2017

Annual Report 2017
TalkTalk Telecom Group PLC

TalkTalk
For Everyone

TalkTalk
For Everyone

TalkTalk is the UK's leading value for money connectivity provider.

Our mission is to deliver **simple, affordable, reliable and fair connectivity** for everyone.

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Contents

Highlights

Operational highlights

- Headline EBITDA[1] +17% to £304m
- Customer base returned to growth in Q4 (+22k) with positive net adds in Retail and Wholesale
- Q4 churn reduced to 1.40% (Q3: 1.64%)
- Over 1 million customers now on new Fixed Low Price Plans (FLPP) with 59% of On-net Retail base in contract
- Strong growth in TalkTalk Business Ethernet base (+8k) fuelling Data revenue growth
- New operational structure and fewer, simpler priorities to drive growth
- Review of mobile strategy to create alternative, less capital intensive offering
- Leverage reduced to 2.57x, new debt facilities secured and dividend reset

FY17 financial highlights

- Total revenue -3% to £1,783m (FY16: £1,835m); On-net -4% to £1,342m (FY16: £1,399m)
- Corporate revenues (ex-Carrier) +4%; Data +31%; Legacy Voice -18%
- FY17 On-net base -49k, with growth in Q4 of 22k
- £34m of benefits delivered from Making TalkTalk Simpler (MTTS); cumulative £87m delivered
- Statutory profit before tax £70m (FY16: £14m); statutory EPS 6.1p (FY16: 0.2p)
- Final dividend 5.0p (FY16: 10.58p), total FY17 dividend 10.29p (FY16: 15.87p)

Looking forward

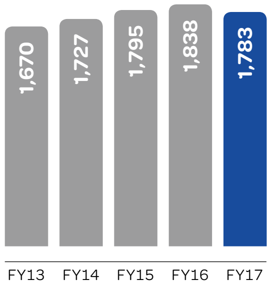
- New price plans and falling churn underpin confidence in driving profitable customer base growth
- Retail base growth and continuing growth in TalkTalk Business (TTB) to drive return to growth in Group revenues
- FY18 Headline EBITDA[1] expected to be £270m–£300m as a result of Subscriber acquisition costs (SAC) investment to drive growth
- FY18 dividend reset to 7.5p; growth expected to resume once business returns to earnings growth and leverage has reduced towards 2.0x

05 For more information see our FY17 business review

The Group uses Headline measures that exclude items which are non-trading or non-recurring to monitor the performance of the Group. Headline measures are used to partly determine the variable element of the remuneration of senior management throughout the Group and are also in alignment with performance measures used by certain external stakeholders in the context of the telecoms sector. In particular, EBITDA and free cash flow are commonly used across the telecoms industry to aid stakeholders in making comparisons between the performance of the Group and its peers. Unless stated otherwise, the discussion of the Group's financial performance is on a Headline basis. Headline measures are defined in note 1 to the consolidated financial statements and reconciled to statutory measures in note 9 to the consolidated financial statements.

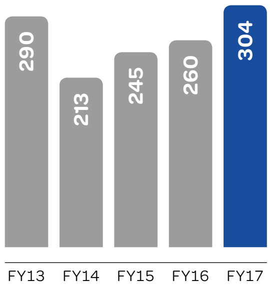
Headline revenue[1] (£m)

-3.0%



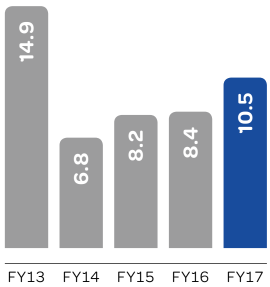
Headline EBITDA[1] (£m)

+16.9%



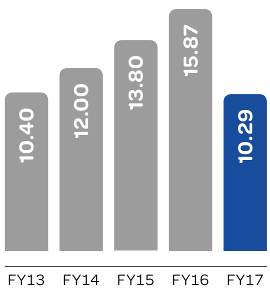
Headline EPS[1] (p)

+25.0%



Dividend per share (p)

-35.2%



(1) See note 1 to the consolidated financial statements for the Headline revenue, EBITDA and EPS definitions and note 9 to the consolidated financial statements for a reconciliation of Headline information to statutory information.

At a glance

We believe that simple, affordable, reliable and fair connectivity should be available to everyone and we always aim to be the UK's leading value for money connectivity provider of all our products.

Services to consumers

We offer customers a range of FLPP that uniquely in the market, allow them to fix their connectivity costs for twelve months, 18 months or 24 months whilst also allowing them to switch to new offers even whilst in contract. 'Fast Broadband' is our standard fixed price broadband plan designed to cater for the needs of individual users or households that do not require increased download speeds available via a fibre connection. Broadband connectivity is provided via a standard analogue telephone line using ADSL technology, which allows for download speeds of up to 17Mbps. The plan also includes (i) our 'Essential SIM' feature, providing 200 minutes, unlimited SMS messages and 500MB of data; and (ii) access to the TalkTalk TV Store.

The 'Faster Fibre Broadband' plan is designed for households with a number of devices that need to be connected to the internet at the same time. Fibre broadband connectivity is provided via our Fibre to the Cabinet (FTTC) network using VDSL technology, which allows for download speeds of up to 38Mbps. The plan also includes (i) our 'Essential SIM' feature, providing 200 minutes, unlimited SMS messages and 500MB of data; and (ii) access to the TalkTalk TV Store.

Customers are able to further enhance their broadband internet speed with a fixed fibre speed boost, allowing increased download speeds of up to 76Mbps.

In addition to the core fixed line connectivity and mobile products, we offer customers access to a broad range of free-to-air and paid-for TV content on our YouView platform. We provide flexible access to over 80 free-to-air channels, an advanced interactive programme guide and an extensive range of premium one month subscription and pay-to-view services through commercial relationships with key content suppliers, such as Sky, BT Sport and Netflix.

Services to businesses

Our B2B division, TalkTalk Business (TTB), is organised around our products and channels to market. TTB revenue comprises Corporate £397m (FY16: £384m), On-net £213m (FY16: £182m) and Off-net £14m (FY16: £16m) revenues.

In the Direct channel, we offer a range of data connectivity solutions, from business broadband and fibre, through to high-value Ethernet circuits and Wide Area Networks (MPLS IP-VPN). Across our Voice portfolio we offer both 'Legacy Voice' and 'Next Generation Voice' services (e.g. B2B SIP VoIP and Hosted Unified Comms).

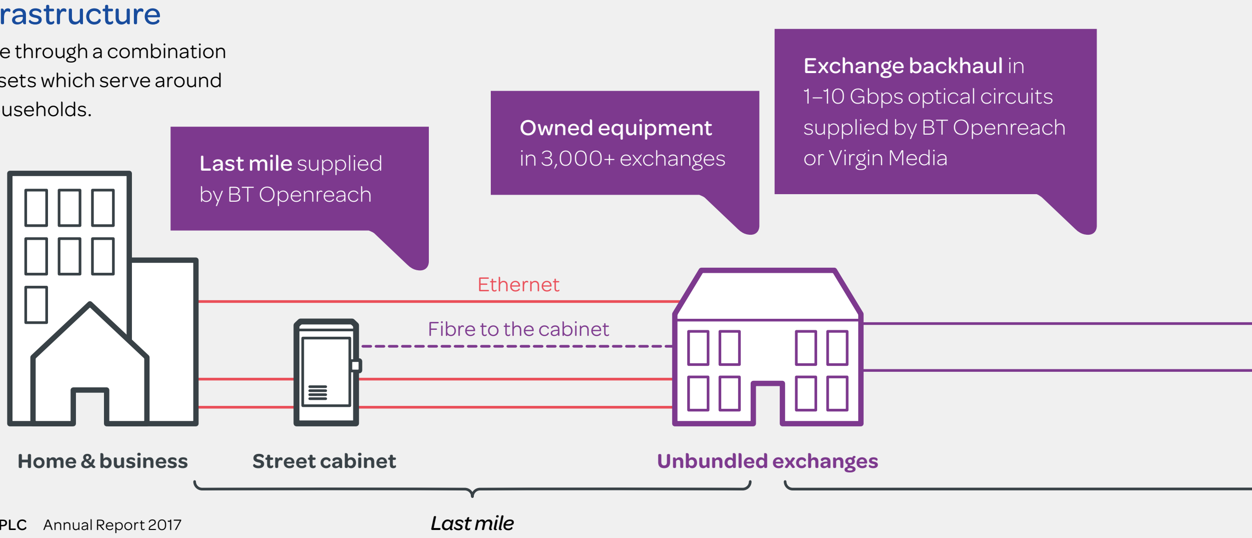
Through our Partner channel (which accounts for c.80% of TTB's revenues) we provide both 'managed' and 'wholesale' solutions. Voice and Data revenues are generated through long term relationships, several of which are multi-year contracts. Our managed partners primarily address the consumer and small business market, delivering voice services, broadband and fibre. Having a wholesale offering allows us to work with systems integrators, such as Fujitsu, which often combine connectivity and data solutions from multiple providers to offer large customers such as the Post Office a bespoke solution.

TTB also provides voice interconnect services to a range of international mobile operators terminating calls in the UK.

Our network infrastructure

Significant national scale through a combination of owned and leased assets which serve around 96% of the country's households.

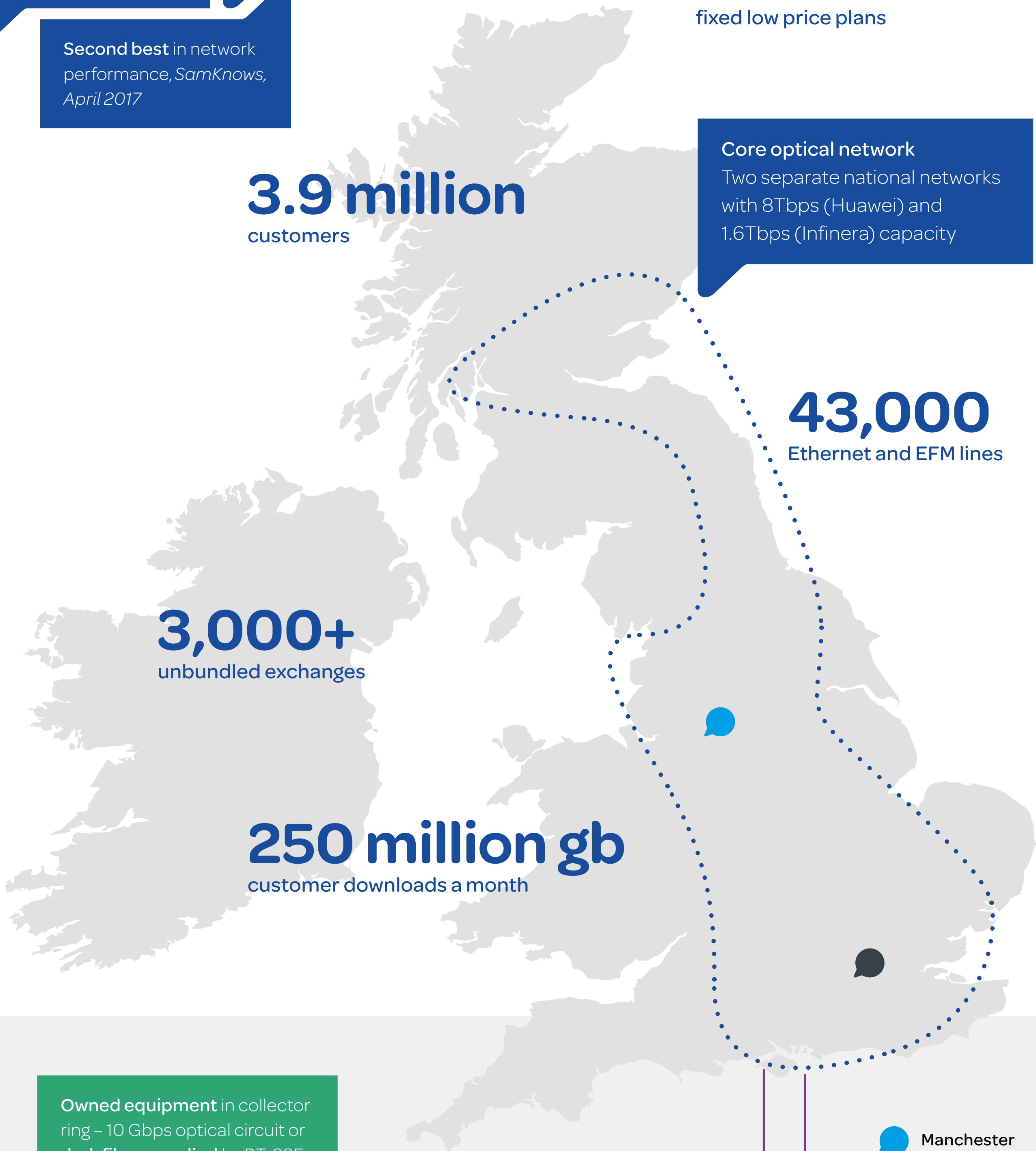
05 For more information see our FY17 business review



uSwitch TV provider of the year **winner 2017**

Rated best performance for peaktime throughput %, *SamKnows*

Second best in network performance, *SamKnows, April 2017*



1 million+
fixed low price plans

Core optical network
Two separate national networks with 8Tbps (Huawei) and 1.6Tbps (Infinera) capacity

3.9 million
customers

43,000
Ethernet and EFM lines

3,000+
unbundled exchanges

250 million gb
customer downloads a month

Owned equipment in collector ring – 10 Gbps optical circuit or **dark fibre supplied** by BT, SSE, GEO, VM and Eircom

Owned equipment in regional collector nodes to extend core optical network

Collector node

Manchester

London

Price-regulated copper and ethernet

Fibre

Core optical network

Dark fibre sourced under long term leases in a competitive market with no capacity constraints

Chairman's introduction

My focus for the Company is growth, cash generation and profit – in that order. We will be smart about how we invest, focusing on our fixed network, and avoiding capital intensive distractions.

Sir Charles Dunstone
Executive Chairman

We made solid progress during FY17 in transforming our systems and processes and improving our network, to deliver a better experience for our customers and reduce churn from last year's elevated levels. This allowed us to refresh the TalkTalk brand and launch our Fixed Low Price Plans (FLPP) that, in a move unique to the UK market, we also made available to existing customers. Recontracting activity and demand from new customers exceeded our expectations and we ended the year with a higher percentage of the base in contract. Therefore, while across the full year the On-net base and On-net revenue contracted, the combined success of these measures is evident in the return to net adds growth that we delivered in our Retail base during the last quarter of the year, together with much improved churn. TTB had another successful year, with strong growth in Data revenues from 8,000 connections during the year. Group revenues declined year on year, driven by the contraction of the On-net base, but, with lower SAC and Marketing expenditure and operating costs, Headline EBITDA(1) grew by 17% year on year to £304m.

We have entered the new financial year with solid foundations from which we will be able to return the business to revenue and customer base growth, improve cash generation and reduce leverage. We will be smart about how we invest, focusing on our core fixed network and avoiding capital intensive distractions.

In light of these new priorities, we have also decided to reset the dividend as we look to deliver growth and strong sustainable shareholder returns over the long term. As a result, the Board has declared a final dividend for FY17 of 5.0p (FY16: 10.58p). Looking forward, the Board recognises the importance of dividend income to shareholders and will continue to review the Group's dividend policy as the business delivers its growth and leverage objectives. For FY18, the Board expects to declare a total cash dividend of 7.5p (FY17: 10.29p). Looking beyond FY18, the Board expects to resume dividend growth once the business returns to earnings growth and has reduced leverage towards the Group's net debt/Headline EBITDA(1) target of 2.0x.

In February we announced the departure of Dido Harding as Chief Executive Officer. Dido has helped transform TalkTalk into a much stronger business and she leaves with our thanks and very best wishes for the future. We were delighted to announce the promotions of Tristia Harrison (MD Consumer) to succeed Dido as Chief Executive Officer, and Charles Bligh (MD TalkTalk Business) to the new role of Chief Operating Officer, while I have assumed the role of Executive Chairman. Also during the year, we were pleased to welcome Cath Keers to the Board as a Non-Executive Director and a member of the Group's Audit Committee. Cath previously served as a Non-Executive Director of Telefónica Europe plc, prior to which she had been Customer Director and Marketing Director of O2 UK.

Recent regulatory decisions on the roles and responsibilities of BT Openreach (BTOR), and the pricing of some of our key input costs, confirm our view that a supportive regulatory framework will continue to provide an essential backdrop to our role as a value for money connectivity provider. I am excited at the prospect of spending more time on TalkTalk, and working with the new leadership team as it focuses on delivering successfully for our customers and our shareholders.

The Board and I would like to thank our employees for their efforts and their continuing commitment to TalkTalk and our customers.

Sir Charles Dunstone
Executive Chairman
10 May 2017

(1) See note 1 to the consolidated financial statements for Headline EBITDA definition and note 9 to the consolidated financial statements for a reconciliation of Headline information to statutory information.

FY17 business review

17% growth in Headline EBITDA[1]; strong foundations in place for future growth.

Tristia Harrison
Chief Executive Officer

We made solid progress in establishing the operational foundations for future growth, with clear improvements in customer experience metrics, tangible network enhancements, the relaunch of our brand and Retail propositions, and excellent growth in TTB. As a result we exited the year with stronger than expected recontracting and gross additions activity driving growth in the broadband base, lower churn and a higher proportion of the base in contract.

Group Headline revenues[1] fell by 3.0% with On-net revenues down 4.1%, Corporate +3.4% and Off-net (2.5% of total; FY16: 3.0%) declining by 20%. The decline in On-net revenues reflects the c.3% lower average base during the year (as a result of churn and lower connections activity), On-net ARPU, which was 1.3% lower year on year at £28.16, reflecting the higher proportion of Wholesale customers on the base (24%, FY16: 21%), and, during H2, the dilutive impact of FLPP offset in part by increased fibre penetration and price increases.

Corporate revenue growth of 3.4% was driven by Data revenues (+31%) which benefited from c.8k net adds to our Ethernet and Ethernet in the First Mile (EFM) base. Growth in Data and Next Generation Voice (+20%) offset Legacy Voice (-17.9%), with Carrier revenues broadly flat year on year.

FY Headline EBITDA[1] of £304m (FY16: £260m) grew by 17% (statutory operating profit grew by 150% year on year as a result of the higher, cyber related exceptional costs in FY16), driven by a significant improvement in SAC and Marketing, and £34m of savings from our transformation programme, MTTS. In SAC, we benefited from the extension of our agreement with a major distribution partner for a five year period, to provide the Group with a lower cost outsourced solution for the management of fixed line customer acquisitions. During the year this enabled us to accelerate gross additions, whilst deferring a proportion of the upfront SAC cost, which contributed £24m, net of expensed hardware costs of £17m. By delivering a growing and higher quality base, at a lower cost per add, we expect to see both revenues and gross profit increase in future years.

Net debt at 31 March 2017 was £782m (30 September 2016: £847m), with Headline leverage[1] falling from 2.82x to 2.57x and committed headroom, reflecting the issuance of the Group's debut bond, at 31 March of £412m.

(1) See note 1 to the consolidated financial statements for Headline revenue, EBITDA and leverage definitions and note 9 to the consolidated financial statements for a reconciliation of Headline information to statutory information.

1. Over 1 million customers now on FLPP and 59% of On-net base in contract

During FY17 we built upon the substantial operational and customer service improvements delivered by MTTS, and extensive customer research, to launch a comprehensive brand refresh and our simpler, fairer FLPP.

We launched FLPP at the beginning of October 2016, ahead of the wider industry's move to all-in pricing. Existing and new customers responded extremely well to the new plans through H2, with the 24 month plans introduced in Q4 showing particularly strong demand. As a result we now have over 1 million customers on the new plans. Many more customers chose to take fibre than expected and attachment rates for calling boosts and TV have also been stronger than we had expected, reflecting both the attractiveness of our simple and clear pricing, and the much improved online experience that we have delivered through MTTS. The heightened churn that we experienced during the first quarter of the launch, from the re-pricing of legacy propositions, reduced sharply in the final quarter of the year to 1.40%.

2. Delivered lasting operational and customer service benefits

We made significant progress during FY17 across all our customer experience improvement programmes, which have driven materially better outcomes for customers and, as a result, £34m of gross income statement savings. Key areas in which we made strong progress include:

- New technical support and repair processes introduced for front-line service representatives, built on technology deployed in FY16, reducing customer effort and increasing first-time fix rates, with fewer customers with a broadband issue calling back within seven days.
- More than 600,000 customers enrolled on TalkSafe, TalkTalk's innovative, secure and low-effort new voice biometric verification system.
- Tailored Next Best Action technology deployed across online and phone channels, increasing Net Promoter Scores (NPS) and upsell.
- Introduced a redesigned, simpler, more informative and transparent online bill.
- Re-platformed the highest traffic parts of our websites to optimise for mobile as well as desktop devices and improve performance.

With all the initiatives that comprised MTTS now fully embedded within the business, the programme is now substantially complete, with cumulative financial benefits of £87m delivered.

FY17 business review continued

3. Ongoing network investment has improved customer experience

In addition to improving customer experience through MTTS, we continued to invest in our network across four major areas:

- Backhaul and core network enhancement to ensure the best outcome for customers at peak time. As a result we are ranked best with SamKnows for peak time throughput.
- We replaced our Dynamic Line Management (DLM) system for improving speed and line stability and rolled out a new secure Domain Name System (DNS) to improve resilience, security and responsiveness.
- We completed software upgrades to the collector nodes and began our major access network upgrade to 10gb+ capacity, with over 100 exchanges fully migrated to date.
- We deployed more Netflix caches at the edge of our network to improve streaming experience by pushing content closer to the customer. For customers taking sports boosts, we engineered a substantial uplift in video quality, which, combined with the DLM improvements, has translated into an improved viewing experience.

We have made excellent progress with our fibre to the premise (FTTP) trial in York. The initial roll-out to over 14,000 homes was completed in March 2017, with penetration of serviceable homes at c.27% (c.2,500 of whom are TalkTalk customers). Build costs were under our £500 per home target, with take-up and customer satisfaction also ahead of targets. Following the success of this first phase, we have now started the planning work to extend the network to a further 40,000 premises across the rest of York.

4. Improving customer satisfaction, churn and a return to base growth

The combined effect of MTTS, our network quality improvements and the launch of FLPP helped deliver substantial improvements in customer satisfaction, churn and base growth during FY17.

Churn across the year fell to 1.45% (FY16: 1.60%) with year on year improvements in both H1 (1.40%; H1FY16: 1.48%) and H2 (1.51%; H2FY16: 1.72%), despite elevated levels of churn in Q3 from the planned tariff rationalisation and re-pricing of legacy propositions when we launched FLPP.

Customer satisfaction with our service agents, and the number of complaints to Ofcom which are drivers of churn, also improved during the year. Critically, these improvements, combined with falling costs per add as a result of more efficient distribution channels through our extended outsourcing arrangement with a major distribution partner, allowed us also to increase new acquisition activity in the final quarter of the year. The resulting gross additions exceeded our expectations and, coupled with lower churn, enabled a return to Retail base growth. As a result we exited the year with 3.947 million On-net customers (FY16: 3.996 million). Within this, the Retail base declined by 178k during the year, while the Wholesale base continued to grow robustly (+129k).

1m+

Over 1 million customers now on FLPP and 59% of On-net base in contract

5. Growth in triple and quad play penetration

In line with our strategy of growing fibre, triple and quad play penetration, we saw strong take-up of fibre (+223k) and mobile (+214k). There were 927k customers taking fibre at the year end (25.5% of the On-net base), with H2 net adds nearly double the level in H1 as customers responded to our pricing initiatives and easier online upsell journeys.

In Mobile, we ended the year with 913k SIM and handset contracts, again with H2 net adds stronger than H1 as we introduced an upgraded SIM as part of our launch of FLPP.

While the TV base contracted during the year by 101k, we saw an inflection in the rate of decline during Q4 (-14k) as customers responded positively to the improving functionality and performance of our next generation YouView interface and our multi-device TV App.

At the end of the year our On-net base comprised c.42% dual play customers (taking voice and broadband), c.39% triple play customers (taking voice, broadband and either TV or mobile), and c.12% quad play customers (taking all four products), with strong fibre penetration across all three.

6. Continuing strong growth at TTB: Corporate (+4.2%) and Data (+30.8%)

TTB delivered another year of strong performance in Corporate. Revenues (ex-Carrier) grew by 4.2%, with an acceleration in H2 to +6.1% from +2.3% in H1. Data revenues grew 30.8% year on year with the number of Ethernet and EFM lines up by 8k during the year. Legacy Voice revenues declined -17.9% in line with the established trend but we saw strong take-up of our new next generation voice product, with revenue growth during the year of 20%. As planned, Carrier revenues were broadly flat year on year (+1.7%).

Following our acquisition of tIPicall in April 2015, our next generation voice portfolio continued to gain good momentum. 116 partners have signed up to sell this new service and the total base of Session Initiation Protocol (SIP) channels on the platform, including acquired base, increased by 7,340 channels (+65%) during the year. The acquisition has continued our diversification into next generation telephony services, further demonstrated by our hosted telephony platform which saw the user base grow by 43%.

FY18 strategic priorities

We have a clear and defined strategy of driving profitable growth by leveraging our extensive network assets, improving the customer experience and driving operational efficiency. Under our new leadership team and operational structure we will now focus on delivering growth in the On-net base and On-net revenues; sustaining strong growth in TTB; continuing to improve and future-proof our network; driving a step change in customer experience; and realising further efficiencies.

1. Returning the Retail base to profitable growth

There is compelling evidence that our new propositions are delivering not only reduced churn but happier, more satisfied customers, the vast majority of whom are signing up to 24 month contracts, wanting certainty in pricing and service, early life churn on the FLPP base is less than 1%; FLPP customers' reported Net Promoter Score is significantly higher than for non-FLPP customers; and TalkTalk brand satisfaction has grown in each of the last four months.

09 For more information see our strategy

This, coupled with simpler, better value propositions for new customers, materially improving customer service and reducing costs per add, underpins our confidence in driving profitable subscriber growth in our Retail base through gross adds activity.

As outlined above, our TV business has seen significant improvements in service and customer satisfaction and our aggregator approach to free and pay TV across multiple devices is paying off – our investments in TV continue to lead to broadband churn reduction.

In Mobile, while we remain committed to offering all our customers a compelling proposition, we have decided not to pursue an inside-out mobile network strategy, and instead we will continue to work closely with Telefónica UK on the right platform and customer offering. We expect to have more information to update on this in due course.

2. Sustaining momentum in TTB

Our market share of Ethernet circuits (c.10%) offers significant further opportunities for growth, supported by the pricing optionality from favourable Ethernet and dark fibre regulation. We are seeing increasing demand in the future pipeline from small businesses looking to use our high-speed Ethernet products as they transition to hosted voice products. We are also growing the pipeline with large corporates looking to take advantage of our new managed network connectivity products.

Having expanded our portfolio of data products to offer a complete portfolio of FTTC and Ethernet products, we expect to see strong demand from both our partners and direct customers. The number of partners wholesaling FTTC from us has grown in the last year and we expect continued growth in this area.

3. Delivering a step change in customer experience

Having delivered progressive improvements in customer experience from MTTS, our focus over the next twelve months and beyond will be on consolidating these achievements to drive a step change in three key areas: consistency of service across all channels; joining and repair processes; and in-home connectivity/experience. The investments we have already made in simplifying and upgrading our customer-facing systems and processes have begun to deliver measurable returns in the form of higher customer satisfaction, lower complaints volumes and improved churn. Our overall focus from here on will be to continue to put the customer at the heart of the service experience to make sure whichever channel they choose (online, social media or call centre) we give a consistent experience and advice which increases loyalty to the brand. This also includes our B2B customers, where we have good customer satisfaction with both direct and wholesale customers and we have plans to improve this to industry leading levels. These improvements will require modest incremental investment that will be covered within our overall commitment of capex/revenues of 6%–7%.

4. Network investment

Continuing investment in the network over the next two years (within our 6%–7% capex/revenue commitment) will deliver a fully upgraded access layer (switches and backhaul) with over 1,000 exchanges equipped with 10gb backhaul circuits, to support growing FTTC penetration and data usage. We also plan to scale dark fibre deployment across the entire network, helped by a more favourable regulatory pricing environment. This will allow us to support the expected increase in capacity utilisation at reduced unit costs, and significantly mitigate future network operating costs that otherwise would grow substantially as we expand our Ethernet, FTTC and FTTP bases.

Following this network investment programme, we expect the entire data network to be at the latest switching and network technology. It will be simplified, more resilient, using the latest Tier 1 networking technologies (both software and hardware), and will future-proof the network for the expected needs of consumers and businesses.

5. Operational excellence

Delivering better quality at a reduced cost of operation is fundamental to our growth expectations. Our new operating structure will allow us to further simplify our service footprint and customer insight systems; reduce the costs of failure; and better leverage our procurement and cost assurance processes. Over the medium term, this will result in a fundamentally higher quality of operation and reduce our cost/revenue ratio, whilst also allowing us to reinvest efficiencies into further customer experience improvements.

Looking forward

Our priorities in FY18 are to sustain the momentum built during Q4FY17 to deliver growth in the On-net base and On-net revenues; sustain strong growth in TTB; continue our fixed network investment; focus on customer service improvements and operational efficiency; improve headline cash flow[1]; and reduce net debt.

We expect continuing lower costs per add and reducing churn to support more economically attractive gross additions during FY18, however incremental volume growth will require higher SAC and Marketing investment. As a result we expect to deliver Headline EBITDA[1] of £270m–£300m, year on year growth in Headline revenues, and improved headline cash flow allowing us to reduce net debt. Beyond FY18 we expect the growing On-net base, comprising higher quality lower churning customers, to support a return to Headline EBITDA[1] growth.

We have reorganised the business under our new leadership team to focus on fewer, clearer priorities that are focused on investment in our core fixed network. As part of our review of how we allocate capital and our clear focus on investing in fixed connectivity we have reassessed our mobile strategy. While we remain committed to offering all our customers a compelling mobile proposition, we have decided not to pursue an inside-out mobile network strategy, and instead we will continue to work closely with Telefónica UK on the right platform and customer offering. We expect to have more information to update on this in due course.

Dividend

The Board is committed to returning the business to revenue and customer base growth, improving cash generation and reducing leverage, and in this context has declared a Final dividend for FY17 of 5.0p (FY16: 10.58p), taking the total dividend for the year to 10.29p (FY16: 15.87p). For FY18 the Board expects to declare an Interim cash dividend of 2.5p (FY17: 5.29p) and a Final cash dividend of 5.0p (FY17: 5.0p) taking the total cash dividend for the year to 7.5p (FY17: 10.29p). Looking beyond FY18, the Board expects to resume dividend growth once the business returns to earnings growth and has reduced leverage towards Net Debt/Headline EBITDA[1] of 2.0x.

Tristia Harrison
Chief Executive Officer
10 May 2017

(1) See note 1 to the consolidated financial statements for Headline EBITDA definition and note 9 to the financial statements for a reconciliation of Headline information to statutory information.

Simple, affordable, reliable and fair connectivity for everyone

Market opportunity supported by regulation

The UK's fixed line market is structurally attractive for an existing scale value for money connectivity provider such as TalkTalk.

It would require a sizeable investment, in time and money, to roll out a new nationwide unbundled architecture comparable with ours. Any such development would be extremely technologically challenging given, among other things, physical constraints in BTOR's exchanges where our network equipment is housed and BTOR's capacity to deliver connections in those exchanges.

At present, the only technological substitute for fixed line connectivity is wireless data and voice traffic through a mobile network. However, data transportation via a mobile network is significantly more expensive, radio spectrum availability is constrained and finite and there is no evidence that such technological and economic impediments could easily be overcome in the near future. This is against a backdrop of exponentially growing data usage, driven by device proliferation and video consumption, where mobile users are expected to increase their data traffic from 0.96gb/month in 2015 to 5.6gb/month in 2020, and households to increase their fixed line traffic from 84.5gb/month in 2015 to 202.1gb/month in 2020 (Source: Cisco).

202.1gb/ month

estimated fixed line traffic by 2020

There is also a clear history of pro-competition regulation in our industry in the last decade. Such regulation has been targeted at curtailing the powers of BT as the incumbent provider and has promoted development of retail competitors on a national scale. We believe that Ofcom will continue its policy to restrain BT's ability to abuse its dominant market position, which will ensure access to its core infrastructure on fair terms.

Against this backdrop, there has been a trend towards product bundling over the last decade, with fixed line connectivity the dominant anchor product to which customers have added TV and mobile services. In 2016, 68% of UK households subscribed to bundled services. The vast majority of these were fixed voice and broadband (29% of households) and fixed voice, broadband and TV (28% of households). The proportion of households subscribing to bundled services increased significantly from 29% in 2005 and from 50% in 2010, driven by the growth in supply of triple play bundled services (Source: Ofcom: The Communications Market Report (August 2016)). However, the UK continues to lag behind other European countries in the take-up of bundled products, in part because of the historic separation of fixed and mobile network ownership. The acquisition by BT of EE in 2016 is expected to accelerate the trend for bundling fixed and mobile propositions, with TalkTalk well placed to deliver such propositions in the value for money segment.

As a result of these characteristics, whilst the market for our services is promotionally intense, it is fundamentally rational in terms of price setting, allowing for simple and clear pricing.

68%

of UK households subscribed to bundled services in 2016

Our strategy

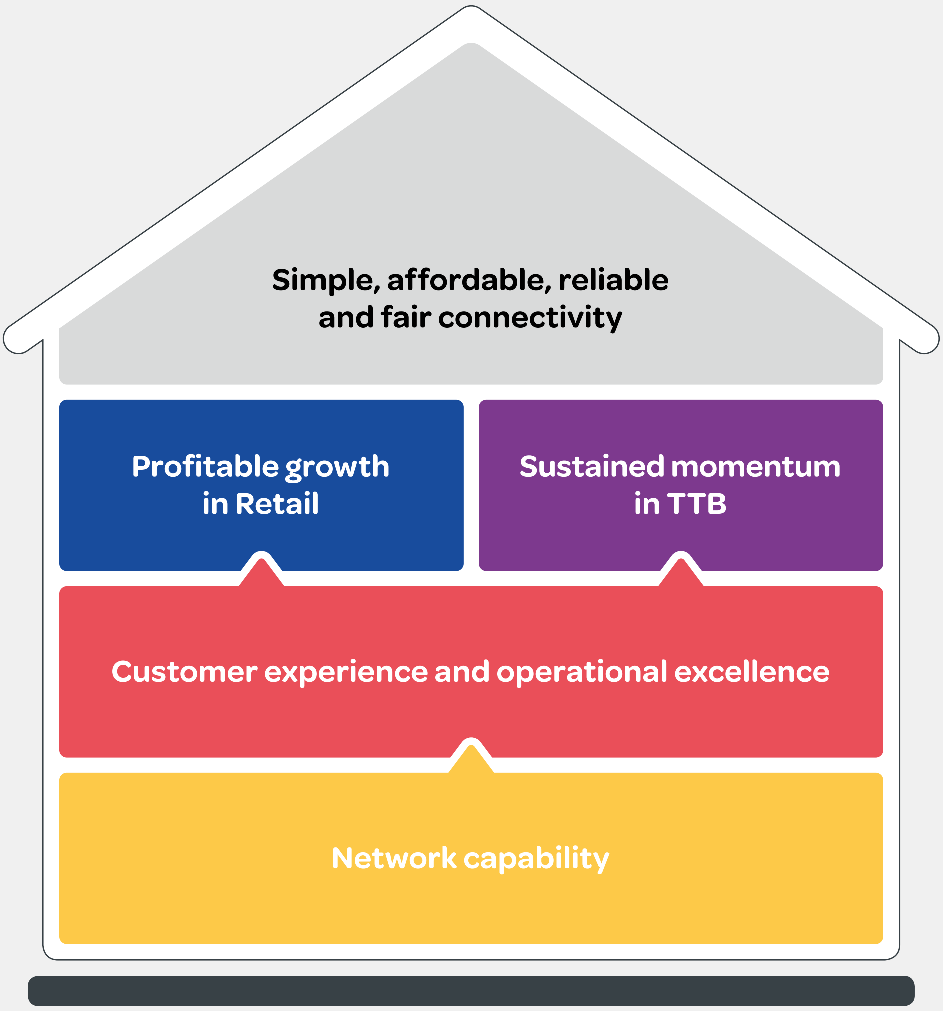
Our purpose is to offer simple, affordable, reliable and fair connectivity for everyone, and to drive profitable growth in the customer base and revenues within a framework of disciplined capital expenditure, cash generation and leverage reduction. We will do this by:

1 Growing our Retail proposition

2 Driving sustained momentum in TTB

3 Improving our operating efficiency through a customer-focused operating structure

4 Leveraging and expanding our network capability



27 For more information on how we manage our business, see our values

10 For more information on our strategy, see over the page

Business model and strategy continued

1 Profitable growth in Retail

Network capability, cost advantage and the ability to offer multiple value for money services has enabled us to build a large and sustainable share (approximately 16%) of the UK fixed line broadband market (source: Ofcom). We have leveraged this position to drive growth in our TV (approximately 35% of phone and broadband base), Mobile (approximately 25% of phone and broadband base) and FTTC (approximately 25% of phone and broadband base) bases.

We offer a clear and simple tariff structure, low prices, flexibility and the ability to take additional services such as Mobile and TV. At the beginning of October 2016, we launched a radically simpler range of FLPP inclusive of line rental: 'Fast Broadband' and 'Faster Fibre Broadband'. These new plans give customers the freedom to choose and fix their own package for 12, 18 or 24 months by tailoring mix-and-match broadband, mobile, TV and landline calls to suit their needs. Uniquely in the market, we also made these new plans available to all of our existing customers (on legacy tariffs such as Simply Broadband, Essentials TV and Plus TV). Existing and new customers have responded extremely well to the new plans, reflecting the attractiveness of our simple and clear pricing. At the end of March 2017 nearly 1 million out of 2.9 million Retail customers were on FLPP.

There is compelling evidence that FLPP is delivering not only reduced churn, but happier, more satisfied customers. The vast majority of customers are signing up to 24 month contracts, wanting certainty in pricing and services; early life churn on the FLPP base is less than 1% compared to much higher levels on the legacy base; FLPP customers' reported Net Promoter Score is significantly higher than for non-FLPP customers; and TalkTalk brand satisfaction has grown in each of the last four months (Source: GfK Customer Experience Tracker March 2017).

This, coupled with simpler, better value propositions for new customers, materially improving customer service and reducing costs per add, underpins our confidence in driving subscriber growth in our Retail base through gross adds activity in FY18.

We currently provide mobile services to our phone and broadband customers through a Mobile Virtual Network Operator agreement with Vodafone, that we were due to transition to Telefónica UK during 2017. As we reorganise the business under our new leadership team to focus on fewer, clearer priorities that are focused on investment in our core fixed network, we have decided not to pursue a capital intensive mobile network strategy, and instead will work with Telefónica UK on the right platform and customer offering.

Our TV proposition has been built on the YouView platform (a joint venture between the Group, BT, Arqiva and the UK's public service broadcasters BBC, ITV, Channel 4 and Channel 5), an internet-enabled television service delivered via a dedicated set top box with differentiated catch-up and on-demand services, and an open platform for future application-driven innovation. We also provide access to content for broadband customers without a set top box, through the TalkTalk TV App. Our TV offer is unique in the market for the breadth of our content offer and the flexibility of access that customers enjoy, without any mandatory subscription or buy-through requirements.

2 Sustained momentum in TTB

The same network cost advantage that underpins our Retail business has also allowed us to build and scale a growing B2B business with revenues of over £624m in the year ended 31 March 2017 (FY16: £582m). TTB offers an extensive range of fixed line services to our B2B customers, and is a significant and fast growing part of the business. We serve the connectivity needs of over 180,000 businesses, from national retailers, to sole traders and public sector customers nationwide. We offer a wide range of voice and data solutions to customers ranging from small office/home office and SME customers, through to multi-site national enterprises. We have a clear strategy of focusing only on connectivity which allows us to work with partners such as consumer-facing resellers and large systems integrators. Thus, while we access the market directly and through partner channels, approximately 80% of TTB's revenues are generated through wholesale partners. Through the partner channel, we are one of only three network providers in the UK to offer wholesale phone and broadband services to independent internet service providers (such as the Post Office and Utility Warehouse), for whom in total we service nearly 900,000 end customers on our network. TTB's growth strategy is primarily focused on its suite of high-speed Ethernet products, which have delivered strong growth in revenues for the division over the last three years.

Our market share of Ethernet circuits (10%–12%) offers significant further opportunities for growth, supported by the pricing optionality from favourable Ethernet and dark fibre regulation. We are seeing an increasing number of small businesses in our future pipeline of high-speed Ethernet products as they transition to hosted voice products. We are also growing the pipeline with large corporates looking to take advantage of our new managed network products. Having expanded our portfolio of data products to offer a complete portfolio of FTTC and Ethernet products, we expect to see strong demand from both our partners and direct customers. The number of partners wholesaling FTTC from us has grown in the last year and we expect continued growth in this area, including from new dark fibre-based products that we will develop in line with our network strategy.

3 Customer experience and operational excellence

We have a proven track record of operational improvement. Since the Demerger in 2010, we have delivered over £230m of cost savings through integration, back-office and systems, and process simplification programmes. This began with the integration of the Tiscali business in 2010, and culminated in our most wide-ranging operational improvement programme, MTTS. MTTS was launched in 2013 to deliver material customer service improvements, drive operating cost savings, reduce subscriber acquisition costs and, ultimately, create a simpler business. The programme is now substantially complete with total cost savings of over £87m from its introduction in 2013 to March 2017. These savings have helped us to mitigate underlying cost increases from the growing demands on our network as customers' data usage has grown.

Delivering better quality at a reduced cost of operation is fundamental to our growth expectations. Further simplifying our service footprint and customer insight systems; reducing the costs of failure; and better leveraging our procurement and cost assurance processes will allow us to continue investing in our network and customer propositions. Over the medium term, this will result in a fundamentally higher quality of operation and reduce our cost/revenue ratio, whilst also allowing us to reinvest efficiencies into further customer experience improvements.

4 Network capability

Our fixed line network currently covers approximately 96% of the UK's homes. The only comparable fixed line unbundled network is operated by Sky, which covers approximately 90% of the UK's population. Virgin Media's and Vodafone's fixed line unbundled networks only cover approximately 55% and 60% of the country's population respectively. At the heart of our network is the unbundling equipment (digital subscriber line access multiplexers, multi-service access nodes and Ethernet switches) that we have installed in over 3,000 BT exchanges – the largest such deployment in the UK. This allows us to utilise the copper line that connects customer premises to the exchange. The exchanges are connected via collector nodes and 10Gbps collector rings to more than 4,000 miles of our dark fibre core optical network – a high-speed, high-capacity all-IP national backbone that enables efficient and flexible routing of voice and data traffic. The size and all-IP nature of our network also allows us to scale it very efficiently for growing usage, while driving down unit costs.

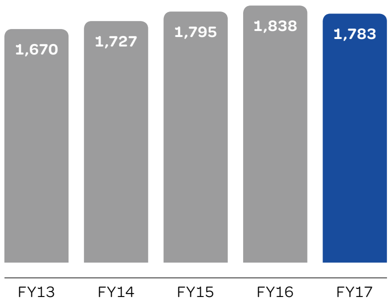
In 2016, we completed the first phase of our backhaul upgrade (from 1gb to 10gb circuits) to deliver significant improvements in network performance for our FTTC customers. We also completed our Next Generation Edge (NGE) programme of upgrading all regional nodes within our fixed line network, and up-weighted 90 exchanges on the new Next Generation Access (NGA) architecture by the end of March 2017. We expect another 1,000 exchanges to be completed over the next 12–18 months.

We have made excellent progress with our FTTP trial in York. The initial roll-out to over 14,000 homes was completed in March 2017, with penetration of serviceable homes at c.27% (c.2,500 of whom are TalkTalk customers). Build costs were under our £500 per home target, with take-up and customer satisfaction also ahead of targets. Following the success of this first phase, work has now begun on the planning work to extend the network to a further 40,000 premises across the rest of York.

Continuing investment in the network over the next two years will focus on delivering a simpler, more resilient architecture that will future-proof the network and allow us to support the expected increase in capacity utilisation at reduced unit costs, and significantly mitigate future network operating costs that otherwise would grow substantially as we expand our Ethernet, FTTC and FTTP bases. We expect this investment to fall within our normalised 6%–7% of revenue commitment and will include a fully upgraded access layer (switches and backhaul) with over 1,000 exchanges equipped with 10gb backhaul circuits. We also plan to scale dark fibre deployment across the entire network, helped by a more favourable regulatory pricing environment.

Financial metrics

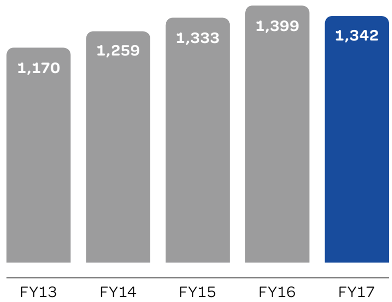
Headline revenue[1]
(£m)



Definition
Total revenue before exceptional items across the business including On-net, Off-net and Corporate.

Comment
Headline revenues[1] fell by 3.0%, reflecting the c.3% lower average base during the year (as a result of churn and lower connection activity) and, during H2, the dilutive impact of FLPP, offset in part by increased fibre penetration, price increases and growth in data products.

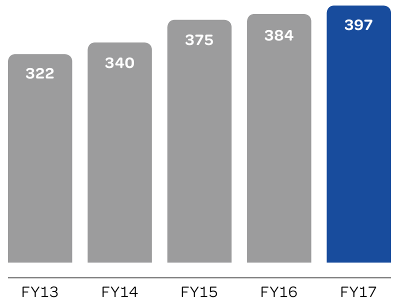
On-net revenue
(£m)



Definition
Total revenue across our On-net products including On-net broadband, TV, mobile and fibre.

Comment
On-net revenues contracted by 4.1%, reflecting the c.3% lower average base (as a result of churn and lower connections activity) and the dilutive impact of the FLPP launched in October 2016, offset in part by the increased penetration of fibre, and re-pricing of legacy propositions following the launch of FLPP.

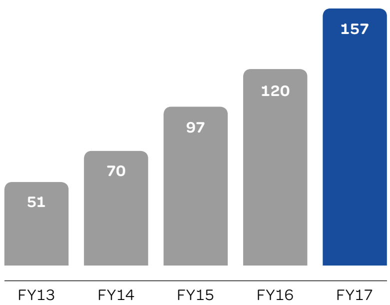
Corporate revenue
(£m)



Definition
Revenue from our Corporate products including Voice, Data and Carrier services.

Comment
Corporate revenues grew by 3.4% largely due to strong growth in Data revenues (+30.8%), offsetting a decline in Legacy Voice revenues (-17.9%), whilst Carrier was broadly flat (+1.7%).

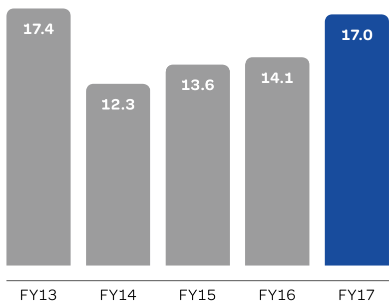
Data revenue
(£m)



Definition
Revenues from our Data products within TTB.

Comment
Data revenues continued to grow strongly (+30.8% year on year), driven by 7,700 new connections to our Ethernet and EFM base.

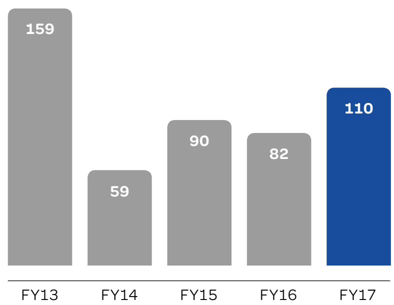
Headline EBITDA margin[1]
(%)



Definition
Headline EBITDA[1] as a percentage of Headline revenue[1].

Comment
Headline EBITDA margin[1] grew to 17.0% in the year with a significant step up in H2 to 19.8%, driven by savings from MTTS and reduced SAC and Marketing costs.

Headline free cash flow[1]
(£m)



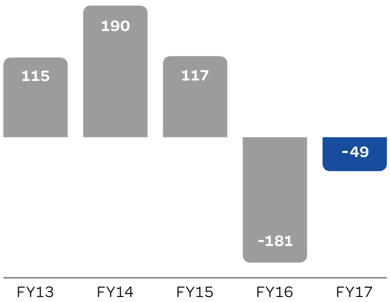
Definition
Cash generated after net capital expenditure.

Comment
Headline free cash flow[1] was up year on year largely driven by reduced capital expenditure as a result of the proceeds of a property sale and reduced spend on hardware.

(1) See note 1 to the consolidated financial statements for the Headline revenue and EBITDA definitions and note 9 to the consolidated financial statements for a reconciliation of Headline information to statutory information.

Non-financial metrics

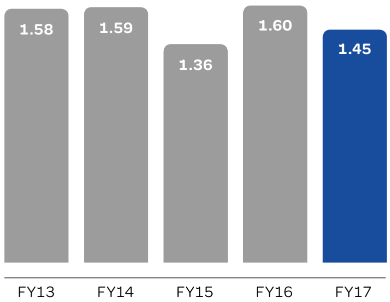
Broadband net adds (On-net) ('000)



Definition
The net of new On-net broadband customers joining TalkTalk and those leaving TalkTalk.

Comment
Our On-net broadband base contracted in the year by 49k. The first three quarters saw the challenging trading environment impact net adds, but a return to growth in Q4, off the back of the FLPP launch, shows a promising trajectory heading into FY18.

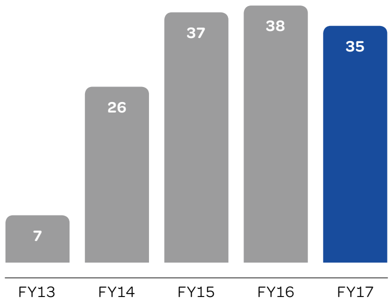
On-net churn (%)



Definition
The percentage of our On-net customer base leaving TalkTalk each month.

Comment
While average churn across the year was 1.5% (impacted by legacy price rises), we saw improvements in Q4 and, with FLPP seeing our in-contract base rise to nearly 60%, we expect to see churn continue to improve in FY18.

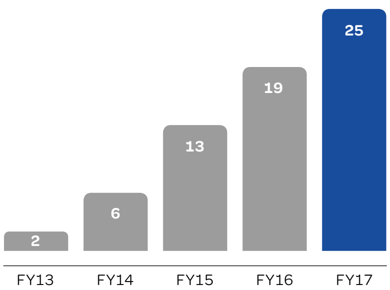
TV penetration (%)



Definition
The percentage of our On-net MPF base that take a TV package.

Comment
The TV base declined by c.100k in the year, but with a base of c.1.3 million TV customers, a third of our base take a TV product, with penetration at 35%.

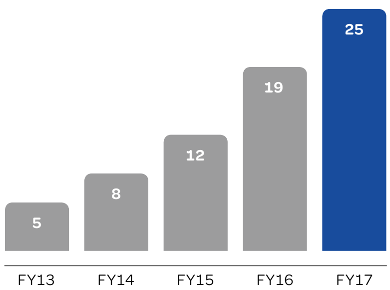
Fibre penetration (%)



Definition
The percentage of our On-net MPF base that take fibre products.

Comment
We added 223k net new fibre customers during the year, taking the base to 927k, representing 25% of the MPF base compared to 19% a year ago.

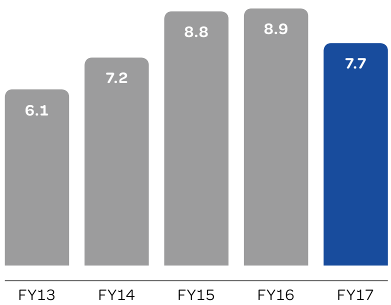
Mobile penetration (%)



Definition
The percentage of our On-net MPF base that take mobile products.

Comment
We added 214k net new mobile customers during the year, taking the base to 913k, representing 25% of the MPF base compared to 19% a year ago.

EFM and Ethernet net adds ('000)



Definition
The net of new customers connecting to Data products and those disconnecting from Data products.

Comment
7,700 net new high-speed data lines connected in the year. Business demand for high-speed data continues to remain very strong.

Regulatory environment

Our business activities, and those of BT, our largest supplier, are subject to the laws and regulations of the EU and the UK. At the EU level, we are regulated by a variety of legal instruments and policies, collectively referred to as the Common Regulatory Framework, regulating the establishment and operation of electronic communications networks and the provision of electronic communications services, such as telephony, internet access and, to some degree, television services.

The Common Regulatory Framework does not generally address issues of content. The Common Regulatory Framework primarily seeks to open European markets for communications services and comprises:

- Directive 2002/21 on a common regulatory framework for electronic communications networks and services;
- Directive 2002/20 on the authorisation of electronic communications networks and services;
- Directive 2002/19 on access to, and interconnection of, electronic communications networks and associated facilities; and
- Directive 2002/22 on universal service and users rights relating to electronic communications networks and services.

These Directives are supplemented by EU Directive 2002/58, regulating the processing of personal data and the protection of privacy in the electronic communications sector.

In the UK, the Common Regulatory Framework is implemented through (i) the Communications Act 2003, which regulates all forms of communications technology, whether used for telecommunication or broadcasting; and (ii) the Wireless Telegraphy Act 2006, which regulates radio communications (including with respect to the spectrum, licensing arrangements, usage conditions and charges, licence bidding and trading, and enforcement and penalties). The Privacy and Electronic Communications Regulations 2003, as amended, implemented EU Directive 2002/58, regulating the processing of personal data and the protection of privacy in the electronic communications sector.

We are also subject to regulation under the UK Broadcasting Acts 1990 and 1996 and other UK statutes and subordinate legislation, including the Competition Act 1998, the Enterprise Act 2002 and the Enterprise and Regulatory Reform Act 2013.

The UK telecommunication market is regulated by Ofcom, which, amongst other objectives, sets the charges and other terms for wholesale access to infrastructure and associated services provided by BT, where BT is deemed to enjoy 'Significant Market Power'. Most of the wholesale products we purchase from BT are provided by BTOR. Ofcom's objective is to serve consumers' interests through encouraging investment and ensuring that these wholesale products enable effective competition in retail markets, so that consumers and businesses benefit from a choice of attractive services and retail service providers.

We rely upon a number of wholesale products from BTOR to be able to offer services to our customers. The key wholesale products are LLU (the copper connections into homes/businesses), Generic Ethernet Access (GEA) (access to BT's FTTC network) and Ethernet (fibre links used to connect exchanges to our core network and also to connect some business customers). The price and terms of these are set by Ofcom though a triennial market review process which, particularly in the case of LLU and Ethernet, gives us reasonable certainty of future costs.

We, along with other communication providers, are required to comply with various regulation and legislation. Our compliance with regulation is monitored internally by the Regulatory Compliance Committee.

Electronic communication services

Ofcom Strategic Review of Digital Communications

Following a consultation in July 2015, Ofcom published the 'initial conclusions' from its Strategic Review of Digital Communications (the 'Strategic Review') in February 2016, designed to take a longer term, more holistic view than the triennial market reviews.

In July 2016, Ofcom proposed its solution that BTOR should be set up as a wholly owned subsidiary of BT (referred to as 'legal separation'), though it is keeping open the option of structural separation which Ofcom CEO, Sharon White, has stated may be 'the cleanest and most clear-cut long term solution'. We have been vocal in urging the regulator to take a bold approach, and the Government has called on Ofcom to 'take whatever action is needed to correct the competition problems identified, and to promote the growth of the digital economy, however radical a change that might be.' Whilst legal separation will reduce BT's ability to abuse its vertical integration (as accepted by Ofcom) and should therefore benefit us, we are clear that we believe only structural separation can deliver the maximum benefits to the UK market.

Full structural separation would guarantee BT could not use its ownership of BTOR for the commercial benefit of its retail division (through preferential product design and pricing); nor could it divert BTOR profit away from improving network performance for customers in order to finance other corporate priorities. The guarantee of a more competitive retail market would also act as an incentive for alternative infrastructure investment.

In November 2016, Ofcom announced that it intended to mandate legal separation of BTOR from BT after BT failed to offer voluntary proposals that would address competition concerns to Ofcom's satisfaction. Such separation will require BTOR to become a distinct company with its own independent board of directors and ownership and control of its assets and resources. Ofcom specifically stated that if legal separation could not be made to work, then full structural separation remains an option.

In March 2017, Ofcom announced that BT had offered voluntary commitments and that on the basis of these Ofcom would not mandate legal separation. The voluntary commitments establish BTOR as a separate legal entity with its own board though BT is permitted to continue to influence BTOR's decision making. Furthermore, BTOR will not own the assets it uses. Ofcom has committed to monitor the new arrangements and if they are not effective review whether to impose structural separation.

Broadband services

LLU charge control and service standards

In March 2017, Ofcom published the Wholesale Local Access Market Review (WLAMR) which proposed regulation for Metallic Path Facility (MPF) and GEA. Ofcom has proposed that the rental price of the MPF variant that TalkTalk uses should reduce from £85.29 to £81.98 per line per year in 2020/21 which reflects in part the implementation of the revised cost attribution methodology that significantly reduces BT's costs allocated to regulated products and increases the costs allocated to other BT divisions. There are material reductions proposed in some other MPF services such as migrations and new providers. Ofcom has also proposed materially improved minimum quality standards that BTOR will be required to meet.

Ofcom expects the new regulation to be imposed from April 2018. This leaves, for certain aspects of the regulation, a gap between the end of the previous regulation (March 2016) and the new regulation coming into force. Accordingly, Ofcom has proposed regulation that reduces the MPF price in this period and continues the previous minimum quality standards.

GEA charge control

BTOR provides wholesale access to its fibre infrastructure (predominantly FTTC), on an equivalent basis to all communication providers. BTOR's wholesale product is called GEA. We use GEA to provide our fibre broadband products. Currently the price of GEA is not regulated. TalkTalk had previously called on Ofcom to introduce 'margin squeeze regulation', establishing a minimum margin between BTOR's wholesale GEA price and BT's retail price. In March 2015, Ofcom confirmed that margin squeeze regulation would come into effect from April that year.

Ofcom's WLAMR proposes imposing a price cap on GEA for the first time. The specific proposal is that only the price of the 40/10 GEA product is regulated since 40/10 is the product most used by BT's external customers and a price cap on 40/10 will constrain the price of other GEA products (such as 80/20) – an approach known as 'anchor product' regulation. The proposed price for 40/10 GEA in 2010/21 is more than 40% less than today's price: £52.77 per year versus £88.80 today. The regulation is expected to come into force from April 2018.

Duct and pole access

Ofcom set out in its Strategic Review that it would improve wholesale access to BT's ducts and poles so that BT's rivals could use these assets to rollout their own FTTP networks. In December 2016 and April 2017, Ofcom outlined further proposals that would make using BT's duct and poles more feasible including: allowing them to be used for providing leased lines; requiring BT to upgrade its assets at its own cost to enable third party access; and 'charge controls' on the prices BTOR can charge for access to ducts and poles. Duct and pole access could benefit us by reducing the cost and increasing the speed of the roll-out of our own FTTP network.

Universal Service Obligation

The UK Government is attempting to drive the deployment of superfast broadband to 95% of the population of the UK by the end of 2017. To supplement commercial FTTC roll-out, the Government has funded the Broadband Delivery UK programme, which is focused on delivering broadband to areas that the market will not serve of its own accord.

In November 2015, the then Prime Minister David Cameron announced an intention to introduce a broadband Universal Service Obligation (USO), with the ambition to give people the legal right to request a connection to broadband speeds of 10Mbps. The Digital Economy Act 2017 gives the Secretary of State an explicit power to introduce a new broadband USO of at least 10Mbps and require Ofcom to review the USO to ensure it continues to meet minimum connectivity requirements. Ofcom reported to Government in December 2016 on the key factors affecting the USO. The USO has cross-party political support, and a new Government is expected to launch a consultation on the scope of the USO, along with draft secondary legislation, after the 2017 General Election. We are working closely with the Government and the Opposition on the issue.

Business Connectivity Market Regulation

In May 2016, Ofcom published the final statement of its Business Connectivity Market Review (BCMR), which sets regulation for the dedicated fibre connections which are used by businesses, and as backhaul connections for LLU and mobile networks. The regulation included: price reductions averaging 40% over the next three years, minimum service standards for Ethernet circuits provisioning (where quality has been very poor for over three years) and an obligation for BT to offer a dark fibre access product to be launched by October 2017. The new regulation will benefit us in several ways, including: immediate cost reductions, the opportunity to lower costs further through using dark fibre, the ability to innovate our products and an improvement in provisioning quality, which will increase customer satisfaction. TalkTalk appealed a particular aspect of Ofcom's BCMR decision regarding how the dark fibre price reflects non-domestic rates costs. TalkTalk won its appeal with the result that dark fibre prices will materially reduce. BT and CityFibre also appealed various other aspects of the BCMR decision. These appeals are currently being heard by the Competition Appeals Tribunal.

Regulatory environment continued

Electronic communication services continued

Mobile telephony

EU roaming regulations for mobile telephony services

As an MVNO, we are subject to EU regulations relating to prices for roaming services. These regulations set limits on certain wholesale and retail tariffs for international mobile voice roaming, SMS tariffs and data roaming within the EU, provide for greater levels of transparency of retail pricing information, and impose measures to guard against bill shock in respect of data roaming. In November 2015, the EU passed legislation on the maximum retail roaming surcharges that can apply from 30 April 2016 and the removal of roaming surcharges from 15 June 2017. The European Commission adopted the implementing regulation on fair use and sustainability on 15 December 2016 and the wholesale roaming regulation is due to come into force in mid May 2017. We are implementing the required changes to our roaming tariffs.

Switching

The Digital Economy Act 2017 introduced measures confirming Ofcom's powers to introduce policy to make it easier for consumers to switch between telecommunication and TV providers. Ofcom is due to publish next steps on switching reforms for triple play services including telephone, broadband and pay TV in autumn 2017. It is also consulting on proposals to reform switching of mobile communications services and is due to publish a further consultation in spring 2017 before publishing a policy statement in autumn 2017. We are supportive of a simpler, more customer friendly switching regime, which we believe will favour a value for money connectivity provider such as ourselves and are working closely with Ofcom on the issue.

Television and video-on-demand regulation

In the UK, we are required to hold individual licences under the Broadcasting Acts 1990 and 1996 for any television channels (including barker channels) which we own or operate and for the provision of certain other services on our cable television platform, such as electronic programme guides. These television licensable content service (TLCS) licences are granted and administered by Ofcom. Under these licences, each covered service must comply with a number of Ofcom codes, including the Broadcasting Code, and with all directions issued by Ofcom. Breach of any of the terms of a TLCS licence may result in the imposition of fines on the licence holder and, ultimately, the licence being revoked.

As a provider of On-Demand Programme Services (ODPS), we must comply with a number of statutory obligations in relation to 'editorial content' and notify Ofcom of our intention to provide ODPS. Failure to notify Ofcom or comply with the relevant statutory obligations may result in the imposition of fines or, ultimately, a prohibition on providing an ODPS.

Ofcom previously imposed a Wholesale Must Offer (WMO) obligation on Sky, following a finding that Sky had market power in the wholesale supply of certain premium sports and premium movie channels. The WMO required Sky to offer Sky Sports 1 and 2 on a wholesale basis to other retailers at regulated prices. In December 2015, Ofcom published a statement withdrawing the WMO obligation on Sky since it considered that it was no longer necessary, though it would reassess the need for regulation if supply did not continue to be provided on reasonable terms. This change in regulation does not directly affect us since we have commercial arrangements with Sky, which we have recently successfully renewed.

Other material current or potential regulation

Brexit

On 23 June 2016 the UK voted to leave the European Union (EU). The UK Government has been considering how the vote will impact the future of telecoms regulation in the UK, including what aspects of the Common Regulatory Framework will be replicated in the Great Repeal Bill. Final decisions will be subject to the outcome of the 2017 UK General Election and the subsequent negotiations on the UK's withdrawal from the EU. We are working closely with the Government on the issue.

Appeals reform

The Digital Economy Act 2017 strengthened the regime for legal appeals against Ofcom decisions. The Act imposes a higher standard for appealing Ofcom's decisions, thus putting Ofcom on a similar footing to other UK sector regulators. We are supportive of this change, as a stronger, more confident regulator will be beneficial to us.

Child online safety

The Digital Economy Act 2017 introduced new powers designed to protect children from accessing pornography online. The Act enables Government to appoint a regulator that can compel ISPs to block access to pornographic websites that do not have adequate age verification mechanisms in place. We have worked very closely with the Government and the proposed regulator, the British Board of Film Classification, on the issue and support the new powers as a proportionate way to protect children online.

Investigatory Powers Act

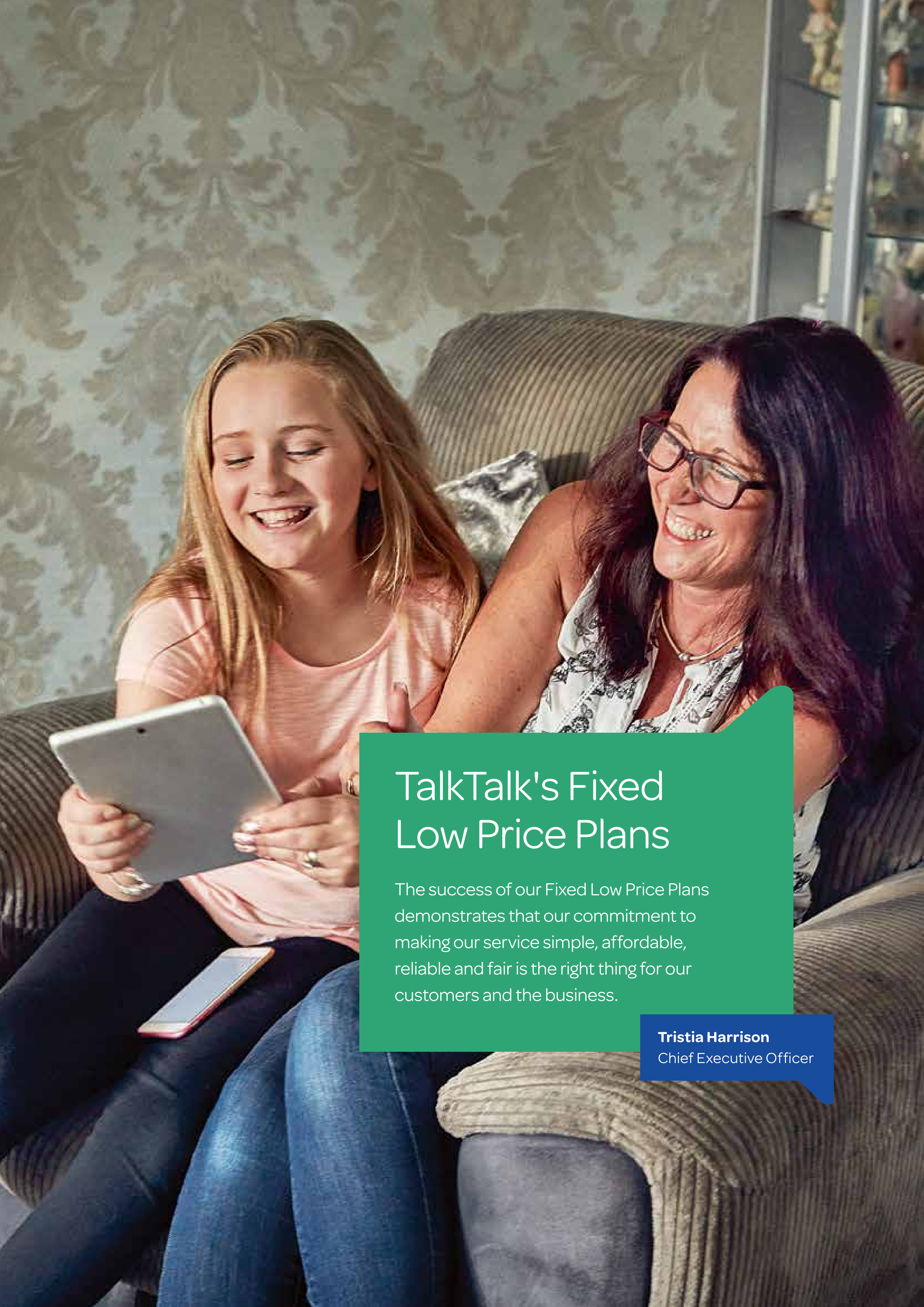
The Investigatory Powers Act 2016, which consolidates and updates existing legislation governing the retention and sharing of communications data, received royal assent on 29 November 2016. We worked closely with the Government on the details of the legislation and continue to monitor how the Act will apply to the business.

Illegal file sharing

We, along with other major ISPs, have voluntarily agreed to send educational notifications to customers who have an IP address assigned to their account which has been detected as being used for illegal peer-to-peer file sharing. Along with BT, Sky and Virgin Media, we sent the first notifications to customers in early 2017. Separately, and pursuant to various court orders, we are required to block access to certain sites that are used for illegal file sharing and for trademark infringement.

Overall trends

Overall, the regulatory climate for telecommunication services providers in the UK is one that increasingly favours challenger businesses such as ourselves. Ofcom and the UK Government have consistently stated over the last twelve months that they see competition as a driver of the investment in telecommunication infrastructure that they seek, and are now acting to deliver that. The combination of recommendations in Ofcom's Digital Communications Review including significantly tougher oversight of BTOR, access to dark fibre, ducts and poles, and a change in the appeals regime are all actions that favour challenger businesses such as ourselves, and curb the supplier power that BT has over us.



TalkTalk's Fixed Low Price Plans

The success of our Fixed Low Price Plans demonstrates that our commitment to making our service simple, affordable, reliable and fair is the right thing for our customers and the business.

Tristia Harrison
Chief Executive Officer

Chief Financial Officer's statement

An increase in statutory profit before taxation to £70m resulting in a basic EPS of 6.1p for the year.

Iain Torrens
Chief Financial Officer

Overview

FY Headline revenue declined by 3% to £1,783m (FY16: £1,838m); however, the Group delivered a 17% increase in Headline EBITDA to £304m (FY16: £260m) and an increase in statutory profit before taxation to £70m (FY16: £14m). The Board has recommended a final dividend of 5.0p taking the total dividend for the year to 10.29p (FY16: 15.87p). Net debt/Headline EBITDA fell from 2.82x in H1 to 2.57x (FY16: 2.61x) as some of the H1 Headline working capital outflow reversed in H2 and net debt fell from its usual seasonal peak of £847m at the half year to £782m at year end. The Group's medium term leverage target remains 2.0x. Committed headroom at 31 March 2017 was £412m (FY16: £162m), reflecting the issuance of the Group's debut bond in Q4.

Headline revenue

Headline Group revenue of £1,783m was 3% lower year on year with On-net revenues 4% lower, Corporate revenues 3% higher and Off-net revenues (2% of total) 20% lower. The decline in On-net revenues reflects the c.3% lower average base (as a result of churn and lower connections activity), and the dilutive impact of FLPP launched in October 2016, offset in part by the increased penetration of fibre, and re-pricing of legacy propositions following the launch of FLPP. Corporate revenue growth was largely driven by Data revenue (+31%) which benefited from c.8k new connections to our Ethernet and EFM base. The strong growth in Data revenue and 20% growth in Next Generation Voice from tIPicall offset the now established decline in Legacy Voice (-18%). As expected, Carrier revenues were broadly flat year on year (+2%).

On-net ARPU for the year of £28.16 was 1.3% lower year on year, reflecting the higher wholesale mix of the On-net base (24%; FY16: 21%), with price increases in Q3 offsetting the mix effect and dilution from recontracting on FLPP.

Headline gross margin

Headline gross margin of 53.2% was 80bps lower year on year but saw a significant improvement in H2, rising to 54.5% from 52.0% in H1, driven by a reduction in Carrier trading volumes, the impact of price increases at the beginning of the half, growth in Data revenues and the settlement of supplier claims, which together offset the impact on margins of lower ARPU FLPP, a higher mix of wholesale customers in the On-net base, and higher fibre volumes.

Headline operating costs, SAC and Marketing

Group operating costs declined by £14m year on year (and by £93m on a statutory basis, as a result of higher cyber related costs in FY16), with the benefits of MTTS and lower levels of bad debt provisioning linked to the benefit of FLPP on churn and property reorganisation, offsetting investment in network and IT infrastructure. In total the MTTS programme delivered savings of £34m across the income statement in the year and since inception in 2013 has yielded cumulative savings of £87m.

The MTTS programme reached substantial completion during FY17 and continued to deliver various improvements to the customer experience, namely repairing voice, broadband and diagnostics flows, simplicity of bill redesign, introduction of the Premium Address Source to improve leakage, and improvements in Homemove and online. The delivery of the new agent desktop interface for Collections and Tech agents was rolled out in Q4 to improve handling times.

Operating costs saw further reductions from our revised property footprint with the adoption of revised ways of working enabling us to rationalise our London property footprint and the realisation of a £2m profit on the sale and leaseback of our data centre site in Milton Keynes.

Network operating costs grew modestly with investment in new backhaul investment, access network technology, IT systems, security and maintenance offsetting rate savings, and lower exchange costs.

SAC and Marketing costs fell by 28% year on year, with the growth in SAC within TTB up 10% as a result of higher Ethernet volumes being more than offset by lower retail connection volumes, and a year on year increase in the settlement of service related disputes. In SAC, we benefited from the extension of our agreement with a major distribution partner for a five year period to provide the Group with a lower cost outsourced solution for the management of fixed line customer acquisitions. During the year this enabled us to accelerate gross additions, whilst deferring a proportion of the upfront SAC cost, which contributed £24m, net of expensed hardware costs of £17m. By delivering a growing and higher quality base, at a lower cost per add, we expect to see both revenues and gross profit expand in future years.

Financial information

	2017 £m	2016 £m
On-net	1,342	1,399
Corporate	397	384
Off-net	44	55
Headline revenue(1)	1,783	1,838
Headline gross profit	949	993
%	53.2%	54.0%
Operating expenses excluding amortisation and depreciation	(459)	(473)
SAC and Marketing	(186)	(260)
Headline EBITDA(1)	304	260
%	17.0%	14.1%
Exceptional items	(57)	(83)
Statutory EBITDA	247	177
Depreciation and amortisation(2)	(131)	(121)
Non-operating amortisation	(10)	(10)
Share of results of joint ventures	(11)	(8)
Operating profit	95	38
Net finance costs(3)	(25)	(24)
Profit before taxation	70	14
Taxation	(12)	(12)
Profit after taxation	58	2

05
For more information see our FY17 business review

(1) See note 1 to the consolidated financial statements for Headline revenue and EBITDA definitions and note 9 to the consolidated financial statements for a reconciliation of Headline information to statutory information.

(2) Includes exceptional items of £3m (FY16: £nil).

(3) Includes an exceptional credit of £7m for interest receivable on settlement of a dispute.

Headline EBITDA

Headline EBITDA grew by 17% to £304m (FY16: £260m). The margin for the year grew from 14.1% to 17.0%, with the H2 margin of 19.8% improving over H1 (14.4%) and H2 of FY16 (18.4%). In addition to the revenue, gross margin, opex and SAC movements identified above, Headline EBITDA was impacted by a number of additional items including rebates from suppliers (£13m offsetting £13m associated costs), incremental income regarding service level disputes (£10m) and a reassessment of management estimates related to the recoverability of certain trading receivables (£5m). Further details are contained in note 3 to the consolidated financial statements.

Exceptional items

The net exceptional charge in the year amounted to £57m (FY16: £83m) and includes one-off costs relating to the delivery of the MTTS programme, which has now been substantially completed. £31m of exceptional costs were incurred across the MTTS programme as a result of continued improvement to the customer experience, systems and processes and implementing changes to the Group's organisational structure, including costs associated with our move to a new single North West location in the Soapworks, Salford, in June 2017.

During the year ended 31 March 2017, the Group began to reorganise the business under the new leadership team focusing on fewer, clearer priorities and less capital intensive projects that are focused on investment in growing the Group's core fixed line connectivity business. As part of the review, the Group reassessed its mobile go-to-market strategy and, whilst remaining committed to offering mobile to its customers, has concluded not to pursue a femto enabled, inside-out network strategy but instead to work closely with Telefónica UK on an alternative customer offering.

This has given rise to exceptional costs of £49m (£9m cash) comprising impairment charges and onerous lease costs in relation to technology equipment that has no further economic benefit. Further costs may be incurred during FY18 as the Group works with its MNO partners on developing an alternative mobile distribution strategy.

In addition, £8m has been incurred relating to one-off costs in our technology estate, as we change our underlying network structure for efficiency and scalability over the next two years. These costs have been offset by an exceptional credit of £29m in relation to various prior year disputed network charges.

Cash exceptionals of £46m (FY16: £88m) include the costs incurred during FY17 in relation to the delivery of MTTS and transforming our network, together with the timing impact of prior year provisions and working capital movements, most notably the timing of cyber attack related technology cash costs of £12m. Looking forward to FY18, the Group expects cash exceptional costs to fall to c.£10m–£20m as it reaches settlement of the disputed network balances taken to exceptional income in the current year and delivers on its plans to transform its technology estate, pursue alternative mobile offerings for all its customers, complete its property relocations and incur further reorganisation costs following the transition to a new management structure.

Depreciation and amortisation

Depreciation and amortisation expense increased from £131m to £141m and included exceptional costs amounting to £3m in relation to network transformation. Non-operating amortisation was flat year on year at £10m.

Chief Financial Officer's statement continued

Share of results of joint ventures

Share of costs of joint ventures increased to £11m (FY16: £8m) mainly due to the Group's investment in YouView.

Net finance costs

Headline net finance costs for the year were £32m (FY16: £24m) comprising of a blended interest rate of 3.6% (FY16: 3.1%) and including £2m of amortisation of bank fees (FY16: £1m). On a cash basis, interest was £35m, including £8m of fees related to the execution of the Group's debut bond issue in January 2017, debtor securitisation and new bank facilities arranged during the year. In addition, following an Ofcom determination, the Group recognised an exceptional credit of £7m in relation to interest on a BT dispute settled in FY14 for the overcharging of certain wholesale Ethernet services. The average cash finance cost in FY18 is expected to be c.4.4%.

Taxation

The Headline tax charge for the year was £33m implying an effective headline tax rate of 25% (FY16: 26%) against a statutory rate of 20%, mainly driven by the impact of a reduction in the statutory tax rate on our deferred tax assets. The statutory tax charge of £12m is net of the release of a provision following the settlement of a legacy demerger issue with HMRC during H2. There were no cash tax payments in the year, and in H1, the Group recovered from HMRC £2m in relation to the accounting period ended 31 March 2015. We exited the year with recognised carried forward tax losses of £339m (FY16: £299m) and continue to apply a ten year time horizon from a recognition perspective.

Profit before taxation

Headline PBT, before exceptional items, was £133m, up 24% year on year, with statutory PBT of £70m up £56m on FY16.

Earnings per share

	2017	2016
Headline earnings (£m)	100	79
Basic EPS	10.5p	8.4p
Diluted EPS	10.4p	8.3p
Statutory earnings (£m)	58	2
Basic EPS	6.1p	0.2p
Diluted EPS	6.0p	0.2p

EPS on a Headline basis is provided alongside our statutory measures to allow easier comparison year on year, due to the impact of non-operating amortisation and exceptional items. A full reconciliation to statutory results can be found in note 9 to the consolidated financial statements.

Basic headline EPS was 10.5p (FY16: 8.4p) and on a statutory basis it was 6.1p (FY16: 0.2p). Fully diluted headline EPS was 10.4p (FY16: 8.3p) and on a statutory basis it was 6.0p (FY16: 0.2p).

10.5p

Headline basic EPS(1)

Net debt and cash flow

	2017 £m	2016 £m
Headline EBITDA	304	260
Working capital	(28)	10
Capital expenditure	(133)	(166)
Operating free cash flow	143	104
Interest and taxation	(33)	(22)
Free cash flow	110	82
Exceptional items	(46)	(88)
Acquisitions	(18)	(12)
Dividends	(150)	(135)
Sale of own shares	1	63
Net cash flow	(103)	(90)
Opening net debt	(679)	(589)
Closing net debt	(782)	(679)

Net debt decreased from £847m in H1 to £782m at the year end (FY16: £679m), with headline leverage falling from 2.82x to 2.57x (FY16: 2.61x). Committed headroom at 31 March 2017 was £412m (FY16: £162m), reflecting the issuance of the Group's debut bond in Q4.

Net cash flow for the year represented an outflow of £103m, with the inflow from £304m Headline EBITDA offset by a combination of the dividend (£150m), capital expenditure (£133m), interest costs (£35m), exceptional items (£46m) and working capital (£28m).

Capital expenditure for the year was £133m, representing c.7.5% (FY16: 9%) of revenues and including income from the sale and leaseback of the Milton Keynes facility of £15m. This expenditure represents continued investment and enhancement of our network capability, additional costs in relation to our MTTS programme, spend on our online systems to support the launch of our new propositions and investment in our TV platform. We expect capital expenditure in FY18 to be within our capex/revenue target of 6%–7%.

During the first half of the year the Group invested £59m in working capital to finance a combination of stock delivered towards the end of the last financial year, supplier payments related to the extended distribution arrangement and the prepayment of marketing costs ahead of the launch of FLPP in the autumn. Approximately £30m of this working capital investment reversed in the second half, with the impact of lower stock balances being broadly offset by a reduction in trade payables. Debtors increased during the period by £28m, reflecting a combination of amounts due in respect of supplier claims and a higher level of prepayments in respect of financing, fees network and IT costs and property related expenses linked to our move to the Soapworks.

Acquisitions expenditure in the year of £18m (FY16: £12m) represents £10m (FY16: £8m) in respect of the YouView joint venture and £8m in respect of contingent consideration for prior period acquisitions of tiPicall, the Virgin Media Off-net broadband base and the Tesco broadband base.

(1) See note 1 to the consolidated financial statements for Headline basic EPS definition and note 9 for a reconciliation of statutory information.

Dividends

Dividends of £150m paid in the year (FY16: £135m) comprised the final dividend for FY16 of 10.58p and the interim dividend for FY17 of 5.29p.

The Board is committed to returning the business to revenue and customer base growth, improving cash generation and reducing leverage, and in this context has declared a final dividend for FY17 of 5.0p (FY16: 10.58p), taking the total dividend for the year to 10.29p (FY16: 15.87p). For FY18 the Board expects to declare an interim cash dividend of 2.5p (FY17: 5.29p) and a final cash dividend of 5.0p (FY17: 5.0p) taking the total cash dividend for the year to 7.5p (FY17: 10.29p). Looking beyond FY18, the Board expects to resume dividend growth once the business returns to earnings growth and has reduced leverage towards the Group's net debt/Headline EBITDA target of 2.0x.

The final dividend for FY17 will be paid on 4 August 2017, subject to approval at the AGM on 19 July 2017 for shareholders on the register on 7 July 2017 (ex-dividend 6 July 2017).

Funding and capital structure

The Group is financed through a combination of bank facilities, US Private Placement notes, Senior notes, debtor securitisation, retained profits and equity.

The Group continues to review its funding and capital structure with the objectives of diversifying sources and managing both the average tenor and interest cost. During the year the Group made significant progress on these objectives with the introduction of a £75m debtor securitisation facility in September 2016 and in January 2017, following the publication of credit ratings from both Fitch (BB- stable outlook) and Standard & Poor's (BB- positive outlook), the successful launch of our debut public bond offering. On 15 January 2017, the Group raised £400m of Senior notes at a coupon rate of 5.375%, enabling it to retire £150m of shorter dated bank facilities. The Senior notes have been listed on the Channel Islands Securities Exchange.

At 31 March 2017, the Group had total facilities, including the Senior notes and US Private Placement notes, of £1,244m (FY16: £944m), further detail of which is given in the notes to the consolidated financial statements. At 31 March 2017 £832m (FY16: £689m) had been drawn under these facilities, leaving £412m (FY16: £255m) of undrawn facilities.

Subsequent to the year end, the Group has completed the refinancing of its banking facilities for a further five years and as such, at 9 May 2017, the Group's debt facilities consisted of the £400m Senior notes, $185m US Private Placement notes, £75m debtor securitisation facility and £640m committed bank facility. The average term of our debt at 31 March 2017 was three years eleven months, which has increased to four years ten months from 8 May 2017.

The Group was in compliance with the terms of all its facilities, including the financial covenants, at 31 March 2017 and throughout the year and expects to remain in compliance with the terms going forward.

Going concern

The Board have acknowledged the guidance *'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 statement.

The breadth of our base, our value for money proposition, continuing improvements in operating efficiency and the largest unbundled network in the UK mean that the Board are confident in our ability to continue to compete effectively in the UK telecoms sector.

We have £1,244m (FY16: £944m) of committed credit facilities and as at 31 March 2017 the headroom on these facilities was £412m (FY16: £255m). 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 Board have therefore adopted the going concern basis of accounting in preparing the consolidated financial statements.

Viability statement

Details of the considerations undertaken by the Board in reaching their conclusions are set out on page 40 within the Corporate Governance section.

Iain Torrens
Chief Financial Officer
10 May 2017

Principal risks and uncertainties

Every organisation faces risks of varying severity as an inherent part of doing business. Some of these are within the control of the organisation and others are not.

The Board has identified the following principal risks and uncertainties to the Group, which the Group seeks to proactively manage and monitor on an ongoing basis. The details of these principal risks, and the controls in place for mitigating them, are outlined below in no particular order of severity. In October 2016, TalkTalk revealed simplified new branding reflecting its mission to deliver simple, affordable, reliable and fair connectivity for everyone. The principal risks have been identified and assessed with consideration to the impact on the Group's ability to deliver its strategy and therefore its mission. In addition, a directional arrow has been included alongside each risk to reflect the movements in 'gross risk' from the prior year.

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 risks and mitigation plans accordingly.

Strategic governance

Board

Audit Committee

Remuneration Committee

Nomination Committee

Operational and financial governance	First line of defence	Second line of defence	Third line of defence
Senior Management Team	Operational management	Central support functions	Risk management function (including internal audit and external advisers)

09 For more information on our strategy

Strategy:

1 Profitable growth in Retail
2 Sustained momentum in TTB
3 Customer experience and operational excellence
4 Network capability

Key: ↑ Gross risk has increased ↓ Gross risk has decreased — Gross risk remains broadly the same as the prior year

Customer trust and brand reputation

1 2 3

Risk and impact

Customer confidence and trust are critical to TalkTalk's business, and the Company's operating approach always seeks to do what is right for the customer. However, as a value for money connectivity provider in the market, there is a risk that TalkTalk is perceived as a 'budget' provider, associated with price rather than quality and service.

Business and industry challenges including cyber threats and scam calls also present a risk to brand reputation and trust.

Failure to maintain trust, improve brand reputation and offer a positive customer experience may result in increased churn, performance decline and loss of investor confidence.

Mitigation

TalkTalk remains confident of the role for a well-regarded value operator in the market and is committed to delivering a positive end-to-end customer experience. The MTTS programme has delivered improved customer experience through better quality and availability of products and services. The remaining activities in the programme have transitioned into business as usual with an ongoing focus and commitment to continuous improvement of the customer experience.

The organisation also continues to invest in network and systems to support the provision of reliable products to customers as well as ongoing investment in and focus on security (see data and cyber security risk). In addition, TalkTalk continues to support customers in dealing with the industry-wide issue of scam calls. Initiatives such as the 'Beat the Scammers' campaign are designed to help customers protect themselves from the threat of scams.

These activities have contributed to mitigating the risk and driving an improving net risk position.

TalkTalk will continue to focus on existing as well as new customers, guided by the four key principles we believe are critical to being a value for money connectivity provider – simplicity, affordability, reliability and fairness.

Gross risk

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People

3

Risk and impact

TalkTalk recognises employees as a key asset and aspires to be a 'Great Place to Work' for all colleagues. We understand the increasing challenges and importance in the market of attracting and retaining the right talent to deliver current performance and future growth aspirations. Failure to attract and retain required talent and competencies may negatively impact our ability to deliver on performance targets and strategic objectives.

TalkTalk has undertaken an extensive programme to understand and implement the behavioural and values-based changes required for the Company to evolve from a start-up culture to a fully mature business. Failure to successfully bring about this change may have a negative impact on the Company's reputational and commercial outlook.

In addition, the change in leadership in 2017 will need to be carefully managed to ensure colleague engagement and more mature business culture are maintained during this period.

Mitigation

Structured talent forecasting and assessment processes are in place to ensure required talent is proactively understood. A people scorecard is also in place for ongoing monitoring and oversight of people risk and, where required, actions to further mitigate risk exposures are identified and implemented. In addition, Group-wide activities are carried out to assess the level of employee engagement and insight gained is used to develop action plans to ensure a highly engaged and motivated workforce is maintained. In addition, the organisation has defined values which have been recently reviewed to include a focus on commitment and delivery.

The Executive Committee assesses the engagement level of the workforce and, in addition, performs an annual assessment of talent at senior management level to ensure the right leadership is in place for motivating, inspiring and leading the workforce to deliver on the corporate objectives.

A plan is in place to manage the leadership transition and the activities described above will continue to be employed to understand and maintain colleague engagement during this period.

Gross risk

—

Competitive landscape

1 3

Risk and impact

TalkTalk is established as a value for money connectivity provider in the fast growing quad play market. The value proposition is a key part of the business model and to date has provided competitor differentiation. Over the last year there has been significant activity particularly in the retail competitive landscape which presents continuously increasing gross risk. There is a risk that this competitive backdrop makes it difficult for TalkTalk to maintain its value credentials.

Mitigation

A clear pricing strategy is in place with ongoing monitoring of pricing position and value proposition. The strategy is reviewed to ensure it remains competitive and continues to support our position as a value for money provider against the changing competitor activity landscape. As a result, in FY17 TalkTalk launched its FLPP with strong customer take-up. FLPP offers both new and existing customers the opportunity to lock in their price for the term of their contract guaranteeing no mid-contract price rises. The introduction of FLPP forms part of the risk mitigation and driving an improved net risk position.

In addition, competitor pricing activity is monitored to understand customer and market impact and plans are revisited accordingly if necessary. TalkTalk uses customer communications to promote the value for money connectivity provider message and is committed to helping customers understand the best positioned package to meet their needs.

Gross risk

↑

Changing market structure

3 4

Risk and impact

The UK telecommunications market structure is currently experiencing significant change. Both the regulator and the Government have acknowledged a pressing need to promote competition and drive investment across the market, and TalkTalk is well placed to participate in the opportunities that may result.

Ofcom made a series of announcements designed to improve the performance of BT Openreach and make it easier for rivals to invest in alternative networks. These included an agreement with BT to legally separate Openreach in response to the regulator's Digital Communications Review; proposed higher service standards for Openreach; proposals to make it simpler for BT's rivals to use existing Openreach infrastructure when building networks; and proposed lower Openreach wholesale broadband prices. Ofcom also sets out proposals for automatic compensation to retail customers, which will impact all providers.

There is a risk that such significant change to the structure of the industry could create opportunities for regulatory gaming or fail to deliver the positive customer outcomes TalkTalk and Ofcom expect.

Mitigation

TalkTalk has been a vocal advocate of competition and is well placed to benefit from an increasing trend toward a more pro-competition regulatory framework. This poses a significant risk to incumbent players in the market, whilst presenting potentially valuable opportunities for challengers. The business is actively engaging with the necessary external stakeholders to share views and attempt to deliver the best market and customer outcomes, as well as to proactively understand and respond to the opportunities and challenges presented by structured market changes.

Gross risk

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Principal risks and uncertainties continued

Strategy:

1 Profitable growth in Retail	2 Sustained momentum in TTB	3 Customer experience and operational excellence	4 Network capability

Key: ↑ Gross risk has increased ↓ Gross risk has decreased — Gross risk remains broadly the same as the prior year

Regulatory compliance

3

Risk and impact

The telecommunications sector is highly regulated, with compliance over key customer-focused regulations monitored by the governing body, Ofcom. Another of the key governing bodies relevant to the company is the Information Commissioner's Office (ICO). The regulations and laws that TalkTalk must comply with, including Ofcom General Conditions and data legislation including the Data Protection Act, are designed to support customers and the regulatory landscape is increasingly more demanding as it seeks to further support customers. Failure to comply with regulatory obligations may result in negative customer impact and/or significant regulatory fines as experienced by TalkTalk following the October 2015 cyber attack.

Mitigation

There has been continued focus on improving processes and controls and clarifying lines of accountability both in first-line operations and in our second-line assurance function. There has been significant progress with delivering improvements in our complaint handling processes during the period and there is continued focus on reducing complaint volumes.

While other matters that took place before the cyber attack remain under investigation by the ICO, since the cyber attack TalkTalk has made significant investments in driving more robust compliance and controls in the area of data protection.

The Group's Regulatory Compliance Committee, a subcommittee of the Board, has continued to convene throughout the year to monitor the mitigation of operational risks which could give rise to customer complaints and regulatory breaches. The Group Legal Counsel and Company Secretary has chaired weekly compliance meetings throughout the year, attended by senior management.

There will be a significant amount of activity for the Group in FY18 as it prepares for the introduction of the new General Data Protection Regulation (GDPR) in May 2018 and delivers changes in response to Ofcom's review and updates to various General Conditions. The progress of this activity will be governed by the existing Compliance Committee and meetings to ensure effective delivery.

Gross risk

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Data and cyber security

3 4

Risk and impact

Security of customer, commercial and colleague data poses increasing reputational and financial risk to all businesses and the gross risk remains ever increasing. In particular, the ongoing rise in cyber and data related crime presents a significant challenge in terms of securing data and systems against attack. TalkTalk receives most of its revenue through card transactions and like many businesses utilises third parties as part of doing business. TalkTalk recognises that failure to successfully secure data and systems against attack may have a material impact on brand reputation and financial performance. Other associated costs may also be incurred, including potential regulatory fines.

Mitigation

Since the cyber attack in October 2015, TalkTalk continues to invest in and focus on actively implementing an ongoing programme to build security capability. The organisation's security strategy is centred around four strategic themes:

- Secure by Design;
- Secure in Operations;
- Secure Third Parties; and
- Secure Culture.

The strategy is underpinned by the NIST Cyber Security Framework and is positioned to continuously improve the security maturity of the organisation, as well as maintaining and updating ongoing activities (such as monitoring activities, vulnerability scanning, penetration testing and the data loss prevention solution) to ensure they remain fit for purpose.

Since the cyber attack, significant investment has been made in building out a bigger security function and capability including establishing an in-house Security Operations Centre, bringing currently outsourced monitoring activities in house, which is due to go live in autumn 2017. Investment also continues to be made in security related resource with the hire of a permanent Chief Security Officer who joined the business in July 2016 and the Group Data Protection Officer who joined in December 2016. The security function will work closely with the Group Data Protection Officer over the next twelve months to support delivery of the new data protection requirements under the General Data Protection Regulation. These activities and investments are supporting management of the risk and improving net risk trajectory.

In addition to the above, a robust governance structure remains in place with the Security Committee meeting every two months. This is a subcommittee of the Board, chaired by the Chief Executive, with senior executive representation and including a Non-Executive Board member.

Gross risk

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Resilience and business continuity

1 2 3 4

Risk and impact
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, which may have a negative impact on customers and therefore damage customer loyalty or drive complaints. It is therefore important to establish resilience in the network and require resilience from our third parties and partners. It is also noted that in the event of an incident, TalkTalk must be able to respond in an efficient and effective manner in order to minimise impact on customers and performance.

Mitigation
Network resilience is assessed and monitored on a regular basis and, over the last year, TalkTalk has continued to deliver network improvements supporting greater resilience. Continuous monitoring of network availability is also in place to ensure any issues are identified in a timely manner. Where an incident does occur, a robust incident response process is in place and exercised to ensure effective response, followed by a problem management review that is linked to service improvement. The Group recognises that network resilience is also reliant on the dependency on BTOR for the last mile and as such Ofcom focus on BTOR processes, systems and controls should help mitigate the risk.

Other prioritised critical processes, systems and third parties are identified and business owners are assigned accountability for assessing resilience and implementing business continuity plans to enable continuity of operations in the event of an incident. TalkTalk also continues to invest in supporting appropriate resilience on critical systems taking a risk-based approach. For third parties, the relationship owners are assigned accountability for requiring critical third parties to have adequate business continuity plans in place and obtaining third party assurance that their plans have been reviewed and tested on a regular basis.

Gross risk

Financial

1 2 3

Risk and impact
As with many organisations, TalkTalk must actively manage liquidity risk. Other key financial risks include availability of long term funding, the ability to comply with covenants and other terms of funding arrangements, and foreign exchange and interest rate risk.

In addition, there are a number of changes to accounting standards that will be adopted in FY19, in particular IFRS 15 and IFRS 16.

Mitigation
The Group Treasury function is responsible for managing the Group's liquid resources and managing compliance with the terms of funding agreements. Policies and operating procedures are in place and these are regularly reviewed to ensure they remain appropriate for the business. In addition, the Executive Committee and the Board oversee the liquidity and funding position of the Group on a regular basis and are required to provide approval on major and significant funding decisions.

The Group Treasury function is also responsible for managing foreign exchange and interest rate risks in line with the Group's policy.

TalkTalk has established a change project to deliver the required changes to accounting standards over accounting for revenue from contracts with customers (IFRS 15) and lease accounting (IFRS 16).

Gross risk

Change delivery and execution

3

Risk and impact
Delivery of performance 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. Failure to effectively deliver significant change programmes and associated benefits critical to TalkTalk's strategy would result in an inability to deliver performance objectives and limit TalkTalk's competitive position in the market.

Mitigation
Following the implementation of a formal change framework for significant change projects in FY16, TalkTalk has continued to embed the framework more broadly for all change projects in FY17. The framework is intended to ensure a desired level of quality is reached throughout the lifecycle of each project and has supported successful delivery of key change programmes in FY17, including the introduction of FLPP.

The Group Change function remains a key control for facilitating prioritisation discussions to ensure people and financial resources are appropriately engaged, allocated and focused. Performance measures for key change projects are defined and monitored and regularly reviewed by Group Change. Monitoring and oversight of key change projects occurs at both the business unit leadership team level and by the Executive Committee on a regular basis, enabling real time consideration of the potential impact of other operational and strategic activities on change projects.

Gross risk

People

> TalkTalk has a unique culture founded on living our values everyday and our mission to deliver simple, affordable, reliable and fair connectivity for everyone.

Mark Dickinson
Chief People Officer

Building a Great Place to Work

The feedback from our 2016 engagement survey continues to inform our 'Great Place to Work' strategic priority and this year supported our focus on four key areas: Future Organisation – evolving our structure and making sure we have the right skills and capabilities for the future; Next Generation Working – creating a working environment that is frictionless, flexible and collaborative; Culture – being clear about the values and behaviours we need to be successful; and Operational Excellence – ensuring that we continually monitor and improve the areas that colleagues expect us to deliver every day. The journey will continue in the year ahead, but some of the highlights so far include:

1. Future Organisation

We constantly review our organisation size, shape and capabilities. We use a methodology called 'Future-back' to help us predict which skills and capabilities we need to develop or acquire to keep us competitive or put us ahead of our competition. Across 2016 we developed a series of organisational priorities centred around improving our Technology function, how we make best use of our data and gain better insights for the benefit of our customers, and we started a transformation of our Finance teams. In the year we hired almost 900 new colleagues including our most successful graduate programme to date.

2. Next Generation Working

Most of our colleagues are based in the North West of England in two sites about ten miles apart. For some time we have wanted a workplace where our people can give their best, a place where they can collaborate, communicate and do great work in a flexible, modern, attractive environment. We have secured 1,200 sq m of the Soapworks by Media City in Salford Quays. This will be our new North West site and will provide a great place to work for everyone there and will help us to attract the great talent we need for our growth as a business in the Northern Powerhouse. We move in June this year.

Getting the best out of how people work is just as important as where they work and we have made great strides in all our locations in creating a more flexible, better balanced work and lifestyle environment where this is at all possible. And our people love it.

Giving people the tools to further support our next generation working styles and enhance collaboration across the business has also been important this year. We have rolled out Microsoft Office 365 to all of our colleagues. Office 365 will provide our people with the latest suite of Microsoft applications, providing a mobile, evergreen, cloud-based and more secure user experience, and new ways to work more closely with their team members, no matter where they are based.

Soapworks, Salford Quays

3. Culture

TalkTalk has a unique culture founded on its values and a clear mission to deliver simple, affordable, reliable and fair connectivity for everyone. Following a review of our culture over the last 18 months – encompassing feedback from our people, the findings from our internal post-cyber incident review conducted with PwC in 2015 and the results of our Great Place to Work survey in early 2016 – this year, we undertook a full review of our company values to make sure they are fully reflective of the organisation we wish to be. As a result of this review, in which we held workshops with all of our senior leaders, and diverse groups of colleagues and partners, we have rearticulated our values as below, to make them clearer, and introduced a new sixth value – 'We deliver our commitments', to place even greater emphasis on accountability and quality of delivery.

These six newly articulated values will be formally relaunched in the business in May 2017, and embedded through the development of supporting behaviours aligned to each value. Once designed, we will integrate these behaviours throughout the colleague lifecycle to reinforce our culture, ensuring that we are recruiting, developing and celebrating our people for demonstrating the qualities that are most important for our continued success.

Simple, affordable, reliable and fair connectivity for everyone

Which we deliver, living our values everyday...

Every customer matters	We zig when the world zags	We always save our customers money	We can be ourselves here	We do the right thing	We deliver our commitments
We want to get it right for our customers – no matter who they are, or how long they've been with us, we focus on the things that mean the most to them	When we spot an opportunity, we're not afraid to challenge and innovate	The price has to be right – but that doesn't mean compromising on service We provide our customers with affordable, reliable products and services that just work	People from all walks of life thrive here – that difference makes us stronger, more fun and a better place to work	Business is about more than just making money It's about having the courage to stand up for what's right – for our customers, colleagues, partners, shareholders and local communities	If something's worth doing, it's worth doing properly. That means we always take ownership, identify clear priorities, plan thoroughly and deliver flawlessly from start to finish

People continued

4. Operational Excellence

Colleague performance and development

This year we have focused on enabling performance through learning. In February 2017, we launched a new, pioneering Learning Management System – Workday Learning – a central source of learning material and courses for all colleagues. Accessible online from anywhere, this system provides centrally created content and user generated content, enabling colleagues to share their own knowledge and skills with their peers, driving collaboration.

Throughout 2017, we will continue to focus on investing in technical skills, as well as lifting the digital literacy and capability in the organisation. We will also be reviewing our people leader programmes to ensure that we continue to up-weight manager and leader capability.

Colleague benefits and share ownership

We continue to offer a comprehensive range of voluntary benefits, enabling colleagues to make choices to suit their lifestyle. We evaluate these on an annual basis, and this year we offered our colleagues even greater flexibility, with the ability to opt in and out of certain benefits throughout the year as their circumstances change. Throughout 2017, we will also begin to focus on a more holistic approach to colleague wellbeing, with benefits, education and resources tailored to our four pillars of wellbeing: Financial, Mental, Physical and Lifestyle.

Share ownership remains an important part of our culture and over 45% of our people currently participate in our Sharesave and Share Match Schemes. Having so many of our people as shareholders creates great engagement and alignment with the interests of our investors. We strongly believe in our colleagues being advocates for our products and continue to offer free home phone, broadband, fibre and TV to all colleagues, as well as half-price mobile packages and TV content offers throughout the course of the year.

Colleague consultation – One Voice forum

One Voice is a consultation and information forum consisting of 80 nominated colleague representatives, management and members of our People Services team. The forum meets regularly to discuss how the key issues we face as a business might affect our colleagues, to share feedback and discuss other relevant colleague matters.

Colleague communications and events

We have a number of formal and informal channels that we use to keep our colleagues up to date, energised and engaged. Our online collaboration tool, The Wire, remains a critical communication tool for the business. The tool supports blogging at all levels of the organisation, so colleagues can share what they are working on and seek feedback. We have continued to run 'We Talk' sessions on The Wire which involve hosting an online Q&A on a specific topic so that colleagues can ask any related questions and have them answered by a subject matter expert. We provide all colleagues with an overview of all the key business news from The Wire every Friday, in an email publication called 'Re:Wired'. We also issue biweekly email communications to all People Managers with all the key information they need to support their teams.

In May 2016, we communicated our strategic priorities for the year ahead with an 'All Hands' tour of every site in the UK and abroad. We also hosted an 'All Hands' webcast between sites in November to check in on the progress of our priorities.

In the autumn, we also hosted an annual off-site festival called the Great Getaway, where colleagues and their families come together for a day of fun activities and musical acts as means of recognising their contribution to the business.

Colleague recognition

Celebrating those colleagues who champion our culture and go above and beyond is very important to us and we continue to recognise the individuals who are living our values through our On The Spot award scheme. Once a year at our All Hands event, we also recognise the 'Superheroes' amongst our colleagues and partners who have made an outstanding contribution to the business over the past year. In 2016, 15 TalkTalk Superheroes from around the world were rewarded with a trip to London, where highlights included a dinner with members of our Executive Committee, a trip to see the Big Data exhibition at the Science Museum and a VIP experience at the Great Getaway festival.

Gender and diversity

Our people come from different backgrounds and cultures, creating a vibrant working environment that thrives on new ideas and fresh thinking.

The importance of diversity, equality and non-discrimination is highlighted in our Equality Policy and clearly articulated in our corporate value – 'We can be ourselves here' – which guides the respectful way we behave towards each other. We believe that people from all walks of life thrive here – that difference makes us stronger, more fun and a better place to work.

From our 2016 Great Place to Work survey we know that 80% of our people feel they can be themselves at work, which we believe gives us a competitive advantage. Furthermore, we scored 90% against the survey's diversity metrics around the fair treatment of our people. A breakdown by gender of the number of people who were Directors of the Company, senior managers and other colleagues as at 31 March 2017 is set out below:

	Directors(1)	Senior management	All colleagues(1)
Female	3	25	753
Male	13	61	1,543

(1) Includes Non-Executive Directors.

The move to Soapworks is all about offering our people a vibrant and modern environment they can be proud of. It has been designed to offer our people more choice and flexibility about how and where they work, and offers a range of different working environments – whether they want a creative space to collaborate with colleagues, or a quieter area to concentrate – Soapworks has it all. We can't wait to move in and welcome our North West colleagues there this summer, and to become a key part of the growing Tech community in Salford Quays.

Mark Dickinson
Chief People Officer

Corporate social responsibility

We want everyone to be able to enjoy the benefits of being online so this year we have continued to focus our efforts on improving digital skills, safety and security. Working in partnership with Good Things Foundation, Internet Matters and Get Safe Online we have delivered a calendar of awareness activities to help ensure connectivity is a force for good, for everyone – from our customers to wider society.

Digital skills and inclusion

There are still over 12 million people in the UK who do not have basic digital skills. Many are older, disabled or financially disadvantaged – precisely those who would benefit significantly from being digitally connected to loved ones, information and useful products and services. To help change this, we have worked with Good Things Foundation (previously Tinder Foundation) since 2012. They bring together thousands of community partners to create the Online Centres Network, a place where people across the UK can gain the support and skills they need to change their lives and overcome social challenges.

This year we donated £80,000 to Good Things Foundation. Together we launched a new e-learning module on their Learn My Way platform to explain the importance of safety and security online. 'Staying safe in your digital world' launched in October's Get Online Week and at 31 March 2017 it had been completed by 2,701 people. Hundreds of TalkTalk employees also continue to volunteer as digital champions at their local Online Centre, helping learners gain the vital digital skills needed in today's world.

Digital safety and security

One of the most significant ways industry can support digital safety and security is through the products and services we offer. Back in 2011, TalkTalk was the first internet service provider to launch a whole-home filtering service, called HomeSafe®, to all residential customers at no extra cost. We also offer a similar service to business customers providing instant protection to all internet devices, called WorkSafe®, as part of our Business broadband packages again at no extra cost.

Last year we also made our SuperSafe Boost free to all customers to provide protection from viruses and malware, as well as secure web browsing. To build on this, we have now launched TalkSafe. This is a new, simpler, smarter and safer way of identifying a customer when they call us. By creating a voiceprint, we can verify the caller without having to ask security questions – it is even able to spot the difference between identical twins. At 31 March 2017, nearly 1 million customers have replaced their password with voice biometrics.

We have continued to support Get Safe Online, the UK's leading source of practical advice on how to protect people, devices and businesses against fraud, and we made a £25,000 donation in FY17. We also launched 'Beat the Scammers' – our education and awareness campaign, designed to protect consumers from the growing threat of scams. 500,000 customers have activated our free nuisance and scam call protection tools and 10,000 customers a month report scammers' details online to help us prevent them from targeting other customers on our network. Since the launch of 'Beat the Scammers' Action Fraud data shows a 25% reduction in reports of fraud claims where the caller has purported to be from TalkTalk.

We are now blocking 100 million scam calls every month and want to help everyone stay one step ahead of scams. To that end, TalkTalk became the first telecoms provider to create a set of specific guidelines outlining information we will never ask customers for. The 'Nevers' have been communicated to all customers through email, letter and engineer visits. It is hoped that other telecoms providers will follow suit to develop an industry-wide set of rules.

To help keep children safe online, in 2014 we joined forces with BT, Sky and Virgin Media to create Internet Matters, an independent not-for-profit organisation that provides information, support and advice for parents and carers. This year we invested an additional £500,000 in Internet Matters and generated more than £4m of in-kind marketing value by supporting awareness and information campaigns in internal and external communications. We also joined the Royal Foundation Taskforce on the prevention of cyberbullying, working with industry partners and advisers to ensure families are supported and have the confidence to find appropriate help and resources.

TalkTalk is also a member of the Internet Watch Foundation, the not-for-profit entity that works tirelessly to eliminate child sexual abuse imagery online. In FY17 we donated £104,000 and we implemented the charity's URL list service so that our customers are prevented from accidentally stumbling upon child sexual abuse imagery. It also helps protect those victims from having their images seen over and over again.

Ambitious about Autism

Thanks to our colleagues, customers and suppliers, we have raised £3m in the last ten years for Ambitious about Autism, the national charity for children and young people with autism. We celebrated this milestone after hosting a gala dinner in November 2016, which raised £402,975 for the charity in one night.

We are passionate about the positive role technology can play in improving lives and there is no doubt that technology is critical in helping to open up the world to the children and young people that Ambitious about Autism supports. One of the projects we have helped to fund and set up is 'Talk about Autism' – an online community where families can get advice, support and share their experiences. Today the forum has over 11,000 members and last year it received over 360,000 visits.

Supporting our people

TalkTalk is also proud to support the causes that matter most to our employees. Everyone has the opportunity to nominate a registered charity to receive £50 every year, and in FY17 we have donated £16,160 to 106 charities across the UK.

The Group did not make any political donations in the current or the previous year.

Protecting our environment

This section covers our mandatory reporting of greenhouse gas emissions pursuant to the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 (the 'Regulations') from activities for which the Group is responsible.

We are dedicated to improving energy performance across the Group. We have committed to reducing the environmental impact of our business and have a target to reduce CO_2 intensity by 80% by the end of FY20, which we are on track to deliver.

Emissions from:	**2017 Tonnes of CO_2e**	2016 Tonnes of CO_2e	2015 Tonnes of CO_2e
Combustion of fuel and operation of facilities	**1,205**	1,172	2,550
Electricity, heat, steam and cooling purchased for own use	**15,261**	16,819	16,257
Company's chosen intensity measurement:			
Emissions reported above, normalised to tonnes of CO_2e per average gigabit of bandwidth[1] (tCO_2e/gb)	7.7	10.3	15.9

(1) Average gigabit of bandwidth for the year ended 31 March 2017 is 2,138gbs (2016: 1,748gbs; 2015: 1,182gbs).

We report our emissions data using an operational control approach to define our organisational boundary, which meets the definitional requirements of the Regulations in respect of those emissions for which we are responsible.

We have reported on all material emission sources that we deem ourselves to be responsible for. These sources align with our operational control and financial control boundaries. We do not have responsibility for any emission sources that are beyond the boundary of our operational control.

As part of our overall commitment to reducing our carbon emissions, we also track CO_2 emissions from all sources, including those for which we are not directly responsible, such as commercial flights. According to our internal tracking, we have continued to reduce our carbon intensity as follows:

tCO_2e/gb	**2017**	2016	2015
Energy[1], transport[2] and hotels	28.9	38	61

(1) Primarily electricity, but also some natural gas and backup generator fuel.
(2) Includes rail, air and car travel.

This year we have also retained our ISO 50001 accreditation and renewed our Carbon Saver Gold certification for the ninth year running. As a result of our continued commitment to increase energy efficiency, we have also improved our Carbon Disclosure Project Climate Change score from D to B.

Modern slavery

The Group is committed to identifying and challenging aspects of our work that have the potential to be high risk within our business and from within our supply chains, including those of our sub-contractors and partners. Our Modern Slavery Statement can be found on our Group website.

Strategic Report approval

This Strategic Report was approved by the Board of Directors on 10 May 2017 and is signed on its behalf by:

T Harrison
Chief Executive Officer

I Torrens
Chief Financial Officer

Corporate governance

Board of Directors and PLC Committee

Executives

Sir Charles Dunstone

Executive Chairman

Sir Charles is the founder of The Carphone Warehouse and created TalkTalk in 2002. He was appointed Chairman of TalkTalk in 2010 and became Executive Chairman in May 2017. Sir Charles has directed the development of TalkTalk to become one of the leading fixed line telecommunication businesses in the UK. Sir Charles is currently Chairman of Royal Museums Greenwich and Land Rover BAR and recently stepped down as Chairman of Dixons Carphone PLC on 1 May 2017.

Tristia Harrison

Chief Executive Officer

Tristia is Chief Executive Officer of TalkTalk. Prior to this Tristia was the Managing Director of TalkTalk's Consumer business. Tristia joined The Carphone Warehouse Group in 2000 and has held a number of senior management and executive positions in The Carphone Warehouse and TalkTalk Group. She joined the PLC Board in 2014. Tristia is also a Trustee at Comic Relief and national charity Ambitious about Autism.

PLC Board

Sir Charles Dunstone, Executive Chairman

Tristia Harrison
Chief Executive Officer

Charles Bligh
Chief Operating Officer

Iain Torrens
Chief Financial Officer

Tim Morris
General Counsel
and
Company Secretary

Charles Bligh

Chief Operating Officer

Charles is the Chief Operating Officer of TalkTalk, prior to this he was the Managing Director of TalkTalk Business, Technology and Security, joining the Group in November 2011 and the PLC Board in 2014. Previously, Charles worked at IBM for almost 22 years where he held a number of senior executive and board roles leading multi-billion pound businesses. Charles has worked internationally in Australia, the US, China, Japan and emerging markets in Asia. Charles is also a Trustee of the National Children's Orchestras of Great Britain.

Iain Torrens

Chief Financial Officer

Iain was appointed Chief Financial Officer of TalkTalk Group in January 2015. Prior to joining TalkTalk, Iain served as Group Finance Director of ICAP plc between November 2010 and December 2014, having previously held a number of senior finance roles for ICAP plc, CP Ships Limited and Cookson Group plc. Iain is a fellow of the Institute of Chartered Accountants in Ireland.

PLC Committee

Sir Charles Dunstone, Executive Chairman				
Tristia Harrison Chief Executive Officer	**Charles Bligh** Chief Operating Officer	**Iain Torrens** Chief Financial Officer	**Mark Dickinson** Chief People Officer	**Tim Morris** General Counsel and Company Secretary

Board of Directors and PLC Committee continued

General Counsel and Company Secretary

Tim Morris
General Counsel and Company Secretary
Tim was appointed General Counsel and Company Secretary in January 2010. He is responsible for all legal matters in the UK and across Europe including acquisitions, corporate governance and company secretarial matters for the Group. Previously, from 2000, he was General Counsel and Company Secretary at The Carphone Warehouse Group and, prior to that, a partner at DLA Piper LLP.

Non-Executives

Ian West
Senior Independent Non-Executive Director
Ian joined the Board in February 2011 and is the Senior Independent Director. He has been involved in the Technology, Media and Telecom (TMT) sector for over 25 years as a manager, director and investor. Ian held numerous roles at British Sky Broadcasting over eleven years, latterly as Managing Director of the Sky Digital subscription business. Ian is also currently an investor in a range of small and medium sized businesses and co-founded Top Up TV in 2003. Ian was a supervisory board member of Kabel Deutschland.

Sir Howard Stringer
Non-Executive Director
Sir Howard joined the Board in July 2012. Until June 2013, he was Chairman of Sony Corporation, where previous appointments included President and CEO. Prior to Sony Corporation, Sir Howard had a distinguished 30 year career as a journalist, producer and executive at CBS Inc., and as President of CBS Broadcasting. In addition to his role at TalkTalk, Sir Howard is the Chairman of the American Film Institute, Said Business School Oxford, and New York Presbyterian Ophthalmology Center, as well as being a board member of the BBC and Time Inc.

Non-Executives

Ian West Senior Independent Non-Executive Director	**John Gildersleeve** Deputy Chairman	**John Allwood** Non-Executive Director	**Sir Howard Stringer** Non-Executive Director	**James Powell** Non-Executive Director	**Roger Taylor** Non-Executive Director	**Cath Keers** Non-Executive Director

John Gildersleeve

Deputy Chairman

John is Deputy Chairman, having joined the Board in January 2010, as well as the Chairman of The British Land Company plc. John was previously the Deputy Chairman and Senior Independent Director of Spire Healthcare Group plc until May 2017, Chairman of Carphone Warehouse Group until December 2015, and a Non-Executive Director of PicknPay SA until March 2016. He was also formerly Chairman of New Look Retail Group, EMI Group and Gallaher Group; a Non-Executive Director of Dixons Carphone plc, Lloyds TSB Bank plc and Vodafone Group and an Executive Director of Tesco plc.

John Allwood

Non-Executive Director

John joined the Board of TalkTalk in 2010 and is the Audit Committee Chairman. He has spent his entire career in media and telecoms, holding a number of senior executive positions in these sectors, including Chief Executive of Orange UK between 2000 and 2004. Prior to that John spent eight years at Mirror Group plc as Finance Director and Chief Executive. After leaving Orange he was Managing Director of Telegraph Media Group, and Chief Operating Officer and Finance Director of Mecom Group plc. In addition to his role at TalkTalk, he is Chairman at IMImobile plc, Chairman of Adgorithms plc and a Director of Creative Education Trust.

James Powell

Non-Executive Director

James joined the Board in July 2012. James is Chief Technology Officer of Nielsen having previously spent 14 years at Thomson Reuters as CTO. James held a number of senior leadership positions at Thomson Reuters including CTO for Enterprise; CTO and Global Head of Product Development; Head of Technology Strategy; and CTO for Thomson Reuters' financial division. He has also held senior leadership positions at Solace Systems, Citadel Investment Group and TIBCO Finance Technology.

Roger Taylor

Non-Executive Director

Roger joined the Board as a Non-Executive Director in November 2015, having previously been TalkTalk's Non-Executive Deputy Chairman between January 2010 and July 2012. From 1999, Roger served over 16 years as CEO, CFO and Deputy Chairman of The Carphone Warehouse and Dixons Carphone PLC. Roger is also a founding Partner in both Student Castle LLP and Freston Ventures Investments LLP, which invests directly in a number of private businesses including Five Guys Europe and MOD Pizza UK, in addition to various indirect private equity and investment funds.

Cath Keers

Non-Executive Director

Cath joined the Board as a Non-Executive Director in August 2016, having previously been Customer Director and Marketing Director of O2 UK and, later, a Non-Executive Director of Telefónica Europe plc. Cath is Chair of ustwo, a digital product, games and venture business, and Non-Executive Director of Royal Mail plc and Liverpool Victoria. With effect from 1 July 2017, Cath will also be Non-Executive Director of Sage Group plc. Cath has also provided her expertise and experience in starting to chair certain meetings concerning the Company's proposed further roll-out of its Ultrafast Fibre proposition in York.

Corporate governance

Chairman's introduction

An integral part of the Board's role is to define the long term strategic goals for the Group, whilst ensuring a strong corporate governance framework within which the Group can effectively operate in order to achieve its objectives. As the Chairman, a fundamental part of my role is to ensure that I create a culture of transparency which enables the Company to have an effective Board in which all members are able to contribute and challenge openly. Our Board allows us to draw on a diverse range of professional skills and backgrounds which enables each Director to bring a particular and often unique perspective to every discussion, shaped by their backgrounds in a number of industries over many years. This culture of openness in the Company always provides for the best collective outcome and helps underpin the Board's commitment as a whole to rigorous scrutiny and analysis of the Group's key issues and opportunities.

The Board is committed to the highest standards of corporate governance and, in accordance with the Listing Rules of the UK Listing Authority, the Board confirms that in respect of the year ended 31 March 2017 the Company has complied with the ongoing provisions of the 2014 UK Corporate Governance Code issued by the Financial Reporting Council and available at www.frc.org.uk (the 'Code'). However, the Chairman was not considered independent pursuant to Section A.3.1 of the Code on his appointment to the Board in 2010 as explained below under Board balance and independence.

This section of the Annual Report, together with the Strategic Report, provides details of how the Company has applied the principles and complied with the provisions of the Code and its five key principles: leadership, effectiveness, remuneration, accountability and relations with shareholders.

Board balance and independence

Taking into account the changes to the Board during the year which are described below, at 31 March 2017, the Board had twelve members.

In accordance with Section B.1.2 of the Code at least half of the Board (excluding the Chairman) were considered independent Non-Executive Directors during the period being; John Gildersleeve (Deputy Chairman), Ian West (Senior Independent Non-Executive Director), John Allwood, Brent Hoberman, Cath Keers, Sir Howard Stringer and James Powell. Roger Taylor, also a Non-Executive Director, is not considered to be independent given he was previously Chief Financial Officer of The Carphone Warehouse Group PLC from which the Company was demerged in March 2010, and was subsequently Deputy Chairman of the Company from January 2010 to July 2012.

On 20 July 2016, Brent Hoberman stepped down as a Non-Executive Director and on 1 August 2016 Cath Keers was appointed as a Non-Executive Director. Further, on 1 February 2017, the Company announced certain other changes to the Board; on 1 April 2017, Dido Harding stepped down as Chief Executive Officer and, on this date, Sir Charles Dunstone became Executive Chairman, Tristia Harrison became Chief Executive Officer and Charles Bligh became Chief Operating Officer. Between 1 April 2017 and 10 May 2017 there has been a period of transition between these four Directors towards the new management structure of the Company which is referenced below and will be more fully described in next year's Annual Report. This transition has now taken effect and Dido Harding stepped down as a statutory Director and left her employment with the Company on 10 May 2017. Except where it is appropriate, this Annual Report will refer to the structure of the Company during the period and not to the new management structure which, as explained above, will be detailed in next year's Annual Report.

As explained in the Company's prospectus in 2010 and again in its first Annual Report in 2011, Sir Charles Dunstone was not considered to be independent on his initial appointment as Chairman primarily because of the size of his shareholding in the Company and because he was previously Chief Executive Officer of The Carphone Warehouse Group PLC in which the Company was created. In this regard, the Company was not compliant with the Code at the date of Sir Charles Dunstone's appointment and this situation has not changed following his move to Executive Chairman. However, the Board continues to believe that his appointment benefits the Group given he is the founder of the business and his detailed knowledge of the business and the telecoms sector is important to the future development of the Group. There will also continue to be a clear division of responsibilities (which is described further below) between the Chairman and the Chief Executive Officer together with a clear division with regard to the responsibilities of the Chief Operating Officer. Major shareholders were consulted on his initial appointment as Chairman and on the recent change to Executive Chairman with each receiving unanimous support. The Company has also entered into a written and legally binding agreement with Sir Charles Dunstone in respect of his controlling shareholding (in compliance with Listing Rule 9.2.2AR(1)) which is explained in further detail in the Directors' Report.

The Chairman and the Executive Directors have service contracts that can be terminated by either the Company or the Director on twelve months' notice. Further, the Non-Executive Directors are expected to serve for an initial period of three years, albeit either party may terminate the appointment on three months' notice with no compensation for loss of office. These initial three year periods commenced on 20 January 2010, with the following exceptions: Ian West (8 February 2011); Sir Howard Stringer (26 July 2012); James Powell (26 July 2012); Roger Taylor (11 November 2015); and Cath Keers (1 August 2016). After three years, the contracts automatically renew. All Directors in any event stand for re-election every year. The terms of appointment for Non-Executive Directors are available for inspection during normal business hours or at the Company's Annual General Meeting (AGM).

Leadership

How the Board operates

The Board has reserved certain matters requiring Board approval, and delegated others to a Committee of the Board for approval. Matters that were reserved for the Board include approving the Group's strategy, annual budgets and other longer term planning.

During the period, day to day management of the Company rested with the Group's Executive Committee, which was led by the Chief Executive Officer and was part of the operational management of the Group. 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 next year's Annual Report.

Non-Executives did not form part of the executive management teams and their responsibilities include constructive challenge and help in developing proposals on strategy; scrutiny of management's performance in meeting agreed goals and objectives; satisfying themselves on the integrity of financial information; and ensuring that controls and risk management systems are robust and defensible.

Board Committees

The Board has established the four principal committees below, to which it has delegated certain matters (these are separate from the newly formed PLC Committee described above); the first three are as required by the Code, and the fourth is to ensure the compliance of the Group within the consumer regulatory environment in which it operates.

In the period, the current members of each Committee are described below:

Audit	Remuneration	Nomination	Compliance
John Allwood (Chair)	John Gildersleeve (Chair)	John Gildersleeve (Chair)	John Gildersleeve (Chair)
Ian West	Ian West	Ian West	Charles Bligh
James Powell	Roger Taylor	John Allwood	Tristia Harrison
Cath Keers(1)	Brent Hoberman(2)	Sir Howard Stringer	Tim Morris
			Dido Harding(3)

(1) Cath Keers was appointed on 1 August 2016.

(2) Brent Hoberman stepped down on 20 July 2016.

(3) Dido Harding stepped down on 10 May 2017.

The work of each Committee is described in more detail in the section relating to it below:

Audit Committee

A detailed description of the Committee's remit and work during the period is contained in the Audit Committee Report on pages 41 to 43. Other Directors and senior management, including the Chief Financial Officer, the Company Secretary and advisers, attend by invitation of the Committee.

The Chairman of the Committee updates the Board following each Committee meeting.

The Committee's terms of reference, which are available on request from the Company Secretary and are published on the Group's website (www.talktalkgroup.com), comply with the Code.

Remuneration Committee

A detailed description of the Committee's remit and work during the period is contained in the Directors' Remuneration Report on pages 44 to 62. Other Directors, including the Chief Executive Officer, the Company Secretary, the Chief People Officer and advisers, attend by invitation of the Committee.

The Chairman of the Committee updates the Board following each Committee meeting.

The Committee's terms of reference, which are available on request from the Company Secretary and are published on the Group's website (www.talktalkgroup.com), comply with the Code.

Nomination Committee

The Committee is responsible for succession planning at Board level, overseeing the selection and appointment of Directors, regularly reviewing the structure, size and composition of the Board and making its recommendations to the Board. It assists in evaluating the commitments of individual Directors and the balance of skills, knowledge and experience on the Board.

The Committee carries out a formal selection process of candidates, which includes nominees put forward by any member of the Board, and then proposes and makes recommendations regarding appointments to the Board, whether of Executive or Non-Executive Directors. The Committee does from time to time use search consultants in accordance with the procedure agreed by the Board; however, during the period, the Committee has not had to use any search consultants.

During the period the Committee has overseen the appointment of Cath Keers as Non-Executive Director, and the new roles of each of Sir Charles Dunstone, Tristia Harrison and Charles Bligh as set out above.

The Chairman of the Committee updates the Board following each Committee meeting.

The Committee's terms of reference, which are available on request from the Company Secretary and are published on the Group's website (www.talktalkgroup.com), comply with the Code.

Other senior executives of the Group attend by invitation of the Committee.

Corporate governance continued

Leadership continued

Board Committees continued

Diversity

When taking into account appointments, the Committee and the Board overall understand the importance of having a diverse membership and recognises that diversity encompasses diversity of skills and experience, age, gender, disability, sexual orientation, cultural background and belief.

The equality policy applies equally to all appointments in the Company, and the Board continues to believe that appointments should be made on merit, the key criterion being whether or not the appointee can add to or complement the existing range of skills and experience on the Board. Enhancing diversity at all levels is important and we continue to review it annually in accordance with relevant guidance.

Compliance Committee

The purpose of the Committee is to provide the Board with visibility of how the Group remains compliant with those consumer regulations affecting its businesses from time to time. Its members therefore include those senior executives who are operationally responsible for implementing permanent changes necessary to ensure the Group remains compliant. Such members are accountable to the Committee and the Board for the successful delivery of such changes.

This Committee meets at least four times a year and reports to the Board accordingly. The Group also operates a weekly Compliance Committee made up of those senior executives responsible for all key areas of compliance across the Group. At these meetings relevant compliance is monitored against a weekly scorecard.

Number of meetings attended during the year

Director	Board	Audit	Remuneration	Nomination
Number of meetings	7	3	5	2
Sir Charles Dunstone	7/7			
Dido Harding	7/7			
Iain Torrens	7/7			
Tristia Harrison	7/7			
Charles Bligh	7/7			
John Gildersleeve	7/7		5/5	2/2
Ian West(1)	6/7	2/3	5/5	2/2
Brent Hoberman(2)	2/3		2/3	
John Allwood	7/7	3/3		2/2
Sir Howard Stringer(3)	6/7			2/2
James Powell	7/7	3/3		
Roger Taylor(4)	6/7		5/5	
Cath Keers(5)	4/4	2/2		

(1) Ian West was unable to attend one Board meeting and one Committee meeting due to a prior arrangement.
(2) Brent Hoberman was unable to attend one Board meeting and one Committee meeting due to a prior arrangement and resigned on 20 July 2016.
(3) Sir Howard Stringer was unable to attend one Board meeting due to a prior arrangement.
(4) Roger Taylor was unable to attend one Board meeting due to a prior arrangement.
(5) Cath Keers was appointed on 1 August 2016.

As well as the formal meetings during the period, the Board met at other times as appropriate for specific matters, including approving certain announcements to shareholders.

It is important to the Board that Non-Executive Directors have the ability to influence and challenge appropriately. To this end all Non-Executive Directors are given a thorough induction to the Group and take part in Board discussions. All Directors receive papers in advance of meetings. They also receive regular reports and members of the Group's Executive team are invited to present at Board meetings and at the annual strategy meeting so that the Non-Executive Directors keep abreast of developments in the Group.

During the period, the Chairman met regularly with the Non-Executive Directors, usually prior to every other Board meeting. Notwithstanding that Sir Charles Dunstone has since become Executive Chairman and alongside Ian West's important role of Senior Independent Non-Executive Director, these meetings will continue as part of the new management structure. This will ensure that any concerns continue to be raised and discussed outside of formal Board meetings.

During the period the Senior Independent Non-Executive Director took responsibility for the performance evaluation of the Board; succession planning for the Chairman; and chairing Non-Executive Director-only meetings. In addition, he was an alternative point of contact for shareholders in the event that normal executive channels were not appropriate. All of these responsibilities will remain the same under the new management structure and details of the Senior Independent Non-Executive Director's role are set out on the Group's website (www.talktalkgroup.com).

Accountability – operational management of the Group

During the period there was a clear division of responsibility between the Chairman and the Chief Executive Officer, with the management of the Group's business activities being delegated to the Chief Executive Officer, who was ultimately responsible for establishing objectives and monitoring executive actions and performance through the Executive Committee.

The Chief Executive Officer was responsible for chairing the Executive Committee weekly and monthly meetings. Key responsibilities of the Executive Committee during the period were to:

- rigorously assess the Group's trading performance;
- identify and develop to a successful conclusion those large-scale cross-Group projects which are critical to delivering the Group's strategy and maximising shareholder value; and
- provide a cross-functional forum for the discussion of opportunities and risks arising from business activities, as well as to communicate business performance.

Following the Board changes described above, there will continue to be a clear division of responsibilities between the Executive Chairman and the Chief Executive Officer as existed before, with the addition of the Chief Operating Officer; all of whom will sit on the newly formed PLC Committee chaired by the Executive Chairman.

This means that the management of the Group's business activities, along with ultimate responsibility for establishing day to day objectives, performance and monitoring executive actions now rests with the newly formed PLC Committee, which also oversees an executive committee comprising of senior heads, and will be described more fully in next year's Annual Report.

Effectiveness – performance evaluation and continued development

In compliance with the Company's obligations every three years under provision B.6.2 of the Code, during the period each Board member has been subject to an independent Board performance evaluation, where the balance of skills, knowledge and experience of each Director was reviewed. Next year the Board will undertake an internal review.

A report was compiled by an independent board evaluator, namely NJMD Corporate Services Limited; these results and the comments of the evaluator were analysed by the Chairman, the Senior Independent Non-Executive Director and the Board as a whole against the broad criteria of overall Board effectiveness and individual contributions. As part of the performance review the ability of each Director, in particular the Non-Executive Directors, to demonstrate the required time commitment to the role was assessed. As a result of this performance evaluation the Chairman confirms that each of the Directors seeking re-election at the AGM continues to be effective and has demonstrated the appropriate commitment to the role.

The Senior Independent Non-Executive Director also met with the other Non-Executive Directors to assess the Chairman's effectiveness during the year, taking into account the views of Executive Directors.

The Company Secretary ensured that the Board is made aware of new laws, regulations and other information appropriate to the Group to ensure that all Directors continually update their skills, knowledge and familiarity of the Group in order to fulfil their roles. Additionally, each Director has access to the advice and services of the Company Secretary and also has the ability to take independent external advice if required.

Remuneration

The Board, primarily through its Remuneration Committee, sets clear guidelines and objectives in respect of Executive pay, which are described below in the Directors' Remuneration Report.

Risk management and internal control

The Board views management of risk as integral to good business practice. The Company has established an ongoing risk management programme to identify, assess and mitigate business, financial, operational and compliance risks. The programme is designed to support management's decision making and to improve the reliability of business performance. The risk management process operates throughout the Group, being applied equally to the main business units and corporate functions.

The nature of risks identified and assessed is wide ranging, covering risks arising from the regulatory environment, strategy, counterparties and organisational change associated with major projects. Action plans and controls to mitigate identified risks are put in place where possible and if considered appropriate by the Board, taking account of costs and benefits. A report is provided to the Directors at relevant Board meetings setting out key risks, changes in the status of the key risks and updates on mitigation.

The Directors have overall responsibility for the Group's system of internal controls and for reviewing their effectiveness. The Board delegates to executive management the responsibility for designing, operating and monitoring these systems. The systems are based on a process of identifying, evaluating and managing key risks and include the risk management processes set out above and channels to enable employees to raise concerns about possible irregularities in financial reporting and other issues and associated processes for those matters to be investigated.

The systems of internal control are supported by the Business Assurance and Internal and Risk Audit functions. Any significant risks identified in the year were given appropriate priority.

The systems of internal control are designed to manage, rather than eliminate, the risk of failure to achieve business objectives. They can only provide reasonable and not absolute assurance against material errors, losses, fraud or breaches of law and regulations. The effectiveness of these systems is periodically reviewed by the Audit Committee in accordance with the revised guidance in the Turnbull Report, including ensuring the external audit goes out to tender every ten years in line with the EU regulations and directive on audit. These systems are also refined as necessary to meet changes in the Group's business and associated risks.

The Audit Committee also adopts an internal audit charter each year in accordance with International Internal Auditing Standards.

The systems of internal control were in place throughout the period and up to the date of approval of the Annual Report. The Board has conducted an annual review of the effectiveness of the systems of risk management and internal control in operation during the year and up to the date of the approval of the Annual Report. This was approved by the Audit Committee and the Board.

Further to the changes described above, the Board continues to ensure that the Group's culture and ways of working further embed information security risk management across of the business.

Corporate governance continued

Relations with shareholders

The Board continue to believe that it is important to explain business developments and financial results to the Company's shareholders and to understand any shareholder concerns. The principal communication media used to impart information to shareholders are news releases (including results announcements) and Company publications. In all such communications, care is taken to ensure that no inappropriate information is released.

The Chief Executive Officer and the Chief Financial Officer have lead responsibility for investor relations. They are supported by an Investor Relations Director who, amongst other matters, organises presentations for analysts and institutional investors. There is a full programme of regular meetings and dialogue with major institutional shareholders, fund managers, analysts, retail brokers and credit investors, upon which the Chairman ensures the Board receives regular updates at Board meetings. The Board also receives periodic reports on investors' views of the performance of the Company. All the Non-Executive Directors and, in particular, the Chairman and the Senior Independent Non-Executive Director are available to meet with major shareholders, if such meetings are required.

The Company plans also to communicate with shareholders through the AGM, at which the Chairman will give an account of the progress of the business over the last year, and a review of current issues, which provides the opportunity for shareholders to ask questions. The Company's AGM provides all shareholders with the opportunity to vote on the resolutions put to shareholders. Information relating to votes cast will, following the AGM, be available on the Company's website (www.talktalkgroup.com).

Further financial and business information is available on the Group's website (www.talktalkgroup.com).

Going concern statement

The consolidated financial statements have been prepared on the going concern basis. Details of the considerations undertaken by the Board in reaching this conclusion are set out on page 21 within the Chief Financial Officer's Statement.

Viability statement

In accordance with provision C.2.2 of the 2014 revision of the Code, the Board have assessed the prospects of the Company over a longer period than the twelve months required by the 'Going Concern' provision. The Board conducted this review for a period of three years to March 2020, reflecting the period of the Group's current forecasts and level of ongoing change in the sector. A three year plan is now the basis on which the Group's internal planning cycle is built as the speed of change and customer demand in the market means that it is not feasible to plan with any degree of certainty beyond this timeframe. This assessment has been made taking into account the current financial position of the Group, the Group's business and financial plans and the principal risks and uncertainties faced by the Group, which are disclosed on pages 22 to 25 of the Strategic Report. Furthermore, the recent bond issue and bank re-financing have secured funding facilities for the Group until 2022, ensuring sufficient liquidity to deliver on the Group's plans.

We have stress tested the Group's forecasts against a combination of the Group's principal risks and uncertainties, taking into account the impact on both profits and cash flow. We consider that we have sufficient headroom to absorb such impact and, as such, based on the results of this analysis, the Board have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over this three year period.

Audit Committee report

On behalf of the Board, I am pleased to present the Audit Committee report for FY17.

During the year, the Committee comprised the following independent Non-Executive Directors: John Allwood (Chairman), Ian West, Cath Keers (appointed 1 August 2016) and James Powell.

The Chairman of the Committee updates the Board, following each Committee meeting, on any significant issues that may have arisen. In addition, the Chairman of the Committee is happy to make himself available to investors on request. During the year, all requirements of the Code in respect of the Committee were met.

The Chief Financial Officer as well as representatives of the Company's external auditor and other members of senior management from Finance, Legal and Internal and Risk Audit also attend these meetings by invitation of the Committee or the Chairman. The May 2017 Audit Committee meeting was attended by Tristia Harrison and during FY18 both the Chief Executive Officer and the Chief Operating Officer will attend future meetings. The external and internal auditors have direct access to the Committee during formal meetings and time is set aside for them to have private discussion with the Committee, in the absence of management attendees.

John Allwood remains the member of the Committee with relevant and recent financial experience (as recognised by the Consultative Committee of Accountancy Bodies), although all members are expected to be financially literate and have an understanding of:

- the principles of, contents of and developments in financial reporting, accounting standards and statements of recommended practice (including the Guidelines on Alternative Performance Measures (APMs), issued by the European Securities and Markets Authority);
- key aspects of the Company's operations;
- matters that influence or distort the presentation of accounts and key financial information;
- the principles of, and developments in, key applicable company law and other legislation relevant to the Company;
- the role of internal and external auditing and risk management;
- the regulatory framework of the Company's business; and
- environmental and social responsibility best reporting practices.

During the year, the formal calendar of items considered at each Audit Committee meeting within the annual cycle encompassed the Code requirements to:

- monitor the integrity of the financial statements of the Company and review significant financial reporting judgements made by management;
- disclose the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed;
- confirm that the annual report and consolidated financial statements, taken as a whole, are fair, balanced and understandable, to ensure that the narrative sections of the report are consistent with the financial statements and accurately reflect the Group's performance;
- review the Company's internal financial controls and its internal control and risk management systems and to make recommendations to the Board;
- review the Company's arrangements by which employees may raise concerns in confidence;
- monitor and review the effectiveness of the Company's internal audit function and review the output and findings of the internal audit team;
- make recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditor and to approve its remuneration and terms of engagement;
- review the Company's policy on the engagement of the external auditor to supply non-audit services;
- review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- disclose how the Committee has assessed the effectiveness of the external audit process and provide information on the length of tenure of the current audit firm; and
- review and approve changes to the Company's accounting policies.

The Committee's remit requires it to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and to make recommendations as to the steps to be taken.

Audit Committee report continued

Significant issues

The significant issues considered by the Audit Committee in the current year were as follows:

Significant issue considered by the Committee	How the issue was addressed by the Committee
The appropriateness of preparing the Group financial statements for the half year and full year on a going concern basis and the viability statement	The Committee considered and challenged papers and analysis prepared by management and, taking into account management's assumptions and the external auditor's review of these papers, concluded that management's recommendation to prepare the financial statements on a going concern basis is appropriate. The Committee considered and challenged management's approach to the viability statement, including the period of review and risk factors and concluded that the disclosure in the statement of viability is appropriate.
The treatment and disclosure of exceptional items, adjusted measures and the nature and quantum of other trading items included within Headline earnings	The Committee considered and challenged management's approach and presentation of separately disclosed items, adjusted measures and the nature and quantum of other trading items included within Headline earnings. The Committee also considered and challenged the views of the external auditor on management's policy and its application during the year. At each meeting the Committee reviewed a paper prepared by management on actual and forecast levels of exceptional items, including the nature of all the items and the balance of income and cost between exceptional and Headline earnings. The Audit Committee has reviewed and agreed the disclosure for inclusion in the consolidated financial statements.
Revenue recognition	The key areas of judgement in recognising revenue is the identification of revenue arrangements with multiple deliverables and hardware sales to third parties involved in outsourcing its customer acquisition. When the Group sells a number of products within a bundled transaction, the total consideration from the arrangement is allocated to each element based on their relative fair values and limited to the amounts billed for that element. In addition, hardware sales to third parties involved in outsourcing its customer acquisition are recognised when risk and rewards of the related hardware are transferred to the outsourced third party. The Committee reviewed and challenged management's papers on the proposed accounting treatment for new products and customer credits and agreed with the conclusion.
Supplier rebate income and income received in relation to disputed network charges	The Committee reviewed the level and application of the recognition policy of supplier rebate income and income received in relation to disputed network charges during the year, an area of inherent risk due to the complexity of the arrangements and the judgement applied by management to ensure that the income is recognised in the appropriate period. This review required an understanding of the nature of any significant transactions and adherence to the Group's accounting policies. As a result of the review, the Committee concluded that the income had been appropriately recorded.
Taxation	The key judgement in relation to taxation relates to the assumptions made in recognising deferred tax assets. The taxation forecasting model prepared by management has been approved by the Group's PLC Committee and the Board. The Committee reviewed and challenged management's paper, which outlines the key principles and judgements used in the calculation, and agreed with the recognition of the asset accordingly.

Statement of Directors in respect of the Annual Report and Accounts

As required by the Code, the Directors confirm that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, business model and strategy. When arriving at this position the Board was assisted by a number of processes including:

- the Annual Report and Accounts is drafted by appropriate senior employees across all areas of the business with overall supervision being provided by the Group Financial Controller, to ensure the report is consistent across all sections;
- a comprehensive verification process is undertaken to ensure the factual accuracy of the entire Annual Report;
- complete reviews of drafts of the report are undertaken by the PLC Committee; and
- the final draft is reviewed by the Audit Committee prior to final consideration by the Board.

External audit

The Committee is responsible for the development, implementation and monitoring of the Company's policy on external audit, which assigns responsibility for monitoring the independence, objectivity and compliance by the external auditor to the Committee.

Deloitte was appointed as auditor in 2010 when the Group demerged from the Carphone Warehouse Group PLC. In the year to 31 March 2014, Sharon Thorne was appointed as the Senior Statutory Auditor. Deloitte has confirmed its independence to the Audit Committee.

In the year ended 31 March 2017, the Audit Committee discussed the effectiveness of the external audit process and audit quality with the other attendees of the Audit Committee meeting. Based on the results of the auditor assessment carried out in the year, the Audit Committee is satisfied with the effectiveness and quality of the external audit process. No actions are recommended. Following the FY17 audit, the auditor assessment will again be completed by each member of the Audit Committee, the Chief Financial Officer and other members of senior management who are invited to attend the Audit Committee meetings. The assessment covers all aspects of the audit process, from the audit partner's interaction with the Audit Committee, through to the planning and delivery of the audit. The feedback from this process will be considered by the Audit Committee and provided to both the auditor and to senior management. The results will be reviewed at the next Audit Committee meeting. The Company has complied throughout the reporting year with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities Order 2014). The Audit Committee has considered the audit tendering provisions outlined in the UK Corporate Governance Code together with the guidance provided by the European Commission and the Competition and Markets Authority (CMA). It is the Audit Committee's understanding that under the CMA and EU rules rotation of the external audit firm is required by FY20. In light of this guidance it is the Audit Committee's intention to put the external audit out to tender in accordance with the CMA and EU timeframes. This recommendation has been endorsed by the Board.

The policy relating to the provision of non-audit services by the external auditor specifies the types of work from which the external auditor is excluded; for which the external auditor can be engaged without referral to the Committee; and for which a case by case decision is required. In order to safeguard the auditor's objectivity and independence, the ratio of non-audit fees to audit fees is monitored by the Committee. Any work proposed in excess of 50% of the audit fee is referred to the Committee. Amounts below this are discussed with the Chairman of the Committee.

A statement of fees paid or accrued for services from the external auditor during the period is set out below:

	2017 £m	2016 £m
Fees payable to the Company's auditor for the audit of the Company's Annual Report and Accounts	0.1	0.1
Audit of the Group and its subsidiaries pursuant to legislation	0.5	0.4
Audit services provided to all Group companies	0.6	0.5
Other non-audit services	0.1	0.1
Total Group auditor's remuneration	0.7	0.6

During the year, the Group incurred non-audit fees of £0.1m for advisory services relating to financing activities. Having undertaken a review of the non-audit related work, the Committee has satisfied itself that the services undertaken during the year did not prejudice the external auditor's independence.

John Allwood
Audit Committee Chairman
10 May 2017

Directors' remuneration report

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for FY17 in TalkTalk Telecom Group PLC's seventh year as a publicly listed company.

Introduction

In line with the Large and Medium-sized Companies and Group (Accounts and Reports) (Amendment) Regulations 2013 (the 'Regulations'), the Remuneration Report for the year ended 31 March 2017 is split into two sections:

- The Remuneration Policy, which sets out the Company's policy on remuneration for Executive Directors. The policy was accepted by shareholders by a binding vote at the 2014 AGM and has been effective for three years from this date. Whilst there have been no amendments to the Remuneration Policy in the year ended 31 March 2017, the Remuneration Policy has been updated for the year ending 31 March 2018 and will be put to a binding policy vote at the July 2017 AGM.
- The Annual Report on Remuneration, which explains how the Remuneration Policy was applied in relation to Executive Directors for the year ended 31 March 2017 and how it will be implemented for the year ending 31 March 2018.

Aligning the Remuneration Policy with Company strategy and performance

In light of recent Board changes, the Board has taken time to evaluate the strategic direction for the Company, with a reaffirmed focus on growth and excellent customer service. Following the appointments of Sir Charles Dunstone as Executive Chairman, Tristia Harrison as Chief Executive Officer and Charles Bligh as Chief Operating Officer, a renewed purpose of the Company has evolved: to be the UK's most recommended connectivity provider, dedicated to being simple, affordable, reliable and fair for customers and businesses. In light of the recent organisational restructure following these new appointments, the Remuneration Committee has reviewed existing remuneration arrangements in order to ensure that the strong link between the Remuneration Policy and the business strategy continues to remain clear and that the right incentives are in place to support the delivery of our strategy.

Following this year's review, the Committee will consult with major shareholders over the coming weeks around the proposed changes and shareholders will be asked to approve the new Remuneration Policy at the July 2017 AGM.

The Group's remuneration approach applies throughout the Company and continues to be focused on enabling it to attract, motivate and retain high quality talent and ensuring there is a transparent link between remuneration and strategy at all levels, as well as the long term performance of the Company.

Board changes during FY17

Board resignations

Brent Hoberman, Non-Executive Director, resigned from the Board effective from 20 July 2016.

Board appointments

Cath Keers was appointed to the Board as a Non-Executive Director effective from 1 August 2016 and was appointed to the Audit Committee on the same date. Subsequently, she has also provided her expertise and experience in starting to chair certain meetings concerning the Company's proposed further roll out of its Ultrafast Fibre proposition in York. Fees were set by the Board in line with our pay policy.

Board changes during FY18

Board resignations

On 10 May 2017, Dido Harding will step down from the Board and her employment after seven years in the role. On leaving the Company, Dido Harding will be paid in line with her contractual obligations as set out in the Remuneration Policy, in relation to notice pay, annual bonus for the year ending 31 March 2017 and pay in lieu of pension and benefits.

Role changes in the year

On 1 February 2017, the Company announced certain changes to the Board. On 1 April 2017, Dido Harding stepped down as Chief Executive Officer and on this date, Sir Charles Dunstone became Executive Chairman, Tristia Harrison became Chief Executive Officer and Charles Bligh became Chief Operating Officer. There has been a period of transition between 1 April 2017 and 10 May 2017 during which Sir Charles Dunstone, Tristia Harrison and Charles Bligh have been working alongside Dido Harding as part of the transition to the new management structure of the Company, which is referenced below and will be more fully described in next year's Annual Report. Following this transition period, Dido Harding will step down from the Board and her employment on 10 May 2017.

Pay changes in relation to the appointments of Tristia Harrison and Charles Bligh are detailed in the Annual Report on Remuneration.

Remuneration Policy during FY17

In the year ended 31 March 2017 and in line with the binding shareholder vote at the 2014 AGM, the Remuneration Committee has reviewed the Remuneration Policy for Executive Directors and has determined that it remained appropriate and fit for purpose for that period. All remuneration arrangements for Executive Directors and Non-Executive Directors have been operated in line with that shareholder-approved Remuneration Policy.

Performance against the annual bonus plan targets for the year ended 31 March 2017 would have resulted in a scheme pay-out of 55.1% of base pay for the Executive Directors. Reflecting on the wider business performance for the year and the continuing focus required to return the business to growth, however, the Executive Directors felt it more appropriate to recommend a reduction in annual bonus pay-out to 40% of base pay. This applies a discount of approximately 30% to the value of the annual bonus that Executive Directors will receive for the year, and the Remuneration Committee was supportive of and approved this recommendation. Achievement against the measures set is shown on page 55 of the report.

Remuneration Policy for FY18

The Group strives to achieve its objectives of a simple, transparent and fair approach to remuneration. The Remuneration Policy, which has been reviewed and updated in parts, ahead of a three year binding vote at the July 2017 AGM, is set out on pages 46 to 52 and details of how this Policy will be implemented for the financial year ahead are set out on pages 53 to 62, with the following key changes being highlighted:

- confirmation of our intention to retrospectively disclose targets, and achievement against targets, for the Annual Bonus Plan a year in arrears;
- our intention to introduce a new maximum potential for Executive Directors under the Annual Bonus Plan of 200% base pay but, in turn, to reduce the target, stretch and super stretch levels to 50%, 100% and 150% of base pay respectively;
- to make further awards under the Shareholder Value Plan (SVP) to Executive Directors and members of our senior leadership team; and
- to amend the maximum award permitted under the rules of the Discretionary Shareholder Plan (DSOP) from three times base pay to four times base pay, in exceptional circumstances.

I hope that you will find this report helpful and informative and agree that the changes that we are proposing to our policy, which will be shared in consultation with our major shareholders over the coming weeks, are appropriate and in the long term interests of both the Company and our shareholders. I therefore hope that you support our proposed Remuneration Policy and the Directors' Remuneration Report for the year at our AGM in July 2017. I will be available at the meeting to answer any questions that you may have regarding the work of the Committee.

John Gildersleeve
Remuneration Committee Chairman
10 May 2017

Highlights of FY17

- No changes have been made to the Remuneration Policy during the year ended 31 March 2017.
- We have reviewed and updated the Directors' Remuneration Report in line with the Regulations, to ensure that it continues to be simple and transparent for our shareholders.
- The Company has now determined that bonus targets and performance against these targets should be retrospectively disclosed one year in arrears. Targets and performance against these targets are therefore included in this report in relation to the bonus scheme for the year ended 31 March 2017.

Our priorities for FY18

- A successful binding vote for the revised Remuneration Policy at the AGM in July 2017.
- A commitment to report the gender pay gap for the Company, in line with the Government's newly introduced guidelines by April 2018.
- Launch the 2017 Save-As-You-Earn (SAYE) Scheme to further encourage employee share ownership. Employee share ownership currently stands at c.45%.
- To make further awards under the Shareholder Value Plan (SVP) to Executive Directors and members of the senior leadership team.

The current regulations require the Company's auditor to report to the members on the 'auditable part' of this report (marked *) and to state, in its opinion, that this part of the report has been properly prepared in accordance with the Companies Act.

Directors' remuneration report continued

Remuneration Policy

This section sets out the Company's policy on remuneration for Executive Directors. The Remuneration Policy in operation for FY17 was approved by shareholders at the 2014 AGM and took immediate effect following the AGM. That Policy applied for a period of three years from this date. For the year ended 31 March 2017, there has been no change to that Policy, which is available for review on the Company's website. The Policy stated below, however, reflects small amendments to the Annual Bonus Plan and Discretionary Share Option Plan detailed in the previous Policy in order to produce a Policy which will be proposed for approval for the next three years by way of a binding vote at the AGM to be held in July 2017.

Remuneration Committee

The Remuneration Committee is responsible for making recommendations to the Board in relation to the individual remuneration packages for the Executive Directors and the Chairman. These recommendations comply with the Remuneration Policy, which is set by the Board, and the terms of reference of the Committee. The Committee works with the Board to determine the balance of allocation of profits between employee incentives, shareholder dividends and reinvestment into the Group.

Remuneration approach

The aim of the Remuneration Policy is to support the Group in:

- aligning individual and business performance with the interests of shareholders through the delivery of clear and stretching targets;
- strengthening the link between employee output and the delivery of shareholder value;
- supporting the Group's overarching philosophy, to maintain its 'value player' positioning in the marketplace;
- attracting, motivating and retaining high quality talent;
- maintaining a stable, efficient cost base;
- enabling the Group's remuneration strategy to be tailored to its changing circumstances; and
- reflecting corporate governance best practice.

The Company firmly believes that remuneration should be structured in a fair and competitive way, in order to incentivise individuals to achieve the highest levels of performance, and takes a consistent approach throughout the Group.

Packages are designed to be market competitive with fixed remuneration set at market median levels. Variable rewards, which are linked to challenging objectives based on the performance of the Group, are designed to reward exceptional performance and for the delivery of shareholder value creation.

Employee and shareholder consultation

The Remuneration Committee did not formally consult with employees of the Company on the details of the Directors' Remuneration Policy in the year ended 31 March 2017 when reviewing the Policy, ahead of the binding shareholder vote at the AGM in July 2017. In reaching this decision the Committee is mindful that with the Company's strong culture of employee share ownership, with over 45% of employees holding shares in the Company, employees have the opportunity to comment and vote on all elements of this report and Policy in their capacity as shareholders. Employees are also given the opportunity to share their views through regular employee surveys and the all-employee consultation body 'One Voice'. It should also be noted that although the Remuneration Policy is specifically used to set the remuneration for Executive Directors, where appropriate, similar remuneration practices are adopted throughout the Company for all employees.

The Remuneration Committee is committed to consultation with major shareholders when setting the Remuneration Policy and will share the proposed changes of this year's Policy over the coming weeks. If any of these shareholders are opposed to the policy or any proposed amendments to the Policy at the AGM, the Committee will endeavour to meet with them, as appropriate, to understand and respond to any issues they may have.

Remuneration components

We define our main fixed and performance related elements of remuneration as follows:

- base pay, car allowance, benefits and pension contribution (fixed); and
- annual performance bonus (variable).

In addition, for Executive Directors and other key senior management, there are two long term incentive plans – the Discretionary Share Option Plan (DSOP) and the Shareholder Value Plan (SVP), which operates under the rules of the Value Enhancement Scheme (VES). These plans do not run concurrently.

The SVP is an alternative reward mechanism for Executive Directors and other members of the senior leadership team who will not normally participate in the DSOP. The Remuneration Committee intends that, generally, in any one year, participants may only receive an award under the SVP and no other long term incentive plan, unless exceptional circumstances apply such as the recruitment of key individuals.

The Committee reviews, at least on an annual basis, pay-out levels for Executive Directors at 'minimum', 'on target', 'stretch' and 'super stretch' levels of performance, in order to ensure alignment with our shareholders.

Malus and clawback

The rules of the annual performance bonus and long term incentive plans allow the Remuneration Committee to exercise its discretion in using malus or clawback provisions, should it feel that it is in the best interests of the Company and its shareholders. The Committee's policy on the exercise of its discretion is set out in this Remuneration Policy. All future long term incentive awards will be subject to malus and clawback provisions.

Executive Director shareholding requirement

To ensure that the interests of the Executive Directors are closely aligned to those of its shareholders, the Company requires Executive Directors to build over a number of years and retain a shareholding in the Company of at least 200% of their annual base pay.

For the purpose of this requirement the Company requires these to be in unfettered and beneficially owned shares. Newly appointed Executive Directors are given the opportunity to build up their shareholding over a period of years.

Summary of remuneration components of Executive Directors

Component	Aim and link to strategy	Description of operation and any performance measures	Further detail on maximum opportunity and framework used to assess performance
Fixed Base pay	To attract and retain talent by ensuring base pay is competitive in the market. Set at a level which incentivises Executive Directors to implement and deliver our business strategy.	Paid monthly in cash.	Reviewed annually. Benchmarked against external market data from external specialists. Takes into account the individual's skills, experience and performance. The Remuneration Committee considers the level of the all-employee pay review when making recommendations and decisions on pay for Executive Directors. Any increase typically takes effect from 1 July annually. Under normal circumstances no Executive Director will receive an increase in excess of 10% of their base pay in any given financial year.
Fixed Core benefits	Designed to be competitive in the market.	Core benefits typically include: • a defined contribution pension scheme, or a cash payment in lieu of a pension contribution in certain circumstances; • private medical insurance for Executive Directors and their immediate family; and • car allowance/company car. Executive Directors are also entitled to participate on the same terms as all other employees in respect of the following benefits: • four times base pay life assurance; • income protection; and • annual leave.	Reviewed annually relative to the market. Pension contributions are made through salary sacrifice, with the Company making a contribution of 5% base pay for Executive Directors. The outgoing Chief Executive Officer and the Chief Financial Officer currently receive contributions of 10% base pay due to historical arrangements. Cash payments in lieu of pension contributions may also be made to Executive Directors, but these will be subject to normal tax and NI deductions. Company contributions for all participating employees are made at 5% base pay and all employees have the ability to join the Company's defined contribution pension scheme. Company contributions will be reviewed over time, to ensure compliance with minimums set under auto enrolment guidelines.

Directors' remuneration report continued

Remuneration Policy continued

Summary of remuneration components of Executive Directors continued

Component	Aim and link to strategy	Description of operation and any performance measures	Further detail on maximum opportunity and framework used to assess performance
Fixed Voluntary benefits	Benefits may vary dependent on the role of the individual and the personal choices they make.	These voluntary benefits arrangements include the purchase of additional holiday and the ability to participate in all-employee share plans.	Reviewed periodically relative to the market.
Variable Annual performance bonus	Designed to focus Executives on the business priorities for the financial year ahead and to align the individual's remuneration with the delivery of superior business performance.	The bonus scheme is based on a 'balanced scorecard' that is comprised of financial and non-financial measures, which are reviewed annually. Such measures include Headline Group EBITDA[1], customer experience and innovation measures. The measures and targets are set annually by the Remuneration Committee to ensure they are appropriately stretching for the delivery of 'on target', 'stretch', 'super stretch' and 'maximum' performance. At least 40% of the 'balanced scorecard' will be based on financial measures.	Payment is typically made in June. The Remuneration Committee retains the ability to exercise discretion to adjust payments up or down in exceptional circumstances where they feel this course of action is appropriate. The bonus scheme pays at the following levels: • on target awards for Executive Directors are equivalent to 50% of base pay; • stretch awards for Executive Directors are equivalent to 100% of base pay; • super stretch awards for Executive Directors are equivalent to 150% of base pay; and • maximum awards for Executive Directors are equivalent to 200% of base pay.
Variable Share-based incentive plans Discretionary Share Option Plan (DSOP)	Designed to reward and retain Executives over the longer term whilst aligning an individual's interests with those of shareholders.	Discretionary awards of nil-cost options are granted over TalkTalk Telecom Group PLC shares. Level of vesting is dependent on achievement of performance targets, usually over a three year performance period from the date of grant. Awards vest after three years from the date of grant. 60% of the total vested options are typically exercisable in the third year, with the remaining 40% typically being eligible for exercise from the fourth year. There is no intention to award DSOP awards to those Executive Directors participating in the Shareholder Value Plan (SVP). However, this plan is included in the Remuneration Policy to give the Remuneration Committee flexibility to make an award in the case of a new hire or new Executive Director promotion.	Awards do not vest until the third anniversary of the date of grant and may have a deferral element. If employment ceases during the vesting period, awards will by default lapse in full, unless the Remuneration Committee exercises its discretion. The maximum level of award is a 300% base pay multiple, unless the Board determines that exceptional circumstances exist which justify exceeding this limit, in which case options will not exceed 400% of base pay. The DSOP scheme rules were approved by shareholders in March 2010 as part of the demerger from Carphone Warehouse and an updated version of these will be put to shareholders at the July 2017 AGM for approval.

(1) See note 1 to the consolidated financial statements for Headline EBITDA definition and note 9 to the consolidated financial statements for a reconciliation of Headline information to statutory information.

Summary of remuneration components of Executive Directors continued

Component	Aim and link to strategy	Description of operation and any performance measures	Further detail on maximum opportunity and framework used to assess performance
Variable Share-based incentive plans SVP (award under the VES rules)	Designed to reward and retain Executives over the longer term whilst aligning an individual's interests with those of shareholders and in turn delivering significant shareholder value.	The SVP, awarded under the VES rules, is designed to enable participants to share in the incremental value of the Group in excess of an opening valuation, as determined by the Remuneration Committee. Each award entitles the participant to purchase a fixed number of separate shares ('Participation shares') in the subsidiary company, TalkTalk Group Limited, the holding company for the TalkTalk business. The number of TalkTalk shares issued to each participant is determined by the incremental value pool created above a hurdle and therefore return to shareholders. The vesting of awards will be subject to continued employment and the satisfaction of performance conditions and/or other specified events as determined by the Remuneration Committee. The Committee has discretion to apply other appropriate performance conditions as it sees fit. Participation shares that are purchased by participants are acquired at market value and participants are offered a loan from TalkTalk at a commercial rate of interest in order to fund such a purchase. When the awards vest the Participation shares will have a value equal to the corresponding percentage they represent of the incremental value (if any) of the TalkTalk businesses at the time of vesting in excess of the applicable opening valuation and shall then be purchased by the Company for cash and/or by the issue (or transfer) of ordinary shares in the capital of the Company. Any loan made to the participants to acquire Participation shares will be required to be repaid at that time. If the market value of the Participation shares is less than the amount of the outstanding loan (and any accrued interest) then the participant may be required to repay a proportion of the loan (up to 20%), the amount of which the Remuneration Committee may use its discretion to determine. Executive Directors, PLC Committee members and Executive Committee members will be required to hold 100% of any vested shares for a period of twelve months following vesting. Other participants will be required to hold 50% of vested shares for a twelve month period. Participation shares are generally forfeited to the value of the original loan plus accrued interest in the event that a participant leaves the Company prior to the vesting date.	Awards are discretionary and are made as a 'block award' to last four years rather than an annual award. Each participant is entitled to purchase an agreed number of Participation shares, with no participant being awarded more than 10% of the value of the pool created. 60% of the award vests after three years, with the remaining 40% of the award vesting after four years. Vesting may occur earlier if the Company was taken over, subject to the discretion of the Remuneration Committee. A cap on the total value of the awards that vest at the end of the four year period applies and total awards will not result in a dilution of the issued share capital of the Company of more than 2.75%. The VES rules were first approved by shareholders in March 2010 as part of the demerger from Carphone Warehouse and an updated version of these will be put before shareholders at the July 2017 AGM for approval.

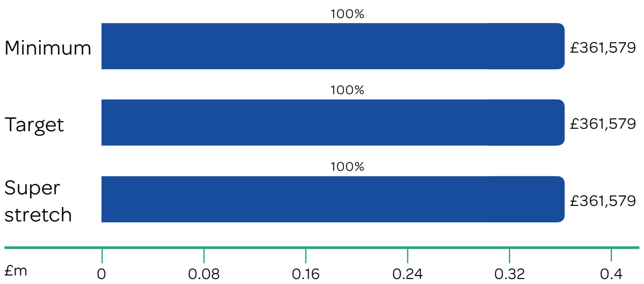
Directors' remuneration report continued

Remuneration Policy continued

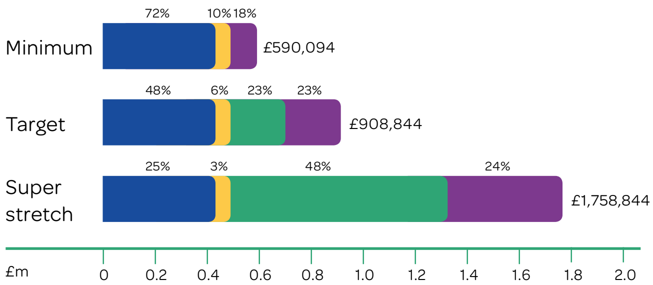
Remuneration scenarios

The charts below illustrate the level of total remuneration the current Executive Directors could receive under the Remuneration Policy based on three levels of performance to ensure alignment with returns, which are received by our shareholders at: 'minimum', 'on target' and 'maximum' levels of performance. The 'on target' level of total remuneration represents performance in line with the Company's expectations and 'maximum' is considered to be the maximum level of total remuneration in practice, but the cap on the SVP has intentionally been set at a level higher than this.

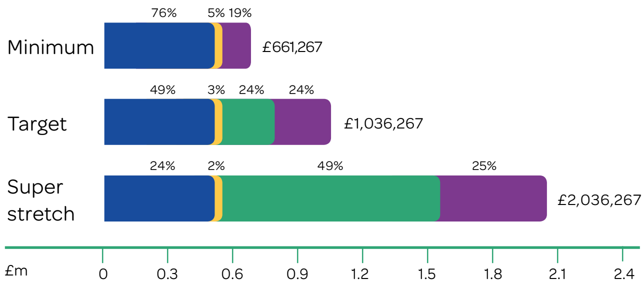
Executive Chairman
Sir Charles Dunstone



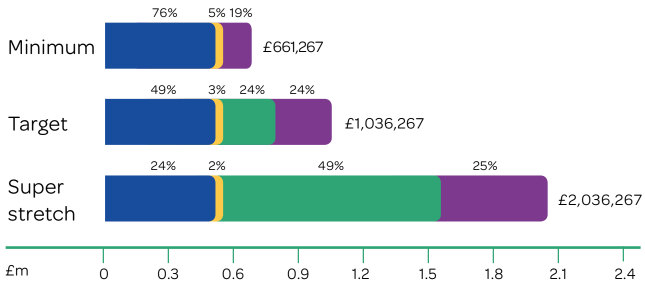
Chief Financial Officer
Iain Torrens



Chief Executive Officer
Tristia Harrison



Chief Operating Officer
Charles Bligh



Base pay · Benefits, pension and car allowance · Annual bonus · LTIP

Notes

(1) Base pay is actual base pay for the year ended 31 March 2018.

(2) Taxable benefits are at the level over the year ended 31 March 2018.

(3) Pension is based on a 10% Company contribution/cash in lieu for Iain Torrens and a 5% Company contribution for Tristia Harrison and Charles Bligh. Sir Charles Dunstone does not participate in the pension scheme.

(4) Annual performance bonus is at 50% of base pay for target performance, 100% of base pay for stretch performance, 150% of base pay for super stretch performance and 200% of base pay for maximum performance. Sir Charles Dunstone does not participate in the annual performance bonus.

(5) SVP outcomes include assumed share price increases over the four year performance term. Sir Charles Dunstone does not participate in any long term incentive plan.

(6) As the SVP is a 'block award' over a four year term rather than an annual award, we have annualised the potential pay-out over a four year period.

Dido Harding was paid in full in relation to her base pay, pension and other benefits from 1 April 2017 to the date she stepped down from the Board and her employment on 10 May 2017.

Other share-based remuneration

TalkTalk Save-As-You-Earn (SAYE) Scheme

The Company operates an all-employee, HMRC-approved, SAYE scheme, which all eligible employees and Executive Directors are able to participate in. All eligible employees are invited to join the scheme on an annual basis, subject to maximum participation levels, currently £500 per month, or in line with HMRC limits if these are increased in the future. Details of current schemes can be found in the Annual Report on Remuneration section of this report.

TalkTalk Share Match Plan (SMP)

The Company operates an all-employee, HMRC-approved Share Match Plan. The TTG Share Match Plan enables eligible employees to purchase market priced shares by entering into a partnership share agreement and holding such shares in trust for up to five years. The rules of the Plan allow an employee maximum contribution of £1,800 per annum, or in line with HMRC limits if these are increased. The Remuneration Committee, at its discretion, may award matching and/or free shares to eligible participants. Matching shares may be granted up to a maximum ratio of two matching shares for each partnership share purchased by a participant. Free shares may be awarded up to a maximum value of £3,600 tax free per annum, or in line with HMRC limits if these are increased.

Currently the Company provides one matching share for each partnership share purchased by participating employees or Executive Directors.

Service contracts and remuneration packages

Service contracts for Executive Directors

Under the Executive Directors' service contracts both parties are required to give twelve months' notice of termination of employment. At the Company's discretion they may terminate the contract immediately and not require the Director to work their notice and instead pay twelve months' contractual pay plus benefits. The Executive Directors' service contracts also include a twelve month non-compete period.

These contracts are available for inspection at the Company's registered office.

Recruitment policy for new hires

When hiring a new Executive Director, the Remuneration Committee will align the remuneration package with the Remuneration Policy stated previously, including the maximum limits for each remuneration component.

The Remuneration Committee will take all relevant factors into consideration when making a remuneration decision on a new Executive hire to ensure that these decisions are being made in the best interests of the Company and its shareholders, including, but not limited to:

- quantum;
- type of remuneration being offered;
- the impact on existing remuneration arrangements for other Directors;
- the remuneration package of any exiting equivalent Director; and
- the remuneration arrangements of the candidate in their previous role.

In hiring a new Executive Director, the Remuneration Committee may also make a 'buy-out' award to an external candidate in compensation for any remuneration arrangements forfeited on leaving a previous employer. In making such an award, the Committee will take into consideration relevant performance conditions, vesting periods and the form in which the award was made. It is usual that any 'buy-out' awards will be made on a comparable basis. In exceptional circumstances, the Remuneration Committee may make an exceptional award under one of the Company's existing long term incentive plans in order to compensate a candidate for any remuneration arrangements forfeited on leaving a previous employer.

The Remuneration Committee would only consider making such awards where the individual has lost an award as a result of joining the Group and awards will be subject to continued employment and performance conditions, as appropriate. Following the appointment of a new Executive Director the shareholders will be informed of the details as soon as practicable.

There may be exceptional and unforeseen circumstances where the Remuneration Committee considers it appropriate to exercise discretion available under Listing Rule 9.4.2R to grant an award to facilitate the recruitment of an Executive Director. Where a variable or performance related award is made under such circumstances, the Remuneration Committee confirms that the award will be within the limits specified in the Remuneration Policy table.

The Remuneration Committee emphasises that such discretion would only ever be used in genuinely unforeseen and exceptional events where it would be disproportionate to seek shareholder approval at a general meeting. The Remuneration Committee considers that in practice such events would arise highly infrequently, if at all, for the duration of the Remuneration Policy. Where such an event arises, the Remuneration Committee will consult with major shareholders and an explanation on how discretion has been exercised would be provided in the following year's Remuneration Report.

Directors' remuneration report continued

Remuneration Policy continued

Service contracts and remuneration packages continued

Relocation packages

There may be occasions when hiring a new Executive Director that a relocation package is awarded, where a candidate and/or the candidate's immediate family relocate either on a temporary or permanent basis in order to fulfil their role for the best interests of the Company and its shareholders. In such instances, the Remuneration Committee retains the right to compensate for reasonable and appropriate relocation expenses.

Expatriate packages

On appointing a new Executive Director, the Remuneration Committee may offer assistance where a candidate and/or the candidate's immediate family is asked to relocate either on a temporary or permanent basis, from an overseas location to the UK or from the UK to an overseas location. In such instances, the Remuneration Committee retains the right to compensate for reasonable and appropriate relocation expenses.

Remuneration Policy for internal promotions

When an existing employee of the Company is promoted internally to the role of Executive Director, the Remuneration Committee will align the remuneration package with the Remuneration Policy stated previously, including the factors it takes into account for new hires.

Any remuneration awarded prior to promotion to the role of Executive Director will be retained and will be subject to the previous payment terms. The shareholders will be informed of any such remuneration in the Directors' Remuneration Report following promotion.

Exit payments

The Company operates the following policy in respect of exit payments:

- Executive Directors have a twelve month notice period from the Company and they in turn are asked to give the Company twelve months' notice.
- Exit payments in relation to the service contract are limited to no more than one year's contractual pay plus other benefits, and any contractual notice pay, unless determined otherwise by the Board in exceptional circumstances, or unless otherwise dictated by law.
- The Remuneration Committee may use its discretion to determine appropriate bonus amounts and the vesting of any share-based award, taking into consideration the individual circumstances under which an Executive Director is leaving the Company.

The default position is for annual bonus amounts and the vesting of share-based awards for 'good leavers' to be pro-rated for time served from the start date of the scheme to the individual's exit date and will be subject to the applicable rules of the scheme. The Remuneration Committee will have sole discretion to determine the 'good leaver' status of an Executive Director. The Committee will determine on a case by case basis whether any vesting of a share-based award is appropriate.

Fees for Non-Executive Directors

The Non-Executive Directors do not take part in discussions on their remuneration. Each of the Non-Executive Directors has a letter of appointment substantially in the form suggested by the Code, and each has a three month notice period with no compensation for loss of office. The Company has no age limit for Directors. The dates of each contract are set out on page 60.

The fees for Non-Executive Directors are set out on page 60 of this report. These fees are reviewed (but not necessarily increased) on an annual basis, taking into account the responsibilities of the role and their participation in the various Governance Committees of the Company.

Non-Executive Directors are not entitled to participate in any annual or long term incentive plans, or any pension arrangements.

External appointments

The Board supports Executive Directors holding Non-Executive Directorships of other companies and believes that any such appointments are part of the continuing development of the Executive Directors from which the Company will ultimately benefit. The Board has reviewed all such appointments and those appointments that the Board believes require disclosure pursuant to the Code are set out on page 61. The Board has also agreed that the Directors may retain their fees from such appointments.

Annual Report on Remuneration

The following sections set out how the Company's Remuneration Policy was implemented in the year ended 31 March 2017 and how it will be implemented for the year ending 31 March 2018.

Single figure of remuneration*

To assist shareholders' understanding and in line with the Regulations, the table below provides a single figure of remuneration for each Executive Director. The information for Non-Executive Directors is included in the table on page 60.

Year ended 31 March 2017

Executive Director	Base pay (1) £000	Taxable benefits (2) £000	Pension (3) £000	Bonuses (4) £000	LTIP (5,6) £000	SAYE gain £000	2017 total £000
Dido Harding (7)	587	17	59	235	244	–	1,142
Iain Torrens	425	16	42	170	–	–	653
Charles Bligh (8)	394	17	20	158	158	–	747
Tristia Harrison (8)	394	17	20	158	146	–	735
Aggregate emoluments	1,800	67	141	721	548	–	3,277

(1) Value of base pay received in the year.

(2) Value of benefits received by the Director in the year.

The components of taxable benefits are as follows:

- car allowance – cash amount received in the year; and
- private medical insurance – cost to the Company in the year for the Executive Director and their family.

(3) Value of pension contribution made or cash in lieu paid made by the Company in the year.

(4) Value of annual bonus payable in respect of the year and based on performance for the financial year.

(5) Value of LTIP vesting in the year. This relates to the DSOP 2013, 20% of which vested in May 2016. The remaining 80% of the award immediately lapsed on 12 May 2016. The share price on the date of vesting was £2.691.

(6) Original DSOP 2013 award was made as a multiple of base pay. At the time of the award, Charles Bligh's base pay was £325,000 and Tristia Harrison's base pay was £300,000.

(7) Dido Harding's base pay was increased from £550,000 to £600,000 effective 1 July 2016.

(8) Charles Bligh and Tristia Harrison's base pay was increased from £375,000 to £400,000 effective 1 July 2016.

Year ended 31 March 2016

Executive Director	Base pay (1) £000	Taxable benefits (2) £000	Pension (3) £000	Bonuses (4,5) £000	LTIP (6,7) £000	SAYE gain (8) £000	2016 total £000
Dido Harding	550	17	55	220	1,968	–	2,810
Iain Torrens	425	16	42	170	–	6	659
Charles Bligh (9)	365	17	18	146	1,023	–	1,569
Tristia Harrison (9)	365	17	18	146	945	–	1,491
Aggregate emoluments	1,705	67	133	682	3,936	6	6,529

(1) Value of base pay received in the year.

(2) Value of benefits received by the Director in the year.

The components of taxable benefits are as follows:

- car allowance – cash amount received in the year; and
- private medical insurance – cost to the Company in the year for the Executive Director and their family.

(3) Value of pension contribution made or cash in lieu paid by the Company in the year.

(4) Value of annual bonus payable in respect of the year and based on performance for the financial year.

(5) Dido Harding has decided to donate her bonus to charitable causes.

(6) Value of LTIP vesting in the year. This relates to the DSOP 2012, 50% of which vested in May 2015, after the TSR performance condition was determined to have exceeded its super stretch level. The remaining 50% of the award relating to EPS immediately lapsed on 14 May 2015. The share price on the date of vesting was £3.841.

(7) Original DSOP 2012 award was made as a multiple of base pay. At the time of the award, Charles Bligh's base pay was £325,000 and Tristia Harrison's base pay was £300,000.

(8) Under the 2015 SAYE, Iain Torrens was granted 5,863 options on 12 June 2015 at an option price of £3.07.

(9) Charles Bligh and Tristia Harrison's base pay was increased from £335,000 to £375,000 effective 1 July 2015 as disclosed in last year's report.

Annual Report on Remuneration continued

Appointments in the year ended 31 March 2017

Cath Keers was appointed as a Non-Executive Director and was appointed to the Audit Committee on 1 August 2016, and her fees were set in line with the Remuneration Policy. Subsequently, she has provided her expertise and experience in starting to chair certain meetings in respect of the Company's Ultrafast Fibre proposition in York. Her fees in relation to these duties for the year ending 31 March 2017 are reflected on page 60 of the report.

In line with the Remuneration Policy, the Committee considered both internal and external factors when setting the remuneration package for the newly appointed Non-Executive Director, in order to ensure that the decisions taken were made in the best interests of the Company and its shareholders.

Appointments in the year ended 31 March 2018

On 1 February 2017 the Company announced certain changes to the Board. On 1 April 2017, Dido Harding stepped down as Chief Executive Officer and, on this date, Sir Charles Dunstone became Executive Chairman, Tristia Harrison became Chief Executive Officer and Charles Bligh became Chief Operating Officer. There has been a period of transition between 1 April 2017 and 10 May 2017 during which Sir Charles Dunstone, Tristia Harrison and Charles Bligh have been working alongside Dido Harding as part of the transition to the new management structure of the Company, which is referenced below and will be more fully described in next year's Annual Report. Following this transition period, Dido Harding has stepped down from the Board and her employment on 10 May 2017.

Details of the new remuneration packages for Tristia Harrison and Charles Bligh are set out below. There were no changes to the remuneration package of Sir Charles Dunstone as a result of his appointment.

Leavers in the year ended 31 March 2017

Brent Hoberman stepped down from the Board on 20 July 2016.

Base pay

Year ended 31 March 2017

Following the announcement of the Company's preliminary results for the year ended 31 March 2016, the Remuneration Committee undertook a review of Executive remuneration, and after careful consideration, it was agreed to increase the base pay of Dido Harding, Tristia Harrison and Charles Bligh.

During the period, the Committee agreed an increase to the base pay of Dido Harding from £550,000 to £600,000, which was effective from 1 July 2016.

The Committee also determined that the base pay of both Tristia Harrison and Charles Bligh would be increased to £400,000, which was a 7% uplift and was effective from 1 July 2016.

In making all of these determinations, the Committee took into consideration the contribution that all three individuals had made to the Company, as well as the ongoing contribution that they would continue to make to the business.

As in prior years, remuneration increases for Executive Directors were reviewed in line with market trends, peer group benchmarking and current internal practices. Peer group analysis was conducted by Willis Towers Watson, comparing against FTSE-listed companies with comparable revenue and market capitalisation.

For the year ended 31 March 2017 average base pay increases for all other employees were 2%.

Year ending 31 March 2018

Due to the organisational restructure and the appointment of Tristia Harrison to the role of Chief Executive Officer and Charles Bligh to the role of Chief Operating Officer, the base pay of both individuals will increase to £500,000, effective from 1 April 2017. In reaching these recommendations, the Remuneration Committee carefully considered the significant change in responsibility, market trends, current internal practices and the base pay of the outgoing Chief Executive Officer.

For the year ending 31 March 2018, average base pay increases for all other employees will be 2%. In line with our approach last year, there has been no 'all-employee' increase applied and business units have had complete discretion to apply their pay budget. Within the 2% pay budget, adjustments were made in order to ensure that no employee of the Company is in receipt of base pay lower than the Living Wage, in line with the commitment made in prior years. Market adjustments were also made where necessary, to reflect local pay levels in the Salford area, ahead of our Soapworks relocation in June 2017.

Pension contributions*

Year ended 31 March 2017

During the course of the year, Executive Directors received Company pension contributions in line with the Remuneration Policy. There were no Directors who were members of a defined benefit pension scheme during the year.

Dido Harding had previously left the pension scheme at the end of February 2014 and therefore a cash payment in lieu of pension, equivalent to 10% of base pay, was made for the year ended 31 March 2017.

Iain Torrens chose not to join the Company pension scheme on his appointment and therefore a cash payment in lieu of pension, equivalent to 10% of base pay, was made for the year ended 31 March 2017.

Pension contributions for Tristia Harrison and Charles Bligh were made by the Company of 5% of their base pay for the year ended 31 March 2017.

The pension schemes provided for other employees of the Group are included in note 4 to the consolidated financial statements.

Year ending 31 March 2018

In the year ending 31 March 2018, pension contributions from the Company to Iain Torrens will continue to be capped at 10% of base pay, in line with the Remuneration Policy, and will be paid as a cash payment in lieu. Pension payments for Charles Bligh and Tristia Harrison will be capped at 5% of base pay, in line with the Remuneration Policy.

Annual performance bonus

Year ended 31 March 2017

For the year ended 31 March 2017, the annual performance bonus was based on a 'balanced scorecard' blend of financial and non-financial measures as set out in the table below and, in line with the approved Remuneration Policy, Executives had an incentive opportunity in the range of 0% to 170% of base pay.

Performance against the annual bonus plan targets for the year ended 31 March 2017 would have resulted in a scheme pay-out of 55.1% of base pay for the Executive Directors. Reflecting on the wider business performance for the year and the continuing focus required to return the business to growth, however, the Executive Directors felt it more appropriate to recommend a reduction in annual bonus pay-out to 40% of base pay. This applies a discount of approximately 30% to the value of the annual bonus that Executive Directors will receive for the year and was in line with last year's pay-out, and the Remuneration Committee was supportive of and approved this recommendation.

Achievement against the targets can be seen in the table below:

Measure	Weighting	Minimum performance	Target performance	Maximum performance	Actual performance	% base pay received in relation to measure
Headline EBITDA (1)	25%	300	320	>330	304	3%
Headline revenue (1)	20%	1,800	1,810	1,836	1,783	0%
On-net churn(2)	15%	Q1–1.3%, Q2–1.4%, Q3–1.3%, Q4–1.1%			¼ hit	6.4%
SamKnows(3)	7.5%	3.5	3.2	<2.9	3.2	4.5%
Throughput	7.5%	9.25	9.50	>10.00	10.38	12.7%
Mobile net adds	10%	190	200	210	214	17%
Transformation(4)	15%	See note 2 below			76.5% of target	11.5%
						55.1%

(1) See note 1 to the consolidated financial statements for Headline EBITDA and revenue definitions and note 9 to the consolidated financial statements for a reconciliation of Headline information to statutory information.

(2) Churn targets are measured and assessed on a quarterly basis rather than on a minimum, target, maximum basis.

(3) SamKnows is an external, independent measure of our network performance.

(4) Transformation is measured as 'A More Secure TalkTalk', 'Consumer Reinvention' and 'Tech Transformation', both 'A More Secure TalkTalk' and 'Tech Transformation' are measured at target performance with clear security plans in place and network stability improvements ongoing, and 'Consumer Reinvention' is measured at stretch performance, following the successful launch of fixed low price plans and the Company's rebranding launch.

When determining bonus payments, and the resulting adjustment down this year, the Remuneration Committee takes into account performance against the measures above, overall business performance and the individual performance of the Executive Directors.

With working capital and cash behind expectation, coupled with investment in an unsustainable mobile proposition and a contracting consumer base, financial elements of the scorecard have achieved below their expected levels, with Headline revenue being missed and Headline EBITDA achieving between minimum and target performance.

Considered focus for the year on network development and decongestion, stronger than expected performance of our consumer fixed price plan recontracting proposition and greater than expected mobile net add performance have, however, resulted in strong performance in the remainder of the scorecard and have therefore resulted in a bonus being paid out to Executive Directors at just below target levels.

The Remuneration Committee has carefully considered the strong business recovery which the Company has demonstrated in the past twelve months and is satisfied that this bonus has provided a significant link between reward and operating performance and the creation of further shareholder value.

Year ending 31 March 2018

A review of the annual bonus plan was conducted in the year ended 31 March 2017 to ensure that the performance measures in the balanced scorecard continue to be aligned to Company strategy. The expected performance measures and their weightings for the year ending 31 March 2018 are set out below:

Expected performance measure	Expected weighting
Financials(1)	45%
Growth(2)	25%
Customer experience(3)	20%
Culture(4)	10%

(1) Financials are expected to be measured through Headline EBITDA, Headline revenue and Headline free cash flow.

(2) Growth is expected be measured through net adds.

(3) Customer experience is expected to be measured through network performance security and internal controls.

(4) Culture is expected to be a measure of employee engagement and measures for cultural change.

The Board has determined that the disclosure of performance targets for the year ending 31 March 2018 continues to be commercially sensitive and they are therefore not disclosed in this report. These targets are determined within the context of a longer term business plan and the disclosure of these targets could give information to TalkTalk's competitors to the detriment of business performance.

The Committee will disclose targets and performance against all of these measures in next year's Directors' Remuneration Report.

In addition to the newly proposed performance measures and weightings shown above, the Remuneration Committee is also recommending a change to the target, stretch and super stretch levels and the introduction of a maximum level to the Executive Director Annual Bonus Plan for the year ending 31 March 2018, as set out in the Remuneration Policy on page 45 of the report.

Directors' remuneration report continued

Annual Report on Remuneration continued

Share-based incentive plans*

Year ended 31 March 2017

The single figure of remuneration includes amounts for the value of options to acquire ordinary shares in the Company granted to or held by the Directors. Details of the options for the Directors who served during the year are as follows:

The TalkTalk Group Shareholder Value Plan (SVP) (awarded under the Value Enhancement Scheme (VES) rules)

Participation shares were acquired in 2014 and loans were granted by the Company. Interest is accrued on the loan on an annual basis. A subsequent loan is provided to participants on an annual basis, until the scheme vests, at which point the loans plus accrued interest are repaid. Loans were outstanding to the following Executives in the year ended 31 March 2017:

Director	2017 % share of pool	2017 Number of Participation shares purchased	2017 Outstanding loan and interest
Dido Harding	10%	2,000,000	335
Iain Torrens[1]	5%	1,000,000	197
Tristia Harrison	5%	1,000,000	168
Charles Bligh	5%	1,000,000	168
	25%	5,000,000	868

(1) Award to Iain Torrens made on 2 February 2015, resulting in a higher cost per Participation share than original participants.

The remaining percentage of allocated shares in the SVP pool is held by other senior management of the Group.

Interest on outstanding loans was charged at 3.00% during the year.

In line with the scheme rules, the first 60% of the SVP will reach its vesting date in May 2017, at which point the performance against the growth hurdle will be calculated. Further information relating to performance of the SVP will be detailed in next year's report.

As disclosed in last year's report, subject to meeting the relevant performance conditions, the scheme would vest 60% in May 2019, with the remaining 40% vesting twelve months later. On vesting, all shares must be held for twelve months from the vesting date for Executive Directors and 50% of shares for a minimum of twelve months from the vesting date for other participants. If the market value of the Participation shares is less than the amount of the outstanding loan (and any accrued interest), then the participant may be required to repay a proportion of the loan, the amount of which the Remuneration Committee may use its discretion to determine, up to a maximum of 20%.

SVPII

In line with the disclosure made in last year's report, Participation shares were acquired at market value on 19 May 2016 and loans were granted by the Company on the same basis as the SVP awarded in 2014. There are two performance conditions on which vesting is dependent:

- at least a 7% compound annual increase in the market capitalisation of TalkTalk Telecom Group PLC from the starting valuation over the following three and four year periods; and
- TalkTalk Group's shareholder return should outperform that of the FTSE 250.

As disclosed in last year's report, subject to meeting the relevant performance conditions, the scheme would vest 60% in May 2019, with the remaining 40% vesting twelve months later. On vesting, all shares must be held for twelve months from the vesting date for Executive Directors and 50% of shares for a minimum of twelve months from the vesting date for other participants. If the market value of the Participation shares is less than the amount of the outstanding loan (and any accrued interest), then the participant may be required to repay a proportion of the loan, the amount of which the Remuneration Committee may use its discretion to determine, up to a maximum of 20%.

Interest is accrued on the loan on an annual basis, which is set by HMRC and was charged at 3% during the year. A subsequent loan is provided to participants on an annual basis, until the scheme vests, at which point the loans plus accrued interest are repaid. There is no double benefit for any participant and any gain resulting from the 2014 SVP would be deducted from any gain resulting from the SVPII award. Loans were outstanding to the following Executives in the year ended 31 March 2017:

Director	2017 % share of pool[1]	2017 Number of Participation shares purchased	2017 Outstanding loan and interest[2]
Dido Harding	10%	200	335
Iain Torrens	5%	100	164
Tristia Harrison	5%	100	164
Charles Bligh	5%	100	164
	25%	500	827

(1) SVPII awards were made on 19 May 2016.
(2) The fair value of the award is equal to the outstanding loan and interest.

There was no clawback in respect of SVP or SVPII and no Non-Executive Directors participated in this scheme during the year ended 31 March 2017.

TalkTalk Discretionary Shares

The DSOP is designed to provide a long term incentive plan for certain employees of the TalkTalk Group. It is the intention of the Committee that, generally, in any one year, participants may only receive an award under one such scheme.

In line with the Remuneration Policy, the Committee, at its sole discretion, may, in hiring a new Executive Director, make a 'buy-out' award to an external candidate in compensation for any remuneration arrangements forfeited on leaving a previous employer. There have been no buy-outs in relation to Executive Directors in the year ended 31 March 2017.

Scheme interests awarded in the year

There were no awards granted under the DSOP during the year to Executive Directors and no Non-Executive Directors participated in this scheme.

Share-based incentive plans* continued

Year ended 31 March 2017 continued

Scheme interests vesting in the year

The Remuneration Committee noted that the award granted under the DSOP rules in 2013 was due to vest in June 2016, and that whilst actual performance against the Total Shareholder Return (TSR) CAGR hurdle was significantly below the required target on the vesting date, that prior to the cyber attack in October 2015, performance was on track to reach the required TSR CAGR target of 7.8%. After careful review and in consideration of performance prior to the 2015 cyber attack and of the subsequent business recovery thereafter, the Committee felt it appropriate to exercise its discretion and to determine that 20% of the total award should vest in May 2016, on the condition that no options under this award would be exercised until at least the date of the preliminary results for the year ended 31 March 2017. All remaining unvested options under this award lapsed with immediate effect in May 2016.

The partial vesting of the DSOP 2013 resulted in 90,498 nil-priced options vesting in respect of Dido Harding, and 58,824 and 54,299 nil-priced options vesting in respect of Charles Bligh and Tristia Harrison respectively.

Scheme interests exercised in the year

Director	Scheme type	Type of award	Performance conditions apply(1)	Exercise price	Number of options exercised	Exercise date
Dido Harding	DSOP 2012	Nil priced unapproved	Yes	£1.90	204,918(2)	15 November 2016
Charles Bligh	DSOP 2012	Nil priced unapproved	Yes	£1.90	266,393(3)	15 November 2016
Tristia Harrison	DSOP 2012	Nil priced unapproved	Yes	£1.90	245,901(4)	15 November 2016
Tristia Harrison	CSOP 2008(5)	£0.51 unapproved	Yes(6)	£1.90	125,000(7)	15 November 2016

(1) Performance conditions are set out in the 2015 Annual Report.
(2) Dido Harding sold 96,796 shares in order to cover applicable tax liability.
(3) Charles Bligh sold 125,835 shares in order to cover applicable tax liability.
(4) Tristia Harrison sold 116,152 shares in order to cover applicable tax liability.
(5) Award previously vested in 2010 and 2011 as per last year's report.
(6) Performance conditions were set prior to the demerger with CPW 2010 and were set out in the CPW 2009 Annual Report.
(7) Tristia Harrison sold 83,721 shares in order to cover applicable tax liability.

All awards currently held by Executive Directors are detailed in the following table.

Total DSOP and CSOP under option at year ended 31 March 2017

Director	Scheme type	Type of award	Performance conditions apply(3)	Average share price used for grant	Face value of award(1)	Minimum level of award	Vesting date
Dido Harding	DSOP 2013(5)	Nil priced unapproved	Yes	£2.21	£200,000	25%	June 2016(2)
Iain Torrens(4)	DSOP 2014	Nil priced unapproved	No	£3.19	£376,117	100%	February 2018
Tristia Harrison	DSOP 2013(5)	Nil priced unapproved	Yes	£2.21	£120,000	25%	June 2016(2)
Charles Bligh	DSOP 2013(5)	Nil priced unapproved	Yes	£2.21	£130,000	25%	June 2016(2)
					£826,117		

(1) Face value is calculated as the number of remaining options awarded multiplied by the average share price over the five day period prior to grant.
(2) 100% exercisable from May 2017.
(3) Performance conditions are set out in the 2015 Annual Report.
(4) 100% exercisable from February 2018.
(5) 20% of the total award vested in May 2016.

Directors' remuneration report continued

Annual Report on Remuneration continued

Share-based incentive plans* continued

Year ending 31 March 2018

The TalkTalk Group Shareholder Value Plan (SVP)

Following careful consideration of and in line with both our current and approved Remuneration Policy and the revised Remuneration Policy proposed for approval at the July 2017 AGM, the Company proposes to make further awards under the Shareholder Value Plan (SVP) which operates under the rules of the Value Enhancement Scheme (VES) approved by shareholders in January 2010 to the four Executive Directors and a small number of our senior leadership team.

The Company maintains its belief that it is important to continue to attract, incentivise and motivate senior employees in this manner and, taking into account Company performance in the previous financial year and the future direction of the Company, it recognises that it is essential to continue to align the interests of the Company, shareholders and key senior employees. The Company wants to ensure that it retains the highest quality of talent with the requisite skills and to ensure that it motivates these individuals to achieve outstanding levels of performance.

In light of the Company's current strategy, the Committee believes the SVP is the most appropriate vehicle to realign the interests of senior leaders to those of our shareholders. The Company is confident that the proposed award will incentivise the team to create significant value for shareholders in light of the changed strategic direction of the Company, for the next phase of development of the business over the coming three to four years. In line with previous awards, performance conditions will apply such that there first needs to be a stretching increase in the Company's market capitalisation. The conditions are in line with our Policy and previous awards and further detail will be provided in next year's report. The Committee has discretion to apply other appropriate performance conditions as it sees fit.

In making its proposal, the Remuneration Committee has carefully considered the fact that, whilst in line with our Policy, a further award will be made, in addition to the award made last year. The Committee believes, however, that this is the most appropriate way in which to align the interests of all parties following recent events and will further aid the strong business recovery that has recently been demonstrated, as highlighted in our results for FY17. Participants who were granted awards under the SVP in 2014 and 2016 will also participate in the proposed new awards. With this in mind, the Committee has determined that no participant should benefit from all three sets of awards and therefore any participant gain realised from the 2014 or 2016 awards would first be deducted from any participant gain realised from the 2017 award.

In line with previous awards and in accordance with our approved Policy, the level of award granted to each individual will be determined by the Remuneration Committee and each award will recognise the individual's performance, including exceptional performance, but no individual participant shall be awarded more than 10% of the total SVP pool value. In addition, a cap on the total value of the aggregated awards that vest at the end of the four year period shall apply equal to 2.75% of the Company's market capitalisation at the time. This is in line with our Policy. All of the above percentages and caps will be further aggregated across the 2014, 2016 and 2017 awards at the end of the four year vesting period for the new awards to further ensure there is no triple benefit as stated above.

Each participant will be entitled to purchase at market value an agreed number of Participation shares as stated below. Subject to the performance conditions being achieved each time, 60% of the award will vest after three years, with the remaining 40% of the award vesting after four years.

Participants will be offered loans (on full commercial terms) in order to purchase shares in our operating subsidiary company, TalkTalk Group Limited ('SVP Shares'). On vesting, these shares will be acquired by the Company in return for the issue of ordinary shares in the Company to participants or alternatively they may be purchased for cash. Based on the performance conditions, for any payment to be made to participants, the total value created by the Company would be equivalent to a share price increase in the region of at least 30% over the period.

If this stretching performance threshold is not achieved, no payment will be due. However, participants will still be required to settle the loans which have been made to them and if the value of the SVP Shares is less than the value of the loans, the Remuneration Committee has the discretion to require participants to pay 20% of this deficit. The Committee believes that this part of the awards will provide a strong further alignment between participants and shareholders.

All-employee share plans*

TalkTalk Save-As-You Earn (SAYE) Scheme

The TalkTalk SAYE Scheme is a share option scheme and is approved by HMRC. The SAYE Scheme is administrated by a duly authorised Committee of the Board. All UK Executive Directors and employees of TalkTalk and participating companies within the Group are eligible to participate in the Sharesave Scheme as long as they have been employed for a qualifying period. To participate in the Scheme an eligible employee must enter into a Sharesave contract and agree to make monthly contributions between £5 and £500 for a specified period of three or five years.

Options granted to acquire TalkTalk shares under the Scheme have an option price determined by the TalkTalk Board, which will be not less than the higher of 80% of the middle market quotation price or their nominal value.

No Executive Directors were awarded share options under the 2016 Scheme.

On 15 November 2016 Dido Harding exercised and held 4,687 ordinary shares priced at £1.92, which were the result of the 2013 Sharesave Scheme reaching maturity on 1 August 2016. On the same date, Charles Bligh exercised 4,687 ordinary shares priced at £1.92, also resulting from the 2014 Sharesave Scheme reaching maturity on 1 August 2016.

No Non-Executive Directors participated in this scheme.

Further details of the features and operations of the SAYE Scheme can be found in note 5 to the consolidated financial statements.

All-employee share plans* continued

All-employee Share Match Plan (SMP)

In June 2014, the Company introduced an all-employee, HMRC-approved Share Match Plan, which had been approved by the Remuneration Committee during the previous financial year. This enables eligible employees to purchase market priced shares by entering into a partnership share agreement and holding such shares in trust for up to a five year period. Approval for the TTG Share Match Plan was granted by shareholders at the AGM on 24 July 2013.

Both Dido Harding and Iain Torrens have received the following shares in respect of the Share Match Plan during the period ended 31 March 2017:

	Partnership shares purchased	Matching shares allocated	Dividend shares allocated	Total number of shares held in plan
Dido Harding(1)	896	896	–	1,792
Iain Torrens(1)	896	896	173	1,965

(1) These awards have been included in the shareholding numbers reflected in the table below.

Additional information

Shareholding requirements

Executive Directors are required to build and retain a minimum shareholding in the Company, equivalent to 200% of base pay. Current shareholdings as at 31 March 2017 are set out below for Executive Directors:

Director	Holding requirement as a % of base pay	Actual holding	Requirement satisfied	Actual share ownership as a % of base pay(1)
Dido Harding	200%	4,411,039	Yes	1,393%
Iain Torrens	200%	3,376	No(2)	2%
Charles Bligh	200%	763,223	Yes	362%
Tristia Harrison	200%	1,453,962	Yes	689%

(1) Share price on 31 March 2017 of £1.895 used for calculation.

(2) Iain Torrens joined in 2015 and has the opportunity to build up his shareholding over a number of years in line with the approved Remuneration Policy.

There have been no changes to the shareholdings of Executive Directors between 31 March 2017 and 10 May 2017.

Whilst there are no shareholding requirements for Non-Executive Directors, this is encouraged within the Company.

	Ordinary shares of 0.1p		
Director	**31 March 2017**	31 March 2016	Date of contract
Charles Dunstone	**294,059,396**	294,059,396	20 January 2010
John Gildersleeve	**245,138**	246,000	20 January 2010
Ian West	**346,023**	346,023	8 February 2011
John Allwood	**10,000**	10,000	20 January 2010
Brent Hoberman(1)	**12,882**	12,882	20 January 2010
Howard Stringer	**10,000**	10,000	26 July 2012
James Powell	**1,000**	1,000	26 July 2012
Roger Taylor	**5,153,792**	3,153,792	11 November 2015
Cath Keers(2)	**–**	–	1 August 2016

(1) Stepped down from the Board on 20 July 2016.

(2) Appointed to the Board and the Audit Committee on 1 August 2016.

Directors' remuneration report continued

Annual Report on Remuneration continued

Additional information continued

Fees for Non-Executive Directors

Remuneration for Non-Executive Directors is set by the Board, taking account of the commitments and responsibilities of the role and their participation in the various governance Committees of the Company.

The fees for Non-Executive Directors and their appointment dates are set out in the tables below. Non-Executive Directors are not eligible to participate in annual bonus, LTIP and pension arrangements.

Non-Executive Director	Fees £000	Taxable benefits £000	2017 total £000	Fees £000	Taxable benefits £000	2016 total £000
Charles Dunstone	360	1	361	360	1	361
John Gildersleeve	80	–	80	80	–	80
Ian West	67	–	67	80	–	80
John Allwood	65	–	65	65	–	65
Brent Hoberman(1)	15	–	15	50	–	50
Howard Stringer	50	–	50	50	–	50
James Powell	50	–	50	50	–	50
Roger Taylor	51	1	52	17	1	18
Cath Keers(2,3)	43	–	43	–	–	–
Aggregate emoluments	781	2	783	752	2	754

(1) Stepped down from the Board on 20 July 2016.

(2) Appointed to the Board and the Audit Committee on 1 August 2016.

(3) A fee of £10,000 was payable from 1 January 2017 to 31 March 2017 in respect of additional duties disclosed on page 54. Should Cath Keers continue to provide expertise and services on an ongoing basis, her fee may increase to £200,000 for a period of up to twelve months.

There were no changes to fee levels for Non-Executive Directors in the year except where there are changes in the membership of the various Committees of the Board.

Payments to past Directors

In the year ended 31 March 2017, there were no payments made to past Directors not disclosed elsewhere in the report.

Payments for loss of office

In the year ended 31 March 2017, there were no payments made to Executive Directors, past or present, in compensation for loss of office.

Non-Executive Directors' letters of appointment

The Committees that Non-Executive Directors serve on and dates of appointment are set out below:

Non-Executive Director	Committee membership	Date first appointed to the Board	Effective date of current letter of appointment
Charles Dunstone	–	20 January 2010	16 January 2013
John Gildersleeve	Remuneration, Nomination, Compliance	20 January 2010	1 April 2016
John Allwood	Audit, Nomination	20 January 2010	1 April 2016
Brent Hoberman(1)	Remuneration	20 January 2010	–
Ian West	Audit, Nomination, Remuneration	8 February 2011	16 May 2016
Howard Stringer	Nomination	26 July 2012	1 April 2016
James Powell	Audit	26 July 2012	1 April 2016
Roger Taylor	Remuneration	11 November 2015	11 November 2015
Cath Keers(2)	Audit	1 August 2016	1 August 2016

(1) Stepped down from the Board on 20 July 2016.

(2) Appointed to the Board and the Audit Committee on 1 August 2016.

Additional information continued

Fees for external appointments

Director	Organisation	2017 £000
Dido Harding	Bank of England	20

Sir Charles Dunstone was also Chairman of Dixons Carphone Group PLC, which the Company believes continued to be a significant other commitment for him in the year. It should be noted, however, that Sir Charles Dunstone stepped down from his position as Chairman of Dixons Carphone Group PLC effective 1 May 2017.

Advice and services provided to the Remuneration Committee

Except when matters concerning their own positions are being considered, the Chief Executive Officer and the Chief People Officer are normally invited to attend the meetings of the Remuneration Committee. The Committee may discuss any matter affecting the Chairman without the Chairman being present.

Over the course of the year ended 31 March 2017, the Remuneration Committee was advised on matters relating to executive remuneration by Willis Towers Watson. The Remuneration Committee deems the advisers to be independent from the Company and the advice it received during the year to be appropriate and objective.

Willis Towers Watson is a signatory to the Remuneration Consultants' Group Code of Conduct in relation to executive remuneration consulting in the UK.

The fees paid for services are set out below:

Company	Nature of service	2017 £000
Willis Towers Watson	Remuneration benchmarking and long term incentive design	39

Relative importance of spend on pay

The difference in actual expenditure between FY16 and FY17 on remuneration for all employees in comparison to distributions to shareholders by way of dividends is set out in the graphs below:

Dividend paid (£m)

+£15m

Total employee pay (£m)

-£3m

Comparing pay to performance

The following tables and chart show a comparison of total pay for the CEO since the listing of the Company on 29 March 2010, with the remuneration of all other employees and with TSR.

	Single figure of remuneration(1)	Bonus as a % of maximum available	Shares vesting as a % of maximum(2)
2011 £000(3)	920	19.9%	–
2012 £000(3,4)	967	40.0%	–
2013 £000	5,617	39.2%	100%
2014 £000	6,842	37.6%	–
2015 £000	1,047	47.3%	–
2016 £000	2,810	23.5%	50%
2017 £000(5,6)	**1,142**	**23.5%**	**20%**

(1) The increase in the single figure number in 2013 represents the vesting of the first LTIP award since the listing of the Company.

(2) It is not possible to show this value for the VES which vested in 2012 and 2013 as it does not have a maximum percentage of shares. However, for information the 2010 DSOP award vested at 100% of the maximum in 2012.

(3) Maximum bonus for Executive Directors was 200% base pay for the years ended 31 March 2011 and 2012.

(4) Only the 50% relating to TSR measures of the DSOP 2012 vested in May 2015.

(5) The Remuneration Committee determined that 20% of the DSOP 2013 should vest in May 2016.

(6) The reduction in the single figure number in 2017 represents the lower DSOP percentage vesting and a reduction in the share price from the prior year.

Directors' remuneration report continued

Annual Report on Remuneration continued

Additional information continued

Comparing pay to performance continued

The table below shows the percentage change in remuneration between 2016 and 2017 for the CEO and all other employees of the Group.

	Base pay % change	Taxable benefits % change	Annual bonus % change
CEO[1,2]	9%	0%	0%
Employees[3]	2%	0%	13%

(1) Dido Harding received a base pay increase to £600,000 in July 2016.

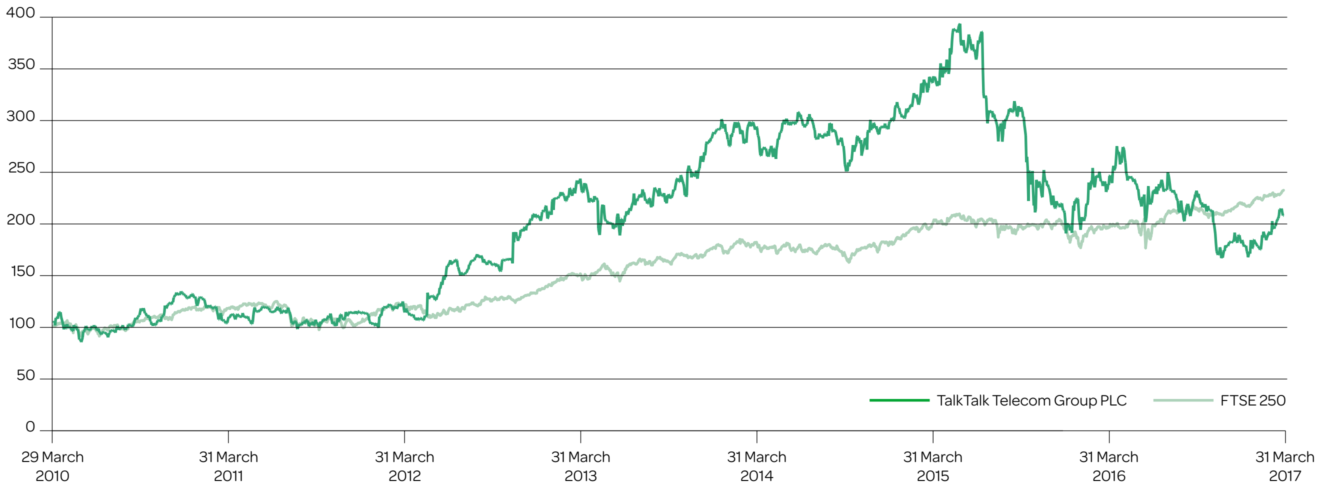
(2) Year on year percentage increase in annual bonus is due to base pay increase referenced above.

(3) Actual average increase for all other employees of the Group was 2%.

TSR performance graph

The graph below shows the Group's performance compared to the TSR performance of the FTSE 250 from the date of the Group's listing on 29 March 2010.

The FTSE 250 was selected as it is a broad market index of which the Group is a member.



This Remuneration Report has been prepared in accordance with the Large and Medium-sized Companies and Group (Accounts and Reports) (Amendment) Regulations 2013 (the 'Regulations') issued under the Companies Act, the UK Corporate Governance Code, the GC 100 and Investor Group Directors' Remuneration Reporting Guidance and the Executive Remuneration Principles published by the Investment Association Principles in October 2016. The constitution and operation of the Remuneration Committee are in compliance with the Code.

In framing its Remuneration Policy, the Committee has given full consideration to the matters set out in Schedule A of the Code and the Regulations. As required by the Regulations, resolutions to approve the Remuneration Policy section and the overall Directors' Remuneration Report will be proposed at the 2017 AGM. Voting regarding the 2016 Directors' Remuneration Report was as follows:

	Votes for	Votes against	Votes withheld	Total votes
Remuneration Report	718,650,490	9,803,659	577,537	729,031,686
	98.58%	1.34%	0.08%	

John Gildersleeve
Remuneration Committee Chairman
10 May 2017

Directors' report

Reporting requirements

The Group is required to produce a Strategic Report complying with the requirements of Section 414A of the Companies Act 2006 (the 'Act'). The Group has complied with this requirement and incorporates a detailed review of the Group's activities, business performance and developments during the year and an indication of likely future developments on pages 1 to 31.

The Corporate Governance Statement, as required by Rule 7.2.1 of the Financial Conduct Authority (FCA) Disclosure and Transparency Rules, is set out on pages 36 to 40 of the Corporate Governance Report and forms part of the Directors' Report.

Suppliers' payment policy

It is the Company's policy to develop and maintain key commercial relationships with its suppliers, one aspect of which is payment timing, to obtain mutually agreed payment terms. The Company has commercially agreed longer credit terms with one of its larger corporate suppliers. Excluding this supplier, the underlying average credit period taken on trade payables was 50 days (2016: 40 days). Including this supplier, the average credit period taken was 57 days (2016: 56 days).

Contracts with controlling shareholders

Sir Charles Dunstone is a controlling shareholder within the definition set out in the Listing Rules. In compliance with Listing Rule 9.2.2AR(1), the Company has entered into a written and legally binding agreement with Sir Charles Dunstone under which he has agreed to comply with the independence provisions set out in Listing Rule 6.1.4DR by giving the following undertakings to the Company: that any transactions and arrangements with him or his associates will be conducted at arm's length and on normal commercial terms, and that neither he (nor his associates) will take any action that would have the effect of preventing the Company from complying with the Listing Rules or propose a shareholder resolution which is intended or appears to be intended to circumvent the proper application of the Listing Rules. The Company also confirms that its Articles of Association do not prevent the election and re-election of independent Directors to be conducted in accordance with the election provisions set out in Listing Rule 9.2.2ER and Listing Rule 9.2.2FR.

There are no material contracts with controlling shareholders, except as set out above and disclosed in the Directors' Remuneration Report on pages 44 to 62.

No Director is entitled to any compensation for loss of office on a takeover or change of control of the Company. Details of employee share schemes are set out in note 5 to the consolidated financial statements.

Share capital

The rights and obligations relating to the Company's shares are set out in the Articles of Association. The Articles of Association can be requested from the Company Secretary at the Company's registered office.

There are no restrictions on the transfer of ordinary shares in the capital of the Company other than those which may be imposed by law from time to time. In accordance with the Disclosure and Transparency Rules, certain employees are required to seek approval to deal in the Company's shares. The Company is not aware of any agreements between shareholders that may result in restrictions on the transfers of securities and/or voting rights.

There is a general right of the Company to purchase its own shares, as set out in Article 16 of the Company's Articles of Association.

Shares held by the Group Employee Share Ownership Trust (ESOT) abstain from voting.

In addition, at the AGM in 2016, the Company was granted the right to acquire 95,561,546 shares. This right expires on the date of the 2017 AGM or 20 October 2017 (whichever is sooner).

The Articles of Association may be changed by special resolution.

Details in the movements in authorised and issued share capital during the period are provided in notes 21 and 22 to the consolidated financial statements.

Borrowings and financial instruments

The disclosures required in relation to the use of financial instruments by the Company, including the financial risk management objectives and policies (including in relation to hedging) of the Company; specific quantitative information on borrowings and financial instruments; and the exposure of the Company to foreign exchange risk, interest rate risk, liquidity risk, credit risk, can be found in notes 18 and 19 to the financial statements and the risks and uncertainties section of the Strategic Report on page 25, which are incorporated by reference to this report.

Appointment of Directors

The rules relating to the appointment and/or removal of Directors are contained in the Company's Articles of Association.

The powers of the Directors are set out in the Company's Articles of Association.

Property, plant and equipment

Movements in property, plant and equipment are set out in note 12 to the consolidated financial statements.

Results and dividends

The Group results and dividends for the year ended 31 March 2017 are set out in the consolidated income statement and note 8 on pages 73 and 91 respectively. The Company may, by resolution in a general meeting, declare dividends in accordance with the respective rights of the members, but no dividend can exceed the amount recommended by the Board.

Directors' report continued

Significant shareholdings

At 18 April 2017, the Company had been notified of the following interests in the Company's shares:

Name	Number of shares	% of share capital
Sir Charles Dunstone	294,059,396	30.77
Capital Research Global Investors	146,735,891	15.36
INVESCO Asset Management Limited	122,149,607	12.78
David Ross	114,129,028	11.94
Toscafund Asset Management LLP	40,027,650	4.19
Jupiter Asset Management Ltd	33,982,110	3.56

The total interests of the Directors are detailed in the Directors' Remuneration Report on page 59.

Directors' indemnities

Directors' liability insurance is provided for Directors.

Disclosures required under Listing Rule 9.8.4R

Other than the following, no further information is required to be disclosed by the Company in respect of Listing Rule 9.8.4R:

- details of the incentive plans, which are set out on pages 56 to 59 of the Directors' Remuneration Report and note 5 to the consolidated financial statements (incorporated by reference into this report).

Greenhouse gas emissions reporting

Details of the Group's greenhouse emissions can be found in the Corporate Social Responsibility section on page 31.

Charitable donations

Charitable donations paid during the year are disclosed on page 30 of the strategic report.

Market Abuse Regulation

Following the introduction of the Market Abuse Regulation on 3 July 2016, the Company updated its processes (including those relating to persons discharging managerial responsibilities) and its share dealing policy and provides mandatory training to certain of its employees.

Equal opportunities

We celebrate diversity and we have an equality policy that ensures that everyone is provided with the same opportunities for employment, career development, training and promotion.

We are committed to providing equal opportunities and avoiding unlawful discrimination by further developing our diversity and inclusion strategy over the coming year.

Gender pay reporting

We are keen to ensure that employees are paid appropriately for the work that they do. We undertook a gender pay audit in the year ended 31 March 2017 and we intend to do so on an annual basis. We are committed to complying with the mandatory gender pay reporting regulations when they come into force in April 2018.

Audit information

Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of the information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

By order of the Board

T. Morris

Tim Morris
Company Secretary
10 May 2017

TalkTalk Telecom Group PLC
11 Evesham Street
London W11 4AR

Directors' responsibility statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and Article 4 of the IAS Regulation, and have also chosen to prepare the Parent Company financial statements under IFRS as adopted by the EU.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing these financial statements, IAS 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions of the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed in the 'Corporate governance' section of the Annual Report, confirm that, to the best of their knowledge:

- the financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that it faces; and
- the Annual Report and the financial statements taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This Responsibility Statement was approved by the Board of Directors on 10 May 2017 and is signed on its behalf by:

TAHarrison

Tristia Harrison
Chief Executive Officer

Iain Torrens
Chief Financial Officer

Independent auditor's report

to the members of TalkTalk Telecom Group PLC

Opinion on financial statements of TalkTalk Telecom Group PLC

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2017 and of the group's profit for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the consolidated financial statements, Article 4 of the IAS Regulation.

The financial statements that we have audited comprise:

- the consolidated Income Statement;
- the consolidated Statement of Comprehensive Income;
- the consolidated and Parent Company Balance Sheets;
- the consolidated and Parent Company Cash Flow Statements;
- the consolidated and Parent Company Statements of Changes in Equity;
- the Statement of Accounting Policies;
- the related notes 2 to 27; and
- the notes to the Company Financial Statements 1 to 11.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Summary of our audit approach

Key risks	The key risks that we identified in the current year were: • management override of controls; • disclosure of exceptional items and the presentation of adjusted measures in the financial statements; • revenue recognition; • supplier income; and • recoverability of deferred tax assets. Within this report, any new risks are identified with ⇑ and any risks which are the same as the prior year identified with ≫.
Materiality	The materiality that we used in the current year was £4.0m, which was determined on the basis of 3% of Headline profit before taxation.
Scoping	Based on our assessment of the risks of material misstatement at the group level, we focused our group audit scope primarily on the TalkTalk Consumer and TalkTalk Business operating units. Each of these was subject to a full audit and together this covered 99% (2016: 99%) of the Group's total revenues. Together with this, our Group audit scope covered 96% of Headline profit before taxation (2016: 95%) and 93% of net assets (2016: 97%).
Significant changes in our approach	Last year our report included cyber attack impacts as a risk, which is not included in our report this year. In the prior year, the company website was subject to a significant and sustained cyber attack. Immediately following the incident, the Group incurred additional costs, £42 million of which the Directors presented as exceptional. Another event of this nature did not recur during the year ended 31 March 2017 and the impact of the prior year incident was largely recognised in 2016, with limited net impact in 2017. We have also removed the risk of impairment of goodwill within our audit report. We did not consider this a key risk in the current year as it did not have a significant effect on our audit strategy nor the allocation of resources in the audit. We have included the risk of management override of controls within our audit report as a key risk in the current year. Due to the quantum and nature of one-off items occurring during the year, we increased the level of audit focus in relation to the potential risk of management bias.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 1 to the consolidated financial statements, in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, the group has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the consolidated financial statements comply with IFRSs as issued by the IASB.

Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the group

As required by the Listing Rules we have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within the Chief Financial Officer's statement and the directors' statement on the longer term viability of the group contained within the corporate governance statement.

We are required to state whether we have anything material to add or draw attention to in relation to:

- the directors' confirmation on page 65 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 22 to 25 that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in the Chief Financial Officer's statement about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's ability to continue to do so over a period of at least twelve months from the date of approval of the consolidated financial statements; and
- the directors' explanation on page 40 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We confirm that we have nothing material to add or draw attention to in respect of these matters.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards.

We confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Independent auditor's report continued

to the members of TalkTalk Telecom Group PLC

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Management override of controls

Risk description

International Standards on Auditing require us to presume a risk of fraud arising from management override of controls and conduct our audit testing accordingly. Key areas of potential risk include inappropriate bias in relation to accounting judgements and inappropriate accounting for significant or unusual transactions taking place in the year. We increased the level of audit focus in this area due to the quantum and nature of items occurring during the year, including exceptional items, revenue share arrangements with third parties, supplier income, supplier settlements, revisions to accounting estimates, sale and leaseback transaction, management forecasts and capitalised internal labour. The large number of areas requiring the application of judgement and estimation techniques creates additional risk of bias in accounting estimates.

Disclosures relating to the items noted above are included in note 3 to the consolidated financial statements and the risk is discussed in the report of the Audit Committee on page 42.

How the scope of our audit responded to the risk

In considering the risk of management override of controls we have:

- reviewed accounting estimates (individually and collectively) for management bias that would result in material misstatement, in particular focusing our attention on the areas noted above. We obtained evidence to support the rationale behind each estimate made and quantified the impact on the financial statements. Details of our audit response in relation to disclosure of exceptional items, revenue recognition policies and supplier income recognition have been outlined below;
- obtained supporting documentation and obtained an understanding of the business rationale for significant transactions that we have become aware of that are outside the normal course of business or that otherwise appear to be unusual given our understanding of the Group; and
- completed journal entry testing, where data analytics tools were used to identify those postings that might be indicative of management override of controls. For the journal entries identified, we obtained explanations and examined supporting documentation to understand the nature and rationale for each entry.

Disclosure of exceptional items and the presentation of adjusted measures in the consolidated financial statements

Risk description

During the year, the Group has incurred items classified as exceptional and 'adjusting' amounting to £63 million prior to the impact on taxation (2016: £93 million). The disclosure of exceptional items and their presentation on the face of the income statement remains a key risk given the level of management judgement involved as inappropriate classification of exceptional items would impact on the disclosure of Headline earnings, which is a key performance indicator used by the Group.

The Group is coming to the end of a number of significant projects (such as 'Making TalkTalk Simpler') and has started a number of projects in the current year (such as 'Network Transformation'). These are multi-phase projects spanning a number of years and consequently, we consider there is significant management judgement in determining whether those costs or projects are exceptional based on the Group's policy or are, in substance, 'business as usual' and therefore should be recognised in arriving at Headline earnings.

The nature of these costs has been defined in note 9 to the accounts and the related accounting policy has been disclosed in note 1. The Audit Committee's discussion of this risk is set out on page 42.

How the scope of our audit responded to the risk

In addition to understanding the composition of exceptional items and agreeing a sample of items to supporting documentation, we challenged management's rationale for the presentation of items within the income statement as exceptional, particularly around the areas of higher judgement such as migration costs, internal labour, and costs for implementing operating efficiencies to determine whether the costs recognised as exceptional meet the criteria of the accounting policy for such items defined by the group within note 9. This includes assessing the incremental nature of the costs, the extent to which the costs are non-recurring, whether they are specific to individual projects and considering whether they should be classified as part of underlying operations.

Our work has also included a review, on a sample basis, of items included within the income statement to identify income and expenses which may be exceptional by nature but not separately identified. This included consideration of credit balances within underlying results, including supplier settlements.

Revenue recognition

Risk description

Revenue represents a material balance of £1,783 million (2016: £1,835 million), consisting of a high volume of individually low value transactions and we have identified the following types of transactions and assertions related to revenue recognition which give rise to key risks due to the complexity of transaction processing within the Group as well as the level of management judgement:

- the completeness of revenue recorded through billing systems;
- the accuracy and completeness of revenue recognised on transactions which are outside the normal billing process, which by their nature carry a higher level of management judgement such as accrued revenue adjustments; and
- the appropriateness of the accounting in relation to revenue share arrangements with third parties and how the revenues and costs related to the transactions are disclosed within the financial statements.

See note 1 to the consolidated financial statements for revenue recognition policy that has been applied by the Group and the Audit Committee report on page 42.

How the scope of our audit responded to the risk

We involved our IT specialists to test the operating effectiveness of automated and non-automated controls over the customer billing systems. Our tests assessed the controls in place to ensure services supplied to customers are input into and processed through the billing systems.

This enabled us to take a controls reliance approach over billing systems processing over 95% of revenue transactions (by value). We subsequently applied a combination of substantive analytical review procedures and tests of detail to obtain assurance over the accuracy and completeness of the reported output of these systems.

We performed substantive testing on a sample of non-systematic adjustments which are outside of the normal billing process and therefore carry higher levels of management judgement. These included revenue deferrals and the write-back to the income statement of credits applied to customer accounts. Our work included agreeing a sample of items to supporting evidence to determine whether they had been recognised in line with Group policies as well as analytical review to understand the movements year on year.

We have assessed the appropriateness of the revenue recognition policy adopted with reference to third party contract arrangements in place and also performed substantive testing to assess whether the elements delivered have been recognised in line with Group policy.

Supplier income

Risk description

As disclosed in note 1 to the consolidated financial statements, the Group periodically receives commercial income, bonuses or other rebates from suppliers. As set out in note 3 the amount received in the current year was £13 million (2016: £13 million). Due to the judgement required in determining the commercial substance of the arrangement, as well as the complexity of certain arrangements, there is a risk that these are incorrectly accounted for or recognised in the wrong accounting period and that all arrangements are not disclosed.

This risk is discussed further in the report of the Audit Committee on page 42.

How the scope of our audit responded to the risk

We held discussions with the relationship managers for the major suppliers across the group and reviewed supplier accounts to identify significant credits from suppliers. For significant credit items we reviewed the relevant agreements to understand the terms and conditions associated with the transaction and associated commercial rationale. Based on our review of the agreements, we challenged management's recognition of the accounting treatment of credits recognised from suppliers including re-calculations of amounts recognised. We also reviewed all significant credits posted against supplier accounts in the year to confirm the completeness of all supplier arrangements entered into.

Independent auditor's report continued

to the members of TalkTalk Telecom Group PLC

Recoverability of deferred tax assets

Risk description	As disclosed in note 7 to the consolidated financial statements the Group has significant carried forward tax losses of £606 million (2016: £650 million) for which the utilisation depends upon a complex allocation of the Group's profits to particular loss pools. The recognition of deferred tax assets (and provisions against any unrecoverable portion) is a significant management judgement due to the reliance on future forecasts. This risk is discussed further in the report of the Audit Committee on page 42.
How the scope of our audit responded to the risk	We engaged our tax specialists to challenge management's approach to the deferred tax assets recognised in the year including the decision to continue to use a 10 year forecast for the recognition of deferred tax assets in respect of losses. We have considered if the forecasts being used for these purposes have been updated to align to the Group forecast and have challenged the key assumptions, being the forecast cash flow projections and the discount rates applied. We assessed historical forecasting accuracy and benchmarked the discount rate and growth rates employed to available market data. We considered ongoing correspondence with HMRC and the impact that this has on any judgements and the accounting treatment applied by management.

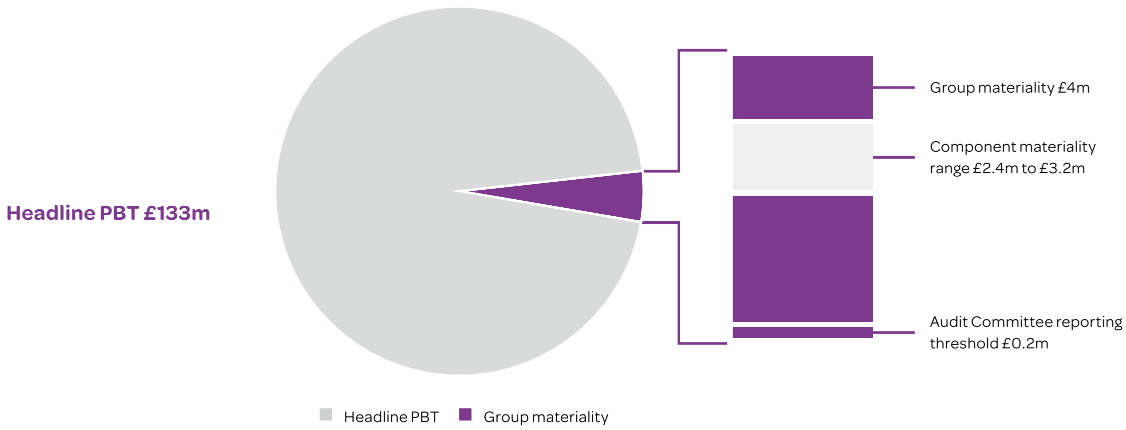
These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group materiality	£4.0m (2016: £4.8m)
Basis for determining materiality	3% of Headline profit before taxation. Profit before taxation has been adjusted by removing the effect of exceptional items. Please see note 3 to the consolidated financial statements for details of these.
Rationale for the benchmark applied	Headline profit before taxation has been used as a base as it is a key performance indicator of the group and is of particular interest to shareholders.

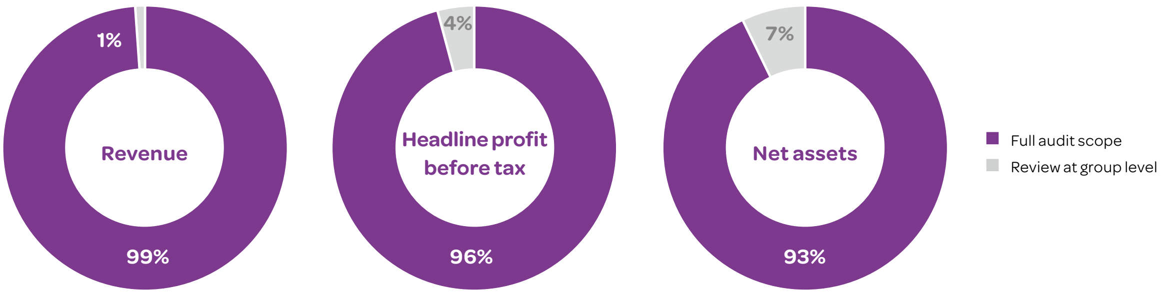


We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £200,000 (2016: £96,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. The change in the reporting threshold has been made following our reassessment of what matters require communicating. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the consolidated financial statements.

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. Based on that assessment and consistent with the prior year, we focused our group audit scope primarily on the TalkTalk Consumer and TalkTalk Business operating units. Each of these were subject to a full audit and together they represent over 99% (2016: over 99%) of the Group's total revenues. Specific focused audit work was performed over Group functions, including those covering treasury and taxation. Together this covered 96% of Headline profit before taxation (2016: 95%) and 93% of net assets (2016: 97%). Our audit work at each division was executed at levels of materiality which were lower than group materiality and ranged from £2.4m to £3.2m (2016: £2.8m to £3.8m).

At the parent entity level we also tested the consolidation process, performed our work on all key judgement areas and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit. Our scoping assessment across the overall Group has been outlined below.



Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

We have nothing to report arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the company's compliance with certain provisions of the UK Corporate Governance Code.

We have nothing to report arising from our review.

Independent auditor's report continued

to the members of TalkTalk Telecom Group PLC

Matters on which we are required to report by exception continued

Our duty to read other information in the Annual Report	
Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is: • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or • otherwise misleading. In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.	*We confirm that we have not identified any such inconsistencies or misleading statements.*

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the consolidated financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the consolidated financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Sharon Thorne FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London
10 May 2017

Consolidated income statement

For the year ended 31 March 2017

	Notes	2017 Headline – before non-operating amortisation[1] and exceptional items[2] £m	2017 Non-operating amortisation[1] and exceptional items[2] £m	2017 Statutory – after non-operating amortisation[1] and exceptional items[2] £m	2016 Headline – before non-operating amortisation[1] and exceptional items[2] £m	2016 Non-operating amortisation[1] and exceptional items[2] £m	2016 Statutory – after non-operating amortisation[1] and exceptional items[2] £m
Revenue	2	1,783	–	1,783	1,838	(3)	1,835
Cost of sales		(834)	21	(813)	(845)	–	(845)
Gross profit		949	21	970	993	(3)	990
Operating expenses excluding amortisation and depreciation		(645)	(78)	(723)	(733)	(80)	(813)
EBITDA	9	304	(57)	247	260	(83)	177
Depreciation	3, 12	(69)	(3)	(72)	(72)	–	(72)
Amortisation	3, 11	(59)	(10)	(69)	(49)	(10)	(59)
Share of results of joint ventures	14	(11)	–	(11)	(8)	–	(8)
Operating profit	3, 9	165	(70)	95	131	(93)	38
Net finance costs	6	(32)	7	(25)	(24)	–	(24)
Profit before taxation	9	133	(63)	70	107	(93)	14
Taxation	7, 9	(33)	21	(12)	(28)	16	(12)
Profit for the year attributable to the owners of the Company	9	100	(42)	58	79	(77)	2
Earnings per share							
Basic (p)	10			6.1			0.2
Diluted (p)	10			6.0			0.2

		2017 £m	2016 £m
Statutory operating profit		95	38
Adjusted for:			
Non-operating amortisation	9, 11	10	10
Exceptional items	9	60	83
Headline operating profit		165	131

The accompanying notes are an integral part of this consolidated income statement. All amounts relate to continuing operations.

(1) See note 11 for a reconciliation of operating and non-operating amortisation.

(2) See note 9 for a reconciliation of exceptional items.

Consolidated statement of comprehensive income

For the year ended 31 March 2017

	Notes	2017 £m	2016 £m
Profit for the year attributable to the owners of the Company		58	2
Other comprehensive (expense)/income			
Items that may be reclassified to profit or loss:			
(Losses)/gains on a hedge of a financial instrument	19	(5)	2
Currency translation differences		–	1
Total other comprehensive (expense)/income		(5)	3
Total comprehensive income attributable to the owners of the Company		53	5

The accompanying notes are an integral part of this consolidated statement of comprehensive income. All amounts relate to continuing operations.

Consolidated balance sheet

Company number: 07105891
As at 31 March 2017

	Notes	2017 £m	2016 £m
Non-current assets			
Goodwill	11	495	495
Other intangible assets	11	243	227
Property, plant and equipment	12	235	302
Investment in joint venture	14	8	9
Trade and other receivables	14, 16	6	3
Derivative financial instruments	19	31	18
Deferred tax assets	7	108	115
		1,126	1,169
Current assets			
Inventories	15	18	57
Trade and other receivables	16	369	294
Current income tax receivable		–	3
Cash and cash equivalents	18	50	10
		437	364
Total assets		1,563	1,533
Current liabilities			
Trade and other payables	17	(511)	(563)
Current income tax payable		(5)	–
Borrowings	18	–	(25)
Provisions	20	(22)	(18)
		(538)	(606)
Non-current liabilities			
Borrowings	18	(871)	(684)
Derivative financial instruments	19	–	(1)
Provisions	20	(14)	(11)
		(885)	(696)
Total liabilities		(1,423)	(1,302)
Net assets		140	231
Equity			
Share capital	21	1	1
Share premium	22	684	684
Translation reserve	22	(64)	(64)
Demerger reserve	22	(513)	(513)
Retained earnings and other reserves	22	32	123
Total equity		140	231

The accompanying notes are an integral part of this consolidated balance sheet.

These financial statements were approved and authorised for issue by the Board on 10 May 2017. They were signed on its behalf by:

T Harrison
Chief Executive Officer

I Torrens
Chief Financial Officer

Consolidated cash flow statement

For the year ended 31 March 2017

	Notes	2017 £m	2016 £m
Operating activities			
Operating profit	3	95	38
Share-based payments	5	5	5
Depreciation of property, plant and equipment	3, 12	72	72
Amortisation of other operating intangible fixed assets	3, 11	59	49
Non-operating amortisation	9, 11	10	10
Share of losses of joint ventures	14	11	8
Impairment of stock inventory	9, 15	18	–
Impairment of property, plant and equipment	9, 12	22	–
Profit on disposal of property, plant and equipment	3	(2)	–
Operating cash flows before movements in working capital		290	182
(Increase)/decrease in trade and other receivables		(63)	15
Decrease/(increase) in inventory		21	(26)
(Decrease)/increase in trade and other payables		(26)	17
Increase/(decrease) in provisions		8	(6)
Cash generated from operations		230	182
Income taxes received		2	–
Net cash flows generated from operating activities		232	182
Investing activities			
Acquisition of subsidiaries and joint ventures, net of cash acquired	13, 14	(10)	(14)
Disposal of subsidiaries and customer bases	13	–	2
Investment in intangible assets		(82)	(106)
Investment in property, plant and equipment		(71)	(72)
Disposal of property, plant and equipment		20	12
Cash flows used in investing activities		(143)	(178)
Financing activities			
Settlement of Group ESOT shares		1	2
Net sale of own shares		–	61
Payment of contingent consideration		(8)	–
Repayments of borrowings	23	(315)	–
Drawdown of borrowings	23	458	90
Interest paid		(35)	(22)
Dividends paid	8	(150)	(135)
Cash flows used in financing activities		(49)	(4)
Net increase in cash and cash equivalents		40	–
Cash and cash equivalents at the start of the year		10	10
Cash and cash equivalents at the end of the year	18	50	10

The accompanying notes are an integral part of this consolidated cash flow statement.

Consolidated statement of changes in equity

For the year ended 31 March 2017

	Notes	Share capital £m	Share premium £m	Translation reserve £m	Demerger reserve £m	Retained earnings and other reserves £m	Total equity £m
At 1 April 2015		1	684	(65)	(513)	190	297
Profit for the year		–	–	–	–	2	2
Other comprehensive income							
Items that may be reclassified to profit or loss:							
Gain on hedge of a financial instrument		–	–	–	–	2	2
Currency translation differences		–	–	1	–	–	1
Total other comprehensive income		–	–	1	–	2	3
Total comprehensive income		–	–	1	–	4	5
Transactions with the owners of the Company							
Share-based payments reserve credit	5	–	–	–	–	5	5
Share-based payments reserve debit		–	–	–	–	(1)	(1)
Sale of own shares	22	–	–	–	–	61	61
Settlement of Group ESOT		–	–	–	–	2	2
Equity dividends	8	–	–	–	–	(135)	(135)
Taxation of items recognised directly in reserves		–	–	–	–	(3)	(3)
Total transactions with the owners of the Company		–	–	–	–	(71)	(71)
At 31 March 2016		1	684	(64)	(513)	123	231
Profit for the year		–	–	–	–	58	58
Other comprehensive expense							
Items that may be reclassified to profit or loss:							
Loss on hedge of a financial instrument		–	–	–	–	(5)	(5)
Total other comprehensive expense		–	–	–	–	(5)	(5)
Total comprehensive income		–	–	–	–	53	53
Transactions with the owners of the Company							
Share-based payments reserve credit	5	–	–	–	–	5	5
Share-based payments reserve debit		–	–	–	–	(2)	(2)
Settlement of Group ESOT		–	–	–	–	3	3
Equity dividends	8	–	–	–	–	(150)	(150)
Total transactions with the owners of the Company		–	–	–	–	(144)	(144)
At 31 March 2017		1	684	(64)	(513)	32	140

The accompanying notes are an integral part of this consolidated statement of changes in equity.

Notes to the consolidated financial statements

1. Accounting policies and basis of preparation

Basis of preparation

TalkTalk Telecom Group PLC is incorporated and domiciled in England and Wales under the Companies Act 2006. The Company's shares are listed on the London Stock Exchange. The registered office of the Company is 11 Evesham Street, London W11 4AR. The principal activities of the Group are the provision of telecommunication services to Retail and B2B customers.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS)) issued by the International Accounting Standards Board (IASB). The consolidated financial statements of the Group have also been prepared in accordance with IFRS as adopted for use in the European Union (EU) and as applied in accordance with the provisions of the Companies Act 2006. These financial statements therefore comply with Article 4 of the European Union International Accounting Standard regulation.

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments and investments. The consolidated financial statements are presented in Sterling, rounded to the nearest million, because that is the currency of the principal economic environment in which the Group operates.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company, entities controlled by the Company (its subsidiaries) and entities which are joint ventures accounted for using the equity method made up to 31 March each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or sold during the year are included from or to the date on which control passed to or was relinquished by the Group. Intercompany transactions and balances between subsidiaries are eliminated on consolidation.

Where necessary, adjustments are made to the financial statements of subsidiaries and the results of joint ventures to bring accounting policies in line with those used by the Group.

Alternative performance measures

In response to the guidelines on alternative performance measures (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 profit before taxation;
- Headline profit after taxation;
- Headline basic EPS;
- Headline free cash flow; and
- Headline leverage (net debt to Headline EBITDA ratio).

Where relevant, a reconciliation between statutory reported measures and Headline measures is shown in note 9 to these consolidated financial statements.

EBITDA is defined as earnings before interest, tax, depreciation and amortisation. Free cash flow is defined as operating cash flows after movements in working capital, net capital expenditure and interest and taxation excluding exceptional cash flows (note 9).

Headline measures exclude items which are non-trading or non-recurring. These items are not included in the performance measures the Board uses to monitor the performance of the Group.

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

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

Headline EBITDA and free cash flow are not defined terms under IFRS and may not be comparable with similarly titled profit 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.

Going concern

The consolidated financial statements have been prepared on the going concern basis. Details of the considerations undertaken by the Board in reaching this conclusion are set out on page 21 within the Chief Financial Officer's Statement.

Viability statement

Details of the considerations undertaken by the Board in reaching their conclusions are set out on page 40 within the Corporate Governance section.

Accounting policies

The Group's principal accounting policies, which relate to the consolidated financial statements as a whole, are set out below. Where an accounting policy is specific to one note, the policy is described in the note to which it relates. This section also shows new EU-endorsed accounting standards, amendments and interpretations, whether these are effective in the current or later years. In both cases it is explained how they are expected to impact the performance of the Group.

1. Accounting policies and basis of preparation continued

Revenue

Revenue is stated net of VAT and other sales-related taxes and represents the gross inflow of economic benefit generated from the provision of fixed line, TV and mobile telecommunications services. All such revenue is recognised as the services are provided:

- line rental is recognised in the period to which it relates;
- voice and broadband subscriptions are recognised in the period to which they relate;
- usage including voice and TV content is recognised in the period in which the customer takes the service;
- promotional discounts and credits are amortised on a straight line basis over the minimum contract period, in absence of a minimum contract period an average contract period is used; and
- data service solutions and other service contracts are recognised as the Group fulfils its performance obligations.

Revenue is measured at fair value of the consideration received or receivable. When the Group sells a number of products within a bundled transaction, the total consideration from the arrangement is allocated to each element based on their relative fair values. Management applies judgement in determining the amount of revenue the Group recognises for delivered elements, limited to the amounts billed for that element on the basis of recoverability.

Where the Group sells hardware to third parties involved in outsourcing its customer acquisition, hardware revenue is recognised when risk and rewards of the related hardware is transferred to the outsourced third party.

Subscriber acquisition costs

Subscriber acquisition costs include both third party costs of recruiting and retaining new customers as well as device costs. These are expensed as incurred. Certain subscriber acquisition costs relate to revenue share arrangements with third parties payable over a definable period subject to customer churn, commission payable under these arrangements are recognised as an expense at the same time as the related revenue with the related reimbursement being recognised on customer acquisition.

Foreign currency translation and transactions

Material transactions in foreign currencies are hedged using forward purchases or sales of the relevant currencies and are recognised in the financial statements at the exchange rates obtained. Unhedged transactions are recorded at the exchange rate on the date of the transaction. Hedge accounting as defined by IAS 39 'Financial Instruments: Recognition and Measurement' has been applied in the current and preceding financial year by marking to market the relevant financial instruments at the balance sheet date and recognising the gain or loss through other comprehensive income in respect of cash flow hedges.

The principal exchange rates against UK Sterling used in these financial statements are as follows:

	Average		Closing	
	2017	2016	**2017**	2016
Euro	**1.19**	1.36	**1.17**	1.26
United States Dollar	**1.30**	1.50	**1.25**	1.44

Leases

Rental payments under operating leases are charged to the income statement on a straight line basis over the period of the lease, even where payments are not made on such a basis. Lease incentives and rent free periods are amortised through the income statement over the period of the lease term.

Gains or losses from sale and leaseback transactions are deferred over the life of the new lease to the extent that the rentals are considered to be above or below market rentals. The remaining gain or loss is recognised within operating expenses in the year in which the sale is completed (after consideration of the Group's exceptional policy).

Financial instruments

Financial assets and financial liabilities, in respect of financial instruments, are recognised in the Group balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade and other receivables

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short term receivables when the recognition of interest would be immaterial.

Amounts receivable from suppliers (included within trade and other receivables)

Occasionally, the Group enters into agreements with certain suppliers for rebates on the cost of goods purchased. Judgement is applied by management in these circumstances to ensure that the rebate is recognised over the appropriate financial period.

Income from suppliers in the year related to renegotiated contract rates and compensation received under existing contracts. Where these amounts relate to historical transactions, negotiated in the current year, they are recognised in the current year income statement. Where they relate to future transactions, negotiated in the current year, they are recognised in accordance with the contractual terms.

1. Accounting policies and basis of preparation continued

Financial instruments continued

Cash and cash equivalents
Cash and cash equivalents consist of cash at bank and in hand and bank deposits.

Trade payables
Trade payables are other financial liabilities initially measured at fair value and subsequently measured at amortised cost.

Financial liabilities and equity instruments
Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities and includes no obligation to deliver cash or other financial assets. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Borrowings
Borrowings represent committed and uncommitted bank loans, US Private Placement Notes, Senior Notes, a receivables purchase agreement and bank overdrafts. These are initially measured at net proceeds and are subsequently measured at amortised cost, using the effective interest rate method.

Bank fees and legal costs associated with the securing of external financing are capitalised and amortised over the term of the relevant facility. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Equity instruments
Equity instruments issued by the Group are recorded at the proceeds received, net of direct issuance costs.

Shares in the Company held by the Group ESOT are shown as a reduction in shareholders' funds. Other assets and liabilities held by the trust are consolidated with the assets of the Group.

Derivative financial instruments and hedge accounting
The Group's activities expose it to the financial risks of changes in foreign exchange rates and interest rates. The use of financial derivatives is governed by the framework approved by the Board, which provides written principles on the use of financial derivatives consistent with the Group's risk management strategy. Changes in values of all derivatives of a financing nature are included within investment income and financing costs in the income statement. The Group does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are initially measured at fair value on the contract date and are subsequently remeasured to fair value at each reporting date.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting, or the Company chooses to end the hedging relationship.

Cash flow hedges
The Group uses derivative instruments (primarily interest rate swaps) to manage its interest rate risk. The Group designates these as cash flow hedges. The effective portion of changes in the fair value of these instruments is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Measurement
The financial instruments included on the Group balance sheet are measured at fair value or amortised cost. 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.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to exercise judgement in applying the Group's accounting policies. Estimates and assumptions used in the preparation of the financial statements are continually reviewed and revised as necessary. Whilst every effort is made to ensure that such estimates and assumptions are reasonable, by their nature they are uncertain, and as such changes in estimates and assumptions may have a material impact.

The areas involving the critical accounting judgements are set out in more detail in the related notes:

- going concern and viability statement (pages 21 and 40 respectively) – forecast assumptions;
- revenue recognition for bundled transactions (note 1) – allocation of each element based on their relative fair values;
- hardware sales to third parties involved in outsourcing its customer acquisition (note 1) – transfer of risk and rewards to the outsourced third party;

1. Accounting policies and basis of preparation continued

Critical accounting judgements and key sources of estimation uncertainty continued

- amounts receivable from suppliers (note 1) – quantum and nature of income;
- revenue share arrangements with third parties (note 1) – recognised as an expense at the same time as the related revenue; and
- exceptional items (note 9) – balance of income and cost between exceptional and Headline earnings.

The area involving key sources of estimation uncertainty is taxation (note 7) – forecast assumptions.

In addition, during the year ended 31 March 2017, the Group has revised its accounting estimates in relation to bad debt provisioning (£5m credit to the income statement) and the average contract period that certain promotional discounts and credits are amortised over.

Application of significant new or amended EU-endorsed accounting standards

There are no new or revised standards and interpretations that have had a material impact on the Group during the year.

Future accounting developments

At the date of authorisation of these consolidated financial statements, there were a number of significant standards and interpretations that have not been applied in these consolidated financial statements, these were in issue, but not yet effective (and in some cases had not yet been adopted by the EU).

The Directors expect that the following standards will have an impact on the consolidated financial statements of the Group in future periods:

- IFRS 9 'Financial Instruments', impacting the disclosure within the financial instruments. The Group will implement this standard for the year ended 31 March 2020.
- IFRS 15 'Revenue from Contracts with Customers', impacting revenue recognition, related costs and disclosures. The Group will implement this standard for the year ended 31 March 2019. The Group expects to elect to present the first-time application of IFRS 15 using the modified retrospective method, applying a one-off cumulative effect of transition to retained earnings at 1 April 2018.
- IFRS 16 'Leases', impacting lease recognition. The Group expects to adopt this standard early for the year ended 31 March 2019, in line with the adoption of IFRS 15 to ensure future results are comparable year on year.

IFRS 9

The requirements of IFRS 9 and their implications to the Group have been assessed and management has concluded that the impact to the annual report and accounts will be immaterial.

IFRS 15

IFRS 15 requirements

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. An entity recognises revenue in accordance with that core principle by applying the following steps:

1. Identify the contract with the customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligation in the contract
5. Recognise revenue when (or as) the entity satisfies a performance obligation

The Group has considered the above guidance and carried out a detailed review including the key actions below:

- reviewing contract agreements which include variable consideration constraints in order to assess the appropriate transaction price;
- assessing the performance obligations that exist through the promise of goods or services offered to customers within its contractual agreements;
- carrying out a review of costs to establish which costs meet the criteria to be capitalised as fulfilment costs under IFRS 15; and
- carrying out a review of costs to identify those that are incremental in obtaining a new contract.

Implications for TalkTalk

Following the above assessment, we are in the process of completing a detailed exercise where the following items have already been noted:

Contract inception

From an assessment of revenue associated with specific performance obligations the Group expects a change in the timing of recognition of revenue. Under IFRS 15 a stand-alone selling price will be allocated to the sale of hardware and revenue recognised on transfer of control of that hardware in line with the stand-alone selling price. The connection fee will form part of the transaction price, which will be allocated to the hardware and service fee, the service fee component of which will be recognised over life of the contract.

Costs to fulfil contracts

Specific subscriber acquisition costs currently recognised on contract inception will be spread over a defined period for the product to which it relates.

Costs to obtain contracts

Incremental sales commission costs directly attributable to obtaining specific contracts and currently recognised as incurred will be spread over a defined period for the product to which it relates.

1. Accounting policies and basis of preparation continued

Future accounting developments continued

IFRS 16

The Group has a variety of operating leases, however currently no finance leases are recognised within the consolidated financial statements. The accounting for these operating leases will change when IFRS 16 is implemented.

IFRS 16 requirements

Following a preliminary review by management of the implications of IFRS 16 the following can be noted:

- a number of lease contracts currently disclosed within note 24 to the financial statements, which currently give rise to recurring expenses within operating expenses, will be recognised on the balance sheet as a 'Right of use asset' for the year ended 31 March 2019;
- a corresponding lease liability (current and non-current) reflecting the Group's commitment to pay consideration to third parties under these contracts will also be recognised, increasing the Group's net debt, although the cash flow profile remains the same for the Group;
- the Group will depreciate the right of use assets with a charge to the income statement over the shorter of the assets useful lives and the assessed lease term;
- the Group will charge interest on the liability using the rate of interest implicit in the lease or the Group's incremental borrowing rate. Interest will be charged to finance costs; and
- the profile of the overall expense in the income statement will change as the interest expense will be more front-loaded compared to a straight line operating lease rental expense.

Specifically, for management to conclude on whether a contract contains a lease, the following has been reviewed:

- whether there is an identified asset that the Group has the right to obtain substantially all the economic benefits;
- whether the Group has the right to direct how and for what purpose the asset is used;
- whether the Group has the right to operate the asset without the supplier having the right to change those operating instructions; and
- whether the Group has designed the asset in a way that predetermines how and for what purpose the asset will be used.

In addition, management has also considered other salient factors in the assessment of the standard such as:

- the length of assessed lease term taking into account the non-cancellable period of the lease including periods covered by an option to extend or an option to terminate if the Group is reasonably certain to exercise either option; and
- the applicability of interest rate implicit in the lease or the Group's incremental borrowing rate.

Implications for TalkTalk

Following the above assessment, management has concluded that the following items that are currently classified as operating leases will be recognised in the financial statements using the new requirements:

- certain property, including offices and data centres;
- the Group's backhaul network, being backhaul circuits rented from BTOR, Virgin Media and others;
- the Group's collector ring, being collector circuits rented from BTOR and others;
- elements of the Group's core network;
- all fibres and other cable links rented from third parties;
- the Group's interconnect network, being primarily ISI circuits and ducts rented from BTOR and others;
- the Group's recurring licences for systems, to the extent they are not capitalised perpetual licences or subscriptions to services; and
- IT equipment leases, including laptops, mobile phones and printers.

In addition, management has concluded that the following areas will be out of the scope of IFRS 16 and key judgements based upon the Group's specific network circumstances:

- the footprint the Group rents from BTOR in the unbundled exchanges and in co-location data centres, as this is not considered to be an identifiable asset; and
- the copper and fibre connections the Group rents in the 'last mile', comprising copper between the exchange and customer/business premise for MPF and SMPF customers, and a combination of copper and fibre for our FTTC customers, as the Group does not have the total ability to control or direct the use of the equipment in full as stipulated within IFRS 16.

Management has also reviewed available exemptions contained within IFRS 16 and concluded that tie cables, being the tie pairs the Group rents from BTOR in the unbundled exchanges, will fall under the low value asset exemption. In addition, the Group does not intend to utilise the short term exemption for leases whose lease term represents a period of twelve months or less.

Beyond the information above in relation to IFRS 15 and 16 it is not currently practical to provide a reasonable financial estimate of the effect of these standards until the full implementation of each project has been concluded. Management expects to disclose the financial effect of these standards within the Group's Annual Report for the year ended 31 March 2018 and will also continue to monitor the practical interpretation of these new standards within the telecommunications industry prior to full implementation.

2. Segmental reporting

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

	2017 £m	2016 £m
Headline revenue	1,783	1,838
Headline EBITDA	304	260
Depreciation	(69)	(72)
Amortisation of operating intangibles	(59)	(49)
Share of results of joint ventures	(11)	(8)
Headline operating profit (note 9)	165	131
Non-operating amortisation	(10)	(10)
Exceptional items – revenue	–	(3)
Exceptional items – cost of sales	21	–
Exceptional items – operating expenses excluding amortisation and depreciation	(78)	(80)
Exceptional items – depreciation	(3)	–
Statutory operating profit (note 9)	95	38

The Group's 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.

	2017 £m	2016 £m
On-net	1,342	1,399
Corporate	397	384
Off-net	44	55
Headline revenue	1,783	1,838

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:

	2017 £m	2016 £m
Carrier	121	119
Data	157	120
Voice	119	145
Corporate revenue	397	384

Notes to the consolidated financial statements continued

3. Operating profit

Operating profit is stated after charging/(crediting):

	2017 £m	2016 £m
Depreciation of property, plant and equipment (note 12)	69	72
Amortisation of other operating intangible fixed assets (note 11)	59	49
Amortisation of acquisition intangibles (note 11)	10	10
Profit on disposal of property, plant and equipment	(2)	–
Impairment loss recognised on trade receivables	60	71
Employee costs (note 4)	136	139
Cost of inventories recognised in expenses	55	72
Rentals under operating leases	105	100
Supplier rebates[1]	(13)	(13)
Service level related dispute [2,3]	(27)	(17)
Auditor's remuneration[4]	1	1
Exceptional items (note 9)	86	83
Exceptional items – disputed network charges in relation to prior years (note 9)[3]	(29)	–
Exceptional items – depreciation (note 9)	3	–

(1) Included in operating profit are associated increased costs of £13m relating to these supplier rebates.
(2) Included in operating profit are associated increase costs relating to these service level related disputes.
(3) Included in 2017 exceptional items are £12m of service level related disputes relating to 2016.
(4) A breakdown of auditor's remuneration is disclosed within the Corporate Governance section on page 43.

4. Employee costs

The average monthly number of employees (including Executive Directors) was:

	2017 Number	2016 Number
Administration	1,588	1,670
Sales and customer management	638	620
	2,226	2,290

The aggregate remuneration recognised in respect of these employees in the income statement comprised:

	2017 £m	2016 £m
Wages and salaries	112	115
Social security costs	14	15
Other pension costs	5	4
	131	134
Share-based payments (note 5)	5	5
	136	139

The Group provides various defined contribution pension schemes for the benefit of a significant number of its employees. These are charged to the income statement as they become payable in accordance with the rules of the schemes.

Compensation earned by key management personnel is analysed below. The key management personnel comprised the Board of Directors (see the Directors' Remuneration Report on pages 44 to 62 and other senior management).

	2017 £m	2016 £m
Salaries and fees	4.0	3.8
Performance bonuses	1.5	1.8
Benefits	0.1	0.1
Pension costs	0.2	0.2
Share-based payments	0.7	1.4
Compensation for loss of office	0.9	–
	7.4	7.3

5. Share-based payments

Accounting policy

The Group issues equity settled share-based payments to certain employees and Executive Directors. Equity settled share-based payments are measured at fair value at the date of grant and expensed over the vesting period, based on an estimate of the number of shares that will eventually vest.

Fair value is measured by use of a dividend discount or binomial model for share-based payments with internal, non-market performance criteria (for example, EPS targets) and a Black Scholes or Monte Carlo model for those with external performance criteria (for example, TSR targets).

For schemes with non-market performance criteria, the number of options expected to vest is recalculated at each balance sheet date, based on expectations of performance against target and of leavers prior to vesting. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in reserves.

For schemes with market performance criteria, the number of options expected to vest is adjusted only for expectations of leavers prior to vesting. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in reserves.

If a scheme is cancelled, any remaining part of the fair value of the scheme is expensed immediately. If a scheme is forfeited, no further expense is recognised and any charges previously recognised are reversed.

Charges arise on loans that are provided to employees to fund the purchase of shares in the Group as part of long term incentive plans. To the extent to which the loans are not, in certain circumstances, repayable, the cost of such loans is expensed over the course of the relevant incentive plans. Charges are also recognised on loans provided to employees to settle personal tax liabilities. To the extent to which the loans are not, in certain circumstances, repayable, the cost of such loans is expensed.

TalkTalk Telecom Group PLC schemes

TalkTalk Telecom Group PLC schemes are the Shareholder Value Plan (SVP), Discretionary Share Option Plan (DSOP), Save-As-You-Earn (SAYE) Scheme and Share Match Plan (SIP). Where applicable, the ESOT holds shares to settle these plans, based on the latest view of vesting.

In order to aid the user of the financial statements, the dilutive effect on EPS of each scheme has been presented. This has been calculated using an average share price for the financial year of £2.03 (2016: £2.92).

Summary of share schemes

Year ended 31 March 2017	IFRS 2 charge £m	Dilutive effect number millions	Options outstanding at the end of the year number millions
TalkTalk Telecom Group PLC schemes			
SVP – participation shares	1	–	–
SVP II – participation shares	1	–	–
DSOP – 2016 grant (FY17)	2	4	10
DSOP – 2015 grant (FY16)	–	1	1
DSOP – 2014 grant (FY15)	1	3	5
DSOP – 2013 grant (FY14)	–	1	1
DSOP – 2012 grant (FY13)	–	1	1
DSOP – 2010 grant (FY11)	–	1	1
SAYE	–	–	3
Total TalkTalk Telecom Group PLC schemes	5	11	22

Year ended 31 March 2016	IFRS 2 charge £m	Dilutive effect number millions	Options outstanding at the end of the year number millions
TalkTalk Telecom Group PLC schemes			
SVP – participation shares	2	2	–
DSOP – 2015 grant (FY16)	–	–	2
DSOP – 2014 grant (FY15)	1	3	7
DSOP – 2013 grant (FY14)	1	2	4
DSOP – 2012 grant (FY13)	–	2	2
DSOP – 2010 grant (FY11)	–	1	2
SAYE	1	1	4
Total TalkTalk Telecom Group PLC schemes	5	11	21

5. Share-based payments continued

Summary of share schemes continued

(i) SVP

The SVP and SVP II are growth plans and not share option plans operating under the Value Enhancement Scheme (VES) rules previously approved by shareholders. The SVP and SVP II enables participants to share in up to 7% of any increase in the value of the Group over an opening market capitalisation of £2,941m based on a five business day average up to 3 June 2014 for SVP and £2,292m based on a five business day average up to 19 May 2016 for SVP II. The awards are subject to the following performance conditions:

- at least a 7% compound annual increase (CAGR) in the market capitalisation of the Group from the above valuation over a three and four year period; and
- the Group's TSR outperforms the FTSE 250.

The performance conditions are measured over an initial performance period from 3 June 2014 (SVP) and 19 May 2016 (SVP II) to the date of announcement of the Group's FY17 (SVP) and FY19 (SVP II) annual results, after which a total of 60% of the options will vest. The remaining options are measured over a performance period from 3 June 2014 (SVP) and 19 May 2016 (SVP II) to the date of announcement of the Group's FY18 (SVP) and FY20 (SVP II) annual results. The Pool also has a maximum cap on incremental value equal to 2.75% of the total issued share capital of TalkTalk Telecom Group PLC at the date of each vesting.

There is a holding period on 100% of the PLC shares received in exchange for participation shares on vesting, of twelve months from each vesting date for Executive Directors. All other participants are required to hold 50% of the PLC shares received in exchange for participation shares on vesting for twelve months from each vesting date.

In FY15, the Company made awards in the SVP. No awards were made in the year ended 31 March 2016. The Group advanced loans to participants to enable them to purchase participation shares in TalkTalk Group Limited, the holding company of the Group's operating business. These loans are subject to a commercial rate of interest based on rates set by HMRC.

If an employee leaves the Group before the scheme vests, then the participation shares are forfeited for the value of the outstanding loan plus accrued interest.

A fair value exercise was conducted for the awards using the Monte Carlo method with the total fair value of the participation shares granted totalling £5m in SVP and £4m in SVP II.

A summary of the schemes is shown below:

SVP – 2015 grant	Participation shares 2017 Number million	Participation shares 2016 Number million
Outstanding at the beginning of the year	17	17
Forfeited during the year	(2)	–
Outstanding at the end of the year	**15**	17
Exercisable at the end of the year	**–**	–

SVP II – 2016 grant	Participation shares 2017 Number million	Participation shares 2016 Number million
Outstanding at the beginning of the year	–	–
Granted during the year	20	–
Forfeited during the year	(2)	–
Outstanding at the end of the year	**18**	–
Exercisable at the end of the year	**–**	–

(ii) DSOP

In FY15 ('2014 grant') and FY16 ('2016 grant'), the Group granted eight million nil-priced share option awards and two million nil-priced share. In FY17 ('2016 grant'), the Group granted eleven million nil-priced share options. These options are subject to the following performance conditions:

- at least a 7% compound annual increase (CAGR) in the market capitalisation of the Group from the below valuation over the next three and four year periods;
- at least a 23.8% compound annual increase (CAGR) in the headline earnings per share (EPS) of the Group from the FY16 headline EPS; and
- the employee remains in service with the Group for the vesting periods.

5. Share-based payments continued

Summary of share schemes continued

(ii) DSOP continued

The options are measured as follows:

- a performance period from 19 May 2016 to 19 May 2019 vesting on announcement of the Group's FY20 annual results. A total of 60% of the vested options are exercisable from the vesting date, with the remaining 40% of options being exercisable twelve months later. Options are forfeited if an employee leaves the Group before the options vest, subject to the DSOP scheme rules.

In FY15 ('2014 grant') and FY16 ('2015 grant'), the Group granted eight million nil-priced share option awards and two million nil priced share option awards respectively. These awards are subject to the following performance conditions:

- at least a 7% compound annual increase (CAGR) in the market capitalisation of the Group from the below valuation over the next three and four year periods; and
- the Group's TSR outperforms the FTSE 250.

The options are measured as follows:

- 2014 grant: a performance period from 3 June 2014 to 3 June 2017 vesting on announcement of the Group's FY17 annual results. A total of 60% of the vested options are exercisable from the vesting date, with the remaining 40% of options being exercisable twelve months later. Options are forfeited if an employee leaves the Group before the options vest, subject to the DSOP scheme rules.
- 2015 grant: a performance period from 11 September 2015 to 11 September 2018 vesting on 11 September 2018. The vested options are only exercisable twelve months following the vesting date. Options are forfeited if an employee leaves the Group before the options vest, subject to the DSOP scheme rules.

In FY14 ('2013 grant'), the Group granted six million nil-priced share option awards subject to absolute TSR and EPS performance targets, 20% of the outstanding options vested on the announcement of the Group's FY16 annual results. These options are only exercisable twelve months after the vesting date.

Options are forfeited if an employee leaves the Group before the options vest.

	2016 grant		2015 grant		2014 grant		2013 grant		2012 grant		2010 grant	
Number of share options outstanding	Number million	WAEP £	Number million	WAEP £	Number million	WAEP £	Number million	WAEP £	Number million	WAEP £	Number million	WAEP £
Opening balance at 1 April 2015	–	–	–	–	8	–	5	–	8	–	2	–
Granted during the year	–	–	2	–	–	–	–	–	–	–	–	–
Exercised during the year	–	–	–	–	–	–	–	–	(2)	–	–	–
Forfeited during the year	–	–	–	–	(1)	–	(1)	–	(4)	–	–	–
Closing balance at 31 March 2016	–	–	2	–	7	–	4	–	2	–	2	1.27
Granted during the year	11	–	–	–	–	–	–	–	–	–	–	–
Exercised during the year	–	–	–	–	–	–	–	–	(1)	–	(1)	1.27
Forfeited during the year	(1)	–	(1)	–	(2)	–	(3)	–	–	–	–	–
Closing balance at 31 March 2017	10	–	1	–	5	–	1	–	1	–	1	1.27
Number of share options exercisable												
As at 31 March 2016	–	–	–	–	–	–	–	–	–	–	2	1.27
As at 31 March 2017	–	–	–	–	–	–	–	–	1	–	1	1.27

Valuation assumptions	2016 grant	2015 grant	2014 grant	2013 grant	2012 grant	2010 grant
Valuation method	Monte Carlo	Monte Carlo	Monte Carlo	Monte Carlo	Monte Carlo	Monte Carlo
Share price (p)	240	309	321	228	122	132
Exercise price (p)	nil	nil	nil	nil	nil	127
Expected volatility	28.75%	25.0%	25.0%	30.0%	30.0%	37.0%
Expected exercise (60%/40%)	3 and 4 years	4 years	3 and 4 years	3 and 4 years	3 and 4 years	3 and 4 years
Risk free rate (3 years/4 years)	0.44% and 0.64%	1.67%	1.27% and 1.67%	0.50% and 0.80%	0.60%	3.40%
Expected dividend yield	5.65%	5.60%	5.60%	4.45%	3.50%	3.80%
Fair value of options granted (£m)	10	1	4	3	3	9
Weighted average remaining contractual life	9.1 years	8.4 years	7.2 years	6.2 years	4.9 years	3.6 years

Notes to the consolidated financial statements continued

5. Share-based payments continued

Summary of share schemes continued

(ii) DSOP continued

Part of the 2016 grant was valued using the Black Scholes model, the valuation assumptions for these are shown below:

	DSOP – 2016 grant
Valuation method	Black Scholes
Share price (p)	240
Exercise price (p)	nil
Expected volatility	N/A
Expected exercise (years)	3 and 4 years
Risk free rate	N/A
Expected dividend yield	5.65%
Fair value of options granted (£m)	9
Weighted average remaining contractual life	9.1 years

(iii) SAYE

The scheme permits the granting of options to employees linked to a bank SAYE contract for a term of three or five years. Contributions from UK employees range from £5 to £250 per month for schemes launched between 2010 and 2013 and between £5 and £500 per month for the 2014 scheme onwards. Options may be exercised at the end of the three or five year period at an exercise price determined at the invitation date. The scheme is available for a period each year for employees to join.

Exercise prices for the schemes are set out below:

2016 grant	209p per share
2015 grant	307p per share
2014 grant	240p per share
2013 grant	192p per share
2012 grant	123p per share
2011 grant	119p per share
2010 grant	102p per share

	2017		2016	
	Number million	**WAEP £**	Number million	WAEP £
Outstanding at the beginning of the year	4	2.32	4	1.89
Granted during the year	2	2.09	2	3.07
Exercised during the year	(1)	1.88	(1)	1.19
Forfeited during the year	(2)	2.37	(1)	2.54
Outstanding at the end of the year	3	2.26	4	2.32
Exercisable at the end of the year	–	–	–	–

	SAYE – 2016 grant
Valuation method	Black Scholes
Share price (p)	232
Exercise price (p)	209
Expected volatility	29.7%
Expected exercise (years)	3.8
Risk free rate	0.46%
Expected dividend yield	6.85%
Fair value of options granted (£m)	nil
Weighted average remaining contractual life	2.2 years

5. Share-based payments continued

Summary of share schemes continued

(iv) Share Match Plan

The Group launched its first all-employee, HMRC-approved Share Match Plan (SIP) in June 2014, following the Remuneration Committee approval of this scheme in the year ended 31 March 2014. This enables eligible employees to purchase market priced shares by entering into a partnership share agreement and holding such shares in trust for up to a five year period. The rules of the Plan allow an employee maximum contribution of £1,800 per annum, or in line with HMRC limits if these are increased. Approval for the TTG Share Match was granted by shareholders at the AGM on 24 July 2013.

The Remuneration Committee, at its discretion, may award matching and/or free shares to eligible participants. Matching shares may be granted up to a maximum ratio of two matching shares for each partnership share purchased by a participant. Free shares may be awarded up to a maximum value of £3,600 tax free per annum, or in line with HMRC limits if these are increased.

Currently the Group provides one matching share for each partnership share purchased by participating employees or Executive Directors. During the year ended 31 March 2017, the impact of the SIP on the Group's results was not material.

6. Net finance costs

Net finance costs are analysed as follows:

	2017 £m	2016 £m
Interest on bank loans and overdrafts	27	21
Facility fees and similar charges	5	3
Exceptional – finance income (note 9)	(7)	–
	25	24

In FY17, the Group recognised interest of £7m (2016: £nil) on a BT dispute settled in FY14 for the overcharging of certain wholesale Ethernet services (note 9). In 2016, the impact of finance income was not material.

In FY17, the Group issued £400m Senior Notes due 2022 (the bond). Arrangement fees of £5m were paid and are being amortised over the life of the notes. Upon receipt of the bond proceeds the Group repaid £50m of the term loan and the 2016 £100m RCF in full, accelerating the amortisation of the fees relating to this facility. The remaining fees in relation to the 2014 RCF, term loan and US Private Placement continue to be amortised over the expected life of the loans and are included within facility fees and similar charges above. The average interest rate in the year was 3.60% (2016: 3.10%).

7. Taxation

Accounting policy

Current tax, including UK corporation tax and overseas tax, is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is provided on temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base.

Deferred tax liabilities represent tax payable in future periods in respect of taxable temporary differences. Deferred tax assets represent tax recoverable in future periods in respect of deductible temporary differences, and the carry-forward of unused tax losses and credits. Deferred tax is determined using the tax rates that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Current and deferred tax is recognised in the income statement except where it relates to an item recognised directly in reserves, in which case it is recognised directly in reserves.

Deferred tax assets and liabilities are offset where there is a legal right to do so in the relevant jurisdictions.

Key sources of estimation uncertainty in applying the Group's accounting policy

The extent to which tax losses can be utilised depends on the extent to which taxable profits are generated in the relevant jurisdictions for the foreseeable future, and on the tax legislation then in force, and as such the value of associated deferred tax assets is uncertain.

Recovery of the deferred tax asset is estimated over a ten year time horizon using an extrapolation of the Group's three year plan. Sensitivities have been applied to these forecasts as noted in the viability statement on page 40. Forecast profits within the ten year agreed time horizon impact the level of the deferred tax asset recognition. Accordingly an increase or decrease in future profitability would increase or decrease the asset recognised. In particular, the assumptions regarding customer churn are most critical.

Notes to the consolidated financial statements continued

7. Taxation continued

Tax – income statement

The tax charge/(credit) comprises:

	2017 £m	2016 £m
Current tax		
UK corporation tax	5	–
Adjustments in respect of prior years:		
UK corporation tax	–	(1)
Total current tax charge/(credit)	5	(1)
Deferred tax		
Origination and reversal of timing differences	9	7
Effect of change in tax rate	7	6
Adjustments in respect of prior years – deferred tax credit	(1)	(3)
Adjustments in respect of prior years – exceptional (credit)/charge	(8)	3
Total deferred tax charge	7	13
Total tax charge	**12**	**12**

The tax charge on Headline earnings for the year ended 31 March 2017 was £33m (2016: £28m), representing an effective tax rate on pre-tax profits of 25% (2016: 26%). The tax charge on Statutory earnings for the year ended 31 March 2017 was £12m (2016: £12m). The reconciliation between the Headline and Statutory tax charge is shown in note 9.

The principal differences between the tax charge and the amount calculated by applying the standard rate of UK corporation tax of 20% (2016: 20%) to the profit before taxation are as follows:

	2017 £m	2016 £m
Profit before taxation	70	14
Tax at 20% (2016: 20%)	14	3
Items attracting no tax relief or liability	–	1
Effect of change in tax rate	7	6
Adjustments in respect of prior years	(1)	(3)
Adjustments in respect of prior years – exceptional (credit)/charge	(8)	3
Movement in recognised tax losses during the year	–	3
Movement in unrecognised tax losses during the year	–	(1)
Total tax charge through income statement	**12**	**12**

Tax – retained earnings and other reserves

Tax on items recognised directly in retained earnings and other reserves is as follows:

	2017 £m	2016 £m
Total tax charge through income statement	12	12
Deferred tax charge recognised directly in retained earnings and other reserves	–	3
Total tax charge through retained earnings and other reserves	**12**	**15**

The deferred tax charge recognised directly in retained earnings and other reserves for the years ended 31 March 2017 and 31 March 2016 relates to share-based payments.

7. Taxation continued

Tax – balance sheet

The deferred tax assets recognised by the Group and movements thereon during the year are as follows:

	Share-based payments £m	Timing differences on capitalised costs £m	Tax losses £m	Other timing differences £m	Total £m
At 1 April 2016	3	53	56	3	115
(Charge)/credit to the income statement	–	(11)	4	–	(7)
At 31 March 2017	3	42	60	3	108

	Share-based payments £m	Timing differences on capitalised costs £m	Tax losses £m	Other timing differences £m	Total £m
At 1 April 2015	6	54	69	1	130
(Charge)/credit to the income statement	–	(1)	(13)	2	(12)
Charge to reserves	(3)	–	–	–	(3)
At 31 March 2016	3	53	56	3	115

No deferred tax assets and liabilities have been offset in either year, except where there is a legal right to do so in the relevant jurisdictions.

On 6 September 2016, a reduction in the UK statutory rate of taxation was substantively enacted, bringing the tax rate down from 19% to 17% from 1 April 2020, replacing the 18% announced previously. Accordingly, the tax assets and liabilities recognised at 31 March 2017 take account of these changes.

At 31 March 2017, the Group had unused tax losses of £606m (2016: £650m) available for offset against future taxable profits. A deferred tax asset of £60m (2016: £56m) has been recognised in respect of £339m (2016: £299m) of such losses, based on expectations of recovery in the foreseeable future.

No deferred tax asset has been recognised in respect of the remaining £267m (2016: £351m) as there is insufficient evidence that there will be suitable taxable profits against which these losses can be recovered. All losses may be carried forward indefinitely.

8. Dividends

Accounting policy

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

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

	2017 £m	2016 £m
Ordinary dividends		
Final dividend for the year ended 31 March 2015 of 9.20p per ordinary share	–	85
Interim dividend for the year ended 31 March 2016 of 5.29p per ordinary share	–	50
Final dividend for the year ended 31 March 2016 of 10.58p per ordinary share	100	–
Interim dividend for the year ended 31 March 2017 of 5.29p per ordinary share	50	–
Total ordinary dividends[(1)]	150	135

(1) Deducted from Company reserves. See Company statement of changes in equity on page 112.

The proposed final dividend for the year ended 31 March 2017 of 5.0p (2016: 10.58p) per ordinary share on approximately 950 million (2016: 946 million) ordinary shares (approximately £48m) was approved by the Board on 10 May 2017 and will be recommended to shareholders at the AGM on 19 July 2017. The dividend has not been included as a liability as at 31 March 2017. The payment of this dividend will not have any tax consequences for the Group.

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

Notes to the consolidated financial statements continued

9. Reconciliation of Headline information to statutory information

Headline information is provided because the Directors consider that it provides assistance in understanding the Group's underlying performance.

Accounting policy

Headline results are stated before the amortisation of acquisition intangibles and exceptional items. Exceptional items are those that are considered to be one-off or non-recurring in nature and so material that the Directors believe that they require separate disclosure to avoid distortion of the presentation of underlying performance and should be separately presented on the face of the income statement.

Critical judgements in applying the Group's accounting policy

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

Year ended 31 March 2017	Revenue £m	EBITDA £m	Operating profit £m	Profit before taxation £m	Taxation £m	Profit for the year £m
Headline results	1,783	304	165	133	(33)	100
Exceptional items – Operating efficiencies – MTTS (a)	–	(24)	(24)	(24)	5	(19)
Exceptional items – Operating efficiencies – property (b)	–	(8)	(8)	(8)	2	(6)
Exceptional items – Network transformation (c)	–	(8)	(11)	(11)	2	(9)
Exceptional items – Mobile proposition (d)	–	(49)	(49)	(49)	10	(39)
Exceptional items – Acquisitions and disposals (e)	–	1	1	1	–	1
Exceptional items – Disputed network charges (f)	–	29	29	29	(6)	23
Exceptional items – Operating expenses – cyber attack (g)	–	2	2	2	(1)	1
Exceptional items – Finance income (h)	–	–	–	7	(1)	6
Exceptional items – Taxation (i)	–	–	–	–	8	8
Amortisation of acquisition intangibles (j)	–	–	(10)	(10)	2	(8)
Statutory results	1,783	247	95	70	(12)	58

Year ended 31 March 2016	Revenue £m	EBITDA £m	Operating profit £m	Profit before taxation £m	Taxation £m	Profit for the year £m
Headline results	1,838	260	131	107	(28)	79
Exceptional items – Revenue – cyber attack (g)	(3)	(3)	(3)	(3)	1	(2)
Exceptional items – Operating expenses – cyber attack (g)	–	(39)	(39)	(39)	8	(31)
Exceptional items – Operating efficiencies – MTTS (a)	–	(31)	(31)	(31)	6	(25)
Exceptional items – Operating efficiencies – property (b)	–	(10)	(10)	(10)	2	(8)
Exceptional items – Taxation (i)	–	–	–	–	(3)	(3)
Amortisation of acquisition intangibles (j)	–	–	(10)	(10)	2	(8)
Statutory results	1,835	177	38	14	(12)	2

During the year ended 31 March 2017, cash exceptional items amounted to £46m (2016: £88m).

a) Operating efficiencies – Making TalkTalk Simpler (MTTS)

During the year ended 31 March 2017, the Group substantially completed its wide-ranging transformation programme that is delivering material improvements to our customers' experience, driving operating cost savings, and reducing SAC through lower churn and costs per add (CPA).

The costs incurred in the year include work on improving Consumer and TalkTalk Business systems and processes which focus on customer experience and the review of the organisational structure of the business.

These programmes have resulted in £24m (2016: £31m) of costs including project management, redundancy, consultancy, migration and call centre costs.

A total taxation credit of £5m has been recognised on these costs in the year ended 31 March 2017 (2016: £6m).

9. Reconciliation of Headline information to statutory information continued

Critical judgements in applying the Group's accounting policy continued

b) Operating efficiencies – property rationalisation

During the prior year the Group reviewed the sites from which it operates, and announced its intention to exit its Warrington and Irlam sites to relocate to one site at the Soapworks in Salford.

These programmes have resulted in £8m (2016: £10m) of costs including redundancy, property, consultancy and dual running costs.

A total taxation credit of £2m has been recognised on these costs in the year ended 31 March 2017 (2016: £2m).

c) Network transformation

During the year ended 31 March 2017, the Group embarked on a significant transformation programme which will fundamentally restructure the Group's network, IT infrastructure and technology organisation. The change the Group is undertaking will ensure it is fit for the future and underpins the wider Group strategy in providing a great service to our customers as a value provider in the industry. This is a discrete project expected to run until FY20.

This programme has resulted in £11m (2016: £nil) of costs including project management, consultancy, dual running costs, decommissioning costs and accelerated depreciation costs.

A total taxation credit of £2m has been recognised on these costs in the year ended 31 March 2017 (2016: £nil).

d) Mobile proposition

During the year ended 31 March 2017, the Group began to reorganise the business under the new leadership team focusing on fewer, clearer priorities that are focused on investment in the Group's core fixed network. As part of the review the Group reassessed its mobile strategy and how capital is allocated. The Group has therefore decided not to pursue an inside-out mobile network strategy and instead we will continue to work closely with Telefónica UK on the right platform and customer offering.

As a result, the Group has assessed that items within inventory and property, plant and equipment have no further economic benefit to the Group leading to impairment charges and onerous lease costs of £49m (2016: £nil). Additional reorganisation costs may be incurred in FY18 as the Group works with its MNO partners on developing an alternative mobile distribution strategy.

A total taxation credit of £10m has been recognised on these costs in the year ended 31 March 2017 (2016: £nil).

e) Acquisitions and disposal

During the year ended 31 March 2017, final migrations of prior year customer base acquisitions were completed, following completion any amounts provided for but not utilised were released resulting in a credit of £1m (2016: £nil).

The tax impact in either year is immaterial.

f) Disputed network charges

During the year ended 31 March 2017, the Group has recognised a £29m credit (2016: £nil) following the resolution of disputes relating to prior periods.

A total taxation charge of £6m has been recognised on these credits in the year ended 31 March 2017 (2016: £nil).

g) Cyber attack

During the year ended 31 March 2017, the Group received insurance proceeds of £3m (2016: £nil) in relation to specific cyber related costs incurred in the prior year offset by £1m of costs incurred in the current year, including an ICO fine of £0.4m.

A total taxation charge of £1m has been recognised on these items in the year ended 31 March 2017 (2016: £nil).

In the prior year, there was a significant and sustained cyber attack on the TalkTalk website. Following this attack the Group issued an increased number of credits to retain its customers. The costs of these credits are recognised against revenue and amounted to £3m. The Group also incurred costs of £39m. These costs included restoring our online capability with enhanced security features, associated IT, incident response and consultancy costs and providing free upgrades to our customers.

A total taxation charge of £nil has been recognised on these items in the year ended 31 March 2017 (2016: credit of £8m).

h) Finance income

During the year ended 31 March 2017, the Group recognised interest of £7m (2016: £nil) on a BT dispute settled in FY14 for the overcharging of certain wholesale Ethernet services.

A total taxation charge of £1m has been recognised on these items in the year ended 31 March 2017 (2016: £nil).

i) Taxation items

During the year ended 31 March 2017, the Group resolved a longstanding enquiry with HMRC in relation to the tax treatment of £85m of losses in respect of TalkTalk Brands Limited. This has resulted in a tax credit of £8m (2016: £nil).

In the prior year, the Group recognised a tax charge of £3m which relates to the impact of the statutory corporation tax rate change from 20% to 19% and then to 18% on prior year exceptional tax assets.

j) Amortisation of acquisition intangibles

An amortisation charge in respect of acquisition intangibles of £10m was incurred in the year ended 31 March 2017 (2016: £10m).

A total taxation credit of £2m has been recognised in relation to the charge in the year ended 31 March 2017 (2016: £2m).

Notes to the consolidated financial statements continued

10. Earnings per ordinary share

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

	2017 £m	2016 £m
Headline earnings (note 9)	100	79
Statutory earnings	58	2
Weighted average number of shares (millions)		
Shares in issue	955	955
Less weighted average holdings by Group ESOT	(7)	(19)
For basic EPS	948	936
Dilutive effect of share options (note 5)	11	11
For diluted EPS	959	947

	2017 Pence	2016 Pence
Basic earnings per ordinary share		
Headline	10.5	8.4
Statutory	6.1	0.2

	2017 Pence	2016 Pence
Diluted earnings per ordinary share		
Headline	10.4	8.3
Statutory	6.0	0.2

There are no share options considered anti-dilutive in the year ended 31 March 2017 (2016: nil).

11. Goodwill and other intangible assets

(a) Goodwill

Accounting policy

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing the excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired is recognised initially as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

On disposal of a subsidiary undertaking, the relevant goodwill is included in the calculation of the profit or loss on disposal.

The Group has two cash generating units (CGUs) – TalkTalk Consumer and TalkTalk Business, which represent the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Cash inflows generated by the TalkTalk Consumer CGU represent income generated from the provision of telecommunication services to Retail customers. Cash inflows generated by the TalkTalk Business CGU represent income generated from the provision of telecommunication services to B2B customers.

For the purpose of impairment testing, at the acquisition date, goodwill is allocated to each of the CGUs expected to benefit from the synergies of the acquisition. The Group's shared costs and assets relating mainly to infrastructure and central overheads are allocated across the two CGUs based on the relative future cash flows that those shared costs support.

Determining whether goodwill is impaired requires estimation of the value in use of the CGUs to which the goodwill has been allocated. In assessing value in use, the estimated cash flows of each CGU are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Impairment of goodwill

Goodwill is not subject to amortisation but is tested for impairment annually or whenever there is an indication that the asset may be impaired; this review is performed at a CGU level.

Impairment is determined by assessing the future cash flows of the CGU to which the goodwill relates. The future cash flows of the Group are taken from the Group's three year plan and extrapolated out to 20 years based on the UK's long term growth rate. This is discounted by the CGU's weighted average cost of capital pre-tax to give the net present value of that CGU. Where the net present value of future cash flows is less than the carrying value of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss is recognised in the income statement and is not subsequently reversed.

11. Goodwill and other intangible assets continued

(a) Goodwill continued

Impairment of goodwill continued

Sensitivity analysis is performed using reasonably possible changes in the key assumptions.

	2017 £m	2016 £m
Opening cost and net book value	495	490
Acquisitions (note 13)	–	5
Closing cost and net book value	**495**	**495**

The goodwill acquired in business combinations is allocated at acquisition to the CGUs that are expected to benefit from that business combination. The allocation of goodwill across the CGUs is as follows:

	2017 £m	2016 £m
TalkTalk Consumer	347	347
TalkTalk Business	148	148
	495	495

Impairment review

The key assumptions used in the Group's goodwill impairment review are as follows:

- Long term growth rates
  Long term revenue growth rates applied are based on the growth rate for the UK per the Organisation for Economic Co-operation and Development (OECD). The rate applied in the current year was 2.0% (2016: 2.0%).
- Discount rate
  The underlying discount rate for each CGU is based on the UK ten year gilt rate adjusted for an equity risk premium and the systematic risk of the CGU. The average pre-tax rate for both CGUs used to discount the forecast cash flows is 8.0% (2016: 10.2%). The assumptions used in the calculation of the CGUs' discount rate are benchmarked to externally available data. The same discount rate has been applied to both CGUs due to the similarity of risk factors and geographical location.
- Capital expenditure
  Forecast capital expenditure to maintain property, plant and equipment is based on senior management expectations of future required support of the network and current run rate of expenditure, typically at 6–7% of revenue.
- Customer factors
  The key assumptions for the forecast cash flows of each of the CGUs are based on expected customer growth rates, ARPU, direct costs including acquisition costs, and changes in product mix. The value assigned to each of these assumptions has been determined based on the extrapolation of historical trends in the Group and external information on expected trends of future market developments.

Sensitivity analysis has been performed for each key assumption and the Directors have not identified any reasonably possible changes in the key assumptions that would cause the carrying value of goodwill to exceed the recoverable amount.

(b) Other intangible assets

Accounting policy

Operating intangibles

Operating intangibles include internal infrastructure and design costs incurred in the development of software for internal use. Internally generated software is recognised as an intangible asset only if it can be separately identified, it is probable that the asset will generate future economic benefits, and the development cost can be measured reliably. Where these conditions are not met, development expenditure is recognised as an expense in the year in which it is incurred. Directly attributable costs that are capitalised include employee costs specifically incurred in the development of the intangible asset. Operating intangibles are amortised on a straight line basis over their estimated useful economic lives of up to eight years.

Acquisition intangibles

Acquired intangible assets such as customer bases and other intangible assets acquired through a business combination are capitalised separately from goodwill and amortised over their expected useful lives of up to six years on a straight line basis. The value attributed to such assets is based on the future economic benefit that is expected to be derived from them, calculated as the present value of future cash flows after a deduction for contributory assets.

Impairment

At the acquisition date, acquisition intangibles are allocated to each of the CGUs expected to benefit from the synergies of the combination. The Group's shared costs and assets relating mainly to infrastructure and central overheads are allocated across the two CGUs based on the relative future cash flows.

Determining whether the carrying amounts of operating and acquisition intangibles have any indication of impairment requires judgement. If an indication of impairment is identified, further judgement is required to assess whether the carrying amounts can be supported by the value in use of the CGU that the asset is allocated to.

The value in use calculation involves estimation of both the future cash flows of the CGUs and the selection of appropriate discount rates to use to calculate present values.

Notes to the consolidated financial statements continued

11. Goodwill and other intangible assets continued

(b) Other intangible assets continued

Accounting policy continued

Useful economic lives

The assessment of the useful economic lives of these operating and acquisition intangibles requires judgement. Amortisation is charged to the income statement based on the useful economic life selected. This assessment requires estimation of the period over which the Group will benefit from the assets.

Impairment of assets

The Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss at each reporting date. Where an indicator of impairment exists, the Group makes a formal estimate of the asset's recoverable amount and the extent of any impairment loss.

The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than the carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount.

Other intangible assets are analysed as follows:

	Operating intangibles £m	**Non-operating £m**	**Total other intangibles £m**
Opening balance at 1 April 2016	193	34	227
Additions	85	–	85
Amortisation	(59)	(10)	(69)
Closing balance at 31 March 2017	219	24	243
Cost (gross carrying amount)	543	142	685
Accumulated amortisation	(324)	(118)	(442)
Closing balance at 31 March 2017	219	24	243

	Operating intangibles £m	Non-operating £m	Total other intangibles £m
Opening balance at 1 April 2015	136	42	178
Additions	106	–	106
Finalisation of provisional acquisition intangible	–	2	2
Amortisation	(49)	(10)	(59)
Closing balance at 31 March 2016	193	34	227
Cost (gross carrying amount)	458	142	600
Accumulated amortisation	(265)	(108)	(373)
Closing balance at 31 March 2016	193	34	227

Operating intangibles

Operating intangibles includes internally generated assets with a net book value of £102m (2016: £88m), which are amortised over a period of up to eight years. This includes additions of £32m (2016: £43m) and an amortisation charge of £18m (2016: £14m) in the year ended 31 March 2017.

Included within operating intangibles is the following asset, which is material to the Group:

- TRIO, the customer billing system, which has a net book value of £28m (2016: £47m). TRIO is amortised over a period of up to eight years depending on the release date of the relevant component. The weighted average remaining useful economic life of the components of TRIO is two years (2016: two years).

Acquisition intangibles

Acquisition intangibles relate to the broadband customer bases acquired from Virgin Media and Tesco in a prior year; these customer bases are valued from the discounted future cash flows expected from them, after a deduction for contributory assets.

At 31 March 2017, the net book value of the acquired broadband bases is material to the Group; with the Virgin Media base valued at £12m (2016: £16m) and the Tesco base valued at £12m (2016: £15m), with remaining useful economic lives of 34 months (2016: 46 months) and 35 months (2016: 47 months) respectively.

12. Property, plant and equipment

Accounting policy

Property, plant and equipment are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its expected useful life from the date it is brought into use, as follows:

Short leasehold improvements	10% or the lease term if less than ten years
Land and buildings	3.33% per annum
Network equipment and computer hardware	12.5–50% per annum
Fixtures and fittings	20–25% per annum

Impairment of assets

Property, plant and equipment

The Group reviews the carrying amounts of its fixed assets to determine whether there is any indication that those assets have suffered an impairment loss at each reporting date. The Group uses the same methodology as set out in note 11 for operating and acquisition intangibles.

	Short leasehold improvements £m	Land and buildings £m	Network equipment and computer hardware £m	Fixtures and fittings £m	Total £m
Opening balance at 1 April 2016	–	7	294	1	302
Additions	–	2	35	6	43
Depreciation	–	–	(71)	(1)	(72)
Disposals	–	(8)	(8)	–	(16)
Impairment (note 9)	–	–	(22)	–	(22)
Reclassification	1	(1)	–	–	–
Closing balance at 31 March 2017	1	–	228	6	235
Cost (gross carrying amount)	7	–	841	8	856
Accumulated depreciation and impairment charges	(6)	–	(613)	(2)	(621)
Closing balance at 31 March 2017	1	–	228	6	235

	Short leasehold improvements £m	Land and buildings £m	Network equipment and computer hardware £m	Fixtures and fittings £m	Total £m
Opening balance at 1 April 2015	–	–	288	2	290
Additions	–	7	89	–	96
Depreciation	–	–	(71)	(1)	(72)
Disposals	–	–	(12)	–	(12)
Closing balance at 31 March 2016	–	7	294	1	302
Cost (gross carrying amount)	6	7	814	2	829
Accumulated depreciation and impairment charges	(6)	–	(520)	(1)	(527)
Closing balance at 31 March 2016	–	7	294	1	302

13. Non-current asset investments

Accounting policy

Investments, other than subsidiaries, are initially recognised at cost, being the fair value of the consideration given plus any transaction costs associated with the acquisition.

Investments are categorised as available for sale and are recorded at fair value. Changes in fair value, together with any related taxation, are taken directly to equity and recycled to the income statement when the investment is sold or determined to be impaired.

Non-current asset investments at 31 March 2017 related to a 7.3% (2016: 7.3%) interest in Shared Band Limited, a telecommunications technology provider. The cost of the investment is not material.

Notes to the consolidated financial statements continued

13. Non-current asset investments continued

Accounting policy continued

(a) Investments

The Parent Company has investments in the following subsidiary undertakings, which affected the profits or losses or net assets of the Group.

Subsidiary undertakings	Country of incorporation or registration	Registered office	Principal activity	Percentage of shareholding
TalkTalk Telecom Holdings Limited(1)	England & Wales	11 Evesham Street(2)	Holding company	100
Beheer-en Beleggingsmaatschappij Antika BV	Netherlands	Euroweg(3)	Non-trading	100
Wireless Internet Portfolio BV	Netherlands	Euroweg(3)	Non-trading	100
TalkTalk Brands Limited	England & Wales	11 Evesham Street(2)	Telecommunications	100
TalkTalk Group Ltd	England & Wales	11 Evesham Street(2)	Holding company	100
CPW Broadband Services (UK) Ltd	England & Wales	11 Evesham Street(2)	Telecommunications	100
Future Office Communications Limited	England & Wales	11 Evesham Street(2)	Telecommunications	100
TalkTalk Broadband Services (Ireland) Limited	Ireland	39/40 Upper Mount Street(4)	Non-trading	100
TalkTalk Business (2CCH) Limited	England & Wales	11 Evesham Street(2)	Telecommunications	100
TalkTalk Communications Limited	England & Wales	11 Evesham Street(2)	Telecommunications	100
CPW Network Services Limited	England & Wales	11 Evesham Street(2)	Telecommunications	100
TalkTalk Corporate Limited	England & Wales	11 Evesham Street(2)	Holding company	100
Core Telecommunications Limited	England & Wales	11 Evesham Street(2)	Non-trading	100
CPW UK Group Limited	England & Wales	11 Evesham Street(2)	Dormant	100
TalkTalk RB Limited (formerly Ratebuster Ltd)	England & Wales	11 Evesham Street(2)	Dormant	100
TalkTalk Technology Limited	England & Wales	11 Evesham Street(2)	Dormant	100
Telequip Limited	England & Wales	348–350 Lytham Road(5)	In liquidation	100
Telco Global Limited	England & Wales	11 Evesham Street(2)	Dormant	100
Vartec Telecom Europe Limited	England & Wales	11 Evesham Street(2)	Dormant	100
Video Networks Limited	England & Wales	11 Evesham Street(2)	Dormant	100
World Online Telecom Limited	England & Wales	11 Evesham Street(2)	Dormant	100
GIS Telecoms Limited	England & Wales	11 Evesham Street(2)	Dormant	100
TalkTalk Direct Limited	England & Wales	11 Evesham Street(2)	Dormant	100
Opal Connect Limited	England & Wales	11 Evesham Street(2)	Dormant	100
Opal Business Solutions Limited	England & Wales	11 Evesham Street(2)	Dormant	100
UK Telco (GB) Limited	England & Wales	11 Evesham Street(2)	Dormant	100
TalkTalk UK Communications Services Limited	England & Wales	11 Evesham Street(2)	Dormant	100
Onetel Telecommunications Limited	England & Wales	11 Evesham Street(2)	Dormant	100
V Networks Limited	England & Wales	11 Evesham Street(2)	Dormant	100
Green Dot Property Management Limited	England & Wales	11 Evesham Street(2)	Non-trading	100
Executel Ltd	England & Wales	11 Evesham Street(2)	Dormant	100
Greystone Telecom Limited	England & Wales	11 Evesham Street(2)	Dormant	100
Pipex Internet Limited	England & Wales	11 Evesham Street(2)	Dormant	100
Pipex Communications Services Limited	England & Wales	11 Evesham Street(2)	Dormant	100
Pipex UK Limited	England & Wales	11 Evesham Street(2)	Dormant	100
TalkTalk Telecom Limited	England & Wales	11 Evesham Street(2)	Telecommunications	100
Telco Holdings Limited	England & Wales	11 Evesham Street(2)	Telecommunications	100
Telco Global Distribution Limited	England & Wales	11 Evesham Street(2)	Dormant	100
Tele2 Telecommunication Services Limited	Ireland	39/40 Upper Mount Street(4)	Non-trading	100
Tiscali UK Limited	England & Wales	11 Evesham Street(2)	Telecommunications	100
Toucan Residential Ireland Limited	Ireland	39/40 Upper Mount Street(4)	Non-trading	100
TalkTalk TV Entertainment Limited (formerly blinkbox)	England & Wales	11 Evesham Street(2)	Telecommunications	100
tIPicall Limited	England & Wales	11 Evesham Street(2)	Telecommunications	100

(1) Directly held subsidiary.
(2) Full address: 11 Evesham Street, London, W11 4AR.
(3) Full address: Euroweg 20 3825 HD Amersfoort, Amsterdam, Netherlands.
(4) Full address: 39/40 Upper Mount Street, Dublin 2, Ireland.
(5) Full address: 348–350 Lytham Road, Blackpool, Lancashire, FY4 1DW.

13. Non-current asset investments continued

Accounting policy continued

(a) Investments continued

Joint venture undertakings	Country of incorporation or registration	Registered office	Principal activity	Percentage of shareholding
YouView TV Limited	England & Wales	10 Lower Thames Street(1)	Telecommunications	14.3
Bolt Pro Tem Limited	England & Wales	15 Bedford Street(2)	Telecommunications	33.3
Internet Matters Limited	England & Wales	6th Floor One London Wall(3)	Telecommunications	25.0

(1) Full address: 10 Lower Thames Street, Third Floor, London, EC3R 6YT.

(2) Full address: 15 Bedford Street, London, WC2E 9HE.

(3) Full address: 6th Floor One London Wall, London, EC2Y 5EB.

(b) Acquisitions and disposals

(i) Acquisitions

The Group has made no acquisitions during the year ended 31 March 2017. There was no movement in the provisional goodwill recognised in the prior year relating to the tIPicall Limited acquisition when the goodwill was finalised in the current year.

The Group made the following acquisition during the year ended 31 March 2016:

tIPicall Limited

On 22 April 2015, the Group acquired 100% shares of tIPicall Limited, a company providing Voice over Internet Protocol (VoIP) services. The acquisition was satisfied by £5m cash plus £1m of contingent consideration depending on the performance of the business.

The amounts recognised in respect of assets and liabilities acquired are immaterial to the Group. The book value of the assets acquired is expected to equal their fair value. On this basis goodwill recognised in relation to the acquisition is £6m. This represents the future opportunities arising from the nature of the business and fit with the Group's existing operations. The provisional goodwill has been allocated to the Business cash generating unit (CGU).

(ii) Disposals

The Group has made no disposal of investments during the current or prior year.

14. Interest in joint ventures

Accounting policy

Interests in joint ventures are accounted for using the equity method. The Group income statement includes the Group's share of the post-tax profits or losses of the joint ventures based on their financial statements for the year.

In the Group balance sheet, the Group's interest in joint ventures is shown as a non-current asset, representing the Group's investment in the share capital of the joint ventures, as adjusted for post-acquisition changes in the Group's share of the net assets or liabilities less provision for any impairment.

In addition to the carrying amount of the investment, the Group's interest in joint ventures includes, where applicable, any long term interests in the venture that, in substance, form part of the Group's net investment in the joint venture. An item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension of the Group's interest in that joint venture.

Any loans advanced to a joint venture that, in substance, do not form part of the Group's net investment are shown separately in the balance sheet as a receivable to the Group. Losses recognised using the equity method in excess of the Group's investment in ordinary shares are applied to the other components of the Group's interest in the joint venture in the reverse order of their seniority (i.e. priority in liquidation).

YouView TV Limited ('YouView')

The Group holds 14.3% (2016: 14.3%) of the ordinary share capital of YouView, a joint venture with The British Broadcasting Corporation, ITV Broadcasting Limited, British Telecom PLC (BT), Channel Four Television Corporation, Arqiva Limited and Channel 5 Broadcasting Limited. The joint venture was set up in order to develop a free-to-air internet-connected TV service to UK homes. During a prior year, the Group signed a new agreement with the other existing holders of YouView whereby all seven original partners (together 'Tier 1' funders) continue to contribute approximately £1m per annum to fund basic operational and technology costs of YouView, and the Group together with BT as 'Tier 2' funders contribute up to a further £10m per annum for additional development of the technology to support their TV propositions. The Group's total contribution to YouView in the year ended 31 March 2017 was £10m (2016: £8m).

There was no change in the overall control of the joint venture as a result of these changes as all seven partners share overall control. Under this agreement, the Group's share of losses comprises one-seventh of any Tier 1 loss and half of any Tier 2 loss. During the year ended 31 March 2017, the Group recognised a £11m share of losses (2016: £8m).

The Group has reviewed the carrying value of YouView and has concluded that there is no indication of impairment.

14. Interest in joint ventures continued

Accounting policy continued

Bolt Pro Tem Limited

The Group holds 33.3% of the ordinary share capital of Bolt Pro Tem Limited (BPT), a joint venture with British Sky Broadcasting Limited (BSkyB) and City Fibre Holdings Limited. The joint venture was set up in the prior year to deliver fibre to the premise (FTTP) broadband services in the City of York. During the year ended 31 March 2017, the Group contributed £nil (2016: £1m) to the joint venture and received £nil share of losses (2016: £nil).

During the prior year, due to an increased certainty around the time of the repayment of a portion of the Group's contribution to BPT, it was concluded that £3m was, in substance, a loan to BPT and not an extension of the investment in the joint venture. This was therefore reclassified on the balance sheet as a non-current trade and other receivable. During the current year the Group lent a further £1m to BPT increasing the overall balance to £4m.

The Group has reviewed the carrying value of BPT and has concluded that there is no indication of impairment.

Internet Matters Limited

During the year ended 31 March 2014, the Group, alongside BSkyB, BT and Virgin Media established an equal membership joint venture, Internet Matters Limited. It is a not-for-profit company set up as an industry-led body to promote and educate parents about internet safety for children.

Interest in joint ventures is analysed as follows:

	2017 £m	2016 £m
Opening balance at 1 April	9	10
Additions	10	10
Share of results	(11)	(8)
Reclassification to non-current assets – trade and other receivables	–	(3)
Closing balance at 31 March	8	9

The Group's share of the results, assets and liabilities of its joint ventures are as follows:

Group share of results of joint ventures	2017 £m	2016 £m
Expenses	(11)	(8)
Loss before taxation	(11)	(8)
Taxation	–	–
Loss after taxation	(11)	(8)

Group share of net assets of joint ventures	2017 £m	2016 £m
Non-current assets	8	9
Net assets	8	9

15. Inventories

Accounting policy

Inventories are stated at the lower of cost and net realisable value, valued on a FIFO basis, and consists primarily of set top boxes, power line adaptors and routers. Net realisable value is based on estimated selling price, less costs expected to be incurred. A provision is made for obsolete items where appropriate.

	2017 £m	2016 £m
Goods for resale	18	57

During FY17, the Group revised its strategy toward its mobile proposition giving rise to an impairment of £18m (2016: £nil). The impairment has been recognised as an exceptional item (note 9).

16. Trade and other receivables

Trade and other receivables comprise:

	2017 £m	2016 £m
Non-current – trade and other receivables		
Trade and other receivables	2	–

16. Trade and other receivables continued

	2017 £m	2016 £m
Current – trade and other receivables		
Trade receivables – gross	192	174
Less provision for impairment	(45)	(30)
Trade receivables – net	147	144
Other receivables	136	84
Prepayments	32	21
Accrued income	54	45
Trade and other receivables	369	294

The Directors estimate that the carrying amount of trade receivables approximates to their fair value.

The average credit period taken on trade receivables, calculated by reference to the amount owed at the year end as a proportion of total revenue in the year, was 33 days (2016: 29 days).

As explained in note 18, in September 2016, the Group signed a £75m receivables purchase agreement which matures in September 2018. The Group has the ability on a rolling basis to sell its trade receivables to a third party vehicle in exchange for a discounted consideration. The Group varies the level of trade receivables sold into the programme as part of managing its liquidity position. The Group is deemed to control the third party vehicle and therefore continues to consolidate the relevant trade receivables on the grounds that substantially not all the risks and rewards of ownership have been transferred under the programme.

The Group's trade receivables are denominated in the following currencies:

	2017 £m	2016 £m
UK Sterling	181	163
Other	11	11
	192	174

The ageing of gross trade receivables is as follows:

	2017 £m	2016 £m
Not yet due	85	65
0 to 2 months	15	28
2 to 4 months	17	21
Over 4 months	75	60
	192	174

The ageing of the provision for impairment of trade receivables is as follows:

	2017 £m	2016 £m
Not yet due	–	(1)
0 to 2 months	(2)	(1)
2 to 4 months	(2)	–
Over 4 months	(41)	(28)
	(45)	(30)

Movements in the provisions for impairment of trade receivables are as follows:

	2017 £m	2016 £m
Opening balance	(30)	(25)
Charged to the income statement	(60)	(71)
Receivables written off as irrecoverable	45	66
Closing balance	(45)	(30)

Notes to the consolidated financial statements continued

16. Trade and other receivables continued

Trade receivables of £62m (2016: £80m) were past due, but not impaired. These balances primarily relate to TalkTalk Consumer and TalkTalk Business fixed line customers. The Group has made provisions based on historical rates of recoverability and all unprovided amounts are considered to be recoverable. The ageing analysis of these trade receivables is as follows:

	2017 £m	2016 £m
0 to 2 months	13	27
2 to 4 months	15	21
Over 4 months	34	32
	62	80

17. Trade and other payables

	2017 £m	2016 £m
Trade payables	273	304
Other taxes and social security costs	37	28
Other payables	12	19
Accruals	138	150
Deferred income	51	62
	511	563

The Group has commercially agreed longer credit terms with certain suppliers. Excluding these suppliers, the underlying average credit period taken on trade payables was 50 days (2016: 40 days). Including these suppliers, the average credit period taken was 57 days (2016: 56 days). Included in trade payables are capital payables amounting to £65m (2016: £55m).

Rebates receivable from suppliers are accounted for in accordance with the policy set out in note 1.

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

18. Cash and cash equivalents and borrowings

(a) Cash and cash equivalents are as follows:

	2017 £m	2016 £m
Cash at bank and in hand	50	10

The effective interest rate on bank deposits and money market funds was 0.1% (2016: 0.3%).

(b) Borrowings comprise:

	Maturity	2017 £m	2016 £m
Current (£100m term loan)	2017	–	25

	Maturity	2017 £m	2016 £m
Non-current			
$185m US Private Placement (USPP) Notes	2021, 2024, 2026	148	129
£560m revolving credit facility	2019	165	430
£50m bilateral agreements	2019	50	50
£100m term loan	2019	50	75
£100m revolving credit facility	2017	–	–
£75m receivables purchase agreement facility	2018	58	–
£400m Senior Notes	2022	400	–
Non-current borrowings before derivatives		871	684
Total borrowings before derivatives		871	709
Derivatives		(39)	(20)
Borrowings after derivatives		832	689

18. Cash and cash equivalents and borrowings continued

(b) Borrowings comprise: continued

	Maturity	**2017 £m**	2016 £m
Undrawn available committed facilities	2018, 2019	**412**	255

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

	2017 £m	2016 £m
Less than 1 year	**–**	25
1 to 2 years	**58**	25
2 to 3 years	**265**	–
3 to 4 years	**–**	530
4 to 5 years	**482**	–
Greater than 5 years	**27**	109
Borrowings after derivatives	**832**	689

Borrowing facilities

The Group's committed facilities total £1,244m (2016: £944m). The Group's uncommitted facilities total £116m (2016: £81m) giving headroom on committed facilities and uncommitted facilities of £412m (2016: £255m) and £116m (2016: £81m) respectively.

The financial covenants included in each bank facility and the USPP Notes restrict the ratio of net debt to EBITDA and require minimum levels of interest cover. The amounts used in the covenant calculations are subject to adjustments 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 31 March 2017 are set out below:

£400m Senior Notes

On 15 January 2017 TalkTalk Telecom Group PLC issued £400m Senior Notes due 2022. The Senior Notes include incurrence-based covenants customary for this type of debt, including limitations on TalkTalk's ability to incur additional debt and make restricted payments, subject to certain exceptions. The Group is permitted to incur additional debt subject to compliance with a net debt to EBITDA ratio of 4.0x and to pay dividends when net debt to EBITDA is below 3.0x (2.75x from January 2019). Regardless of the Company's net debt to EBITDA ratio, dividends are also permitted to be paid out of a basket based on 50% of cumulative consolidated net income from 1 October 2016. The Senior Notes also contain a separate exception for the payment of the final dividend for FY17 up to £105m. The interest rate payable on the notes is 5.375% payable semi-annually. The bond proceeds were used to repay the drawings of the £100m 2016 revolving credit facility in full, and partially repay the drawings under the 2014 revolving credit facility and term loan.

$185m USPP Notes

In July 2014, the Group issued $185m of USPP Notes maturing in three tranches ($139m in 2021, $25m in 2024 and $21m in 2026). The interest rate payable on the Notes is at a margin over US treasury rate for the appropriate period. The USPP proceeds were swapped to Sterling to give £109m (£82m in 2021, £15m in 2024 and £12m in 2026) and the net debt includes retranslation of the USPP funds at the rates achieved where hedged by cross-currency swaps. The fair value of the cross-currency rate swap at 31 March 2017 was £39m (2016: £20m).

£560m revolving credit facility (RCF) and £50m bilateral agreement

The Group has a £560m RCF, which matures in July 2019. 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. In addition to the RCF, the Group also has a £50m bilateral agreement on the same terms, signed in July 2014, which matures in July 2019.

£100m term loan

Following repayment of £50m from the bond proceeds, the Group has a committed term loan of £50m (March 2016: £100m), with a final maturity date of July 2019. The interest rate payable in respect of drawings under this facility is at a margin over LIBOR for the appropriate period. The actual margin applicable to any drawing depends on the ratio of net debt to EBITDA calculated in respect of the most recent accounting period.

Receivables purchase agreement

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

18. Cash and cash equivalents and borrowings continued

(b) Borrowings comprise: continued

Borrowing facilities continued

Uncommitted money market facilities and bank overdrafts

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

New £640m revolving credit facility (RCF)

On 8 May 2017, the Group refinanced the 2014 RCF, the 2014 bilateral agreement and the £100m term loan. The new £640m 2017 RCF is a five year committed facility which contains financial covenants that restrict the ratio of net debt to EBITDA and requires minimum levels of interest cover. The interest rate payable on this facility is at a margin over LIBOR for the appropriate period. The actual margin applicable to any drawing depends on the ratio of net debt to EBITDA calculated in respect of the most recent accounting period.

19. 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:

	2017 £m	2016 £m
Financial assets(1)		
Cash and cash equivalents	**50**	10
Trade and other receivables(2)	**369**	294
Non-current investments and investment in joint venture	**8**	9
Non-current trade and other receivables	**6**	3
Derivative instruments in designated hedge accounting relationships:		
Derivative financial instruments(3)	**31**	18
Financial liabilities(1)		
Trade and other payables	**(460)**	(501)
Borrowings before derivatives	**(871)**	(709)
Derivative instruments in designated hedge accounting relationships:		
Derivative financial instruments(3)	**–**	(1)
	(867)	(877)

(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 £32m (2016: £20m) relates to the USPP Notes, and (£1m) (2016: (£2m)) 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 cross-currency 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 (a) swap the interest rate risk on the bank debt from floating to fixed rates. The outstanding swaps mature between December 2017 and January 2019 and (b) swap the currency and interest rate risk on the USPP debt from USD to GBP and from fixed US Treasury interest rates to fixed GBP interest rates. The outstanding swaps cover the semi-annual cash flows associated with the USPP debt and final maturities are in intervals to match the USPP debt maturities. 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 31 March 2017 is £38m (2016: £17m). A loss of £5m (2016: gain of £2m) has been recognised in other comprehensive income in the period ended 31 March 2017. As the hedges were fully effective there has been no income statement or tax impact.

(b) Embedded derivatives

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

19. Financial risk management and derivative financial instruments continued

(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 uses cross-currency swaps to hedge its US Dollar denominated borrowings (US Private Placement). At 31 March 2017, the adjustment to translate our net debt to Sterling at swap rates to reflect the impact of hedging was £39m (2016: £20m).

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/US Dollar exchange rate on either the income statement or other equity. The effect of foreign exchange derivatives on borrowings at the year end was as follows:

	UK Sterling £m	**US Dollar £m**	**Total £m**
2017			
Borrowings before derivatives	723	148	871
Derivatives	–	(39)	(39)
Borrowings after derivatives	723	109	832

	UK Sterling £m	US Dollar £m	Total £m
2016			
Borrowings before derivatives	580	129	709
Derivatives	–	(20)	(20)
Borrowings after derivatives	580	109	689

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.

	2017 £m	2016 £m
100 basis points movement in the UK Sterling interest rate		
Income statement movement	2	4

19. Financial risk management and derivative financial instruments continued

(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 2017 the Group continued to diversify its sources of funding with the objective of increasing the tenor of its credit facilities, reducing reliance on any one market, increasing its operational flexibility and managing cost. This was evidenced in the period as the Group issued £400m Senior Notes in the GBP public debt market, entered into a £75m receivables purchase agreement, executed the sale and leaseback of a data centre in Milton Keynes and, following the year end, refinanced its core bank facilities into a new £640m revolving credit facility. These new facilities together with the Group's share capital and reserves, existing US Private Placement and a number of equipment and property leases form the Group's core financing. 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.

	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**
2017							
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)

	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
2016							
Borrowings	(46)	(44)	(18)	(539)	(5)	(135)	(787)
Derivative financial instruments – receivable	–	–	–	–	–	20	20
Trade and other payables	(563)	–	–	–	–	–	(563)
	(609)	(44)	(18)	(539)	(5)	(115)	(1,330)

(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 18, 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.

The Group uses the ratio of net debt to headline EBITDA to monitor its capital structure and has a medium term ratio target of 2.0x. The ratio at 31 March 2017 is 2.57x (2016: 2.61x) and the Board expects the ratio will return to its target in the medium term.

The net debt to Headline EBITDA ratio at the year end is as follows:

	2017 £m	2016 £m
Debt	(871)	(709)
Cash and cash equivalents	50	10
Derivatives	39	20
Net debt	(782)	(679)
Headline EBITDA	304	260
Net debt to Headline EBITDA ratio	2.57x	2.61x

20. Provisions

The tables below analyses the Group's provisions:

	2017 £m	2016 £m
Current	22	18
Non-current	14	11
	36	29

	One Company integration £m	Property £m	Contract and other £m	Total £m
2017				
Opening balance	1	12	16	29
Charged to income statement	–	4	16	20
Released to income statement	–	(1)	(1)	(2)
Utilised in the year	–	–	(11)	(11)
Closing balance	1	15	20	36

	One Company integration £m	Property £m	Contract and other £m	Total £m
2016				
Opening balance	1	2	32	35
Charged to income statement	–	11	17	28
Released to income statement	–	(1)	–	(1)
Utilised in the year	–	–	(33)	(33)
Closing balance	1	12	16	29

Accounting policy

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:

One Company integration

These provisions relate principally to reorganisation costs and are only recognised where plans are demonstrably committed and where appropriate communication to those affected has been undertaken at the balance sheet date. These provisions are expected to be utilised over the next twelve months.

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.

Contract and other

Contract and other provisions relate to SIM replacement costs as part of the mobile migration programme provided for in a prior year. 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.

Notes to the consolidated financial statements continued

21. Share capital

	2017 million	2016 million	2017 £m	2016 £m
Authorised, issued and fully paid				
Ordinary shares of 0.1p each	955	955	1	1

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

22. Reserves

Share premium

The share premium account records the difference between the nominal amount of shares issued and the fair value of the consideration received. The share premium account may be used for certain purposes specified by UK law, including to write off expenses incurred on any issue of shares or debentures and to pay up fully paid bonus shares. The share premium account is not distributable but may be reduced by special resolution of the Company's ordinary shareholders and with court approval.

Translation reserve

The results of overseas operations are translated at the average foreign exchange rates for the year, and their balance sheets are translated at the rates prevailing at the balance sheet date. Exchange differences arising on the translation of opening net assets and results of overseas operations are recognised in the translation and hedging reserve. All other exchange differences are included in the income statement.

Demerger reserve

The demerger reserve primarily reflects the profits or losses arising on the transfer of investments and net assets of CPW on demerger.

Other reserve – Group ESOT

The Group ESOT held five million shares at 31 March 2017 (2016: nine million) in the Company for the benefit of employees. The decrease in the number of shares held is due to employees participating in the Group schemes exercising their options during the year. During the prior year, the Trustees of the Group ESOT reassessed their holdings in relation to the number of options expected to be exercised in the future. This resulted in the sale of 20 million shares, generating net proceeds of £61m. The Group ESOT has waived its rights to receive dividends and none of its shares have been allocated to specific schemes. At the year end the shares had a market value of £10m (2016: £22m).

23. Analysis of changes in net debt

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

	Opening £m	Net cash flow £m	Non-cash movements £m	Closing £m
2016				
Cash and cash equivalents	10	–	–	10
Borrowings	(615)	(90)	(4)	(709)
Derivatives	16	–	4	20
	(599)	(90)	–	(689)
Total net debt	(589)	(90)	–	(679)

24. Commitments under operating leases

The Group leases network infrastructure and offices under non-cancellable operating leases. The leases have varying terms, purchase options, escalation clauses and renewal rights. There were no leases which were individually significant to the Group.

Due to the forthcoming adoption in the year ended 31 March 2019 of IFRS 16 'Leases', impacting lease recognition, the Group has reviewed the completeness of its existing disclosure. Accordingly, the 2016 comparatives have been restated to ensure comparable information is presented. The previously presented 2016 total of £175m has been restated to £193m in the table below.

The Group had outstanding commitments for future minimum payments due as follows:

	2017			2016 restated		
	Property	Network equipment	Total £m	Property	Network equipment	Total £m
Less than 1 year	12	28	40	11	29	40
2 to 5 years	38	43	81	37	52	89
Greater than 5 years	72	8	80	55	9	64
	122	79	201	103	90	193

25. 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 31 March 2017, expenditure contracted, but not provided for in these financial statements amounted to £231m (2016: £318m). Of this amount, £65m (2016: £55m) related to capital commitments and £39m (2016: £25m) related to the supply of customer equipment.

26. Related party transactions

a) Subsidiaries and joint ventures

Details of subsidiaries and joint ventures are disclosed in notes 13 and 14 respectively.

b) Directors

The remuneration of the Directors, who are some of the key management personnel of the Group, is set out in the Directors' Remuneration Report on pages 44 to 62. The remuneration of all key management personnel is disclosed in note 4.

27. Post balance sheet event

Following the year end, the Board has decided not to pursue a femto-enabled, inside-out network strategy and instead we will continue to work closely with Telefónica UK on the right platform and customer offering.

Company balance sheet

Company number: 07105891
As at 31 March 2017

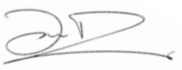
	Notes	2017 £m	2016 £m
Non-current assets			
Investments in subsidiaries and joint ventures	4	1,189	1,196
Derivative financial instruments		31	18
		1,220	1,214
Current assets			
Cash and cash equivalents		121	634
Corporation tax receivable		–	2
Trade and other receivables	5	646	15
		767	651
Total assets		1,987	1,865
Current liabilities			
Trade and other payables	6	(55)	(55)
		(55)	(55)
Non-current liabilities			
Borrowings	7	(871)	(709)
Derivative financial instruments		–	(1)
		(871)	(710)
Total liabilities		(926)	(765)
Net assets		1,061	1,100
Equity			
Share capital	9	1	1
Share premium	10	684	684
Retained earnings and other reserves[1]	10	376	415
Total equity		1,061	1,100

(1) The Company's profit for the year was £111m (2016: £9m).

The accompanying notes are an integral part of this Company balance sheet.

These financial statements were approved and authorised for issue by the Board on 10 May 2017. They were signed on its behalf by:

T Harrison
Chief Executive Officer



I Torrens
Chief Financial Officer

Company cash flow statement

For the year ended 31 March 2017

	Notes	2017 £m	2016 £m
Operating activities			
Operating loss		(24)	(3)
Share-based payments		5	5
Impairment loss		22	–
Operating cash flows before movements in working capital		3	2
(Increase)/decrease in trade and other receivables		(617)	49
(Decrease)/increase in trade and other payables		1	56
Cash generated from operations		(613)	107
Income taxes received		2	–
Net cash flows (used in)/generated from operating activities		(611)	107
Investing activities			
Dividend received		140	–
Cash flows used in investing activities		140	–
Financing activities			
Repayments of borrowings		(315)	–
Drawdown of borrowings		458	90
Interest paid		(35)	(22)
Dividends paid	3	(150)	(135)
Cash flows used in financing activities		(42)	(67)
Net (decrease)/increase in cash and cash equivalents		(513)	40
Cash and cash equivalents at the start of the year		634	594
Cash and cash equivalents at the end of the year		121	634

The accompanying notes are an integral part of this Company cash flow statement.

Company statement of changes in equity

For the year ended 31 March 2017

	Notes	Share capital £m	Share premium £m	Retained earnings and other reserves £m	Total equity £m
At 1 April 2015		1	684	535	1,220
Profit for the year		–	–	9	9
Other comprehensive income					
Items that may be reclassified to profit or loss:					
Gain on hedge of a financial instrument		–	–	2	2
Total other comprehensive income		–	–	2	2
Total comprehensive income		–	–	11	11
Transactions with the owners of the Company					
Share-based payments reserve credit		–	–	5	5
Share-based payments reserve debit		–	–	(1)	(1)
Equity dividends	3	–	–	(135)	(135)
Total transactions with the owners of the Company		–	–	(131)	(131)
At 31 March 2016		1	684	415	1,100
Profit for the year		–	–	111	111
Other comprehensive expense					
Items that may be reclassified to profit or loss:					
Loss on hedge of a financial instrument		–	–	(5)	(5)
Total other comprehensive expense		–	–	(5)	(5)
Total comprehensive income		–	–	106	106
Transactions with the owners of the Company					
Share-based payments reserve credit		–	–	5	5
Equity dividends	3	–	–	(150)	(150)
Total transactions with the owners of the Company		–	–	(145)	(145)
At 31 March 2017		1	684	376	1,061

The accompanying notes are an integral part of this Company statement of changes in equity.

Notes to the Company financial statements

1. Accounting policies and basis of preparation

Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union (EU) and as applied in accordance with the provisions of the Companies Act 2006. These financial statements therefore comply with Article 4 of the European Union International Accounting Standard regulation.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments and investments. The financial statements are presented in Sterling, rounded to the nearest million, because that is the currency of the principal economic environment in which the Company operates.

The financial statements have been prepared on the going concern basis. Details of the considerations undertaken by the Board in reaching this conclusion are set out on page 21 within the Chief Financial Officer's Statement.

Accounting policies

The Company's accounting policies are in line with the Group's accounting policy as set out in note 1 of the Group consolidated financial statements. Where an accounting policy is generally applicable to a specific note, the policy is described within that note.

Significant accounting judgements, estimates and assumptions

There are no significant accounting judgements and estimates in preparing the Company financial statements.

2. Profit for the year

The Company has not presented its own profit and loss account as permitted by Section 408 of the Companies Act 2006.

The Company reported a profit of £111m for the year ended 31 March 2017 (2016: £9m). This includes a dividend from a subsidiary of £140m (2016: £nil).

The auditor's remuneration for audit and other services is disclosed in the Corporate Governance Report on page 43.

Detailed disclosures of the Directors' remuneration and share-based payments are given in the audited section of the Directors' Remuneration Report on pages 53 to 62 and should be regarded as an integral part of this note.

In the current and prior year, the Directors' remuneration was borne by another Group company and not recharged.

The Company has no employees other than Directors.

3. Dividends

Accounting policy

Dividends receivable from the Company's subsidiaries and joint venture investments are recognised only when they are approved or paid by shareholders.

Final dividend distributions to the Company's shareholders are recognised as a liability in the financial statements in the period in which they are approved by the Company's shareholders. Interim dividends are recognised in the period in which they are paid.

	2017 £m	2016 £m
Final dividend for the year ended 31 March 2015 of 9.20p per ordinary share	–	85
Interim dividend for the year ended 31 March 2016 of 5.29p per ordinary share	–	50
Final dividend for the year ended 31 March 2016 of 10.58p per ordinary share	100	–
Interim dividend for the year ended 31 March 2017 of 5.29p per ordinary share	50	–
Total ordinary dividends[1]	150	135

(1) The proposed final dividend for the year ended 31 March 2017 of 5.0p (2016: 10.58p) per ordinary share on approximately 950 million (2016: 946 million) ordinary shares (approximately £48m) was approved by the Board on 10 May 2017 and has not been included as a liability as at 31 March 2017.

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

Notes to the Company financial statements continued

4. Investments

Accounting policy

Investments in subsidiaries and joint venture are recorded at cost, being the fair value of consideration, acquisition charges associated with the investment and capital contributions by way of share-based payments, less any provision for impairment.

	2017 £m	2016 £m
Subsidiaries	1,166	1,161
Joint venture	23	35
	1,189	1,196

	2017 £m	2016 £m
Opening net book value	1,196	1,184
Additions	15	12
Impairment	(22)	–
Closing net book value	1,189	1,196

Joint venture

The Company holds 14.3% of the ordinary share capital of YouView TV Limited, a joint venture with The British Broadcasting Corporation, ITV Broadcasting Limited, British Telecom PLC, Channel Four Television Corporation, Arqiva Limited and Channel 5 Broadcasting Limited. Further details relating to the joint venture are disclosed within note 14 to the consolidated financial statements.

Principal Group investments

A full list of subsidiaries, joint arrangements, associated undertakings and any significant holdings (as defined in the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008) is presented in note 13 of the Group consolidated financial statements.

Additions

The additions in the year comprise:

- £5m relating to share-based payment schemes issued by the Company (2016: £4m); and
- £10m relating to the YouView joint venture (2016: £8m).

Impairment

The impairment in the year comprises:

- £22m relating to the YouView joint venture (2016: £nil).

5. Trade and other receivables

	2017 £m	2016 £m
Amounts owed by Group undertakings	632	8
Prepayments and accrued income	14	7
	646	15

Interest on intercompany funding is calculated at the Bank of England base rate plus 2%; intercompany deposits receive interest at the Bank of England base rate with no margin. Interest is either paid or capitalised monthly as appropriate. Where they exist, currency balances are calculated at similar rates.

Interest is not charged on balances arising between Group companies as a result of intercompany trading; such balances are settled regularly in line with agreed terms of trade within 30 to 60 days.

6. Trade and other payables

	2017 £m	2016 £m
Amounts owed to Group undertakings	55	53
Accruals and deferred income	–	2
	55	55

Interest on intercompany funding is calculated at the Bank of England base rate plus 2%; intercompany deposits receive interest at the Bank of England base rate with no margin. Interest is either paid or capitalised monthly as appropriate. Where they exist, currency balances are calculated at similar rates.

Interest is not charged on balances arising between Group companies as a result of intercompany trading; such balances are settled regularly in line with agreed terms of trade within 30 to 60 days.

7. Borrowings

	2017 £m	2016 £m
Non-current		
Loans	871	709

The details of the loans are disclosed within note 18 to the consolidated financial statements and should be regarded as an integral part of these financial statements.

8. Financial risk management and derivative financial instruments

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

	2017 £m	2016 £m
Financial assets(1)		
Cash and cash equivalents	121	634
Trade and other receivables(2)	646	15
Non-current investments and investment in joint venture	1,189	1,196
Derivative instruments in designated hedge accounting relationships:		
Derivative financial instruments(3)	31	18
Financial liabilities(1)		
Trade and other payables	(55)	(55)
Borrowings before derivatives	(871)	(709)
Derivative instruments in designated hedge accounting relationships:		
Derivative financial instruments(3)	–	(1)
	1,061	1,098

(1) The Company has no financial instruments designated as FVTPL.

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

(3) Derivative financial instruments of £32m (2016: £20m) relates to the USPP Notes, and (£1m) (2016: (£2m)) relates to interest rate hedges.

The details of the Company's risk management activities are disclosed within note 19 to the consolidated financial statements and should be regarded as an integral part of these financial statements.

9. Share capital

	2017 million	2016 million	2017 £m	2016 £m
Allotted, called up and fully paid				
Ordinary shares of 0.1p each	955	955	1	1

Notes to the Company financial statements continued

10. Reserves

Share premium

The share premium account records the difference between the nominal amount of shares issued and the fair value of the consideration received. The share premium account may be used for certain purposes specified by UK law, including to write off expenses incurred on any issue of shares or debentures and to pay up fully paid bonus shares. The share premium account is not distributable but may be reduced by special resolution of the Company's ordinary shareholders and with court approval.

Other reserve – Group ESOT

The Group ESOT held five million shares at 31 March 2017 (2016: nine million) in the Company for the benefit of employees. During the prior period, the Trustees of the Group ESOT reassessed their holdings in relation to the number of options expected to be exercised in the future. This resulted in the sale of 20 million shares, generating net proceeds of £61m. The Group ESOT has waived its rights to receive dividends and none of its shares have been allocated to specific schemes. At the year end the shares had a market value of £10m (2016: £22m).

11. Audit exemption note

The Company is entitled to exemption from audit for its subsidiaries under Section 479A of the Companies Act 2006 for the year ended 31 March 2017.

The Directors have applied this exemption for the following subsidiaries:

Company name	Company number
Executel Ltd	05227052
Greystone Telecom Ltd	04066365
Green Dot Property Management Limited	05705868
Tiscali UK Limited	03408171

The Directors acknowledge their responsibility for complying with the requirements of the Companies Act 2006 with respect to accounting records and the preparation of accounts.

Five year record (unaudited)

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Headline results					
Revenue	1,783	1,838	1,795	1,727	1,670
Profit for the year attributable to the owners of the Company	100	79	76	61	132
Net assets					
Non-current assets	1,126	1,169	1,109	1,039	1,046
Net current liabilities excluding provisions	(79)	(224)	(161)	(223)	(216)
Non-current liabilities excluding provisions	(871)	(685)	(616)	(460)	(375)
Provisions	(36)	(29)	(35)	(9)	(13)
Net assets	140	231	297	347	442
Headline earnings per share					
Basic (p)	10.5	8.4	8.2	6.8	14.9
Diluted (p)	10.4	8.3	8.1	6.6	14.0
Statutory earnings per share					
Basic (p)	6.1	0.2	7.8	3.1	11.3
Diluted (p)	6.0	0.2	7.7	3.0	10.6

Headline earnings represent the Group's income statement stated before the non-operating amortisation and exceptional items.

Glossary

ADSL	Asymmetric Digital Subscriber Line technology enables data transmission over existing copper wiring at data rates several hundred times faster than analogue modems, providing for simultaneous delivery of voice, video and data
ARPU	Average Revenue Per User on a monthly basis
CAGR	Compound Annual Growth Rate
CGU	Cash generating unit
Churn	A measure of the number of subscribers moving into or out of a product or service over a specific period of time
The Company	TalkTalk Telecom Group PLC
Companies Act	Companies Act 2006
CPW	The Carphone Warehouse Group PLC, its subsidiary companies, joint ventures and investments
CRM	Customer Relationship Management
Demerger	The demerger of the The Carphone Warehouse Group PLC into TalkTalk Telecom Group PLC and Carphone Warehouse Group PLC effective on 26 March 2010
DSLAM	Digital Subscriber Line Access Multiplexer
EBIT	Earnings Before Interest and Taxation
EBITDA	Earnings Before Interest, Taxation, Depreciation and Amortisation
EFM	Ethernet in the First Mile
EPS	Earnings Per Share
Ethernet	Ethernet is a protocol that controls data transmission over a communications network often referred to as a family of frame-based computers
Femto cells	Small low power cellular base station
FRC	Financial Reporting Council
FTTC	Fibre to the Cabinet
FTTP	Fibre to the Premise
Gbps	Gigabits per second
GEA	Generic Ethernet Access
GEA Guard band spectrum	Unused part of the radio spectrum between adjacent radio bands
GPS	Global Positioning System
The Group	The Company, its subsidiaries and entities which are joint ventures
Group ESOT	TalkTalk Telecoms Holdings Employee Share Option Trust
Headline information	Headline information represents the Group's income statement, stated before the amortisation of acquisition intangibles and exceptional items that are considered to be one-off, non-recurring in nature and so material that the Directors believe that they require separate disclosure to avoid distortion of underlying performance and should be separately presented on the face of the income statement
HD	High Definition
IP	Internet Protocol is the packet data protocol used for routing and carriage of messages across the internet and similar networks. IP performs the addressing function and contains some control information to allow packets to be routed through networks
ISP	Internet Service Provider
LLU	Local Loop Unbundling
Mbit/s/Mbps	Unit of data transfer rate equal to 1,000,000 bits per second
MPF	Metallic Path Facility provides both broadband and telephony services to customers from TalkTalk Group exchange infrastructure

MSAN	Multi-Service Access Nodes
MVNO	Mobile Virtual Network Operator
Narrowband	Telecommunication service that carries voice information in a narrowband of frequencies
Net debt	Borrowings net of cash held on deposit at financial institutions
NGN	Next Generation Network
On-net	The Group's unbundled network
Operating free cash flow	Cash generated from operations before exceptional items, interest, taxation, dividend payments and investments
Operating profit	Profit before finance costs and taxation
OTT	Over the Top
Quad play	A customer that takes voice, broadband, TV and MVNO services from the Group
RCF	Revolving Credit Facility
RGU	Revenue generating unit
SMPF or partial unbundling	Shared Metallic Path Facility provides broadband services to customers from TalkTalk Group exchange infrastructure
SME	Small and Medium sized Enterprises
SVP	Shareholder Value Plan
Triple play	A customer that takes voice, broadband and TV services from the Group
TSR	Total Shareholder Return
TVOD	TV on Demand
UK Corporate Governance Code	UK Corporate Governance Code published by the FRC in May 2011
Unbundling	Process by which BT makes available its local network to third party broadband service providers
VES	Value Enhancement Scheme
VoIP	Voice over Internet Protocol
VNL	Video Network Limited
WAEP	Weighted Average Exercise Price
Wi-Fi	Trademark of the Wi-Fi Alliance often used as a general term for wireless networking technology that uses radio waves to provide wireless high-speed internet and network connections

Financial calendar

Ex-dividend date	6 July 2017
Record date	7 July 2017
AGM	19 July 2017
Dividend payment date	4 August 2017

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