**	61	(31)	30
Taxation	**(11)**	**15**	**4**	(14)	5	(9)
(Loss)/profit after taxation	**(5)**	**(66)**	**(71)**	47	(26)	21
(Loss)/earnings per share						
Basic	**(0.5)**		**(7.5)**	5.0		2.2
Diluted	**(0.5)**		**(7.5)**	4.9		2.2

(1) Headline measures represent trading results before adjusting items which are defined in note 1.The directors believe that presentation of the Group results in this way is relevant to an understanding of our financial performance, as adjusting items are identified by virtue of their size, nature or incidence. This presentation is consistent with the way that financial performance is measured by management and reported to the Board and assists in providing a meaningful analysis of our trading results. In determining whether an event or transaction is adjusting, management considers quantitative as well as qualitative factors such as the frequency or predictability of occurrence. Headline measures are used to partly determine the variable element of remuneration of senior Management and Executives throughout the Group and are also in alignment with performance measures used by certain external stakeholders in the context of the telecoms sector. Headline EBITDA is commonly used across the telecoms industry to aid stakeholders in making comparisons between the performance of the Group and its peers and is defined in note 1. Unless stated otherwise, the discussion of the Group's financial performance below is on a Headline basis. Reconciliations between Headline measures and statutory reported measures and are shown in notes 6, 9 and 10 to the interim condensed consolidated financial statements.

Overview

Headline revenue (which includes Carrier revenues than can fluctuate significantly from period to period, and the established declining revenue streams of Off-net and Voice) declined by 5% to £828m (H1FY17: £869m), and Headline EBITDA by 34% to £95m (H1FY17: £144m), with the latter reflecting in part, the near term impact of our planned investment in growth. Adjusting items amounted to £81m (H1FY17: £31m) resulting in a statutory loss before taxation for the period of £75m (H1FY17: profit £30m). The Board has recommended an interim dividend of 2.50p (H1FY17: 5.29p). Headline net debt at the period end (£837m) was £10m lower than a year ago with committed headroom at 30 September 2017 of £222m reflecting the issuance of the Group's debut bond in Q4 FY17, the refinancing of the Group's facilities in Q1FY18 and the repurchase of US Private Placement (USPP) Notes in Q2FY18.

Adjusting items

At EBITDA level adjusting items amounted to £66m (H1FY17: £25m) and included an MVNO operating loss of £7m (H1FY17: £14m) and a net exceptional charge for the period of £59m (H1FY17: £11m). The net exceptional charge for the period includes costs of £20m associated with implementing changes to the Group's organisational structure under the new leadership team, the finalisation of costs associated with our move to Soapworks, Salford, and further rationalisation of our property estate. Following our announcement in May 2017 to reassess our mobile strategy further net exceptional costs have been incurred in relation to decommissioning costs, asset write-offs, provision releases, onerous supplier commitments and redundancies, amounting to £31m (FY17: £49m in respect of asset impairments and onerous lease costs). In addition, exceptional items include £8m in relation to our multi-year network transformation programme (FY17: £8m).

Revenue
Headline group revenue of £828m was 5% lower year on year with On-net revenues 1% lower, Corporate revenues 12% lower and Off-net revenues (2% of total) 42% lower. The decline in On-net revenues by £7m reflects the lower retail average base and the dilutive impact on ARPU of FLPP launched in October 2016, offset by increased penetration of fibre, re-pricing of legacy propositions and higher call and TV boosts. The decline in Corporate revenue was largely driven by low margin Carrier (-38% against strong growth in the comparator period) and Legacy Voice (-8%). High margin Data revenues, which comprised 45% of Corporate (H1FY17: 36%), increased by 11% benefiting from c.4k new connections to our Ethernet and EFM base.

On-net ARPU declined by 0.8% year-on-year, with Retail customers' ARPU growing as a result of price increases on legacy (non-FLPP) propositions and successful upselling activity offsetting the dilutive effect of FLPP.

Statutory revenue of £856m was 5% lower year on year and includes revenue in relation to our MVNO proposition of £28m (H1FY17: £33m).

Gross margin
Headline group gross margin of 52.5% was 30bps lower year-on-year driven by the flow through from revenue of the dilutive effect of FLPP; and the growth of Fibre in the revenue mix with higher associated COGS, and the mix impact of higher wholesale revenues. These effects were partly offset by the re-pricing of legacy propositions; higher TV and call boosts; and a large year-on-year reduction in Carrier trading volumes, which positively impacts margin.

Statutory gross margin of 51.5% was 50bps lower reflecting the fall in gross margin of our MVNO proposition to £6m (H1FY17: £10m).

Operating costs
Headline operating costs excluding amortisation and depreciation increased by £5m year-on-year with increased call centre and network operating costs offset partly by £10m of savings from the annualizing effect of prior year programmes.

Statutory operating costs, including adjusting items of £64m (H1FY17: £22m), increased to £303m (H1FY17: £256m).

SAC and Marketing
SAC & Marketing costs increased by £20m year-on-year, driven by the planned increase in marketing, base growth at lower cost per add than prior years and the impact of our agreement with a major distribution partner to outsource the management of fixed line customer acquisitions. During the half, this outsourced solution enabled us to continue to accelerate gross additions, whilst deferring a proportion of the upfront SAC cost, which contributed £2m (H1FY17: £11m) to Headline EBITDA, net of expensed hardware costs of £13m (H1FY17: £6m).

Statutory SAC & Marketing costs, including adjusting items of £8m (H1FY17: £13m), increased to £109m (H1FY17: £94m).

Net finance costs
Headline net finance costs for the period were £23m (H1FY17: £14m) representing a blended interest rate of 4.7% (H1FY17: 3.6%). The increase in the blended interest rate was driven primarily by the coupon on the Group's debut bond, issued in Q4FY17; a higher level of average debt during the period compared to the prior year; and the amortisation of additional facility fees.

Statutory net finance costs also include £10m in relation to the exceptional cost of re-purchasing 100% of the $185m USPP Notes in August 2017.

Taxation
The statutory taxation credit of £4m (H1FY17: -£9m) reflects an effective tax rate of 5% (H1FY17: 30%) on the loss before taxation of £75m (H1FY17: profit £30m), representing the best estimate of the average annual effective tax rate expected for the full year, applied to the six-month period. There were no cash tax payments in the period.

Movement in headline net debt (£m)

	Six months ended 30 September 2017 Unaudited	Six months ended 30 September 2016 Unaudited (restated)
Headline EBITDA	95	144
Working capital	14	(73)
Capital expenditure	(63)	(99)
Headline operating cash flow (1)	**46**	(28)
Interest and taxation	(28)	(11)
Headline free cash flow	**18**	(39)
Exceptional items	(21)	(15)
Acquisitions	(5)	(14)
Dividends	(47)	(100)
Net cash flow	**(55)**	(168)
Opening headline net debt	(782)	(679)
Closing headline net debt	**(837)**	(847)

(1) Headline operating cash flow is defined and reconciled in note 9 to the interim condensed consolidated financial statements.

Net cash flow for the period represented an outflow of £55m, with the inflow from Headline EBITDA (£95m) and working capital (£14m) offset by a combination of the dividend (£47m), capital expenditure (£63m), interest costs (£28m) and exceptional items (£21m).

Capital expenditure for the period represents the continued investment in our network capability and investment in on our online systems to support the launch of new propositions.

The cash exceptional cost of £21m (FY17: £15m) includes the timing impact of prior year provisions and working capital movements, most notably Making TalkTalk Simpler (‘MTTS’) and property relocations. In addition, costs have been incurred on delivering on our plans to transform our technology estate, the reassessment of our mobile strategy, and further reorganisation costs following the transition to a new management structure. These costs have been offset by the settlement of certain disputed network balances that were taken to exceptional income in the prior year. The cash exceptional cost for FY18, which include expected further receipts of certain disputed network balances, is now expected to be c£30m.

Acquisitions expenditure in the period of £5m (H1FY17: £14m) relates to the YouView joint venture. In the prior period, the Group paid £8m in respect of contingent consideration for the prior period acquisitions of tiPicall, and the Virgin Media and Tesco broadband bases.

Headline net debt reduced by £10m year on year with committed headroom at 30 September 2017 of £222m (H1FY17: £162m), reflecting the issuance of the Group’s debut bond in Q4FY17, the refinancing of the Group’s facilities in Q1FY18 and the repurchase of US Private Placement (USPP) Notes in Q2FY18.

Dividends

Dividends of £47m paid in the period (H1FY17: £100m) comprised the final dividend for FY17 of 5.00p (H1FY17: 10.58p). The Board has proposed an interim dividend for FY18 of 2.50p (H1FY17: 5.29p), and expects to declare a Final cash dividend of 5.00p (FY17 Final: 5.00p) taking the total cash dividend for the year to 7.50p (FY17: 10.29p). The interim dividend for FY18 will be paid on 18 December 2017 for shareholders on the register 24 November 2017 (ex-dividend 23 November 2017).

Funding and capital structure
The group is financed through a combination of bank facilities, Senior Notes, debtor securitisation, finance leases, retained profits and equity. The Group continues to review its funding and capital structure with the objectives of diversifying sources and managing both the average tenor and interest cost. During the period, the Group completed the refinancing of its banking facilities for a further five years. In addition, as noted above, in August 2017, the Group re-purchased 100% of the $185m USPP Notes which gave rise to an exceptional finance cost of £10m.

At 30 September 2017, the Group had total facilities of £1,115m (31 March 2017: £1,244m) further detail of which is given in note 12 to the interim condensed consolidated financial statements. At 30 September 2017 £893m (31 March 2017: £832m) had been drawn under these facilities, leaving £222m (31 March 2017: £412m) of undrawn facilities. The average term of our debt at 30 September 2017 was 4 years 2 months (31 March 2017: 3 years 11 months).

The Group was in compliance with the terms of all its facilities, including financial covenants, at 30 September 2017 and throughout the period and expects to remain in compliance with the terms going forward.

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

Our business activities, together with the factors likely to affect our future development, performance and position are set out in the Business Review. Our financial position, cash and borrowing facilities are described within this Finance review.

The scale of our base, our competitive value for money proposition, continuing improvements in operating efficiency and the efficiency and reach of our unbundled network underpins the Directors' confidence in our ability to continue to compete effectively in the UK telecoms sector.

We have £1,115m (31 March 2017: £1,244m) of committed credit facilities and as at 30 September 2017 the headroom on these facilities was £222m (31 March 2017: £412m) following the Group's re-purchase of 100% of the $185m of USPP Notes in August 2017. Our forecasts and projections, taking into account reasonably possible changes in trading performance, indicate that there is sufficient cash and covenant headroom on our facilities and that this, together with our market positioning, means that we are well placed to manage our business risks successfully and have adequate resources to continue in operational existence for the foreseeable future. The Directors have therefore adopted the going concern basis of accounting preparing the financial statements.

Risks and uncertainties
The Board has reconsidered the principle risks and uncertainties published at the full year 2017 and considered these to remain appropriate. The following risks and uncertainties are those that the Directors believe could have the most significant impact on the Group's business:

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

These risks and mitigating factors are described in more detail on pages 22 to 25 of the TalkTalk Telecom Group PLC Annual Report 2017, a copy of which is available on the Group's website.

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

Statement of Directors' responsibilities

The unaudited interim condensed financial statements for the 6 months ended 30 September 2017 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

15 November 2017

Consolidated income statement

		Six months ended 30 September 2017 Unaudited			Six months ended 30 September 2016 Unaudited (restated)		
	Notes	**Headline £m**	**Adjusting items (note 9) £m**	**Statutory £m**	Headline £m	Adjusting items (note 9) £m	Statutory £m
Revenue	4	**828**	**28**	**856**	869	33	902
Cost of sales		**(393)**	**(22)**	**(415)**	(410)	(23)	(433)
Gross profit		**435**	**6**	**441**	459	10	469
Operating expenses excluding amortisation and depreciation		**(340)**	**(72)**	**(412)**	(315)	(35)	(350)
EBITDA		**95**	**(66)**	**29**	144	(25)	119
Depreciation	5	**(34)**	**–**	**(34)**	(34)	(1)	(35)
Amortisation	5	**(27)**	**(5)**	**(32)**	(30)	(5)	(35)
Share of results of joint ventures		**(5)**	**–**	**(5)**	(5)	–	(5)
Operating (loss)/profit	5	**29**	**(71)**	**(42)**	75	(31)	44
Net finance costs	6	**(23)**	**(10)**	**(33)**	(14)	–	(14)
(Loss)/profit before taxation		**6**	**(81)**	**(75)**	61	(31)	30
Taxation	7	**(11)**	**15**	**4**	(14)	5	(9)
(Loss)/profit for the year attributable to the owners of the Company		**(5)**	**(66)**	**(71)**	47	(26)	21
(Loss)/earnings per share							
Basic (p)	10			**(7.5)**			2.2
Diluted (p)	10			**(7.5)**			2.2

The accompanying notes are an integral part of these interim condensed consolidated financial statements. All amounts relate to continuing operations.

Consolidated statement of comprehensive income

	Six months ended 30 September 2017 Unaudited £m	Six months ended 30 September 2016 Unaudited £m
(Loss)/profit for the period attributable to the owners of the Company	**(71)**	21
Other comprehensive income/(expense)		
Items that may be reclassified to profit or loss:		
Gains/(losses) on a hedge of a financial instrument	**2**	(2)
Loss on a hedge reclassified to income statement	**6**	–
Currency translation differences	**–**	1
Total other comprehensive income/(expense)	**8**	(1)
Total comprehensive (expense)/income attributable to the owners of the Company	**(63)**	20

Consolidated balance sheet

	Notes	**30 September 2017 Unaudited £m**	30 September 2016 Unaudited £m	31 March 2017 Audited £m
Non-current assets				
Goodwill		**495**	495	495
Other intangible assets		**254**	237	243
Property, plant and equipment		**232**	289	235
Investment in joint ventures		**7**	9	8
Trade and other receivables		**6**	4	6
Derivative financial instruments		**–**	28	31
Deferred tax assets		**112**	111	108
		1,106	1,173	1,126
Current assets				
Inventories		**17**	32	18
Trade and other receivables		**356**	333	369
Cash and cash equivalents	11	**56**	–	50
		429	365	437
Total assets		**1,535**	1,538	1,563
Current liabilities				
Trade and other payables		**(517)**	(475)	(511)
Current income tax payable		**(5)**	(5)	(5)
Borrowings	11	**(77)**	(90)	–
Provisions	12	**(16)**	(11)	(22)
		(615)	(581)	(538)
Non-current liabilities				
Borrowings	11	**(834)**	(790)	(871)
Derivative financial instruments		**(1)**	–	–
Provisions	12	**(46)**	(10)	(14)
		(881)	(800)	(885)
Total liabilities		**(1,496)**	(1,381)	(1,423)
Net assets		**39**	157	140
Equity				
Share capital		**1**	1	1
Share premium		**684**	684	684
Translation reserve		**(64)**	(63)	(64)
Demerger reserve		**(513)**	(513)	(513)
Retained (losses)/earnings and other reserves		**(69)**	48	32
Total equity		**39**	157	140

Consolidated cash flow statement

	Six months ended 30 September 2017 Unaudited £m	Six months ended 30 September 2016 Unaudited £m
Operating activities		
Operating (loss)/profit	**(42)**	44
Share-based payments	**5**	4
Depreciation of property, plant and equipment	**34**	35
Amortisation of other operating intangible fixed assets	**27**	30
Non-operating amortisation	**5**	5
Share of losses of joint ventures	**5**	5
Impairment of property, plant and equipment	**2**	–
Operating cash flows before movements in working capital	**36**	123
Decrease/(increase) in trade and other receivables	**28**	(40)
Decrease in inventory	**1**	25
Decrease in trade and other payables	**(4)**	(46)
Increase/(decrease) in provisions	**26**	(8)
Cash generated from operations	**87**	54
Income taxes received	**–**	3
Net cash flows generated from operating activities	**87**	57
Investing activities		
Acquisition of subsidiaries and joint ventures, net of cash acquired	**(5)**	(6)
Investment in intangible assets	**(46)**	(48)
Investment in property, plant and equipment	**(17)**	(51)
Cash flows used in investing activities	**(68)**	(105)
Financing activities		
Settlement of Group ESOT shares	**1**	2
Payment of contingent consideration	**–**	(8)
Repayment of borrowings	**(374)**	**–**
Drawdown of borrowings	**435**	143
Interest paid	**(28)**	(14)
Dividends paid	**(47)**	(100)
Cash flows (used in)/generated from financing activities	**(13)**	23
Net increase/(decrease) in cash and cash equivalents	**6**	(25)
Cash and cash equivalents at the start of the period	**50**	10
Cash and cash equivalents at the end of the period	**56**	(15)

Consolidated statement of changes in equity

	Note	Share capital £m	Share premium £m	Translation reserve £m	Demerger reserve £m	Retained earnings/ (losses) and other reserves £m	Total equity £m
At 1 April 2017		**1**	**684**	**(64)**	**(513)**	**32**	**140**
Loss for the period		**–**	**–**	**–**	**–**	**(71)**	**(71)**
Other comprehensive income							
Items that may be reclassified to profit or loss:							
Gain on hedge of a financial instrument		**–**	**–**	**–**	**–**	**2**	**2**
Loss on a hedge reclassified to the income statement		**–**	**–**	**–**	**–**	**6**	**6**
Total other comprehensive income		**–**	**–**	**–**	**–**	**8**	**8**
Total comprehensive expense		**–**	**–**	**–**	**–**	**(63)**	**(63)**
Transactions with the owners of the Company							
Share-based payments		**–**	**–**	**–**	**–**	**8**	**8**
Settlement of Group ESOT		**–**	**–**	**–**	**–**	**1**	**1**
Equity dividends	8	**–**	**–**	**–**	**–**	**(47)**	**(47)**
Total transactions with the owners of the Company		**–**	**–**	**–**	**–**	**(38)**	**(38)**
At 30 September 2017		**1**	**684**	**(64)**	**(513)**	**(69)**	**39**

	Note	Share capital £m	Share premium £m	Translation reserve £m	Demerger reserve £m	Retained earnings and other reserves £m	Total equity £m
At 1 April 2016		1	684	(64)	(513)	123	231
Profit for the period		–	–	–	–	21	21
Other comprehensive income							
Items that may be reclassified to profit or loss:							
Loss on hedge of a financial instrument		–	–	–	–	(2)	(2)
Currency translation differences		–	–	1	–	–	1
Total other comprehensive expense		–	–	1	–	(2)	(1)
Total comprehensive income		–	–	1	–	19	20
Transactions with the owners of the Company							
Share-based payments		–	–	–	–	4	4
Settlement of Group ESOT		–	–	–	–	2	2
Equity dividends	8	–	–	–	–	(100)	(100)
Total transactions with the owners of the Company		–	–	–	–	(94)	(94)
At 30 September 2016		**1**	**684**	**(63)**	**(513)**	**48**	**157**

Notes to the consolidated financial statements

1. Basis of preparation

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

This half-year report has been prepared in accordance with the Disclosure and Transparency Rules of the United Kingdom Financial Conduct Authority; IAS 34 'Interim Financial Reporting' as adopted by the European Union; on the basis of the accounting policies and the recognition and measurement requirements of IFRS applied in the consolidated financial statements at 31 March 2017 and those standards that have been endorsed by the European Union and will be applied at 31 March 2018. This report should be read in conjunction with the consolidated financial statements for the year ended 31 March 2017.

The results for each half year are unaudited and do not represent the Group's statutory accounts within the meaning of section 434 of the Companies Act 2006. The Group's statutory accounts were approved by the Directors on 10 May 2017 and have been reported on by its auditor and delivered to the Registrar of Companies. The report of Deloitte LLP was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 of the Companies Act 2006.

Going concern

Based on internal forecasts and projections, the Directors consider that the Group has adequate financial resources to continue in operation for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the Group's interim condensed consolidated financial statements (see H1 Finance review for further detail).

Alternative Performance Measures (APMs)

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

- Headline revenue;
- Headline EBITDA;
- Headline operating profit;
- Headline net finance costs;
- Headline profit before taxation;
- Headline profit after taxation;
- Headline basic EPS;
- Headline operating cash flow; and
- Headline net debt.

Further explanation of what each APMs comprises and reconciliations between statutory reported measures and Headline measures are shown in notes 6, 9 and 10.

Headline measures represent trading results before adjusting items which are defined in note 9. The directors believe that presentation of the Group results in this way is relevant to an understanding of our financial performance, as adjusting items are identified by virtue of their size, nature or incidence. This presentation is consistent with the way that financial performance is measured by management and reported to the Board and assists in providing a meaningful analysis of our trading results. In determining whether an event or transaction is adjusting, management considers quantitative as well as qualitative factors such as the frequency or predictability of occurrence.

Headline measures are used to partly determine the variable element of remuneration of senior Management and Executives throughout the Group and are also in alignment with performance measures used by certain external stakeholders in the context of the telecoms sector.

Headline EBITDA and operating cash flow are commonly used across the telecoms industry to aid stakeholders in making comparisons between the performance of the Group and its peers.

EBITDA is defined as earnings before interest, tax, depreciation and amortisation. Headline operating cash flow is defined as cash generated from operations after movements in working capital, settlement of Group ESOT and net capital expenditure excluding cash exceptional items. Headline net debt is the Group's total borrowings after derivatives offset by cash and cash equivalents excluding finance lease commitments.

The APMs used by the Group are not defined terms under IFRS and may therefore not be comparable with similarly titled measures reported by other companies. They are not intended to be a substitute for, or superior to, GAAP measures. All APMs relate to the current year results and comparative periods where provided.

2. Accounting policies

The interim condensed consolidated financial statements for the 6 months ended 30 September 2017 have been prepared using accounting policies and methods of computation consistent with those set out in the consolidated financial statements for the year ended 31 March 2017 with the exception of the change in the Group's definition of adjusting Items compared to prior periods, to include the Mobile Virtual Network Operator (MVNO) operating loss.

Restatement of prior period results

On this basis, prior period results have been restated giving rise to a decrease in the Group's Headline revenue of £33m, an increase in the Group's Headline EBITDA of £14m and an increase in Group's Headline profit before tax of £15m. There is no impact on the statutory performance of the Group or the Group's consolidated balance sheet, further detail is set out in note 9. There are no new or revised standards and interpretations that have had a material impact on the Group during the period.

2. Accounting policies (continued)

Future accounting developments

At the date of authorisation of these interim condensed consolidated financial statements, there were a number of significant standards and interpretations that have not been applied in these financial statements, these were in issue, but not yet effective (and in some cases had not yet been adopted by the EU). Further details of these developments can be found within the consolidated financial statements for the year ended 31 March 2017.

3. Critical accounting judgements and estimates

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

In preparing these interim condensed consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 March 2017.

4. Segmental reporting

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

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

	Six months ended 30 September 2017 Unaudited £m	Six months ended 30 September 2016 Unaudited (Restated) £m
On-net	**630**	637
Corporate	**184**	208
Off-net	**14**	24
Headline revenue	**828**	869

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 2017 Unaudited £m	Six months ended 30 September 2016 Unaudited £m
Carrier	**45**	72
Data	**83**	75
Voice	**56**	61
Corporate revenue	**184**	208

5. Operating (loss)/profit

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

	Six months ended 30 September 2017 Unaudited £m	Six months ended 30 September 2016 Unaudited (Restated) £m
SAC and marketing costs(1)	**101**	81
Depreciation of property, plant and equipment	**34**	34
Amortisation of other operating intangible fixed assets	**27**	30
Amortisation of acquisition intangibles	**5**	5
Service level related disputes (2)	**–**	(2)
MVNO operating loss (note 9)	**7**	15
Exceptional items – impairment of property, plant and equipment (note 9)	**2**	–
Exceptional items (note 9)	**57**	11

(1) Excluding adjusting items.

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

6. Net finance costs

Net finance costs are analysed as follows:

	Six months ended 30 September 2017 Unaudited £m	Six months ended 30 September 2016 Unaudited £m
Interest on bank loans and overdrafts	**19**	12
Facility fees and similar charges	**4**	2
Headline net finance costs	**23**	14
Exceptional – finance expense (note 9)	**10**	–
Total net finance costs	**33**	14

During the period ended 30 September 2017, the Group completed the repurchase of its $185m US Private Placement Notes. This resulted in exceptional costs of £8m (2016: £nil) including the settlement of derivative instruments in designated hedge accounting relationships and associated fees. The Group also refinanced its revolving credit facilities, resulting in the accelerated amortisation of arrangement fees from the previous facilities leading to a £2m (2016: £nil) exceptional charge in the period.

7. Taxation

Income tax

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

The statutory taxation credit of £4m (2016: charge £9m) reflects an effective tax rate of 5% (2016: 30%) on the loss before taxation of £75m (2016: profit £30m), representing the best estimate of the average annual effective tax rate expected for the full year, applied to the six-month period. The tax credit for the period is lower than the statutory tax rate of 19% as not all losses have been fully recognised in the period.

The Finance Bill 2017 which was substantively enacted on 31 October 2017 announced changes to utilisation of carried forward tax losses and the Group is assessing the potential impact on the deferred tax asset.

8. Equity dividends

Accounting policy

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

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

	Six months ended 30 September 2017 Unaudited £m	Six months ended 30 September 2016 Unaudited £m	Year ended 31 March 2017 Audited £m
Ordinary dividends			
Final dividend for the year ended 31 March 2016 of 10.58p per ordinary share	**–**	100	100
Interim dividend for the year ended 31 March 2017 of 5.29p per ordinary share	**–**	–	50
Final dividend for the year ended 31 March 2017 of 5.00p per ordinary share	**47**	–	–
Total ordinary dividends (1)	**47**	100	150

(1) Deducted from Company reserves.

The proposed interim dividend for the year ended 31 March 2018 is 2.50p (year ended 31 March 2017: 5.29p) per ordinary share and was approved by the Board on 15 November 2017. The expected cost of approximately £24m has not been included as a liability as at 30 September 2017.

9. Reconciliation of Headline information to statutory information

Accounting policy – adjusting items

Headline measures represent trading results before adjusting items. The directors believe that presentation of the Group results in this way is relevant to an understanding of our financial performance, as adjusting items are identified by virtue of their size, nature or incidence. This presentation is consistent with the way that financial performance is measured by management and reported to the Board and assists in providing a meaningful analysis of our trading results. In determining whether an event or transaction is adjusting, management considers quantitative as well as qualitative factors such as the frequency or predictability of occurrence.

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

Examples of charges or credits meeting the definition of exceptional items include acquisitions/disposals of businesses, investments and financial instruments, certain regulatory settlements, historical insurance, tax or litigation matters, business restructuring programmes, asset impairment charges and fundamental transformation and property rationalisation programmes. Certain transformation and rationalisation programmes are so fundamental they may impact a number of years. In the event that other items meet the criteria, which are applied consistently from year to year, they are also treated as exceptional items.

9. Reconciliation of Headline information to statutory information (continued)

Critical judgements in applying the Group's accounting policies

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

Period ended 30 September 2017 - Unaudited		Revenue £m	Gross profit £m	EBITDA £m	Operating profit/ (loss) £m	Profit/(loss) before taxation £m	Taxation £m	Profit/(loss) for the year £m
Headline results		**828**	**435**	**95**	**29**	**6**	**(11)**	**(5)**
Exceptional items – Operating efficiencies – MTTS	(a)	**–**	**–**	**(3)**	**(3)**	**(3)**	**1**	**(2)**
Exceptional items – Operating efficiencies – property	(b)	**–**	**–**	**(8)**	**(8)**	**(8)**	**2**	**(6)**
Exceptional items – Network transformation	(c)	**–**	**–**	**(8)**	**(8)**	**(8)**	**1**	**(7)**
Exceptional items – Mobile proposition	(d)	**–**	**–**	**(31)**	**(31)**	**(31)**	**6**	**(25)**
MVNO operating loss	(e)	**28**	**6**	**(7)**	**(7)**	**(7)**	**1**	**(6)**
Exceptional items – Business reorganisation	(f)	**–**	**–**	**(9)**	**(9)**	**(9)**	**2**	**(7)**
Exceptional items – Finance expense	(g)	**–**	**–**	**–**	**–**	**(10)**	**2**	**(8)**
Non-operating amortisation	(h)	**–**	**–**	**–**	**(5)**	**(5)**	**–**	**(5)**
Statutory results		**856**	**441**	**29**	**(42)**	**(75)**	**4**	**(71)**

Period ended 30 September 2016 – Unaudited (restated)		Revenue £m	Gross profit £m	EBITDA £m	Operating profit £m	Profit before taxation £m	Taxation £m	Profit for the year £m
Headline results		869	459	144	75	61	(14)	47
Exceptional items – Operating efficiencies – MTTS	(a)	–	–	(5)	(5)	(5)	1	(4)
Exceptional items – Operating efficiencies – property	(b)	–	–	(5)	(5)	(5)	1	(4)
MVNO operating loss	(e)	33	10	(14)	(15)	(15)	3	(12)
Exceptional items – Acquisitions and disposal	(i)	–	–	(1)	(1)	(1)	–	(1)
Non-operating amortisation	(h)	–	–	–	(5)	(5)	–	(5)
Statutory results		902	469	119	44	30	(9)	21

The above table shows how all alternative measures are reconciled to statutory performance measures with the exception of Headline operating cash flow, Headline net debt, Headline earnings per share (note 10) and Headline finance costs (note 6).

Headline operating cash flow is defined as cash generated from operations after movements in working capital, settlement of Group ESOT and net capital expenditure excluding cash exceptional items as follows:

	Six months ended 30 September 2017 Unaudited £m	Six months ended 30 September 2016 Unaudited £m
Cash generated from operations	**87**	54
Net capital expenditure	**(63)**	(99)
Settlement of Group ESOT	**1**	2
Cash exceptional items	**21**	15
Headline operating cash flow	**46**	(28)

Headline net debt is the Group's net debt excluding finance lease commitments as follows:

	Six months ended 30 September 2017 Unaudited £m	Six months ended 30 September 2016 Unaudited £m	Year ended 31 March 2017 Audited £m
Net debt [1]	**(837)**	(847)	(782)
Finance lease commitments	**(18)**	–	–
Headline net debt	**(855)**	(847)	(782)

(1) Total borrowings after derivatives offset by cash and cash equivalents.

9. Reconciliation of Headline information to statutory information (continued)

a) Operating efficiencies – Making TalkTalk Simpler (MTTS)

During the period ended 30 September 2017, the Group incurred £3m (2016: £5m) concluding its wide-ranging transformation programme that is delivering material improvements to customers' experience through improving processes and systems.

A taxation credit of £1m has been recognised on these costs (2016: £1m).

b) Operating efficiencies – property rationalisation

The Group has fundamentally rationalised the sites from which it operates including the relocation of its Warrington and Irlam sites to one site at the Soapworks in Salford together with the rationalisation of our London property footprint. This property rationalisation programme has given rise to costs of £8m (2016: £5m).

A taxation credit of £2m has been recognised on these costs (2016: £1m).

c) Network transformation

During the year ended 31 March 2017, the Group embarked on a significant transformation programme to fundamentally restructure the Group's network, IT infrastructure and technology estate for efficiency and scalability.

This programme has resulted in £8m (2016: £nil) of costs including decommissioning, dual running, consultancy and project management costs.

A taxation credit of £1m has been recognised on these costs (2016: £nil).

d) Mobile proposition

Following the Group's announcement in May 2017 to reassess the Group's mobile strategy net exceptional costs have been incurred in relation to decommissioning costs, asset write offs, provision releases, onerous supplier commitments and redundancies amounting to £31m.

A taxation credit of £6m has been recognised on these costs (2016: £nil).

e) MVNO operating loss

Following the Group's announcement in May 2017 to reassess the Group's mobile strategy, the Group is now progressing with its alternative mobile distribution strategy. Operating losses of £7m (2016: £15m) associated with the MVNO strategy have been incurred, given this one-off strategic decision, management consider these material losses are adjusting items though they do not meet the criteria under IFRS 5 for separate disclosure as discontinued operations. The MVNO trading activity will continue to diminish as contractual commitments expire.

A taxation credit of £1m has been recognised on these costs (2016: £3m).

f) Business reorganisation

Net costs of £9m (2016: £nil) have been incurred associated with implementing changes to the Group's organisational structure following the Group reorganising the business under the new leadership team.

A taxation credit of £2m has been recognised on these costs (2016: £nil).

g) Finance expense

During the period ended 30 September 2017, the Group completed the repurchase of its US Private Placement Notes. This resulted in incremental costs of £8m (2016: £nil) relating to the settlement of derivative instruments in designated hedge accounting relationships and professional fees. The Group also refinanced its facilities, resulting in the arrangement fees relating to the previous facilities being accelerated leading to a £2m (2016: £nil) charge in the period.

A taxation credit of £2m has been recognised on these costs (2016: £nil).

h) Non-operating amortisation

An amortisation charge in respect of acquisition intangibles of £5m was incurred in the period ended 30 September 2017 (2016: £5m).

i) Acquisitions and disposal

During the period ended 30 September 2016, the Group incurred exceptional costs of £1m in relation to the disposal of the off-net customer base in the prior period. There were no such costs in the period ended 30 September 2017.

10. (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 2017 Unaudited £m	Six months ended 30 September 2016 Unaudited (Restated) £m
Headline (loss)/earnings (note 9)	**(5)**	47
Statutory (loss)/earnings (note 9)	**(71)**	21
Weighted average number of shares (millions):		
Shares in issue	**955**	955
Less weighted average holdings by Group ESOT	**(5)**	(8)
For basic EPS	**950**	947
Dilutive effect of share options	**14**	12
For diluted EPS	**964**	959

	30 September 2017 Unaudited Pence	30 September 2016 Unaudited (Restated) Pence
Basic earnings per ordinary share		
Statutory	**(7.5)**	2.2
Headline	**(0.5)**	5.0

	30 September 2017 Unaudited Pence	30 September 2016 Unaudited (Restated) Pence
Diluted earnings per ordinary share		
Statutory	**(7.5)**	2.2
Headline	**(0.5)**	4.9

There are no share options considered anti-dilutive in the period ended 30 September 2017 (2016: nil).

11. Cash and cash equivalents and borrowings

(a) Cash and cash equivalents

	30 September 2017 Unaudited £m	30 September 2016 Unaudited £m	31 March 2017 Audited £m
Cash at bank and in hand	**56**	–	50

The effective interest rate on bank deposits and money market funds was 0.1% (September 2016: 0.1%, March 2017: 0.1%).

(b) Borrowings

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

	Maturity	**30 September 2017 Unaudited £m**	30 September 2016 Unaudited £m	31 March 2017 Audited £m
Current				
Bank overdraft	2017	**–**	15	–
Term loan	2017	**–**	25	–
£100m revolving credit facility	2017	**–**	50	–
£75m receivables purchase agreement facility	2018	**73**	–	–
Current borrowings before derivatives (excluding finance leases)		**73**	90	–

11. Cash and cash equivalents and borrowings (continued)

	Maturity	**30 September 2017 Unaudited £m**	30 September 2016 Unaudited £m	31 March 2017 Audited £m
Non-current				
$185m US Private Placement (USPP) Notes	2021, 2024, 2026	**–**	142	148
£560m revolving credit facility	2019	**–**	460	165
£50m bilateral agreements	2019	**–**	50	50
£100m term loan	2019	**–**	75	50
£75m receivables purchase agreement facility	2018	**–**	63	58
£400m Senior Notes	2022	**400**	–	400
£640m revolving credit facility	2022	**420**	–	–
Non-current borrowings before derivatives (excluding finance leases)		**820**	790	871
Total borrowings before derivatives (excluding finance leases)		**893**	880	871
Derivatives		**–**	(33)	(39)
Borrowings after derivatives (excluding finance leases)		**893**	847	832

Finance leases are analysed as follows:

	30 September 2017 Unaudited £m	30 September 2016 Unaudited £m	31 March 2017 Audited £m
Current	**4**	–	–
Non-current	**14**	–	–
Total finance leases	**18**	–	–
Total borrowings before derivatives (including finance leases)	**911**	880	871
Derivatives	**–**	(33)	(39)
Borrowings after derivatives (including finance leases)	**911**	847	832

	Maturity	**30 September 2017 Unaudited £m**	30 September 2016 Unaudited £m	31 March 2017 Audited £m
Undrawn available committed facilities	2018, 2022	**222**	162	412

Borrowing facilities

The Group's committed facilities total £1,115m (Sep 2016: £994m, Mar 2017: £1,244m). The Group's uncommitted facilities total £111m (Sep 2016: £111m, Mar 2017: £116m) giving headroom on committed facilities and uncommitted facilities of £222m (Sep 2016: £162m, Mar 2017: £412m) and £111m (Sep 2016: £96m, Mar 2017: £116m) 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 as defined under the terms of the arrangement. The Group was in compliance with its covenants throughout the current and prior periods.

Details of the Group's borrowing facilities of the Group as at 30 September 2017 are set out below:

£400m Senior Notes

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

£640m revolving credit facility (RCF)

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

11. Cash and cash equivalents and borrowings (continued)

Receivables purchase agreement

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

Uncommitted money market facilities and bank overdrafts

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

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

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

$185m USPP Notes

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

12. Provisions

The tables below analyses the Group's provisions:

	30 September 2017 Unaudited £m	30 September 2016 Unaudited £m	31 March 2017 Audited £m
Current	**16**	11	22
Non-current	**46**	10	14
	62	21	36

	One Company integration £m	**Property £m**	**Contract and other £m**	**Total £m**
At 1 April 2017 (Audited)				
Opening balance	**1**	**15**	**20**	**36**
Charged to income statement	**–**	**6**	**36**	**42**
Released to income statement	**(1)**	**–**	**(7)**	**(8)**
Utilised in the period	**–**	**(2)**	**(6)**	**(8)**
At 30 September 2017 (Unaudited)	**–**	**19**	**43**	**62**

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

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

Provisions are categorised as follows:

Property

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

Contract and other

Contract and other provisions mostly relate to the future costs the Group will incur following the reassessment of its mobile proposition. The remaining provisions relate to onerous contracts and contracts with unfavourable terms, anticipated costs of unresolved legal disputes and committed costs relating to exceptional projects. All such provisions are assessed by reference to the best available information at the balance sheet date.

13. Financial risk management and derivative financial instruments

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

	30 September 2017 Unaudited £m	30 September 2016 Unaudited £m	31 March 2017 Audited £m
Financial assets (1)			
Cash and cash equivalents	**56**	–	50
Trade and other receivables (2)	**356**	333	369
Non-current investments and investment in joint venture	**7**	9	9
Non-current trade and other receivables	**6**	4	6
Derivative instruments in designated hedge accounting relationships:			
Derivative financial instruments (3)	**–**	28	31
Financial liabilities (1)			
Trade and other payables	**(470)**	(415)	(460)
Borrowings before derivatives	**(893)**	(880)	(871)
Finance leases	**(18)**	–	–
Derivative instruments in designated hedge accounting relationships:			
Derivative financial instruments (3)	**(1)**	–	–
	(957)	(921)	(866)

(1) The Group has no financial instruments designated as fair value through the profit and loss ("FVTPL").
(2) Accrued income has been included within the other receivables so as to give completeness over the Group's future cash inflows.
(3) Derivative financial instruments of £nil (31 March 2017: £32m) relates to the USPP Notes, and £(1)m (31 March 2017: £(1)m) relates to interest rate hedges.

(a) Financial instruments

The Group's activities expose it to a variety of financial risks including market risk (such as currency risk and interest rate risk), credit risk and liquidity risk. The Group treasury function uses certain financial instruments to mitigate potential adverse effects on the Group's financial performance from these risks. These financial instruments primarily consist of bank loans and Interest rate swaps. Other products, such as currency options, can also be used depending on the risks to be covered, but have not been used in the current or preceding financial year. The Group does not trade or speculate in any financial instruments. The Group has cash flow hedges in place to swap the interest rate risk on the bank debt from floating to fixed rates. The outstanding swaps mature between December 2017 and January 2019.

These hedges have been fully effective from inception.

The fair value measurement is classified as Level 2 (2016: Level 2), derived from other observable market data; this means that their fair value is based upon the mark to market valuation at the balance sheet date. Fair value measurement at Level 2 gives consideration to interest rates, yield curves and foreign exchange rates at commonly quoted intervals for relevant currencies. The Group has also assessed the credit risk within its financial instruments. The fair value of these instruments at 30 September 2017 is (£1m) (2016: £28m).

The cross currency swaps held to hedge the risk on the USD denominated USPP $185m debt were closed out in the period ended 30 September 2017 resulting in a reduction to the fair value measurement of Financial Instruments compared to the prior period. A gain of £2m (2016: loss of £2m) has been recognised in other comprehensive income in the period ended 30 September 2017.

(b) Embedded derivatives

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

(c) Foreign exchange risk

The Group uses spot and forward foreign exchange trading to hedge transactional exposures, which arise mainly through cost of sales and operating expenses and are primarily denominated in Euro and US Dollar. The Group also used cross-currency swaps to hedge its US Dollar denominated borrowings (US Private Placement). At 30 September 2017, the adjustment to translate our net debt to Sterling at swap rates to reflect the impact of hedging was £nil (2016: £33m).

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

	UK Sterling £m	**USD £m**	**Total £m**
30 September 2017 (Unaudited)			
Borrowings before derivatives	**893**	**–**	**893**
Derivatives	**–**	**–**	**–**
Borrowings after derivatives (excluding finance leases)	**893**	**–**	**893**
Finance leases	**18**	**–**	**18**
Borrowings after derivatives (including finance leases)	**911**	**–**	**911**

13. Financial risk management and derivative financial instruments (continued)

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

	UK Sterling £m	USD £m	Total £m
31 March 2017 (Audited)			
Borrowings before derivatives	723	148	871
Derivatives	–	(39)	(39)
Borrowings after derivatives	723	109	832
Finance leases	–	–	–
Borrowings after derivatives (including finance leases)	723	109	832

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

(d) Interest rate risk

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

The fair value measurement is classified as Level 2 (2016: Level 2), derived from other observable market data; this means that their fair value is based upon the mark to market valuation at the balance sheet date. Fair value measurement at Level 2 gives consideration to interest rates, yield curves and foreign exchange rates at commonly quoted intervals for relevant currencies. The Group has also assessed the credit risk within its financial instruments.

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

	30 September 2017 Unaudited £m	30 September 2016 Unaudited £m	31 March 2017 Audited £m
100 basis points movement in the UK Sterling interest rate			
Income statement movement	**3**	6	2

(e) Liquidity risk

The Group manages its exposure to liquidity risk by regularly reviewing the long and short term cash flow projections for the business against facilities and other resources available to it.

During the period ended 30 September 2017, the Group refinanced its core bank facilities into a new £640m revolving credit facility. This new facility together with the £400m Senior Notes, the Group's share capital and reserves and a number of equipment leases form the Group's core financing. Following the refinancing of the RCF, the Group successfully repurchased 100% of its USPP Notes simplifying the funding structure. In addition to focusing on its core sources of liquidity, the Group uses a mix of overdrafts, short-dated uncommitted money market facilities, receivables factoring and commercial supplier terms to manage its day to day liquidity position. The Group will continue to review its sources of finance going forward.

Headroom is assessed based on historical experience as well as by assessing current business risks, including foreign exchange movements.

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

13. Financial risk management and derivative financial instruments (continued)

	Less than 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	More than 5 years £m	Total £m
30 September 2017 (Unaudited)							
Borrowings	**(97)**	**(19)**	**(19)**	**(18)**	**(828)**	**–**	**(981)**
Finance leases	**(5)**	**(5)**	**(4)**	**(3)**	**(4)**	**–**	**(21)**
Trade and other payables	**(517)**	**–**	**–**	**–**	**–**	**–**	**(517)**
	(619)	**(24)**	**(23)**	**(21)**	**(832)**	**–**	**(1,519)**

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

	Less than 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	More than 5 years £m	Total £m
31 March 2017 (Audited)							
Borrowings	(39)	(91)	(293)	(26)	(531)	(41)	(1,021)
Derivative financial instruments – receivable	–	–	–	–	29	10	39
Trade and other payables	(511)	–	–	–	–	–	(511)
	(550)	(91)	(293)	(26)	(502)	(31)	(1,493)

(f) Credit risk

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

(g) Capital risk management

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

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 12, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings. The Group's Board reviews the capital structure on an annual basis including reviewing opportunities to access other sources of finance including the public debt markets.

14. Analysis of changes in net debt

	As at 31 March 2017 Audited £m	Net cash flow £m	Non-cash movements £m	As at 30 September 2017 Unaudited £m
Cash and cash equivalents	**50**	**6**	**–**	**56**
Borrowings before derivatives	**(871)**	**(22)**	**–**	**(893)**
Derivatives	**39**	**(39)**	**–**	**–**
Borrowings after derivatives	**(832)**	**(61)**	**–**	**(893)**
Total Headline net debt	**(782)**	**(55)**	**–**	**(837)**
Finance leases	**–**	**–**	**(18)**	**(18)**
Total net debt	**(782)**	**(55)**	**(18)**	**(855)**

15. 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 2017, expenditure contracted, but not provided for in these financial statements amounted to £221m (September 2016: £264m; March 2017: £231m). Of this amount, £66m (September 2016: £52m; March 2017: £65m) related to capital commitments and £29m (September 2016: £39m; March 2017: £39m) related to the supply of customer equipment.

16. Related party transactions

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

Key management compensation and transactions with the Group's pension and post-employment schemes for the financial year ended 31 March 2017 are detailed in note 4 (page 84) of the consolidated financial statements for the year ended 31 March 2017.

As detailed in the consolidated financial statements for the year ended 31 March 2017, from 1 April 2017 a newly formed PLC Committee has assumed responsibility for operational management alongside an executive committee comprising of senior heads of the main divisions of the Group, which will be more fully described in the Consolidated financial statements for the year ended 31 March 2018. During the period ended 30 September 2017, the PLC Committee composition has changed following the resignations of Dido Harding on 10 May 2017 and Iain Torrens on 30 September 2017, with Kate Ferry being appointed to the Committee as Chief Financial Officer from 9 October 2017.

There have been no other significant changes in the nature of related party transactions from those described in the consolidated financial statements for the year ended 31 March 2017.