IMPORTANT NOTICE

NOT FOR DISTRIBUTION IN OR INTO THE UNITED STATES OR OTHERWISE THAN TO PERSONS WHOM IT CAN BE LAWFULLY DISTRIBUTED.

IMPORTANT: You must read the following before continuing. The following applies to the preliminary offering memorandum following this page (the "**preliminary offering memorandum**"), and you are therefore advised to read this carefully before reading, accessing or making any other use of the preliminary offering memorandum. In accessing the preliminary offering memorandum, you agree to be bound by the following terms and conditions, including any modifications to them, any time you receive any information from us as a result of such access.

Confirmation of your Representation: You have accessed the attached document on the basis that you have confirmed your representation to (a) the Issuer (as defined below) and (b) Barclays Bank PLC, HSBC Bank plc, The Royal Bank of Scotland plc (trading as NatWest Markets), Banco Santander SA, Bank of China Limited London Branch, BNP Paribas, Crédit Industriel et Commercial S.A., Credit Suisse Securities (Europe) Limited, DNB Markets, a division of DNB Bank ASA and MUFG Securities EMEA plc that (i) to the extent you purchase the Securities (as defined below), you will be doing so in an offshore transaction pursuant to Regulation S under the U.S. Securities Act of 1933, as amended (the "**U.S. Securities Act**"); (ii) the electronic email address to which the preliminary offering memorandum has been delivered is not located in the United States of America (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands), and (iii) you consent to delivery of the preliminary offering memorandum by electronic transmission.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES REFERRED TO IN THE PRELIMINARY OFFERING MEMORANDUM (THE "SECURITIES") HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), UNLESS REGISTERED UNDER THE SECURITIES ACT OR PURSUANT TO AN EXEMPTION FROM SUCH REGISTRATION AND MAY BE SOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY TO QUALIFIED PURCHASERS. YOU ARE NOT AUTHORIZED TO AND YOU MAY NOT FORWARD OR DELIVER THE PRELIMINARY OFFERING MEMORANDUM, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON OR REPRODUCE THE PRELIMINARY OFFERING MEMORANDUM IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT AND THE PRELIMINARY OFFERING MEMORANDUM IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

The materials relating to the offering of the Securities do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. No action has been or will be taken in any jurisdiction by the Initial Purchasers (as defined in the preliminary offering memorandum) or the issuer of the Securities (the "**Issuer**") that would or is intended to, permit a public offering of the Securities, or possession or distribution of the offering memorandum (in preliminary, proof or final form) or any other offering or publicity material relating to the Securities, in any country or jurisdiction where action for that purpose is required. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Initial Purchasers or any affiliate of the Initial Purchasers is a licensed broker or dealer in that jurisdiction, the offering of the Securities shall be deemed to be made by the Initial Purchasers or such affiliate on behalf of the Issuer in such jurisdiction.

The preliminary offering memorandum is being distributed only to and directed only at (i) persons who are outside the United Kingdom, (ii) persons who have professional experience in matters relating to investments falling within Article 19(5) of The Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, or (iii) those persons to whom it may otherwise lawfully be distributed (all such persons together being referred to as "**relevant persons**"). The preliminary offering memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which the preliminary offering memorandum relates is available only to relevant persons and will be engaged in only with relevant persons.

The preliminary offering memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, the Initial Purchasers, their respective affiliates, directors, officers, employees, representatives and agents or any other person controlling the Issuer, the Initial Purchasers or any of their respective affiliates accepts any liability or responsibility whatsoever in respect of any difference between the preliminary offering memorandum distributed to you in electronic format and the hard copy version available to you on request from the Initial Purchasers.

You are reminded that the preliminary offering memorandum has been delivered to you on the basis that you are a person into whose possession the preliminary offering memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver this document, electronically or otherwise, to any other person. If you receive this document by e-mail, you should not reply by e-mail to this announcement. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected. If you receive this document by e-mail, your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

SUBJECT TO COMPLETION DATED JANUARY 9, 2017

PRELIMINARY OFFERING MEMORANDUM
CONFIDENTIAL

NOT FOR DISTRIBUTION
IN THE UNITED STATES

TalkTalk
For Everyone

TalkTalk Telecom Group PLC

£300,000,000 % Senior Notes due 2022

TalkTalk Telecom Group PLC (the "**Issuer**"), a public limited company incorporated under the laws of England and Wales, is offering (the "**Offering**") £300,000,000 aggregate principal amount of its % Senior Notes due 2022 (the "**Notes**"). The Issuer will pay interest on the Notes semi-annually in arrears on each and , commencing on , 2017. The Notes will mature on , 2022.

The Issuer may redeem some or all of the Notes by paying 100% of the principal amount of such Notes plus a "make-whole" premium. In addition, up to 40% of the aggregate principal amount of the Notes may be redeemed with the net proceeds of certain equity offerings at the redemption price set forth in this offering memorandum.

Upon the occurrence of certain change of control events, each holder of the Notes may require the Issuer to repurchase all or a portion of its respective Notes at a redemption price equal to 101% of the principal amount thereof, plus accrued and unpaid interest and additional amounts, if any. In the event of certain developments affecting taxation, the Issuer may redeem all, but not less than all, of the Notes, as applicable.

The Notes will be the Issuer's senior obligations and will rank *pari passu* in right of payment with all other existing and future senior debt of the Issuer that is not expressly subordinated in right of payment to the Notes. The Notes will be senior in right of payment to all existing and future indebtedness of the Issuer that is expressly subordinated in right of payment to the Notes. The Notes will be guaranteed (the "**Guarantees**") on a senior unsecured basis by TalkTalk Telecom Holdings Limited, TalkTalk Communications Limited and TalkTalk Telecom Limited (collectively, the "**Guarantors**"). The Guarantees will rank *pari passu* in right of payment with all of the existing and future indebtedness of the Guarantors that is not expressly subordinated in right of payment to the Guarantees. The Guarantees will rank senior in right of payment to all existing and future indebtedness of the Guarantors that is expressly subordinated in right of payment to the Guarantees. The Notes and the Guarantees will be effectively subordinated to all of the Issuer's and the Guarantors' future secured debt to the extent of the value of the assets securing such debt. The Notes and the Guarantees will be structurally subordinated to all existing and future obligations and other liabilities of the Issuer's subsidiaries that do not guarantee the Notes.

There is currently no public market for the Notes. Application will be made to The Channel Islands Securities Exchange Authority Limited (the "**Exchange**") for the listing of and permission to deal in the Notes on the Official List of the Exchange. There can be no assurance that the Notes will be listed on the Official List of the Exchange, that such permission to deal in the Notes will be granted or that such listing will be maintained.

Investing in the Notes involves a high degree of risk. See "*Risk Factors*" beginning on page 19.

Issue Price of the Notes: 100.0% plus accrued interest, if any, from the Issue Date.

The Notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "**U.S. Securities Act**"), or the securities laws of any other jurisdiction. The Notes are being offered and sold in offshore transactions outside the United States in compliance with Regulation S under the U.S. Securities Act ("**Regulation S**"). The Notes may not be offered, sold or delivered within the United States (as defined in Regulation S), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. See "*Important Information*" for further details about eligible offerees and "*Notice to Investors*" for transfer and resale restrictions.

The Notes will be issued in registered form in minimum denominations of £100,000 and integral multiples of £1,000 in excess thereof. On the Issue Date, global notes representing the Notes will be deposited and registered in the name of a nominee of a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream banking, *société anonyme* ("**Clearstream**"). We expect the Notes to be delivered to the Initial Purchasers (as defined below) on or about , 2017. See "*Book-Entry; Delivery and Form.*"

Global Coordinators and Joint Bookrunners

Barclays **HSBC** **NatWest Markets**

Joint Lead Managers

Bank of China **BNP Paribas** **Credit Suisse**

CM-CIC Market Solutions **DNB Markets** **MUFG** **Santander Global Corporate Banking**

The date of this offering memorandum is , 2017

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You should rely only on the information contained in this offering memorandum. Neither the Issuer, the Guarantors, nor any of Barclays Bank PLC, HSBC Bank plc, The Royal Bank of Scotland plc (trading as NatWest Markets), Banco Santander SA, Bank of China Limited London Branch, BNP Paribas, Crédit Industriel et Commercial S.A., Credit Suisse Securities (Europe) Limited, DNB Markets, a division of DNB Bank ASA and MUFG Securities EMEA plc has authorized anyone to provide you with information that is different from the information contained herein. If given, any such information should not be relied upon. You should not assume that the information contained in this offering memorandum is accurate as of any date other than the date on the front of this offering memorandum.

Neither the Issuer nor any of the Initial Purchasers is making an offer of the Notes in any jurisdiction where the Offering is not permitted.

The Issuer is a public limited company incorporated under the laws of England and Wales. The Issuer was incorporated on December 15, 2009 and is registered under company number 07105891. The Issuer's registered office is located at 11 Evesham Street, London W11 4AR, United Kingdom, and its telephone number is +44 20 3417 1000.

The Issuer's internet address is *www.talktalkgroup.com*. Information posted on the Issuer's website and those of its affiliates and subsidiaries does not constitute a part of this offering memorandum.

Unless the context otherwise requires, references in this offering memorandum to "we", "our", "us" and the "Group" refer collectively to the Issuer and its direct and indirect subsidiaries. Certain terms used in this offering memorandum are defined in the section entitled "*Certain Definitions*"; certain technical terms related to our business and used in this offering memorandum are defined in the section entitled "*Glossary of Technical Terms.*"

IMPORTANT INFORMATION

This offering memorandum is confidential and has been prepared by us solely for use in connection with the proposed Offering of the Notes described in this offering memorandum. This offering memorandum is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire the Notes. Distribution of this offering memorandum to any person other than the prospective investors and any person retained to advise such prospective investors with respect to the purchase of the Notes is unauthorized, and any disclosure of any of the contents of this offering memorandum, without our prior written consent, is prohibited. Each prospective investor, by accepting delivery of this offering memorandum, agrees to the foregoing and to make no copies of this offering memorandum or any documents referred to in this offering memorandum.

The distribution of this offering memorandum and the offering and sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this offering memorandum or any of the Notes come must inform themselves about, and observe any restrictions on, the transfer and exchange of the Notes. See "*Notice to Investors*" and "*Plan of Distribution.*"

In making an investment decision regarding the Notes, prospective investors must rely on their own examination of our business and the terms of the Offering, including the merits and risks involved, and any decision to invest in the Notes should be based solely on this offering memorandum. In addition, neither we nor any of the Initial Purchasers nor any of their representatives are making any representation to you regarding the legality of an investment in the Notes, and you should not construe anything in this offering memorandum as legal, business or tax advice. You should consult your own advisors as to legal, tax, business, financial and related aspects of an investment in the Notes. You must comply with all laws applicable in any jurisdiction in which you buy, offer or sell the Notes or possess or distribute this offering memorandum, and you must obtain all applicable consents and approvals; neither we nor the Initial Purchasers shall have any responsibility for any of the foregoing legal requirements.

The Initial Purchasers are not making any representation or warranty, express or implied, that the information contained in this offering memorandum is accurate or complete and are not responsible for this information. Nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation by any of the Initial Purchasers as to the past or the future.

We accept responsibility for the information contained in this offering memorandum. To the best of the knowledge of the Issuer and the Guarantors, having taken all reasonable care to ensure such is the case, the information contained in this offering memorandum is in accordance with the facts and contains no omission likely to affect its import. However, the information set out in the sections entitled "*Summary*," "*Management's Discussion and Analysis of Financial Condition and Results of Operations*," "*Industry Overview*" and "*Business*" includes extracts from information and data, including industry and market data, released by publicly available sources in Europe and elsewhere. While we accept responsibility for the accurate extraction and summarization of such industry and market information and data, we have not independently verified the accuracy of such information and data and we accept no further responsibility in respect thereof. In addition, this offering memorandum contains summaries believed to be accurate with respect to certain documents, but reference is made to the actual documents for complete information. All such summaries are qualified in their entirety by such reference. However, as far as we are aware, no information or data has been omitted which would render reproduced information inaccurate or misleading.

The information contained in this offering memorandum is correct as of the date hereof. Neither the delivery of this offering memorandum at any time after the date of publication nor any subsequent commitment to purchase the Notes shall, under any circumstances, create an implication that there has been no change in the information set forth in this offering memorandum or in our business since the date of this offering memorandum.

We have accurately reproduced the information set out in relation to sections of this offering memorandum describing clearing arrangements, including in the section entitled "*Book-Entry; Delivery and Form*," and as far as we are aware and able to ascertain from third-party sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. Nonetheless, such information is subject to any change in, or reinterpretation of, the rules, regulations and procedures of Euroclear and Clearstream currently in effect. While we accept responsibility for accurately summarizing the information concerning Euroclear and Clearstream, we accept no further responsibility in respect of such information. Neither Euroclear nor Clearstream are under any obligation to perform or continue to perform under such clearing arrangements and such arrangements may be modified or discontinued by either of them at any time. We will not, nor will any of our agents, have responsibility for the performance of the respective obligations of Euroclear or Clearstream or their respective participants. Investors wishing to use these clearing systems are advised to confirm the continued applicability of these arrangements.

By receiving this offering memorandum, you acknowledge that you have had an opportunity to request from us for review, and that you have received, all additional information you deem necessary to verify the accuracy and completeness of the information contained in this offering memorandum. You also acknowledge that you have not relied on the Initial Purchasers in connection with your investigation of the accuracy of this information or your decision whether to invest in the Notes.

The contents of our websites do not form any part of this offering memorandum. Our websites are mainly addressed to potential clients of our services and, therefore, information available on our websites may differ in content or may be organized differently than information in this offering memorandum. For the purposes of making an investment decision regarding the Notes, you should not rely on our websites.

None of the U.S. Securities and Exchange Commission (the "**SEC**"), any state securities commission or any other U.S. regulatory authority, has approved or disapproved the Notes nor have any of the foregoing authorities passed upon or endorsed the merits of this Offering or the accuracy or adequacy of this offering memorandum. Any representation to the contrary is a criminal offense. The Notes are subject to restrictions on transferability and resale and may not be transferred or resold, except in offshore transactions in compliance with Regulation S under the U.S. Securities Act. As a prospective investor, you should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. Please refer to the sections in this offering memorandum entitled "*Plan of Distribution*" and "*Notice to Investors*."

The Notes will be available initially only in book-entry form. We expect that the Notes sold pursuant to this offering memorandum will be issued in the form of a global note, which will be deposited with, or on behalf of a common depositary for Euroclear and Clearstream and registered in the name of the nominee of the common depositary for the accounts of Euroclear and Clearstream. Beneficial interests in the global note will be shown on, and transfers of beneficial interests in the global note will be effected only through, records maintained by Euroclear and Clearstream and their direct and indirect participants, as applicable. After the initial issuance of the global note, Notes in certificated form will be issued in exchange for the global note only as set forth in the indenture governing the Notes (the "**Indenture**"). See "*Book-Entry; Delivery and Form.*"

We reserve the right to withdraw the Offering at any time. We and the Initial Purchasers reserve the right to reject any offer to purchase the Notes, in whole or in part for any reason or no reason and to allot to any prospective purchaser less than the full amount of the Notes sought by it. The Initial Purchasers and certain of their respective related entities may acquire a portion of the Notes for their own accounts.

We have prepared this offering memorandum solely for use in connection with the Offering of the Notes in accordance with Regulation S under the U.S. Securities Act. We cannot guarantee that the application we will make to the Exchange for the Notes to be listed on its Official List and admitted to trading thereon will be approved as of the settlement date for the Notes or at any time thereafter, and settlement of the Notes is not conditional on obtaining such admission to trading.

Each purchaser of the Notes will be deemed to have made the representations, warranties and acknowledgements that are described in the section entitled "*Notice to Investors*" of this offering memorandum.

STABILIZATION

IN CONNECTION WITH THE OFFERING OF THE NOTES, BARCLAYS BANK PLC OR ONE OR MORE OF ITS AFFILIATES OR PERSONS ACTING ON ITS BEHALF (THE "**STABILIZING MANAGER**") MAY, TO THE EXTENT PERMITTED BY APPLICABLE LAW, OVERALLOT THE NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILIZING MANAGER WILL UNDERTAKE STABILIZATION ACTION. ANY STABILIZATION ACTION, IF COMMENCED, MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFERING OF THE NOTES IS MADE AND MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN 30 DAYS AFTER THE ISSUE DATE, OR NO LATER THAN 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES, WHICHEVER IS EARLIER. ANY STABILIZATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILIZING MANAGER (OR PERSONS ACTING ON ITS BEHALF) IN ACCORDANCE WITH ALL APPLICABLE LAWS, REGULATIONS AND RULES.

NOTICE TO INVESTORS IN THE UNITED KINGDOM

This offering memorandum is for distribution only to, and is directed solely at, persons who are: (i) outside the United Kingdom; (ii) are investment professionals, as such term is defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**"); (iii) persons falling within Articles 49(2)(a) to (d) of the Order; or (iv) persons to whom an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) in connection with the issue or sale of any Notes may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "**relevant persons**"). This offering memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this offering memorandum relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this offering memorandum or any of its contents.

NOTICE TO INVESTORS IN THE EUROPEAN ECONOMIC AREA

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**"), an offer to the public of any Notes may not be made in that Relevant Member State, except that an offer to the public in that Relevant Member State may be made at any time with effect from and including the Relevant Implementation Date under the following exemptions under the Prospectus Directive:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Initial Purchaser or Initial Purchasers nominated by the Issuer for any such offer; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall require the Issuer, the Guarantors or any Initial Purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Notes to the public**" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "**Prospectus Directive**" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

This European Economic Area selling restriction is in addition to any other selling restrictions set out in this offering memorandum.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this offering memorandum are not historical facts and are forward-looking. Forward-looking statements appear in various locations, including, without limitation, in the sections entitled "*Summary*," "*Risk Factors*," "*Management's Discussion and Analysis of Financial Condition and Results of Operations*," "*Industry Overview*" and "*Business*." We may from time to time make written or oral forward-looking statements in reports to shareholders and in other communications. In addition, this offering memorandum includes forward-looking information that has been extracted from third-party sources. Forward-looking statements include statements concerning our plans, expectations, projections, objectives, targets, goals, strategies, future events, future operating revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, our competitive strengths and weaknesses, our business strategy, and the trends we anticipate in the industries and the political and legal environments in which we operate and other information that is not historical information.

Words such as "believe," "anticipate," "estimate," "target," "potential," "expect," "intend," "predict," "project," "could," "should," "may," "will," "plan," "aim," "seek" and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements.

The forward-looking statements contained in this offering memorandum are largely based on our expectations, which reflect estimates and assumptions made by our management. These estimates and assumptions reflect our best judgment based on currently known market conditions and other factors, some of which are discussed below. In addition, management's assumptions about future events may prove to be inaccurate. We caution all readers that the forward-looking statements contained in this offering memorandum are not guarantees of future performance, and we cannot assure any reader that such statements will be realized or the forward-looking events and circumstances will occur.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, many of which are beyond our control. These risks, uncertainties and other factors include, among other things, those listed in the section entitled "*Risk Factors*," as well as those included elsewhere in this offering memorandum. You should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- significant competition in the markets in which we operate;
- a network and information systems failure, whether caused by technical failures or security breaches;
- a leakage of sensitive customer data in violation of laws and regulations, and any other failure on our part to fully comply with applicable data protection legislation, resulting in fines, loss of reputation and customer churn;
- our ability to attract new customers and retain existing customers, if we do not maintain or improve our reputation for quality of service;
- our failure to monitor and manage customer churn;
- our capital expenditure not being able to generate a positive return or a significant reduction in costs or promote the growth of our business;
- a deterioration of the general business conditions and the UK's economy;
- political and economic uncertainty and risk resulting from the UK's vote to leave the European Union;
- our current hardware, software and service suppliers terminating contracts with, or charging non-competitive prices for their products or services;
- our dependence on various intellectual property arrangements with third parties;
- our reliance on the mobile networks of Vodafone and Telefónica UK;
- our inability to adequately predict customer demand for data;
- our dependence on our relationships with third-party content providers, and a potential failure to acquire a wide selection of popular content;
- rapid technological changes leading to increased competition and rendering our technologies or services obsolete;

- our ability to attract and retain key personnel without whom we may not be able to manage our business effectively;
- concerns about health risks relating to the use of mobile handsets;
- undertaking future acquisitions on an opportunistic basis;
- our joint-ventures;
- the interests of our controlling shareholder may not always coincide with those of the holders of the Notes;
- our insurance not adequately covering all potential losses, liabilities and damage related to our business and certain risks being uninsured or not insurable;
- a downgrading of our credit ratings by an international rating agency;
- changes to IFRS standards for lease accounting and revenue recognition;
- significant regulation at UK and EU level;
- legal proceedings and regulatory investigations relating to the 2015 Cyber Attack;
- claims of third parties related to our alleged infringement of their intellectual property rights;
- other contractual claims, complaints, litigation and negative publicity therefrom;
- our leverage and debt servicing obligations;
- our incurrence of additional indebtedness prior to, or within a short time period following, the Issue Date;
- debt covenants that restrict our ability to finance our future operations and capital needs to pursue business opportunities and activities;
- an impairment of our ability to draw funds under our credit facilities;
- the significant amount of cash required to service our debt and sustain our operations and the fact that our ability to generate cash depends on many factors beyond our control;
- our inability to refinance maturing debt on terms that are as favourable as those from which we previously benefited or on terms that are acceptable to us or at all;
- currency and interest rate risks;
- credit risks;
- our exposure to unexpected risk and potential losses relating to derivative transactions;
- the other factors discussed in more detail in the section entitled "*Risk Factors*"; and
- factors that are not known to us at this time.

This list of factors above and the other factors discussed in the section entitled "*Risk Factors*" is not exhaustive. Other sections of this offering memorandum describe additional factors that could adversely affect our results of operations, financial condition, liquidity and the development of the industry in which we operate. New risks can emerge from time to time, and it is not possible for us to predict all such risks, nor can we assess the impact of all such risks on our business or the extent to which any risks, or combination of risks and other factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, you should not rely on forward-looking statements as a prediction of actual results.

Any forward-looking statements are only made as of the date of this offering memorandum. Accordingly, we do not intend, and do not undertake any obligation, to update any forward-looking statements set forth in this offering memorandum. You should interpret all subsequent written or oral forward-looking statements attributable to us or to persons acting on our behalf as being qualified by the cautionary statements in this offering memorandum. As a result, you should not place undue reliance on such forward-looking statements.

CERTAIN DEFINITIONS

"**2014 Revolving Credit Facility**" means the £560 million revolving credit facility, dated July 14, 2014, between, among others, the Issuer, as borrower, the Guarantors, as guarantors, and the lenders as described therein;

"**2016 Revolving Credit Facility**" means the £100 million revolving credit facility, dated January 6, 2016 and amended on November 4, 2016 and December 20, 2016, between, among others, the Issuer, as borrower, the Guarantors, as guarantors, and the lenders as described therein;

"**6 Months 2017 Announcement**" means the announcement dated November 15, 2016 in relation to our results for the first six months of the year ending March 31, 2017;

"**Annual Reports**" means our annual reports published in compliance with applicable UK laws and regulations of the London Stock Exchange;

"**ARPU**" means average revenue per user;

"**B2B**" means business to business;

"**Bilateral Agreements**" means, collectively (i) the £50 million bilateral revolving credit facility agreement, dated July 14, 2014, between the Issuer, as borrower, and a lender as described therein (the "**2014 Bilateral Agreement**") and (ii) the £50 million bilateral revolving credit facility agreement, dated August 6, 2015, between the Issuer, as borrower, and a lender as described therein (the "**2015 Bilateral Agreement**");

"**BT**" means British Telecom;

"**BTOR**" means BT Openreach, currently a division of BT;

"**CAGR**" means compound annual growth rate;

"**CPW**" means The Carphone Warehouse Group;

"**Demerger**" means the demerger of the Group from CPW;

"**Group**" means the Issuer and its direct and indirect consolidated subsidiaries, except as otherwise indicated or where the context otherwise requires;

"**Guarantors**" means, collectively, (i) TalkTalk Telecom Holdings Limited, a limited liability company incorporated under the laws of England and Wales, registered under company number 03253714; (ii) TalkTalk Communications Limited, a limited liability company incorporated under the laws of England and Wales, registered under company number 03849133; and (iii) TalkTalk Telecom Limited, a limited liability company incorporated under the laws of England and Wales, registered under company number 04633015;

"**IFRS**" means the International Financial Reporting Standards issued by the International Accounting Standards Board;

"**Indenture**" means the indenture governing the Notes, to be dated as of the Issue Date, between, among others, the Issuer, the Guarantors and the Trustee;

"**Initial Purchasers**" means the initial purchasers of the Notes as listed in the Purchase Agreement;

"**Issue Date**" means the date of issuance of the Notes;

"**Issuer**" or "**Company**" means TalkTalk Telecom Group PLC, a public limited company incorporated under the laws of England and Wales, registered under company number 07105891, with its registered office at 11 Evesham Street, London W11 4AR, United Kingdom;

"**Listing Sponsor**" means Carey Olsen Corporate Finance Limited;

"**MTTS**" means Making TalkTalk Simpler, an operational efficiency programme, which we launched in 2013;

"**Notes**" means the £300 million   % Senior Notes due 2022 offered hereby;

"**Ofcom**" means the Office of Communications, the UK's communications regulator;

"**Offering**" means the offering of the Notes;

"**Paying Agent**" means The Bank of New York Mellon, London Branch;

"**Purchase Agreement**" means the purchase agreement to be dated as of the date of this offering memorandum, among the Issuer, the Guarantors, Barclays Bank PLC, HSBC Bank plc and The Royal Bank of Scotland plc (trading as NatWest Markets) (as representatives of the Initial Purchasers) and the other Initial Purchasers;

"**Receivables Purchase Agreement Facility**" means the £75 million receivables purchase agreement facility between the Issuer and Nottingdale Receivables Limited, dated September 16, 2016, which expires on September 26, 2018;

"**Refinancing**" means the Offering and the application of the proceeds thereof, as described in the sections entitled "*Summary—The Refinancing*" and "*Use of Proceeds*";

"**Retail customers**" means our branded customers on our network (and therefore included in our on-net customer base and on-net revenue) who are taking a service directly from us;

"**Term Loan Facility**" means the £100 million term loan facility agreement, dated July 14, 2014 and amended on December 20, 2016, between, among others, the Issuer, as borrower, the Guarantors, as guarantors, and a lender as described therein;

"**Transfer Agent**" and "**Registrar**" means The Bank of New York Mellon (Luxembourg) S.A.;

"**Trustee**" means BNY Mellon Corporate Trustee Services Limited;

"**TTB**" means TalkTalk Business, our B2B division;

"**USPP Notes**" means the $185 million aggregate principal amount senior notes, issued by the Issuer on July 17, 2014 and consisting of (i) $139 million aggregate principal amount of 4.29% senior notes due July 17, 2021; (ii) $25 million aggregate principal amount of 4.70% senior notes due July 17, 2024; and (iii) $21 million aggregate principal amount of 4.85% senior notes due July 17, 2026; and

"**Wholesale customers**" means customers on our network (and therefore included in our on-net customer base and on-net revenue) who are taking a service from an independent ISP that is a wholesale customer of TTB.

PRESENTATION OF FINANCIAL AND OTHER DATA

Financial Information

The financial information presented in this offering memorandum is, unless otherwise indicated, our historical consolidated financial information. The Issuer is the holding company for the Group.

Included herein are the following financial statements:

- our audited consolidated financial statements as at and for the years ended March 31, 2014, 2015 and 2016 (in each case, prepared in accordance with the IFRS as adopted by the European Union ("**EU**")) (the "**Annual Financial Statements**"); and
- our interim condensed consolidated financial statements for the six months ended September 30, 2016, with comparative figures for the six months ended September 30, 2015 (prepared in accordance with IAS 34 Interim Financial Reporting) (the "**Interim Financial Statements**" and, together with the Annual Financial Statements, the "**Financial Statements**").

Our financial statements are presented in British pounds sterling. Accordingly, the Financial Statements included herein are presented in British pounds sterling.

In this offering memorandum we present income statement items on a headline basis. Headline income statement line items are calculated by adding non-operating amortisation and exceptional items to statutory income statement line items.

Certain financial information in this offering memorandum has been presented for the twelve months ended September 30, 2016. Such financial information has been computed by adding the number for the six months ended September 30, 2016 to the number for the year ended March 31, 2016 and subtracting from the resulting total the number for the six months ended September 30, 2015, in each case, in the relevant line item. The financial information for the twelve months ended September 30, 2016 is unaudited.

Non-IFRS Financial Measures

In this offering memorandum, we present certain financial measures that are not defined in and, thus, not calculated in accordance with IFRS, U.S. GAAP or generally accepted accounting principles in any other relevant jurisdiction. These include statutory EBITDA, headline EBITDA and headline EBITDA margin (each as defined below). Because these measures are not standardised, companies can define and calculate these measures differently, and therefore we urge you not to use them as a basis for comparing our results with those of other companies.

We calculate our "statutory EBITDA" by adding back to our statutory operating profit or loss charges for statutory depreciation, statutory amortisation and statutory share of results of joint ventures.

Headline EBITDA is statutory EBITDA before adjustments for the effect of exceptional items. Headline EBITDA margin is the ratio of our headline EBITDA for a period to our headline revenue for the same period.

Statutory EBITDA, headline EBITDA and headline EBITDA margin under our definitions may not be comparable to similar measures presented by other companies and labelled "Statutory EBITDA", "Headline EBITDA" or "Headline EBITDA margin," respectively. We believe that statutory EBITDA, headline EBITDA and headline EBITDA margin are useful analytical tools for presenting a normalised measure of income and cash flows that disregards temporary fluctuations in working capital. EBITDA and EBITDA margin and are widely used by certain investors, securities analysts and other interested parties as supplemental measures of performance and liquidity.

Since operating profit and actual cash flows for a given period can differ significantly from these normalised measures, we urge you to consider these figures for any period together with our data for cash flows from operations and other cash flow data and our operating profit under IFRS as adopted by the EU. You should not consider statutory EBITDA, headline EBITDA or headline EBITDA margin as substitutes for operating profit or cash flows from our operating activities. Non-IFRS measures that we present in this offering memorandum may also be defined differently from the corresponding terms in the Indenture.

Market Data

Information regarding macroeconomic trends, market position, growth rates and other industry data pertaining to our business contained in this offering memorandum consists, with certain exceptions, of estimates based on data compiled by professional organisations and analysts, of data from other external sources and of our knowledge of our market. These data are subject to change and cannot be verified with complete certainty due to limits on the availability and reliability of the raw data and other limitations and uncertainties inherent in any statistical survey. In particular, in this offering memorandum in the section entitled "*Industry Overview*" we have cited certain reports and surveys by Ofcom, Cisco, YouGov Research, Ovum, GfK SE and the Broadcasters' Audience Research Board. The analysts compiling these reports base their estimates and conclusions on a variety of different sources, some of which may be more accurate or reliable than others. Thus, our market share estimates, calculated using our internal customer records, and data of our competitors published by third parties, may differ from third-party analyst estimates of our market share. We cannot provide any assurance that customer numbers of our competitors in such analyst reports and databases are correct or the same as those contained in our competitors' internal records. Therefore, you should use caution in analysing these estimates and should not place undue reliance on them.

Where information has been sourced from a third party, such information has been accurately reproduced and as far as we are aware and are able to ascertain from information published by such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. However, you should keep in mind that we have not independently verified information we have obtained from any third-party sources.

Rounding

Certain amounts that appear in this offering memorandum have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

Currencies

In this offering memorandum, references to "GBP", "£", "sterling", "British pound sterling" or "pounds sterling" are to the currency of the United Kingdom ("**UK**"), references to "euro," "EUR," "€" or "eurocents" are to the currency of the member states of the EU participating in the European Monetary Union and references to "U.S. dollar", "USD" or "$" are to the currency of the United States.

No representation is made that any specific currency amount in this offering memorandum could have been converted into any of the other currencies presented in this offering memorandum at any particular rate or at all.

EXCHANGE RATE INFORMATION

The following table sets out the period end, high, average and low exchange rates, for the periods and dates indicated, expressed as U.S. dollars per £1.00, in each case as published by Bloomberg Composite Rate (London).

The Bloomberg Composite Rate is a "best market" calculation, in which, at any point in time, the bid rate is equal to the highest bid rate of all contributing bank indications and the ask rate is set to the lowest ask rate offered by these banks. The Bloomberg Composite Rate is a mid-value rate between the applied highest bid rate and the lowest ask rate. The rates may differ from the actual rates used in the preparation of our Financial Statements and other financial information appearing in this offering memorandum.

As of January 5, 2017, the Bloomberg Composite Rate of pounds sterling was $1.2418 per £1.00.

	U.S. dollars per £1.00			
Year	**High**	**Low**	**Average(1)**	**Period End**
2012	1.6279	1.5317	1.5852	1.6248
2013	1.6556	1.4867	1.5647	1.6556
2014	1.7166	1.5517	1.6476	1.5577
2015	1.5883	1.4632	1.5285	1.4736
2016	1.4810	1.2158	1.3558	1.2345

Month	**High**	**Low**	**Average(2)**	**Period End**
July 2016	1.3343	1.2908	1.3148	1.3230
August 2016	1.3357	1.2880	1.3104	1.3138
September 2016	1.3440	1.2966	1.3148	1.3138
October 2016	1.2854	1.2158	1.2340	1.2228
November 2016	1.2601	1.2236	1.2440	1.2498
December 2016	1.2720	1.2226	1.2476	1.2345
January 2017 (until January 5, 2017)	1.2418	1.2260	1.2320	1.2418

(1) The average of the closing Bloomberg Composite Rate on the last business day of each month during the relevant period.

(2) The average of the closing Bloomberg Composite Rate on each business day during the relevant period.

SUMMARY

The following overview information should be read as an introduction to the more detailed information appearing elsewhere in this offering memorandum, including the Financial Statements and the accompanying notes beginning on page F-1. Any decision by a prospective investor to invest in the Notes should be based on consideration of the offering memorandum as a whole, including the information discussed in sections entitled "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors" and not solely on this summarized information.

OVERVIEW

We are the UK's leading value-for-money provider of fixed-line phone and broadband services to residential and businesses customers. Our fixed-line services are offered through an extensive and technologically advanced network, covering approximately 96% of UK's homes. In addition to our fixed-line connectivity offerings, we provide pay TV services through our part ownership of the YouView platform and mobile services through an MVNO arrangement with Vodafone (which we intend to transition to Telefónica UK during 2017). We offer our phone and broadband services both on a retail and wholesale basis, and leverage our existing fixed-line customer base and our extensive fixed network to offer dual play (fixed-line phone and broadband internet), triple play (dual play plus pay TV or mobile) and quad play (dual play plus pay TV and mobile) products.

Our consumer business offers quad play products incorporating broadband internet, voice, pay TV and mobile to Retail customers through a simple tariff structure and low prices. Our unique non-subscription pay TV offering provides flexible access to free and pay-to-view third-party content through the YouView platform. As at September 30, 2016, we had approximately 3.0 million Retail phone and broadband customers, approximately 1.3 million of which also subscribed to our pay TV service and approximately 793,000 were mobile customers.

Our fast growing B2B division, TTB, offers a wide range of data connectivity and next generation voice products to businesses across the UK. We provide fixed-line phone, broadband internet (including high speed Ethernet), data networking and other connectivity solutions to private companies and public sector organizations, both directly and on a wholesale basis through approximately 850 partners. As at September 30, 2016, we had approximately 899,000 Wholesale broadband and phone customers, and approximately 39,000 connected data lines. We are one of only three national network providers in the UK that offer wholesale connectivity services, broadband, FTTC and Ethernet to large national ISPs, such as the Post Office and Telecom Plus.

Strengths

Our strengths include the following:

- ***Structurally attractive fixed-line market in the UK***. The UK's fixed-line market is structurally attractive for an existing value-for-money provider of a national scale, such as the Group. Firstly, we believe it would require a sizeable investment, in time and money, to roll-out a 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. Secondly, 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 so that mobile users are expected to increase their data traffic from 0.96GB/month in 2015 to 5.6GB/month in 2020, while households are expected to increase their fixed-line traffic from 84.5GB/month in 2015 to 202.1GB/month in 2020 (Source: Cisco). Thirdly, there is a clear history of pro-competition regulation in our industry over 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. As a result of these characteristics, whilst the market for our services is promotionally intense, it remains fundamentally rational in terms of price setting, allowing for inflationary price increases.

- ***Advanced fixed-line infrastructure***. Our fixed-line network currently covers approximately 96% of UK's homes with MPF and SMPF broadband. The only comparable fixed-line unbundled network is operated by Sky, which covers approximately 90% of the UK's population. At the same time, 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 take control of 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.

- ***Leading value-for-money positioning***. Our network confers a structural cost advantage that has enabled us to deliver value-for-money telecommunication services to customers, with our consumer fixed-line propositions significantly less expensive than those offered by our competitors. Our value proposition makes us the fourth largest residential fixed-line phone and broadband provider with a 14% market share, based on customer numbers (Source: Ofcom). Our pay TV offer is focused on the large pool of value-conscious free to air households in the UK (which we estimate to be approximately 10 million households nationwide) that have not historically wanted to participate in the premium subscription based pay TV market. We focus on providing customers with flexible, non-subscription access to a wide range of third-party owned content and have grown to be the third largest operator in the pay TV market with an 8% share based on customer numbers (Source: Ofcom). In addition, we offer mobile services through an MVNO arrangement currently with Vodafone that we intend to transition to Telefónica UK during 2017. This new MVNO arrangement will give us access to 4G and national roaming and allow us to build our own thick core network.

  We have leveraged our existing consumer fixed-line scale and our extensive network to drive growth in dual play, triple play and quad play products. These products enable our customers to save significantly more money, as compared to products offered by our competitors, while driving ARPU and reducing customer churn. As the market moves towards triple and quad play bundles, our competitors are using the bundles to protect a premium product in the bundle. Conversely, as we are the value provider in all four products (phone, broadband, pay TV and mobile), the more products our customers take from us, the more money we are able to save them relative to the competition.

  Through TTB we provide a wide range of value-for-money connectivity solutions including basic phone and broadband, high speed Ethernet, and legacy and next generation voice services. We have seen particularly strong growth in our high margin data connections (Ethernet) business over the last three years, with revenue growth compounding at over 30%. Our 2015 acquisition of tIPicall is helping us forge a strong and fast growing next generation voice service ("**IP-VPN**") to compliment this growth in data products. In addition, through our wholesale partners that operate as ISPs, we provide phone, broadband and FTTC connectivity to over 900,000 end customers, giving us an approximately 35% share of UK's wholesale market, second only to BT.

- ***Strong track record of operational improvement***. We have a strong proven track record of operational improvement. Since the Demerger in 2010, we have delivered over £150 million of cost savings through integration and back-office simplification programmes. This began with the integration of the Tiscali business in 2010, which delivered over £100 million of gross cost savings, through significant back office cost reductions, culminating 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 which, in turn, is intended to enable sustainable revenue growth through a transformed brand reputation. Cost savings from MTTS totalled over £70 million from its introduction in 2013 to the date of this offering memorandum. In particular, we made significant progress in the year ended March 31, 2016 on our operational efficiency initiatives, including a comprehensive rebuilding of our online channels with enhanced security features, a significant improvement in network performance, improvements to order provisioning through case management, improvements in customer service through implementation of live chat and voice biometrics and improved fault diagnosis and resolution, reducing engineering cost and unnecessary customer contact. Further progress was made on all MTTS work streams in the six months ended September 30, 2016, achieving £17 million in gross cost savings during that period. Our operational improvements have resulted in the reduction in calls into our contact centres from approximately 2.5 million in July 2010 to approximately 1.0 million in July 2016 and a reduction of complaints filed with Ofcom from approximately 1,000 in April 2012 to approximately 300 in July 2016, whilst at the same time driving down churn on our on-net customer base to 1.4% per month in the three months ended September 30, 2016.

- ***Proven historical performance and strengthening financial outlook***. In the periods under review, we have consistently generated strong revenues. We had £1,795 million and £1,838 million of headline revenue for the years ended March 31, 2015 and 2016, respectively, and £1,828 million of headline revenue for the twelve months ended September 30, 2016. Our headline EBITDA and headline EBITDA margin increased from £245 million and 13.6%, respectively, for the fiscal year ended March 31, 2015 to £260 million and 14.1%, respectively, for the fiscal year ended March 31, 2016 and £300 million and 16.4% for the twelve months ended September 30, 2016.

  Our capital expenditure cash outflows were £112 million, £166 million and £174 million for the years ended March 31, 2015 and 2016 and twelve months ended September 30, 2016, respectively. This represented 6.2%, 9.0% and 9.5% of our headline revenue for the respective periods. Following a period of heightened expenditure on systems to support MTTS, mobile and Fibre to the Premise ("**FTTP**") we expect the ratio of capital expenditure to revenues to revert to our normal 6% - 7% from the year ending March 31, 2017. Our leverage ratio was at the level of 2.4x, 2.6x and 2.8x for the years ended March 31, 2015 and 2016 and the twelve months ended September 30, 2016, respectively, and an interest coverage ratio was at the level of 11.1x, 11.8x and 12.0x, respectively, for the same periods. We expect to substantially reduce our leverage ratio for the year ended March 31 2017, and target a medium term ratio of 2.0x.

- ***Highly experienced management team***. Our senior management team has the combined expertise of more than 90 years in the telecommunication industry. The Chairman of our Board of Directors, Sir Charles Dunstone, founded the Group in 2002. Our Chief Executive Officer, Ms. Dido Harding, Baroness Harding of Winscombe, joined us in 2010 from Sainsbury, where she was a member of the Operating Board, having previously worked for Tesco in various senior positions. We believe that the collective industry knowledge and leadership capabilities of our senior management team will enable us to continue to successfully execute our strategy.

Strategy

Our business model is underpinned by our own next generation network, a sustainable regulatory cost advantage over access to key parts of BT's network infrastructure and a low cost operating model, which collectively allow us to price competitively. The political and regulatory environment in which this framework evolves is critical to our business model and presents significant opportunities for us. Our strategy is to:

- ***Leverage and expand our network***. The size and all-IP nature of our fixed-line network allow us to scale it very efficiently for growing usage, enabling us to support growing customer demand for high speeds and greater data consumption. We have a defined programme of investment in the network to increase capacity and efficiency in line with the expected growth in demand for high speeds and data consumption. 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 fibre customers.

  We expect that network investments over the next two years will be focused on enhancing the capability of our Next Generation Edge ("**NGE**") and Next Generation Access ("**NGA**") networks. Having completed our NGE programme of upgrading all regional nodes within our fixed-line network in 2016, we have begun to upweight exchanges on the new NGA architecture, with over 100 expected to be completed by the end of March 2017. We expect another 3,000 exchanges to be completed over the next 18-24 months. This programme is expected to reduce our costs to serve all our customers and drive further improvements in customer satisfaction.

  Over the course of the next ten years we expect to see bandwidth usage across our network increase 10 times. These technology improvements will enable us to scale the network for this demand and will allow us to substantially drive down our costs. By the end of our relatively modest network investment programme we expect the entire data network to be brand new, simplified and functionally using the latest Tier 1 capability. We will also strive to take advantage of regulatory developments, such as regulatory dark fibre, to ensure an even more material step down in operating costs, putting us in a position to deliver the significantly increased bandwidth and capacity that our customers are expected to require.

- ***Continue to provide value-for-money products***. A structural cost advantage conferred by our existing network enables us to be a value-for-money provider in all the products we sell. Following the launch of fixed-line phone and broadband services in 2006, we have leveraged our network and fixed-line customer base by offering additional value-for-money services to consumers such as Internet Protocol television ("**IPTV**"), Fibre to the Cabinet ("**FTTC**") and mobile. Customers typically save more money with us the more products they take. In addition, as we have designed our network for peak consumer usage during the evening, we are able to leverage this capacity during the daytime for B2B customers, enabling us to offer a wide range of value-for-money voice and data connectivity products to customers ranging from small office/home office businesses and small and medium sized enterprises to multi-site national enterprises. We believe that our value-for-money positioning and growing product offer will continue to drive customer loyalty and sustainable overall revenue growth through revenue-per-user growth from existing customers, (which is significantly less expensive than increasing revenue by adding new customers). It will also ensure that we are well positioned to take advantage of favourable usage and socio-demographic trends, with a growing number of older and smaller households in the UK, growing data usage and growing triple and quad play penetration.

- ***Achieve significant scale***. 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 TV (approximately 37% of phone and broadband base), mobile (approximately 22% of phone and broadband base) and FTTC (approximately 21% of phone and broadband base) bases. We expect that our quad-play approach will put us in a position to further capitalize on the growing trend amongst UK consumers to save money by taking bundled products on top of their fixed-line subscriptions. We expect the majority of our customers to subscribe for all four products in the future, underpinning our scale growth opportunity.

  Our B2B division, which is already a scale business, with revenues of over £500 million in the year ended March 31, 2016, has material further opportunities to grow in the fragmented B2B market. In particular, our B2B division currently has a 10%-12% share of the UK's national and metro Ethernet market, where current forecasts of 11% CAGR (Source: Ovum) would take our share to around 16% by 2020. In addition, our share in the IP-VPN market is currently approximately 2% and, while the market is forecast to grow at a CAGR of 2% (Source: Ovum), we see a significant growth opportunity. We also see steady growth opportunities in our wholesale phone and broadband business.

- ***Simplify systems and processes to achieve further operational efficiency***. As a relatively young business that has grown very rapidly since the Demerger, we have a significant opportunity to further simplify our technology platform and customer processes to deliver a higher quality and more secure customer experience.

  MTTS is our Group-wide ranging transformation programme that is delivering material customer service improvements, reducing churn, driving operating cost savings, reducing subscriber acquisition costs and ultimately, creating a simpler, better business and transformed brand reputation. We aim to continue our work on all components of MTTS to deliver a seamless self-service operating model which will be better for customers and lower cost to operate. We expect this to result in a further £35 million to £40 million of savings, through improved customer services, in the year ending March 31, 2017 (of which £17 million have already been delivered during the six months ended September 30, 2016), and annualised savings beyond this period are expected to be at a substantially higher level.

- ***Drive disruptive innovation***. We have a strong heritage of launching innovative and disruptive products that leverage our network scale, engineering expertise and cost advantage to save customers money. We were the first fixed-line operator in the UK to offer free fixed-line calls between customers, free broadband, unlimited downloads to broadband customers, network level home internet security, a free TV product (on the YouView platform), business broadband at under £5 per month and free nuisance and suspicious call blocking.

Our two key future innovation opportunities are FTTP and inside-out mobile.

- We have made significant progress towards achieving critical success factors (cost per home, customer experience and penetration) in our FTTP proof of concept in York and are taking measured steps to further test the economics of a broader roll-out. Our initial build has covered nearly 14,000 homes, with over 2,500 customers signing up to the service with us and Sky since the beginning of 2016 (over 18% penetration in the six months ended September 30, 2016). Build costs have come at £417 per home, significantly under our £500 per home target, and customer take-up and satisfaction are also running ahead of targets. Following the success of this first phase, we plan to begin extending the network across the rest of York. The roll-out is expected to start in the Spring of 2017 and reach a further 40,000 homes over a period of 18 months, covering the vast majority of the city's premises. Our York project was conceived as a joint venture with Sky and City Fibre Holdings, but we plan to acquire Sky's equity in the joint venture in 2017, with Sky becoming a long term wholesale customer. The full York roll-out is expected to cost us approximately £20 million over 18 months to complete.

  Beyond York and depending on us successfully proving the economics of the build, we plan to investigate the feasibility of a larger parallel build across five to six cities in different parts of the UK, involving approximately 150,000 homes. Building work on any such extended pilot is unlikely to begin until the year ending March 31, 2019. If the results of this pilot prove the economics of FTTP then there will be a long-term potential of reaching five to ten million homes over a ten year minimum build time. Such network development is expected to be funded with external capital, consistent with our existing financing policy.

- Separately, we are in the advanced stages of a femtocell testing programme that is expected to lead to the roll-out of active cells in customers' homes from 2018/19. These indoor cells will allow mobile traffic to be offloaded onto our fixed-line network, thereby delivering a much improved indoor mobile experience and savings on the costs payable under our MVNO arrangements.

Both these innovations will allow us to deliver disruptive value-for-money propositions that leverage the economics of our fixed-line network.

THE REFINANCING

On the Issue Date, the Issuer expects to issue the Notes offered hereby. The Issuer expects to use the proceeds of the Offering, together with cash on balance sheet, to (a) repay the drawings under the 2016 Revolving Credit Facility in full; (b) partially repay the drawings under the 2014 Revolving Credit Facility and the Term Loan Facility; and (c) pay costs, expenses and fees (including the Initial Purchasers' fees, legal, accounting and other fees and expenses) in connection with the Refinancing. For a detailed discussion of the use of proceeds see "*Use of Proceeds*." For a description of our current and anticipated indebtedness following the Refinancing, see "*Description of Other Indebtedness*" and "*Capitalization*."

RECENT DEVELOPMENTS

Interim Dividend for the year ending March 31, 2017

On December 16, 2016 the Issuer paid an interim dividend for the year ending March 31, 2017 in the amount of 5.29 p per share, or approximately £50 million.

New Tariff Plans

At the beginning of October 2016, we replaced all of our existing consumer connectivity tariffs with a new, radically simpler range of fixed low price plans. These new plans give customers the freedom to choose and fix their own package for 18 months by tailoring mix-and-match broadband, mobile, TV and land-line calls to suit their needs. Customers can choose between two new simple packages, each inclusive of line rental:

- "Fast Broadband": for speeds of up to 17Mbps (which also includes (i) our "Essential SIM" feature, providing 200 minutes, unlimited SMS and 500MB of data and (ii) access to the TalkTalk TV Store); and
- "Faster Fibre Broadband": for speeds of up to 38Mbps (which also includes (i) our "Essential SIM" feature, providing 200 minutes, unlimited SMS and 500MB of data and (ii) access to the TalkTalk TV Store).

Uniquely in the market, we have also made these new plans available to all of our existing customers (on legacy tariffs, such as Simply Broadband, Essentials TV and Plus TV) who are able to move to these plans by re-contracting with us for 18 months. Our existing customers have responded extremely well to the new plans. In particular: (a) ten times as many customers have re-contracted than in an average month, (b) many more have chosen the Faster Fibre Broadband plan than expected, (c) attachment rates for calling and TV boosts have also been stronger than we had expected. These outcomes reflect the attractiveness of our simple and clear pricing, and while the take up on the new plans might be at a lower ARPU, the 18 months re-contracting will help reduce churn. Customers who chose not to re-contract have received an approximately 9%-10% price increase on their existing packages.

Industry

In December 2016, Sky announced the launch of its mobile proposition (based on its MVNO agreement with Telefónica UK). This offering is aimed at its existing fixed-line phone, broadband and TV customer base. The offering's data pricing is comparable to the wider UK market.

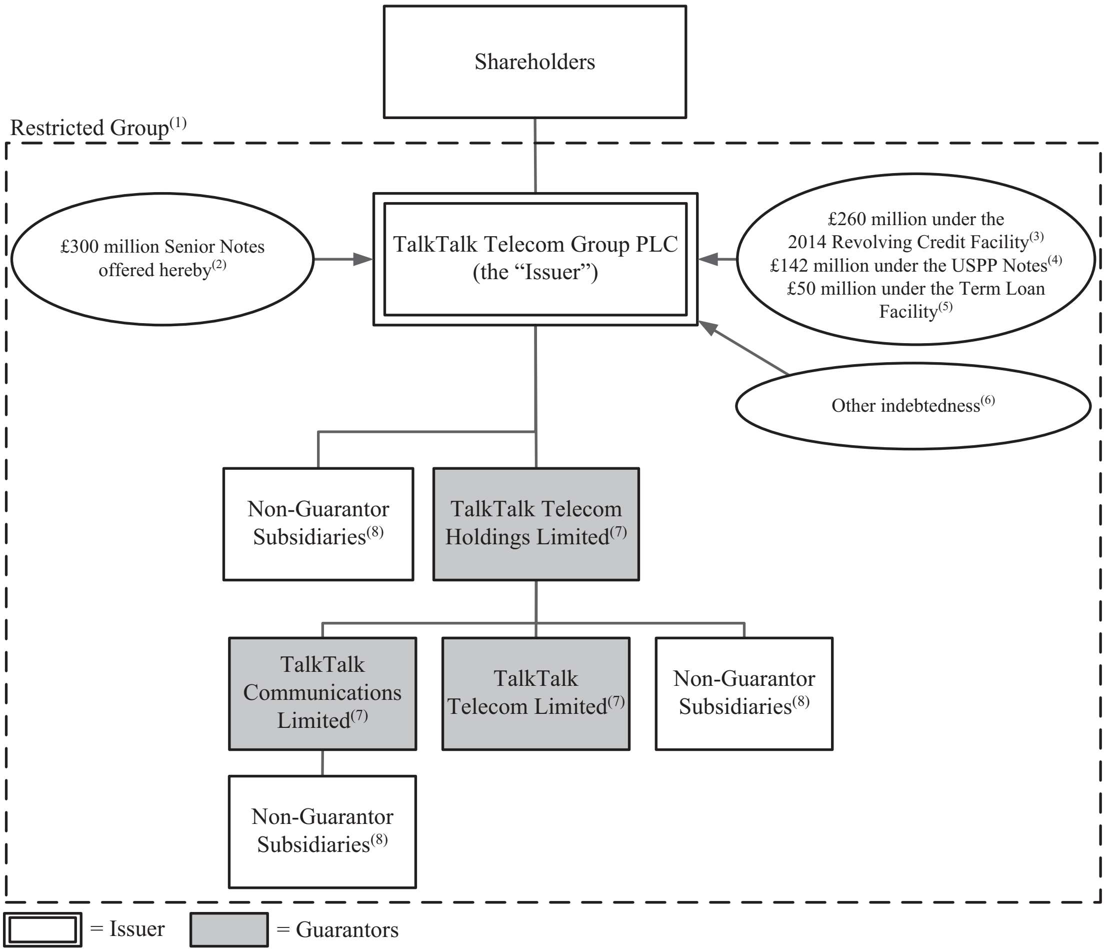
Regulation

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 has specifically stated that if legal separation cannot be made to work, then full structural separation remains an option. Currently Ofcom is considering a more detailed legal separation proposal. It is expected to notify and consult with the European Commission accordingly in early 2017. Such consultations are required to allow Ofcom to implement the proposed solution.

Whether BT is ultimately structurally or legally separated from BTOR, we expect reductions in the wholesale price of BTOR's GEA, and thus a reduction in our wholesale costs. If BTOR is fully separated, it would be economically rational for the separated entity to support such a price reduction in order to drive take up on their network from all ISPs.

SUMMARY CORPORATE AND FINANCING STRUCTURE

The following diagram summarizes our corporate structure and shows our principal outstanding financing arrangements after giving effect to the Refinancing:



(1) The entities in the Restricted Group are subject to the covenants in the Indenture. See "*Description of the Notes*."

(2) The Notes will be senior unsecured obligations of the Issuer and will rank *pari passu* in right of payment with all other existing and future senior debt of the Issuer that is not expressly subordinated in right of payment to the Notes. The Notes will be senior in right of payment to all existing and future indebtedness of the Issuer that is expressly subordinated in right of payment to the Notes. The Notes will be guaranteed on a senior unsecured basis by the Guarantors. The Guarantees will be senior unsecured obligations of the Guarantors and will rank *pari passu* in right of payment with all of the existing and future indebtedness of the Guarantors that is not expressly subordinated in right of payment to the Guarantees. The Guarantees will rank senior in right of payment to all existing and future indebtedness of the Guarantors that is expressly subordinated in right of payment to the Guarantees. The Notes and the Guarantees will be effectively subordinated to all of the Issuer's and the Guarantors', as applicable, future secured debt to the extent of the value of the assets securing such debt. The Notes will be structurally subordinated to all existing and future obligations and other liabilities of the Issuer's other direct and indirect subsidiaries that do not guarantee the Notes. The Guarantees will be subject to certain limitations under applicable law. See "*Certain Insolvency and Enforceability Considerations*" and "*Risk Factors—Risks relating to the Notes and the Guarantees*."

(3) The total commitment available under the 2014 Revolving Credit Facility is £560 million. The 2014 Revolving Credit Facility is guaranteed by the Guarantors on a senior unsecured basis. As at September 30, 2016, we had £460 million outstanding under the 2014 Revolving Credit Facility. See "*Description of Other Indebtedness—2014 Revolving Credit Facility*." On or about the Issue Date the Issuer intends to use the proceeds of the Offering to repay £200 million of outstanding drawings under the 2014 Revolving Credit Facility. We expect that £260 million will remain outstanding under the 2014 Revolving Credit Facility after the Refinancing. See "*Use of Proceeds*."

(4) On July 17, 2014, the Issuer issued \$185 million aggregate principal amount senior notes, consisting of (i) \$139 million aggregate principal amount of 4.29% senior notes due July 17, 2021 (ii) \$25 million aggregate principal amount of 4.70% senior notes due July 17, 2024 and (iii) \$21 million aggregate principal amount of 4.85% senior notes due July 17, 2026. The USPP Notes are guaranteed by the Guarantors on a senior unsecured basis. As at September 30, 2016, we had a total amount of £142 million outstanding under the USPP Notes, net of derivatives (cash flow hedges) of £33 million. See "*Description of Other Indebtedness—USPP Notes*."

(5) As at September 30, 2016, we had £100 million outstanding under the Term Loan Facility. Of the borrowings under the Term Loan Facility, £50 million mature on May 31, 2018 and £50 million mature on July 14, 2019. See "*Description of Other Indebtedness—Term Loan Facility*." On or about the Issue Date the Issuer intends to use the proceeds of the Offering to repay £50 million of outstanding drawings under the Term Loan Facility. We expect that £50 million will remain outstanding under the Term Loan Facility after the Refinancing. See "*Use of Proceeds*."

(6) As at September 30, 2016, other financial indebtedness of the Issuer includes (a) £50 million outstanding under the 2015 Bilateral Agreement; (b) £63 million outstanding under the £75 million Receivables Purchase Agreement Facility; and (c) £15 million of bank overdrafts.

(7) The Notes will be guaranteed by the Guarantors. The Guarantors represented 94.9% of our headline revenue, 87.2% of our headline EBITDA and 96.7% of our total assets for the year ended March 31, 2016; and 94.8% of our headline revenue, 85.6% of our headline EBITDA and 96.7% of our total assets for the six months ended September 30, 2016.

(8) As at September 30, 2016, our direct and indirect non-guarantor subsidiaries did not have any material financial indebtedness outstanding.

Within the chart, legal entities are shown in boxes and financing instruments are shown in ovals. See "*Use of Proceeds*," "*Capitalization*," "*Description of the Notes*" and "*Description of Other Indebtedness*" for more detailed descriptions.

As of the Issue Date, all of the Issuer's direct and indirect subsidiaries will be Restricted Subsidiaries for purposes of the Indenture and the Description of the Notes. The Guarantors will guarantee the Notes as of the Issue Date and one or more other subsidiaries may become obliged to guarantee the Notes in the future to the extent that they provide guarantees of certain other indebtedness.

OVERVIEW OF THE OFFERING

The overview below describes the principal terms of the Notes and the Guarantees. Certain of the terms and conditions described below are subject to important limitations and exceptions. The section entitled "Description of the Notes" of this offering memorandum contains a more detailed description of the terms and conditions of the Notes and the Guarantees, including definitions of certain terms used in this overview.

Issuer . . . . TalkTalk Telecom Group PLC (the "**Issuer**").

Guarantors . . . . TalkTalk Telecom Holdings Limited, TalkTalk Communications Limited and TalkTalk Telecom Limited (the "**Guarantors**").

Notes Offered . . . . £300,000,000 aggregate principal amount of % Senior Notes due 2022 (the "**Notes**").

Issue Date . . . . On or about , 2017 (the "**Issue Date**").

Issue Price . . . . % plus accrued interest from the Issue Date.

Maturity Date . . . . , 2022.

Interest Rate . . . . % per annum.

Interest Payment Dates . . . . Interest will be payable semi-annually in arrears on and of each year, commencing on , 2017. Interest will accrue from the Issue Date.

Denomination of Notes . . . . The Issuer will issue the Notes in minimum denominations of £100,000 in principal amount and integral multiples of £1,000 in excess thereof.

Form of Notes . . . . The Notes will be represented on issue by a Global Note which will be deposited with a common depositary for Euroclear and Clearstream and registered in the name of the nominee for the common depositary. If definitive registered notes are issued in respect of the Notes, they will be issued only in minimum denominations of £100,000 in principal amount and integral multiples of £1,000 in excess thereof.

Interests in the Global Note will be exchangeable for definitive registered notes only in certain limited circumstances. See "*Book-Entry; Delivery and Form.*"

Ranking of the Notes and the Guarantees . . . . The Notes:

- will be senior unsecured obligations of the Issuer;
- will rank senior in right of payment to all existing and future obligations of the Issuer that are expressly subordinated in right of payment to the Notes;
- will rank *pari passu* in right of payment with all existing and future obligations of the Issuer that are not expressly subordinated in right of payment to the Notes;
- will be effectively subordinated to all existing and future secured obligations of the Issuer to the extent of the value of the assets securing such obligations;
- will be structurally subordinated to all existing and future obligations of the Issuer's subsidiaries that do not guarantee the Notes; and
- will be guaranteed on a senior unsecured basis by the Guarantors, subject to certain limitations under applicable law as set forth below.

	The Notes will be guaranteed by the Guarantors on the Issue Date (the "**Guarantees**"), and may in the future be guaranteed by other Restricted Subsidiaries of the Issuer. The Guarantees: • will be senior unsecured obligations of the relevant Guarantors; • will rank senior in right of payment to all existing and future obligations of the relevant Guarantors that are expressly subordinated in right of payment to such Guarantees; • will rank *pari passu* in right of payment with all existing and future obligations of the relevant Guarantors that are not expressly contractually subordinated in right of payment to such Guarantees; and • will be effectively subordinated to all existing and future secured obligations of the relevant Guarantors to the extent of the value of the assets securing such obligations. The Guarantees will be subject to release under certain circumstances. See "*Description of the Notes— Release of the Guarantees*."
Use of Proceeds	We intend to use the proceeds of the Offering, together with cash on balance sheet, to (a) repay the drawings under the 2016 Revolving Credit Facility in full; (b) partially repay the drawings under the 2014 Revolving Credit Facility and the Term Loan Facility; and (c) pay costs, expenses and fees (including the Initial Purchasers' fees, legal, accounting and other fees and expenses) in connection with the Refinancing. See "*Use of Proceeds*."
Taxation / Additional Amounts	All payments under or with respect to the Notes and the Guarantees will be made free and clear of, and without withholding or deduction for, or on account of, any present or future tax, duty, levy, impost, assessment or other governmental charge (including penalties, interest and other liabilities related thereto) except to the extent required by law. If withholding or deduction is required by law in any such jurisdiction in which the Issuer or any Guarantor is then incorporated, engaged in business or resident for tax purposes or any political subdivision thereof or therein or any jurisdiction (including, without limitation, the jurisdiction of any paying agent) from or through which payment on the Notes is made by or on behalf of the Issuer or the Guarantors, subject to certain exceptions, the Issuer or the Guarantors will pay such additional amounts as may be necessary so that the net amount received by any holder of Notes (including additional amounts) after such withholding or deduction will not be less than the amount such holder would have received if such withholding or deduction had not been required. See "*Description of the Notes—Additional Amounts*."
Optional Redemption	At any time prior to , 2019 we may redeem up to 40% of the aggregate principal amount of the Notes using the net cash proceeds of certain equity offerings, at the redemption price of % of the principal amount of the Notes redeemed, plus accrued and unpaid interest and additional amounts, if any, to the redemption date. See "*Description of the Notes—Optional Redemption—Optional Redemption prior to upon Equity Offering*." At any time prior to , 2019 we may redeem some or all of the Notes at a redemption price equal to 100% of the principal amount of the Notes redeemed, plus, in each case, accrued and unpaid interest

	and additional amounts, if any, to the applicable redemption date plus the applicable "make whole" premium. See "*Description of the Notes—Optional Redemption—Optional Redemption prior to , 2019.*" At any time on or after , 2019 we may redeem some or all of the Notes at the redemption prices set forth in "*Description of the Notes—Optional Redemption—Optional Redemption on or after , 2019.*"
Change of Control	Upon the occurrence of certain events constituting a "change of control," holders of the Notes will have the right to require the Issuer to repurchase all or part of the Notes at a purchase price in cash equal to 101% of the aggregate principal amount of the Notes, plus accrued and unpaid interest and additional amounts, if any, to the repurchase date. See "*Description of the Notes—Certain Covenants—Change of Control*."
Optional Redemption for Taxation Reasons	If certain changes in the law (or in its interpretation) of any relevant taxing jurisdiction impose certain withholding taxes or other deductions on the payments on the Notes, we may redeem the Notes in whole, but not in part, at a redemption price of 100% of the principal amount thereof, plus accrued and unpaid interest and additional amounts, if any, to the redemption date. See "*Description of the Notes—Redemption Upon Changes in Withholding Taxes*."
Certain Covenants	We have agreed to certain covenants with respect to the Notes, including, among other things, limitations on our ability to: • incur or guarantee additional indebtedness; • pay dividends, redeem capital stock and make certain investments; • make certain other restricted payments; • create or permit to exist certain liens; • impose restrictions on the ability of our subsidiaries to pay dividends or make other payments to the Issuer; • transfer or sell assets; • consolidate, merge or sell all or substantially all of our assets; and • enter into certain transactions with affiliates. Each of these covenants is subject to certain exceptions and qualifications. See "*Description of the Notes—Certain Covenants*."
Transfer Restrictions	The Notes and the Guarantees have not been, and will not be, registered under the U.S. Securities Act or the securities laws of any other jurisdiction. The Notes are subject to restrictions on transfer and may only be offered or sold in offshore transactions outside the United States in compliance with Regulation S and may not be offered, sold or delivered within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. See "*Notice to Investors*" and "*Plan of Distribution*."
No Established Market	The Notes will be new securities for which there is currently no established trading market. Although the Initial Purchasers have informed us that they intend to make a market in the Notes, they are not obligated to do so and they may discontinue market-making at any time without notice. Accordingly, we cannot assure you that a liquid market for the Notes will develop or be maintained.

Listing	Application will be made to The Channel Islands Securities Exchange Authority Limited (the "**Exchange**") for the listing of and permission to deal in the Notes on the Official List of the Exchange. There can be no assurance that the Notes will be listed on the Official List of the Exchange, that such permission to deal in the Notes will be granted or that such listing will be maintained.
Governing Law	The Notes and the Indenture (including the Guarantees) will be governed by the laws of the State of New York.
Trustee	BNY Mellon Corporate Trustee Services Limited.
Paying Agent	The Bank of New York Mellon, London Branch.
Transfer Agent and Registrar	The Bank of New York Mellon (Luxembourg) S.A.
Listing Sponsor	Carey Olsen Corporate Finance Limited.
Risk Factors	Investing in the Notes involves a high degree of risk. See the section entitled "*Risk Factors*" for a description of certain of the risks you should carefully consider before making a decision whether to invest in the Notes.

SUMMARY FINANCIAL AND OTHER INFORMATION

The tables below present summary consolidated financial information for the Group as at and for the years ended March 31, 2014, 2015 and 2016, as at and for the six months ended September 30, 2015 and 2016 and as at and for the twelve months ended September 30, 2016. The financial information as at and for the years ended March 31, 2014, 2015 and 2016 has been extracted or derived from the Annual Financial Statements. The financial information as at and for the six months ended September 30, 2015 and 2016 has been extracted or derived from the Interim Financial Statements. The financial information as at and for the twelve months ended September 30, 2016 has been extracted or derived from the Annual Financial Statements as at and for the year ended March 31, 2016 and the Interim Financial Statements. The Financial Statements are included elsewhere in this offering memorandum. The information presented below under the caption "*—Other Operating Data*" is derived from our Annual Reports for the years ended March 31, 2015 and 2016 and the 6 Months 2017 Announcement. The information below should be read in conjunction with the Financial Statements and accompanying notes included elsewhere in the offering memorandum and the discussion in sections entitled "*Presentation of Financial and Other Data*", "*Selected Financial Information*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*."

Summary Consolidated Headline Income Statement Information

	For the year ended March 31,			For the six months ended September 30,		For the twelve months ended September 30,
	2014	**2015**	**2016**	**2015**	**2016**	**2016**
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)	(unaudited)
				(£ millions)		
Revenue						
On-net revenue	1,259	1,333	1,399	697	670	1,372
Off-net revenue	128	87	55	27	24	52
Corporate revenue	340	375	384	188	208	404
Total revenue	**1,727**	**1,795**	**1,838**	**912**	**902**	**1,828**
Cost of sales	(769)	(815)	(845)	(425)	(433)	(853)
Gross Profit	**958**	**980**	**993**	**487**	**469**	**975**
Operating expenses excluding amortisation and depreciation	(745)	(735)	(733)	(397)	(339)	(675)
EBITDA[(1)]	**213**	**245**	**260**	**90**	**130**	**300**
Depreciation	(77)	(78)	(72)	(36)	(35)	(71)
Amortisation	(35)	(42)	(49)	(23)	(30)	(56)
Share of results of joint ventures	(7)	(8)	(8)	(6)	(5)	(7)
Operating profit	**94**	**117**	**131**	**25**	**60**	**166**
Net finance costs	(20)	(22)	(24)	(11)	(14)	(27)
Profit before taxation	**74**	**95**	**107**	**14**	**46**	**139**
Taxation	(13)	(19)	(28)	(3)	(11)	(36)
Profit for the period attributable to the owners of the Company	**61**	**76**	**79**	**11**	**35**	**103**

(1) Headline EBITDA is headline operating profit plus charges for headline depreciation, headline amortisation and headline share of results of joint ventures.

Reconciliation of Headline Revenue to Statutory Revenue, Headline EBITDA to Statutory EBITDA and Statutory EBITDA to Statutory Operating Profit

	For the year ended March 31,			For the six months ended September 30,		For the twelve months ended September 30,
	2014	2015	2016	2015	2016	2016
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)	(unaudited)
				(£ millions)		
Headline revenue	**1,727**	**1,795**	**1,838**	**912**	**902**	**1,828**
Exceptional items	(5)[1]	—	(3)[2]	—	—	(3)[2]
Statutory revenue	**1,722**	**1,795**	**1,835**	**912**	**902**	**1,825**
Headline EBITDA[3]	**213**	**245**	**260**	**90**	**130**	**300**
Headline EBITDA margin[4] (%)	**12.3%**	**13.6%**	**14.1%**	**9.9%**	**14.4%**	**16.4%**
Exceptional items—Revenue	(5)[1]	—	(3)[2]	—	—	(3)[2]
Exceptional items—Operating expenses	3[5]	—	(39)[6]	—	—	(39)[6]
Exceptional items—Operating efficiencies[7]	(20)	(29)	(41)	(19)	(10)	(32)
Exceptional items—Acquisitions and disposal	—	(9)[8]	—	2[9]	(1)[10]	(3)[11]
Exceptional items—Mobile migration	—	(8)[12]	—	—	—	—
Statutory EBITDA[13]	**191**	**199**	**177**	**73**	**119**	**223**
Depreciation	(77)	(83)	(72)	(36)	(35)	(71)
Amortisation[14]	(56)	(54)	(59)	(28)	(35)	(66)
Share of results of joint ventures	(7)	(8)	(8)	(6)	(5)	(7)
Statutory operating profit	**51**	**54**	**38**	**3**	**44**	**79**

(1) Represents prompt payment discounts and historic termination charge settlements with the mobile network operators, which are recognised as revenue.

(2) Represents an increased number of credits provided in order to retain customers following the 2015 Cyber Attack, which are recognised as revenue. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Trends And Other Key Factors Impacting Our Results Of Operations—The 2015 Cyber Attack.*"

(3) Headline EBITDA is headline operating profit plus charges for headline depreciation, headline amortisation and headline share of results of joint ventures.

(4) Headline EBITDA margin is headline EBITDA as a percentage of headline revenue.

(5) Represents income resulting from the determination by Ofcom in December 2012, that BT had overcharged us for certain wholesale Ethernet services. Accordingly, BT was required to make repayments to us for these overcharges.

(6) Represents costs relating to the 2015 Cyber Attack, including costs incurred for restoring our online capability with enhanced security features, associated IT costs, incident response and consultancy costs and the provision of free upgrades to customers. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Trends And Other Key Factors Impacting Our Results Of Operations—The 2015 Cyber Attack.*"

(7) Represents costs relating to the implementation of our MTTS programme. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Trends And Other Key Factors Impacting Our Results Of Operations—Making TalkTalk Simpler (MTTS).*"

(8) Represents (i) £4 million of costs incurred for the migration of customers onto our network and integration costs, including redundancy; (ii) £10 million of costs in respect of committed future programmes predominantly for migration, reorganisation and related costs; and (iii) £5 million of profit generated from the sale of our existing off-net broadband customer base to Fleur.

(9) Represents net exceptional income of £3 million in relation to the broadband customer base we acquired from Virgin Media Limited, partially offset by a £1 million exceptional charge relating to the sale of our off-net broadband customer to Fleur.

(10) Represents £1 million of charges incurred from the sale of our existing off-net broadband customer base to Fleur.

(11) Represents exceptional charges of £1 million relating to the broadband customer base we acquired from Virgin Media Limited and £2 million relating to the sale of our off-net broadband customer base to Fleur.

(12) Represents costs relating to the planned migration of mobile customers to the new MVNO agreement with Telefónica UK.

(13) Statutory EBITDA is statutory operating profit plus charges for statutory depreciation, statutory amortisation and statutory share of results of joint ventures.

(14) Amortisation includes amortisation of acquisition intangibles of £21 million, £6 million and £10 million for the years ended March 31, 2014, 2015 and 2016 respectively. For the six months ended September 30, 2015 and 2016 amortisation includes amortisation of acquisition intangibles of £5 million. For the twelve months ended September 30, 2016, amortisation includes amortisation of acquisition intangibles of £10 million.

Summary Consolidated Balance Sheet Information

	As at March 31,			As at September 30,
	2014	2015	2016	2016
	(audited)	(audited)	(audited)	(unaudited)
		(£ millions)		
Assets				
Non-current assets				
Goodwill	479	490	495	495
Other intangible assets	141	178	227	237
Property, plant and equipment	305	290	302	289
Investment in joint ventures	7	10	9	9
Trade and other receivables	—	—	3	4
Derivative financial instruments	—	11	18	28
Deferred tax assets	107	130	115	111
Total non-current assets	**1,039**	**1,109**	**1,169**	**1,173**
Current assets				
Inventories	24	31	57	32
Trade and other receivables	260	313	294	333
Current income tax receivables	—	1	3	—
Cash and cash equivalents	—	10	10	—
Total current assets	**284**	**355**	**364**	**365**
Total assets	**1,323**	**1,464**	**1,533**	**1,538**
Current liabilities				
Trade and other payables	(456)	(516)	(563)	(475)
Current income tax payable	(14)	—	—	(5)
Borrowings	(37)	—	(25)	(90)
Provisions	(2)	(34)	(18)	(11)
Total current liabilities	**(509)**	**(550)**	**(606)**	**(581)**
Non-current liabilities				
Borrowings	(460)	(615)	(684)	(790)
Derivative financial instruments	—	(1)	(1)	—
Provisions	(7)	(1)	(11)	(10)
Total non-current liabilities	**(467)**	**(617)**	**(696)**	**(800)**
Total liabilities	**(976)**	**(1,167)**	**(1,302)**	**(1,381)**
Net assets	**347**	**297**	**231**	**157**
Equity				
Share capital	1	1	1	1
Share premium	684	684	684	684
Translation reserve	(64)	(65)	(64)	(63)
Demerger reserve	(513)	(513)	(513)	(513)
Retained earnings and other reserves	239	190	123	48
Total equity	**347**	**297**	**231**	**157**

Summary Consolidated Cash Flow Statement Information

	For the year ended March 31,			For the six months ended September 30,		For the twelve months ended September 30,
	2014	2015	2016	2015	2016	2016
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)	(unaudited)
				(£ millions)		
Operating activities						
Operating profit	**51**	**54**	**38**	**3**	**44**	**79**
Share-based payments	4	4	5	2	4	7
Depreciation	77	83	72	36	35	71
Amortisation of other operating intangible fixed assets	35	42	49	23	30	56
Amortisation of acquisition intangibles	21	12	10	5	5	10
Share of losses of joint ventures	7	8	8	6	5	7
Profit on disposal of property, plant and equipment	—	(3)	—	—	—	—
Profit on disposal of subsidiaries and customer bases	—	(5)	—	1	—	(1)
Operating cash flows before movements in working capital	**195**	**195**	**182**	**76**	**123**	**229**
Decrease/(increase) in trade and other receivables	(36)	(44)	15	18	(40)	(43)
Decrease/(increase) in inventory	(1)	(7)	(26)	(6)	25	5
Increase/(decrease) in trade and other payables	7	26	17	15	(46)	(44)
Increase/(decrease) in provisions	(5)	26	(6)	(16)	(8)	2
Cash generated from operations	**160**	**196**	**182**	**87**	**54**	**149**
Income taxes paid	—	(2)	—	—	3	3
Net cash flows generated from operating activities	**160**	**194**	**182**	**87**	**57**	**152**
Investing activities						
Acquisition of subsidiaries and joint ventures, net of cash acquired	(8)	(38)	(14)	(5)	(6)	(15)
Disposal of subsidiaries and customer bases	—	—	2	—	—	2
Investment in intangible assets	(42)	(49)	(106)	(49)	(48)	(105)
Investment in property, plant and equipment	(65)	(67)	(72)	(42)	(51)	(81)
Disposal of property, plant and equipment	—	4	12	—	—	12
Cash flows used in investing activities	**(115)**	**(150)**	**(178)**	**(96)**	**(105)**	**(187)**
Financing activities						
Settlement of Group ESOT shares	6	2	2	2	2	2
Net sale of own shares	(39)	—	61	61	—	—
Payment of contingent consideration	—	—	—	—	(8)	(8)
Drawdown of borrowings	90	109	90	55	143	178
Interest paid	(17)	(22)	(22)	(11)	(14)	(25)
Dividends paid	(99)	(116)	(135)	(85)	(100)	(150)
Cash flows generated from/(used in) financing activities	**(59)**	**(27)**	**(4)**	**22**	**23**	**(3)**
Net (decrease)/increase in cash and cash equivalents	**(14)**	**17**	**—**	**13**	**(25)**	**(38)**
Cash and cash equivalents at the start of the year	7	(7)	10	10	10	23
Cash and cash equivalents at the end of the year	**(7)**	**10**	**10**	**23**	**(15)**	**(15)**

Other Financial Data and Ratios

	As at and for the year ended March, 31			As at and for the twelve months ended September 30,
	2014	**2015**	**2016**	**2016**
	(audited)	**(audited)**	**(audited)**	**(unaudited)**
	(£ millions, unless otherwise stated)			
Headline gross profit	**958**	**980**	**993**	**975**
Headline gross profit margin[1] (%)	55.5%	54.6%	54.0%	53.3%
Total debt[2]	**(490)**	**(615)**	**(709)**	**(880)**
Cash and cash equivalents	—	10	10	—
Hedging obligations[3]	(7)	16	20	33
Total net debt[4]	**(495)**	**(585)**	**(675)**	**(847)**
Leverage ratio[5]	2.3x	2.4x	2.6x	2.8x
Net interest expense[6]	17	22	22	25
Interest coverage ratio[7]	12.5x	11.1x	11.8x	12.0x

(1) Headline gross profit margin is headline gross profit as a percentage of headline revenue.

(2) Total debt includes current and non-current borrowings, excluding derivatives.

(3) Represents the cash flow hedges in place to swap the currency and interest rate risk on the USPP Notes from USD to GBP and from fixed US Treasury interest rates to fixed GBP interest rates.

(4) Total net debt is total debt excluding cash and cash equivalents and hedging obligations.

(5) Represents the ratio between total net debt and headline EBITDA over a given period.

(6) Represents interest expense as extracted from our consolidated cash flow statement, less interest income related to cash and cash equivalents held.

(7) Represents the ratio between headline EBITDA and net interest expense over a given period.

As Adjusted Financial Data and Ratios

	As at and for the twelve months ended September 30, 2016
	(unaudited) **(£ millions, unless otherwise stated)**
As *adjusted* total debt[1]	**(880)**
As *adjusted* cash and cash equivalents[2]	**—**
As *adjusted* total net debt[3]	**(847)**
As *adjusted* leverage ratio[4]	2.8x
As *adjusted* net interest expense[5]	
As *adjusted* interest coverage ratio[6]	

(1) *As adjusted* total debt is total debt after giving effect to the Refinancing as if it had occurred on September 30, 2016.

(2) *As adjusted* cash and cash equivalents is cash and cash equivalents after giving effect to the Refinancing as if it had occurred on September 30, 2016.

(3) *As adjusted* total net debt is *as adjusted* total debt excluding *as adjusted* cash and cash equivalents and hedging obligations.

(4) Represents the ratio between as adjusted total net debt and headline EBITDA.

(5) *As adjusted* net interest expense represents net interest expense after giving effect to the Refinancing as if it had occurred on September 30, 2016. We calculated our as adjusted net interest (i) using interest rates modified to give effect to the Refinancing and (ii) as if interest had been paid under such modified interest rates for at least one year. *As adjusted* net interest is net of interest income related to cash and cash equivalents held.

(6) Represents the ratio between headline EBITDA and *as adjusted* net interest expense over a given period.

Other Operating Data

	For the year ended March 31,			For the six months ended September 30,	
	2014	2015[(1)]	2016[(2)]	2015[(1)]	2016[(2)]
	(thousands)				
Net-adds[(3)] by product					
Broadband (on-net)	190	117	(181)	(80)	(29)
TV	687	497	(25)	25	(56)
Fibre	134	272	225	99	76
Mobile	109	180	235	132	94
Data (EFM and Ethernet)	7	9	9	5	4
Churn[(4)] (on-net)	**1.6%**	**1.4%**	**1.6%**	**1.5%**	**1.4%**

(1) Net-adds for the year ended March 31, 2015 and the six months ended September 30, 2015 were impacted by our decision to disconnect approximately 72,000 non-paying customers in the six months ended September 30, 2015.

(2) Net-adds for the year ended March 31, 2016 and the six months ended September 30, 2016 were impacted by the spike in churn related to the 2015 Cyber Attack. See *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Trends and Other Key Factors Impacting our Results of Operations—The 2015 Cyber Attack."*

(3) Net-adds is the net of customers that joined our network during the relevant period and customers that left our network during the same period.

(4) Churn is an average percentage of total on-net customers leaving our network during the period.

RISK FACTORS

An investment in the Notes involves a high degree of risk and is suitable only for investors who (either alone or in conjunction with an appropriate financial or other adviser) are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses that may result therefrom. Investors should consider carefully whether an investment in the Notes is suitable for them in the light of the risks described below and other information in this offering memorandum and their personal circumstances. The occurrence of any of the following events could have a material adverse effect on our business, prospects, results of operations and financial condition and impair our ability to fulfil our obligations in respect of the Notes, potentially causing a loss of all or part of the investment made when purchasing the Notes.

The risk factors described below are not an exhaustive list or explanation of all relevant risks and should be used as guidance only. Additional risks and uncertainties that are not currently known to us, or that we currently deem immaterial, may individually or cumulatively also have a material adverse effect on our business, prospects, results of operations and financial condition. This offering memorandum contains "forward-looking" statements that are based on assumptions and estimates, and subject to risks and uncertainties. Our actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include those discussed below and elsewhere in this offering memorandum. See "Cautionary Note Regarding Forward-Looking Statements."

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

We face significant competition in the markets in which we operate, which could result in decreases in the number of current and potential customers, revenues and profitability.

The UK consumer pay TV, broadband internet, fixed-line telephony and mobile services markets and the business fixed-line and mobile telecommunication and data markets in which we operate are highly competitive. In certain markets, or market segments, we compete with established companies that hold positions of market power and enjoy certain competitive advantages that we do not, such as having greater economies of scale, easier access to financing, access to certain new technologies, more comprehensive product offerings, greater personnel resources, greater brand name recognition, larger subscriber bases, and more experience or longer-established relationships with regulatory authorities, customers and suppliers.

We face significant competition in the consumer broadband internet market from BT, Sky and Virgin Media, all of which currently enjoy larger market shares than us. Despite more than 10 years of pro-competition regulation, BT continues to lead the market by capitalizing on its unique customer recognition potential and infrastructure ownership, with BTOR being, as of the date of this offering memorandum, the sole supplier of the national backbone optical network. Sky dominates the pay TV market with its exclusive content proposition. All of our competitors offer bundled solutions, combining fixed-line and mobile offerings. We also expect pricing competition in the quad play segment (offering packages that comprise broadband, fixed-line telephony, pay TV and mobile products) to increase, which may make it more difficult to maintain our value credentials. In addition, continued consolidation within the industry, such as the recent acquisition of EE by BT, may permit more competitors to offer triple play (broadband, fixed-line telephony and pay TV) or quad play packages.

In the B2B market for fixed-line telecommunication and data services, we face significant competition from BT, Vodafone and Virgin Media and for business mobile services from Vodafone, Telefónica UK, BT and Three.

In addition to competition in our traditional services and technologies, we also experience significant pressure from the rapid development of new technologies and alternative services that are offered by our existing competitors and new entrants. See "*—Rapid technological changes may increase competition and render our technologies or services obsolete, and we may fail to adapt to or implement new technological developments in a cost efficient manner or at all.*" For example, although we entered the market of VoIP services in April 2015 in order to grow our position in business fixed-line telecommunication services, we still face continued decline in volume and revenues in traditional voice services, mainly due to the competition from other companies offering alternative technologies to our telephony services, such as Skype.

We may be required to reduce the prices we charge for our services or increase the value of our services without being able to recoup associated costs. We may also need to pursue legal and regulatory actions. We expect the level and intensity of competition to continue to increase. Our market position will also depend on whether our marketing initiatives are effective and our ability to anticipate and respond to various competitive factors affecting the industry, including new services, pricing strategies by competitors, changes in consumer preferences and economic, political and social conditions in the markets in which we operate. Any failure to compete effectively or any inability to respond to or effectively anticipate consumer sentiment, including in terms of pricing of services, acquisition of new customers and retention of existing customers, could have a material adverse effect on our business, prospects, results of operations and financial condition.

Network and information systems failures, whether caused by technical failures or security breaches, could result in reduced user traffic and revenue, require unanticipated capital expenditures or harm our reputation.

Certain critical components of our physical technological infrastructure and our information systems are vulnerable to damage or disruptions from numerous events, including fire, earthquakes, flood, storms or other natural disasters, power outages, terrorist acts, equipment or system failures, human errors or intentional wrongdoings, including breaches of our network or information technology security. In particular, as regards the integrity of our physical infrastructure, theft of metals is especially acute in the UK due to high prices for scrap metal, and we are not immune to such thefts.

Unanticipated problems at our facilities, or third-party owned local and long distance networks on which we rely for the provision of interconnection, roaming and other services, could result in reduced user traffic and revenue due to subscriber dissatisfaction with performance and reliability. Additionally, such network failures, hardware or software failures, or computer viruses may occur unexpectedly and these disruptions to our services could prevent us from billing and collecting revenue, require unanticipated capital expenditures, or result in regulatory penalties. Protection and monitoring measures against disaster recovery, security breaches, and service disruptions may be insufficient to prevent losses even when continually updated. Our network may be susceptible to increased network disturbances and technological problems, and such difficulties can increase over time. Such disruptions may affect our provision of new or existing services and reputation, leading to costly repairs and loss of customers. Our revenues could be significantly impacted by such disruptions, which in turn could materially adversely affect our operating cash flows, business, prospects, results of operations and financial condition.

Sensitive customer data is an important part of our daily business and leakage of such data may violate laws and regulations. Any such data security breach, as well as any other failure to fully comply with applicable data protection legislation, could result in fines, reputational damage, additional costs and customer churn.

We accumulate, store and use data in our operations that may be protected by data protection laws. Although we take precautions to protect customer data in accordance with the applicable privacy requirements, there may be data leakages or security breaches in the future. We work with third-party service providers, such as certain software companies, that may not fully comply with the relevant contractual terms and all data protection obligations imposed on them.

The telecommunication sector has become increasingly digitalized, automated and online-based in recent years, increasing our exposure to risks of unauthorized or unintended data release through hacking and general information technology system failures. The sharp rise in cyber and data related crime presents a significant challenge in terms of securing data and systems against attack. We may fail to maintain and protect customer data in accordance with applicable regulations and requirements due to unanticipated information technology problems, system failures, computer viruses, intentional/unintentional misuses, hacker attacks or unauthorized access to our servers or other failures. Any failure to maintain and protect customer data could affect the quality of our services, compromise the confidentiality of our customer data or cause service interruptions, and may result in the imposition of fines and other penalties.

For instance, on October 21, 2015, our website was subject to a severe and sustained cyber attack that involved unauthorized access to approximately 157,000 customers' personal details, including unique bank account numbers and sort codes of approximately 15,000 customers (the "**2015 Cyber Attack**"). As a result of the 2015 Cyber Attack, we incurred approximately £60 million of costs (of which £39 million was included as an exceptional item) in the year ended March 31, 2016 relating to loss of business, investigations, remediation activity and investment in customer retention. See "*—Risks Relating To Legal And Regulatory Matters And Litigation—Our business could be adversely affected by legal proceedings and regulatory investigations relating to the 2015 Cyber Attack*." Since the 2015 Cyber Attack we have changed our approach to risk and mitigation and implemented a number of monitoring activities, such as vulnerability scanning, penetration testing and the data loss prevention solution. Although we believe we have successfully mitigated any negative impact of the 2015 Cyber Attack and managed to restore customer confidence, we can provide no assurance that another successful cyber attack will not occur. Additional cyber attacks on our information systems, or any other violation of data protection laws, may result in fines, claims for damages, prosecution of relevant employees and managers, reputational damage and customer churn and may have a material adverse effect on our business, prospects, results of operation and financial condition.

If we do not maintain or improve our reputation for the quality of our service, our ability to attract customers and retain existing customers may be harmed.

Our ability to retain customers and to attract new customers depends in part on our brand recognition and our reputation for the quality of our service. Our reputation and brand may be harmed if we encounter difficulties in the provision of new or existing services, whether due to technical faults, lack of necessary equipment, changes to our traditional product offerings, financial difficulties, or for any other reason. Widely publicized security faults of our systems can be especially harmful. Damage to our reputation and brand could materially adversely affect our business, prospects, results of operations and financial condition.

Disruption to services could result in excessive call volumes to call centres that may not be able to cope with such demand, which could in turn have a material adverse effect on our reputation and brand. Our plans for recovery from, and resilience to, such challenges may not be sufficient. The amount and scope of insurance we maintain against losses resulting from these events may not be sufficient to cover our losses or otherwise adequately compensate us for any disruptions to our business that may result.

We may fail to adequately monitor and manage customer churn.

Our industry experiences movement of customers to competitors (the effect known as "churn") as a result of, among other things, high levels of competition. See "*—We face significant competition in the markets in which we operate, which could result in decreases in the number of current and potential customers, revenues and profitability*." Therefore, we focus on monitoring and managing customer churn in our direct, on-net customer base. However, it is inherently difficult to accurately ascertain all the precise drivers of churn as some direct customers may choose to terminate their usage of our services without providing an explanation.

Although we see continued improvement of our churn levels since the 2015 Cyber Attack, such levels still remain higher than those of our principal competitors in the core markets. See "*—If we do not maintain or improve our reputation for the quality of our service, our ability to attract customers and retain existing customers may be harmed*." Customer churn could further increase as a result of, among other things: the availability of competing services, some of which may be less expensive or technologically superior to those offered by us or offer content or features that we do not offer; customers moving to areas where we cannot offer services; customer dissatisfaction with the quality of our customer service, including billing errors or security breaches; and interruptions in the delivery of services to customers over our network and poor fault management.

Our inability to adequately monitor or control customer churn, or an increase thereof, may lead to a reduction in revenue and RGUs or increased costs to retain customers, which could have a material adverse effect on our business, prospects, results of operations and financial condition.

We operate in a capital-intensive business and may be required to make significant capital expenditure and to finance a substantial increase in our working capital to maintain our competitive position. Our capital expenditure may not generate a positive return or a significant reduction in costs or promote the growth of our business.

The expansion and operation of our network, as well as the costs of development, sales and marketing of our products and services, require substantial capital expenditure. In recent years we have undertaken significant investment to attract and retain customers, including expenditures for equipment and installation costs, the implementation of new technologies, such as VoIP, and innovative projects, such as our FTTP network in York, or investment in enhancing existing programmes such as MTTS, which was reconsidered in light of the 2015 Cyber Attack.

As of date of this offering memorandum, we have ongoing capital requirements relating to, among other things, the following:

- increases in network capacity as a result of increasing customer demand;
- continued implementation of MTTS;
- enhancements of our billing systems;
- further development of our mobile offerings; and
- further roll-out of our FTTP network.

However, no assurance can be given that any existing or future capital expenditure will generate a positive return, result in a significant reduction in costs, or promote the growth of our business. Future capital expenditure may exceed our target level of 6%-7% of revenues and if our investments fail to generate the expected positive returns or cost reductions, our operations could be significantly adversely affected and future growth could be significantly curtailed.

In addition, our liquidity and capital requirements may increase if we expand into additional areas of operation, accelerate the pace of our growth or make acquisitions. If, for any reason, we are unable to obtain adequate funding to meet these requirements, we may be required to limit our operations and our expansion plans, including plans to expand our network and service offering. As a result, our operations could be significantly adversely affected, future growth could be significantly curtailed and our competitive position could be impaired.

Our business may be materially and adversely affected by general business conditions and a worsening of the general economy.

As we operate exclusively in the UK, our success is closely tied to the general economic developments in the country and cannot be offset by other markets. The profitability of our business may therefore be adversely affected by a deterioration of general economic conditions in the UK, whether in isolation or as a consequence of economic conditions or disruptions to European and/or global financial markets. We have benefited from increased use of telecommunication products in the UK and our future growth and profitability depend on demand for these services in the coming years. However, economic uncertainty following the UK referendum on withdrawal from the EU may also result in more cautious spending patterns of both retail and business customers. If demand does not increase as expected, this could have a material adverse effect on our business, prospects, financial condition and results of operations. See "*—The result of the UK's referendum on withdrawal from the European Union may have a negative effect on global economic conditions, financial markets and our business*."

In addition, ongoing issues related to sovereign debt in Europe, among other things, have contributed to a turbulent economic environment. Accordingly, unfavourable economic conditions may impact a significant number of our customers and, as a result, it may be more difficult for us to maintain ARPU at existing levels, more likely that customers will downgrade or disconnect their services and more difficult for us to attract new customers. Should any of these risks materialize, our ability to increase, or, in certain cases, maintain, our revenue, ARPUs, RGUs, operating cash flow, operating cash flow margins and liquidity could be materially adversely affected. We are currently unable to predict the extent of any of these potential adverse effects.

The result of the UK's referendum on withdrawal from the European Union may have a negative effect on global economic conditions, financial markets and our business.

On June 23, 2016, a majority of voters in the UK elected to withdraw from the European Union in a national referendum. The referendum was advisory, and the terms of any withdrawal are subject to a negotiation period that could last at least two years after the government of the UK formally initiates a withdrawal process. The referendum result has created significant uncertainty about the future relationship between the UK and the European Union, including with respect to the laws and regulations that will apply as the UK determines which European Union-derived laws to replace or replicate in the event of a withdrawal. We may be subject to increased regulatory and compliance costs should the regulatory regimes diverge between the European Union and the UK following a withdrawal of the UK from the European Union. Depending on the terms of the withdrawal, the UK could lose access to the single EU market and to global trade deals negotiated by the European Union on behalf of its members which could affect the attractiveness of the UK as a global investment centre and detrimentally impact UK's growth. These developments, or the perception that any of them could occur, have had, and may continue to have, a material adverse effect on global economic conditions and the stability of global financial markets, and could significantly reduce global market liquidity, restrict the ability of key market participants to operate in certain financial markets and increase counterparty risk in the UK and the European Union generally. Asset valuations, currency exchange rates and credit ratings may be especially subject to increased market volatility. In addition, global economic uncertainty following the UK referendum may also have an impact on both retail and business customer behaviour. Any of these factors could have an adverse effect on our business, financial condition, results of operations and prospects as we may be unable to implement adequate mitigation strategies.

Our business relies on hardware, software and services supplied by third parties. These suppliers may choose to discontinue their products or services, seek to charge us prices that are not competitive or choose not to renew contracts with us.

We have important relationships with certain suppliers of hardware, software and services (such as BT, Huawei, TCS, Tech Mahindra, MDS, Transcom, Wipro and CCI). These suppliers may act in a manner detrimental to our interests, including, among other things, extend delivery times, supply unreliable equipment, raise prices and limit or discontinue supply due to their own shortages, business requirements or otherwise. In many cases, we have made substantial investments in the equipment or software of a particular supplier, making it difficult for us to find replacement suppliers quickly in the event that a supplier refuses to offer us favourable prices, ceases to produce the equipment we use or fails to provide the support that we require. In the event that hardware or software products or related services are defective, or if the suppliers are insolvent, it may be difficult or impossible to enforce claims in whole or in part against suppliers. The occurrence of any of these risks may create technical problems, damage our reputation, result in the loss of customers and have a material adverse effect on our business, prospects, results of operations and financial condition. Further, our contractual obligations to our customers may exceed the scope of the warranties we have obtained from suppliers.

Where certain business processes are outsourced to third-party providers (such as call-centre services to Transcom, Wipro and CCI), we are exposed to increased security risks, in particular in relation to customer data, which may cause financial loss, reputational damage, litigation, regulatory breaches and increased churn. See "*—Sensitive customer data is an important part of our daily business and leakage of such data may violate laws and regulations. Any such data security breach, as well as any other failure to fully comply with applicable data protection legislation could result in fines, reputational damage, additional costs and customer churn.*"

The pricing of certain products and services supplied by BT are subject to a regulatory framework implemented and enforced by Ofcom. We are exposed, therefore, to risks arising from unfavourable decisions taken by Ofcom, as well changes to the regulatory framework and the way in which it is implemented.

We are also exposed to risks associated with the potential financial instability of our suppliers. If our suppliers were to discontinue certain products, fail to provide equipment to meet our specifications, or interrupt the provision of equipment or services to us, whether as a result of bankruptcy or otherwise and if we were unable to procure satisfactory substitutes, our business and results of operations could be materially adversely affected.

Our business relies on third-party licenses and other intellectual property arrangements.

We rely on third-party licenses and other intellectual property arrangements to enable us to conduct our business. We license or purchase network elements and telecommunication equipment, including hardware, software and firmware, from various third parties. Although these agreements provide warranties, indemnities and the right of termination in the event of any breach or threatened breach of any intellectual property rights, we can provide no assurances that competitors or other third parties will not challenge or circumvent the intellectual property rights we own or license or that the relevant intellectual property rights are valid, enforceable or sufficiently broad to protect our interests or will provide us with any competitive advantage. Any loss or withdrawal of those intellectual property rights could affect our ability to provide our services. See "*Risks Relating to Legal and Regulatory Matters and Litigation—Claims of third parties that we infringe their intellectual property could significantly harm our financial condition, and defending intellectual property claims may be expensive and could divert valuable company resources.*"

Our mobile services rely on the mobile networks of Vodafone and Telefónica UK. The ongoing migration from the Vodafone network to the Telefónica UK network exposes us to significant execution risks.

We currently provide our mobile services based on an MVNO agreement with Vodafone. We are in the process of testing the migration of customers on the Vodafone network to the Telefónica UK network and intend to substantially complete the migration process by the end of 2017. Any late delivery of such migration exposes us to significant execution risks related to, among other things, the failure to benefit from better technical and economic terms and the physical SIM swaps with customers. See "*Business—Products and Services—Services to Consumers—Mobile*."

In addition, our reliance on MVNO arrangements could be jeopardized if the third-party network provider fails to uphold its service agreements, maintain or deploy its network, or if any of our MVNO arrangements are unexpectedly terminated. If any of these circumstances arise and we are unable to find a replacement network operator on a timely basis, we could be prevented from continuing the mobile services that rely on MVNO arrangements. In addition, as our MVNO arrangements conclude we may not be able to renegotiate renewal or replacement arrangements on the same, or more favourable, terms.

Our inability to adequately predict customer demand for data could result in increased costs and decreased profitability.

Customer demand for each of our services may vary over time, and identifying these changes is key to our success. Any substantial increase of customer demand for data traffic, in particular mobile data, over forecast levels could result in increased additional costs of making services available to our customers, which, despite efficiencies arising from increased scale, could have a material adverse effect on the profitability of our business. See "*—If we do not maintain or improve our reputation for the quality of our service, our ability to attract customers and retain existing customers may be harmed*" and *"—We may fail to adequately monitor and manage customer churn."*

We depend almost exclusively on our relationships with third-party content providers, and a failure to acquire a wide selection of popular content on acceptable terms could adversely affect our business.

We provide our customers with access to television programmes and channels through our networks. We rely on third-party programme providers, such as public and commercial broadcasters, or providers of pay or on-demand television to supply us with the right to distribute these television programmes and channels.

We offer a broad range of content from different suppliers (including Sky and Netflix) on varying lengths of contractual term. Our ability to renew those arrangements on economic terms could adversely impact our business or margins.

Other significant content suppliers include the BBC, ITV, Channel 4, UKTV, Viacom Inc. (including Five), Discovery Communications Inc., Disney, NBC Universal, Turner (a division of Time Warner Inc.) and BT. Our dependence on these and other suppliers for content could have a material adverse effect on our ability to provide attractive content at a reasonable cost. Any loss of content could negatively affect the quality and variety of the content delivered to our customers. In addition, suppliers could become exclusive providers to other platforms, including Sky, which would reduce our ability to offer the same or similar content to our customers. With respect to BT in particular, it is not only a supplier of content to us, but also a joint venture partner in YouView. There are inherent risks in this arrangement, which arise from having a joint venture partner that is also a major supplier and a retail competitor. All of these factors could have a material adverse effect on our business and increase customer churn.

We may fail to adapt to changes in customer behaviour and consumption trends in relation to TV content which may leave us unable to recoup any minimum guarantees that we may have in contracts with content providers.

Rapid technological changes may increase competition and render our technologies or services obsolete, and we may fail to adapt to or implement new technological developments in a cost efficient manner or at all.

The UK telecommunication market is characterized by a changing competitive environment partly due to rapid and significant changes in technology and customer demand and behaviour. We face the risk of our technology becoming obsolete given the fast pace of technological innovation in our industry and consumer preferences. We may need to make substantial investments to remain competitive, including investments to upgrade our networks or obtain licenses for, and develop and install, new technologies. The cost of implementing these investments could be significant, and there is no assurance that our customers will accept the services enabled by new technologies to the extent required to generate a rate of return that is acceptable to us. In addition, we face the risk of unforeseen complications in our deployment of these new services and technologies and there is no assurance that our original estimates of the necessary capital expenditure for us to offer such services will be accurate. We may not develop and/or deploy new services and technologies according to expected schedules. In addition, our new services and technologies may not be commercially viable or cost effective. Should our services fail to be commercially viable, this could result in additional capital expenditures or a reduction in profitability. Any such change could materially adversely affect our business, prospects, results of operations and financial condition.

In addition, future competition is difficult to predict due to rapid technological change. For example, new transmission technologies and means of distributing content, or increased consumer demand for and affordability of products based on new mobile communication technologies, could trigger the emergence of new competitors or strengthen the position of existing competitors. There is no guarantee that we will successfully anticipate the demands of the marketplace with regard to new technologies. Any failure to do so could affect our ability to attract and retain customers and generate revenue growth, which in turn could have a material adverse effect on our financial condition and results of operations. Conversely, we may overestimate the demand in the marketplace for certain new technologies and services. If the market does not accept our new technologies or services, our revenues, margins and cash flows may be adversely affected, and as a result we may not recover any investment made to deploy such new technology or service. Our future success depends on our ability to anticipate, react and adapt in a timely manner to technological changes and customer demand and preferences. We may be required to make substantial capital expenditure and invest in access related or enabling technologies in order to introduce and integrate new products and services and respond to technological advances and emerging industry standards. Failure to do so could negatively affect our competitive position, business, prospects, results of operations and financial condition.

We may be unable to attract and retain key personnel, directors, managers, employees and other individuals without whom we may not be able to implement our business strategy and manage our business effectively.

We depend on the availability and continued service of a relatively small number of key managers, employees and other individuals, including our founders, directors and senior managers. These key individuals are heavily involved in the daily operation of our business and are, at the same time, required to make strategic decisions, ensure their implementation and manage and supervise development. The loss of any of these key individuals could significantly impede our financial plans, product development, network expansion, marketing and other plans. In addition, competition for qualified executives in the telecommunication industry in the markets in which we operate is intense. Our future operating results depend, in a significant part, upon the continued contributions of our existing management and our ability to expand our senior management team by adding highly skilled new members, who may be difficult to identify and recruit. If any of our senior executives or other key individuals ceases their employment or engagement with us, our business, prospects, results of operation and financial condition could be materially adversely affected.

Concerns about perceived or actual health risks relating to the use of mobile handsets may materially adversely affect the prospects of our mobile business.

Media and other reports have linked radio frequency emissions from mobile handsets to various health concerns, including cancer, and interference with various electronic medical devices, including hearing aids and pacemakers. In particular, in May 2011, the International Agency for Research on Cancer, which is part of the World Health Organization, classified radiofrequency electromagnetic fields as "possibly carcinogenic" to humans based on an increased risk for adverse health effects associated with wireless phone use. The World Health Organization is expected to release its Environmental Health Criteria on Radio Frequency Fields, containing new recommendations on radio frequency emissions in the near future. Concerns over radio frequency emissions may discourage the use of mobile handsets.

If there is sound scientific evidence of a link between radio frequency emissions and health concerns or if concerns about such health risks increase in the UK, the prospects and results of operations of our mobile business could be materially adversely affected. In addition, the actual or perceived health risks associated with electromagnetic radio emissions and wireless communications devices and antennas and the resulting costs and lowered usage, as well as any related potential new regulatory measures, could have a material adverse effect on our business, results of operations and financial condition.

We may undertake future acquisitions on an opportunistic basis, which may increase our risk profile, distract our management or increase our expenses.

Historically, our growth has been partly due to acquisitions (*e.g.,* AOL UK in 2007, Tiscali UK and Pipex in 2009, broadband and voice customer bases from both Virgin Media and Tesco and tIPicall, a VoIP provider, in 2015). We may undertake, on an opportunistic basis, additional acquisitions in the future. However, we may not be successful in our efforts to estimate the financial effects of any such transactions on our business. In addition, acquisitions may divert management attention or financial or other resources away from our existing business or require additional expenditures. Such developments could have a material adverse effect on our business, results of operations and financial condition.

Our ability to acquire new businesses may be limited by many factors, including availability of financing, the covenants of our financing agreements, the prevalence of complex ownership structures among potential targets, government regulation and competition from other potential acquirers. If we make acquisitions, there can be no assurance that we will be able to maintain the customer base of businesses we acquire, generate expected margins or cash flows or realize the anticipated benefits of such acquisitions, including growth or expected synergies. Although we analyse acquisition targets, those assessments are subject to a number of assumptions concerning profitability, growth, interest rates and company valuations. There can be no assurance that our assessments of and assumptions regarding acquisition targets will prove to be correct, and actual developments may differ significantly from our expectations.

Even if we successfully acquire new businesses, we may have difficulties integrating with the new businesses for a variety of reasons, including differing cultures, management styles and systems, inadequate infrastructure and poor records or internal controls. In addition, integrating any potential new acquisitions may require significant initial cash investments and present significant costs, which may result in changes in our capital structure, including the incurrence of additional indebtedness, tax liabilities or regulatory fines. The process of integrating businesses may be disruptive to our operations and may cause an interruption of, or a loss of momentum in, such businesses or a decrease in our operating results as a result of costs, challenges, difficulties or risks, including: realizing economies of scale in interconnection, content and network operations; eliminating duplicative overhead expenses; integrating personnel, networks, financial systems and operational systems; unforeseen legal, regulatory, contractual and other issues; unforeseen challenges from operating in new geographic areas; and the diversion of management's attention from our day-to-day business as a result of the need to deal with the foregoing challenges, disruptions and difficulties.

Furthermore, even if we are successful in integrating our existing and new businesses, expected synergies and cost savings may not materialize as anticipated or at all, resulting in lower than expected profit margins. There is no assurance that we will be successful in acquiring new businesses or realizing any of the anticipated benefits of the companies that we may acquire in the future. If we undertake acquisitions but do not realize these benefits, our business, prospects, results of operations and financial condition could be materially adversely affected.

The interests of our controlling shareholder may not always coincide with those of the holders of the Notes.

Sir Charles Dunstone privately holds a 30.8% voting share in the capital in the Issuer and is a controlling shareholder within the definition set out in the listing rules of the London Stock Exchange. See "*Principal Shareholders*." As a result, he has, and after the Issue Date will continue to have, directly or indirectly, the power to affect our legal and capital structure and our day-to-day operations. There may be circumstances in which our controlling shareholder may have different objectives from the holders of the Notes, particularly if we encounter financial difficulties or are unable to pay our debts when due. Our controlling shareholder could also have an interest in pursuing acquisitions, divestitures, financings or other transactions that, in his judgment, could enhance his equity investment, although such transactions might involve risks to the holders of the Notes. In addition, we might not be aware of all related party transactions, which may involve risks of conflicts of interest that result in concluding transactions on less favorable terms than could be obtained in arm's length transactions. However, we have 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 the listing rules of the London Stock Exchange.

We may be adversely affected by risks associated with joint ventures.

We are party to several joint ventures, such as YouView (a joint venture with BT, BBC, ITV, Channel 4, Channel 5 and Arqiva) that forms the basis of our TV platform and a joint venture with Sky for the roll-out of FTTP in York. We have pursued and may continue to pursue significant investments in certain strategic development projects with third parties. Joint ventures often require unanimous approval of the parties to the joint venture or their representatives for certain fundamental decisions. If a unanimous decision is not reached when required, it could lead to a deadlock in the operations of the joint venture. Additionally, differences in views among joint venture participants may result in delayed decisions or failures to agree on major issues. Any failure of such joint venture participants to meet their obligations to us or to third parties, or any disputes with respect to the parties' respective rights and obligations, could have a material adverse effect on the joint venture and, therefore, could have a material adverse effect on our business, prospects, results of operations and financial condition.

Our insurance may not cover all potential losses, liabilities and damage related to our business and certain risks are uninsured or are not insurable.

We maintain an insurance policy in respect of our critical communications equipment at our data centres and at certain key network nodes throughout the UK for the services we provide. Our insurance may not be adequate to cover all of our potential losses or liabilities. Moreover, we can provide no assurance that insurance will continue to be available to us on commercially reasonable terms or at all. At present, we have no coverage for business interruption or loss of key management personnel and a substantial proportion of our assets is not insured. If a significant event affects one of our facilities or networks, we could experience substantial property loss and significant disruptions in the provision of our services for which we would not be compensated. Additionally, depending on the severity of the property damage, we may not be able to rebuild damaged property in a timely manner or at all. We do not maintain separate funds or otherwise set aside reserves for these types of events. Any such loss or third-party claim for damages could have a material adverse effect on our business, prospects, results of operations and financial condition.

Any downgrade of our credit ratings by an international rating agency could have a negative impact on our business.

Any adverse revisions to our credit ratings for domestic or international debt by international rating agencies may adversely impact the credit rating of the Notes, our ability to raise additional financing and the interest rates and other commercial terms under which such additional financing is available. This could hamper our ability to obtain financing for capital expenditures and to refinance or service our indebtedness, which could have a material adverse effect on our business, prospects, results of operations and financial condition.

Changes to IFRS standards for lease accounting and revenue recognition may adversely affect our financial results.

Changes to IFRS have been proposed in recent years, and further changes may be proposed in the future. Following a detailed consultation period which began in July 2016, the International Accounting Standards Board ("**IASB**") released a new standard ("**IFRS 16**") on lease accounting which will replace IAS 17 "Leases" and which will be effective for financial reporting periods beginning on or after January 1, 2019. IFRS 16 could have an impact on the assets and liabilities recorded in our balance sheet and the nature of costs recorded in our income statement. Although there are some exceptions, we, as lessees, would be required to record the majority of operating leases on the balance sheet as liabilities, at the present value of the expected future payments, along with an asset reflecting the right to use the asset over the lease term. Currently, operating leases are accounted for in the income statement as an expense in the period incurred. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations*."

Additionally, IFRS 15, adopted on May 28, 2014, established a comprehensive framework for determining whether, how much and when revenue is recognized from contracts with customers. IFRS 15 is effective for financial reporting periods beginning on or after January 1, 2018 and replaces existing revenue guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs. Under IFRS 15, revenue must be recognized in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 will principally affect post-paid arrangements used by telecommunication operators as regards unbundling of revenues (including any subsidized items), accounting for changes in contracts, accounting for subscriber acquisition costs and loyalty programmes.

These and any other changes to IFRS that may be proposed in the future could materially adversely affect our financial condition and results of operations.

RISKS RELATING TO LEGAL AND REGULATORY MATTERS AND LITIGATION

We are subject to significant regulation at UK and EU level.

Our principal business activities are regulated and supervised by Ofcom and the UK Competition and Markets Authority ("**CMA**"), among other regulators. Regulations in the communications sector at both the UK and EU level are constantly changing. Changes in laws, regulations or governmental policy affecting our activities and the activities of our competitors could significantly influence how we operate our business and introduce new products and services. For example, regulatory changes relating to our activities and the activities of our competitors, such as changes relating to third-party access to infrastructure, the costs of interconnection with other networks, our relationships with third-party content providers and broadcasters, the prices of competing products and services, or any change in policy allowing more favourable conditions for other operators, could adversely affect our ability to set prices, enter new markets or control our costs. In particular, following the transposition of recent amendments to EU directives into UK law, Ofcom may attempt to use the non-significant market power access provisions to require us to provide access to our products. In addition, Ofcom may look to impose regulation on the cable network, which is currently unregulated. Such regulation would allow customers to switch with ease to another provider without informing us.

In addition, our business and the industry in which we operate are subject to investigation by regulators, which could lead to enforcement actions, fines and penalties or the assertion of private litigation claims and damages. Any such action could harm our reputation and result in increased costs to the business.

We are also subject to accreditation requirements with respect to certain of our B2B products and services provided to public sector organizations in the UK. We have security accreditations across a range of B2B products and services for public sector organizations in the UK, which are granted subject to periodic reviews of our policies and procedures by UK governmental entities. If we were to fail to maintain an accreditation or to obtain a new one when required, it could impact our ability to provide certain offerings to the public sector.

Our business could be adversely affected by legal proceedings and regulatory investigations relating to the 2015 Cyber Attack.

We may become subject to legal actions brought by existing and past subscribers as a result of, among other things, the 2015 Cyber Attack and any other severe customer data security breaches. We can provide no assurance that we will obtain a successful outcome of any such legal action or that our cash flow will be sufficient to cover any such future claims against us. Any adverse outcome with respect to such claims would impact our profitability and cash flow and have a material adverse effect on our results of operations and financial condition. In addition, if these claims rise to a level of frequency or size that is significantly higher than similar claims made against our competitors, our reputation and business would likely be harmed.

In addition, we were the subject of an investigation by the Information Commissioner's Office (the "**ICO**"), the UK's independent authority set up to uphold information right in the public interest. On October 5, 2016, the ICO found that we knew or ought to have envisaged the risks resulting in the 2015 Cyber Attack and failed to take reasonable steps to prevent them, thereby committing a serious contravention of the seventh data protection principle of a kind that was likely to cause substantial damage and substantial distress. As a result, the ICO imposed a monetary penalty in the sum of £400,000, the highest imposed by the ICO to date. Because we paid the penalty in full by November 1, 2016, its amount was automatically reduced by 20% to £320,000. The matter before the ICO is therefore closed.

Claims of third parties that we infringe their intellectual property could significantly harm our financial condition, and defending intellectual property claims may be expensive and could divert valuable resources.

We operate in an industry characterized by frequent disputes over intellectual property. As the number of convergent product offerings and overlapping product functions increase, the possibility of intellectual property infringement claims against us may correspondingly increase. Any such claims or lawsuits, whether with or without merit, could be expensive and time consuming to defend, could cause us to cease offering our products that incorporate the challenged intellectual property, or could require us to develop non-infringing products or services, if feasible, which could divert the attention and resources of technical and management personnel. In addition, we can provide no assurance that we would prevail in any litigation related to infringement claims against us. A successful claim of infringement against us could result in a requirement to pay significant damages, cease the development or sale of certain products and services that incorporate the challenged intellectual property, obtain licenses from the holders of such intellectual property, which may not be available on commercially reasonable terms, or otherwise redesign those products to avoid infringing upon others' intellectual property rights.

Moreover, we consider certain of our registered trademarks and trade names, including "TalkTalk", to be material to our business, the infringement on which could harm our reputation and lead to decreased subscribers and revenue, any of which could have a material adverse effect on our business, financial condition and results of operation.

We may be subject to fines, awards of damages or other penalties arising from legal proceedings, contractual claims and disputes, as well as negative publicity arising therefrom.

We are involved in legal proceedings from time to time, which may lead to the imposition of damages, fines or other penalties on us. We may be adversely affected by other contractual claims, complaints and litigation, including from counterparties with whom we have contractual relationships, customers, competitors or regulatory authorities, as well as any adverse publicity that we may attract. Any such litigation, complaints, contractual claims, or adverse publicity could have a material adverse effect on our business, reputation, results of operation and financial condition.

RISKS RELATING TO OUR FINANCIAL POSITION

Our leverage and debt servicing obligations could materially adversely affect our business, prospects, results of operations and financial condition.

As at September 30, 2016, after giving effect to the Refinancing, our total debt would have been £880 million and our leverage ratio would have been 2.8x. For computations of our total debt and leverage ratio see "*Summary—Summary Financial and Other Information—Other financial data and ratios*." On the Issue Date, the Issuer expects to (a) issue the Notes; and (b) use the proceeds of the Offering, together with cash on balance sheet, to (i) repay the drawings under the 2016 Revolving Credit Facility in full and (ii) partially repay the drawings under the 2014 Revolving Credit Facility and the Term Loan Facility. See "*Use of Proceeds", "Capitalization"* and *"Description of Other Indebtedness*."

Our leverage can have important consequences for our business and operations, including:

- making it more difficult for us to satisfy our obligations with respect to the Notes and our other debt and liabilities;
- requiring us to dedicate a substantial portion of our cash flow from operations to payments on our debt, thus reducing the availability of our cash flow to fund internal growth through working capital and capital expenditures and for other general corporate purposes;
- increasing our vulnerability to a downturn in our business or economic or industry conditions;
- placing us at a competitive disadvantage compared to our competitors that have less debt in relation to cash flow;
- limiting our flexibility in planning for, or reacting to, changes in our business and our industry;
- negatively impacting credit terms with our creditors;
- restricting us from exploiting certain business opportunities; and
- limiting our ability to borrow additional funds or raise equity capital in the future and increasing the costs of such additional financings.

Any of these or other consequences or events could have a material adverse effect on our ability to satisfy our debt obligations, including under the Notes and the Guarantees.

We may incur additional indebtedness prior to, or within a short time period following, the Issue Date, which indebtedness could further increase our leverage and may have terms that are more or less favourable than the terms of the Notes and our other existing indebtedness.

We may incur substantial additional debt, including in connection with a refinancing of our existing debt, to fund any future acquisition or for general corporate purposes. In connection with our financial strategy, we continually evaluate different financing alternatives, and we may decide to enter into new credit facilities, access the debt capital markets or incur other indebtedness from time to time, including following the consummation of the Offering and prior to, or within a short time period following, the Issue Date. Any such offering or incurrence of debt will be made at our election, and if such debt is in the form of securities, would be offered and sold pursuant to, and on the terms described in, a separate offering document. The interest rate with respect to any such additional debt will be set at the time of the pricing or incurrence of such debt and may be less than or greater than the interest rate applicable to the Notes and our other existing debt, including, in the case of a refinancing, the debt that is being refinanced, which would have a corresponding effect on our cash interest expense on a *pro forma* basis. In addition, the maturity date of any such additional debt will be set at the time of pricing or incurrence of such debt and may be earlier or later than the maturity date of the Notes and our other existing debt. The other terms of such additional debt would be as agreed with the relevant lenders or holders thereof and could be more or less favourable than the terms of the Notes or our other existing indebtedness. There can be no assurance that we will elect to raise any such additional debt or that any effort to raise such debt will be successful, and there can be no assurance as to the timing of such offering or incurrence, the amount or terms of any such additional debt. If we incur new debt in addition to our current debt and the Notes, the related risks that we now face, even in a refinancing transaction, as described above and elsewhere in this "*Risk Factors*" section, could intensify.

We are subject to restrictive debt covenants that may limit our ability to finance our future operations and capital needs to pursue business opportunities and activities.

Among other things, the Indenture limits our ability to:

- incur or guarantee additional indebtedness;
- pay dividends, redeem capital stock and make certain investments;
- make certain other restricted payments;
- create or permit to exist certain liens;
- impose restrictions on the ability of our subsidiaries to pay dividends or make other payments to the Issuer;
- transfer or sell assets;
- consolidate, merge or sell all or substantially all of our assets; and
- enter into certain transactions with affiliates.

In addition, USPP Notes, the 2014 Revolving Credit Facility, the Term Loan Facility and the Bilateral Agreements contain covenants that limit our ability to incur and assume debt and/or require us to maintain a certain debt to consolidated EBITDA ratio and a certain consolidated EBITDA to net interest ratio. Further, the USPP Notes, the 2014 Revolving Credit Facility, the Term Loan Facility and the Bilateral Agreements limit, among other things, our ability to acquire or sell certain assets, to undergo certain corporate actions (such as mergers and de-mergers), to create security over our assets and to open or maintain bank accounts or to enter into banking relationships with certain financial institutions. See *"Description of Other Indebtedness."*

All of these limitations are subject to significant exceptions and qualifications. See "*Description of the Notes—Certain Covenants*" and *"Description of Other Indebtedness."* These covenants could limit our ability to finance our future operations and capital needs and our ability to pursue acquisitions and other business activities that may be in our interest.

If we fail to comply with any of these covenants, we will be in default under the Indenture and the relevant debt instruments, as the case may be, and the Trustee, the holders of the Notes or the applicable creditors could declare the principal and accrued interest on the Notes or the applicable amounts due and payable, after any applicable cure period. In addition, any such default could lead to an event of default and acceleration under our other debt instruments that contain cross-default or cross-acceleration provisions, including the Indenture. These restrictions could materially adversely affect our ability to finance future operations or capital needs or engage in other business activities that may be in our best interest. See "*Description of the Notes—Certain Covenants"* and *"Description of Other Indebtedness*."

Any impairment of our ability to draw funds under the 2014 Revolving Credit Facility and the Bilateral Agreements could materially adversely affect our business operations.

Our operations have been primarily financed using cash generated in our operations and debt financing. We rely on our senior revolving credit facilities under the 2014 Revolving Credit Facility, as well as the Bilateral Agreements to fund our business operations and for various other purposes. Further, if we were unable to draw funds under our senior revolving credit facilities, we may need to find alternative sources of funds which may be at higher interest rates. There also can be no assurance that we will have sufficient cash resources on hand at any given time to meet our expenses or debt servicing requirements. Our ability to draw on the 2014 Revolving Credit Facility or the Bilateral Agreements depends on, among other things, our ability to maintain certain ratios. Our ability to meet these financial ratios and other required conditions to drawing could be affected by a number of factors, including by events beyond our control. In addition, our inability to maintain these financial ratios may also result in an event of default under the 2014 Revolving Credit Facility or the Bilateral Agreements, which would prohibit us from drawing funds under those facilities and potentially trigger a cross-default under the Notes or our other debt instruments. See "*—We are subject to restrictive debt covenants that may limit our ability to finance our future operations and capital needs to pursue business opportunities and activities.*" This inability to draw funds under the 2014 Revolving Credit Facility or the Bilateral Agreements or to maintain our operations due to a lack of cash flow could materially adversely affect our business, prospects, results of operations and financial condition.

We require a significant amount of cash to service our debt and sustain our operations. Our ability to generate cash depends on many factors beyond our control, and we may not be able to generate sufficient cash to service our debt.

Our ability to make payments on and to refinance our indebtedness, and to fund working capital and to make capital expenditures, will depend on our future operating performance and ability to generate sufficient cash. This depends on the success of our business strategy and on economic, financial, competitive, market, legislative, regulatory and other factors, as well as the factors discussed in this "*Risk Factors*" section, many of which are beyond our control.

We can provide no assurance that our business will generate sufficient cash flows from operations or that future debt or equity financings will be available to us to pay our debt, including payments due under the Notes and the Guarantees, when due or to fund our other capital requirements or any operating losses. If our future cash flows from operations and other capital resources (including borrowings under the 2014 Revolving Credit Facility or the Bilateral Agreements) are insufficient to pay our obligations as they mature or to fund our liquidity needs, we may be forced to:

- reduce or delay our business activities or capital expenditures;
- sell assets;
- obtain additional debt or equity capital;
- restructure or refinance all or part of our debt, including the Notes, on or before maturity; or
- forego opportunities such as acquisitions of other businesses.

We can provide no assurance that we will be able to accomplish these alternatives on a timely basis or on satisfactory terms, if at all. Any failure to make payments on the Notes on a timely basis would likely result in a reduction of our credit rating, which could also harm our ability to incur additional indebtedness. In addition, the terms of our debt, including the Notes, limit, and any future debt may limit, our ability to pursue any of these alternatives. Any refinancing of our indebtedness could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business and adversely affect our financial condition and results of operations. There can be no assurance that any assets which we could be required to dispose of can be sold or that, if sold, the timing of such sale and the amount of proceeds realized from such sale will be acceptable.

We may not be able to refinance maturing debt on terms that are as favourable as those from which we previously benefited or on terms that are acceptable to us or at all.

Our ability to refinance our debt depends on a number of factors, including the liquidity and capital conditions in the credit markets, and we may not be able to do so on satisfactory terms, or at all. In the event that we cannot refinance our debt, we may not to be able to meet our debt repayment obligations. In addition, the terms of any refinancing indebtedness may be materially more burdensome to us than the indebtedness it refinances. Such terms, including additional restrictions on our operations and higher interest rates, could have an adverse effect on our results of operations and financial condition.

Furthermore, our inability to meet repayment obligations under the existing agreements could trigger various cross-default and cross-acceleration provisions, resulting in the acceleration of a substantial portion (if not all) of our debt, including the Notes, and materially adversely affect our business, prospects, results of operations and financial condition.

We are subject to currency and interest rate risks.

We are subject to certain limited currency exchange rate risks because substantially all of our revenues and operating expenses are paid in pounds sterling, but we pay interest and principal obligations with respect to a portion of our indebtedness in U.S. dollars. To the extent that the pound sterling declines in value against the U.S. dollar, the effective cost of servicing our U.S. dollar denominated debt will be higher. Changes in the exchange rate result in foreign currency gains or losses. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures About Market Risks*."

We are also subject to interest rate risks as we have certain interest determined on a variable basis, either through unhedged variable rate debt or derivative hedging contracts. We also incur costs in U.S. dollars and euros in the ordinary course of our business, including for customer premises equipment and network maintenance services. Any deterioration in the value of the pound sterling relative to the U.S. dollar or the euro could cause an increase in the effective cost of purchases made in these currencies as only part of these exposures are hedged. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures About Market Risks*."

We are subject to credit risks.

We are exposed to various credit risks and other financial risks that may have a negative impact on our operating results. Due to the nature of our operations, we are creditors to numerous counterparties, including our customers, investments in joint ventures, derivative financial instruments, which subjects us to credit risk associated with those counterparties. These contractual arrangements, deposits or other financial instruments expose us to credit risk on the amounts due from such counterparties. Our exposure to credit risk could materially affect our financial condition and results of operations. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures About Market Risks*."

Derivative transactions may expose us to unexpected risk and potential losses.

We are party to certain derivative transactions, such as interest rate, currency and cross-currency swap contracts, with financial institutions to hedge against certain financial risks. These derivative financial instruments, which are cash flow hedges, are reported in profit and loss, and accordingly could materially affect our reported results in any period. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Derivative Financial Instruments*." Moreover we may be exposed to the risk that our counterparty in a derivative transaction may be unable to perform its obligations as a result of being placed in receivership or otherwise. In the event that a counterparty to a material derivative transaction is unable to perform its obligations thereunder, we may experience losses that could materially adversely affect our financial condition, financial returns and results of operations.

RISKS RELATING TO THE NOTES AND THE GUARANTEES

The Notes and the Guarantees are structurally subordinated to the indebtedness and other obligations of our non-guarantor subsidiaries.

Only the Guarantors will provide the Guarantees for the benefit of the holders of the Notes on the Issue Date. Other subsidiaries of the Issuer may guarantee the Notes in the future, but until then, any claim by us or any of our creditors, including the holders of the Notes, against any such non-guarantor subsidiaries will be structurally subordinated to all of the claims of creditors of such subsidiaries. The Indenture does not limit the transfer of assets to, or the making of investments in, any of our Restricted Subsidiaries (as defined therein), including our subsidiaries that do not provide guarantees for the Notes, which subsidiaries could account for a higher portion of our assets, liabilities, revenues and net results in the future. The Guarantors represented 94.9% of our headline revenue, 87.2% of our headline EBITDA and 96.7% of our total assets for the year ended March 31, 2016; and 94.8% of our headline revenue, 85.6% of our headline EBITDA and 96.7% of our total assets for the six months ended September 30, 2016. As at September 30, 2016, our direct and indirect subsidiaries that do not guarantee the Notes did not have any material financial indebtedness outstanding. In the event of insolvency, liquidation or other reorganization of any of these non-guarantor subsidiaries, creditors of such non-guarantor subsidiaries will generally be entitled to payment in full from their respective assets before the Issuer or any of the Guarantors is entitled to receive any distribution from such assets as equity holders. Except to the extent that the Issuer or any of the Guarantors may itself be a creditor with recognized claims against a non-guarantor subsidiary, claims of creditors of such non-guarantor subsidiary will have priority with respect to the assets and earnings of that subsidiary over the claims of the Issuer or the Guarantors as equity holders, although there is no assurance that the claims of the Issuer or any of the Guarantors as a creditor against a non-guarantor subsidiary may not be reduced, limited or extinguished as a result of applicable insolvency rules (such as the doctrine of equitable subordination or the rules regarding the potential avoidance of transactions concluded with related persons within a certain hardening period). Our non-guarantor subsidiaries are also subject to liabilities to other creditors as a result of obligations incurred in the ordinary course of business, which liabilities are also effectively senior to the Notes and the Guarantees.

Claims of the secured creditors of the Issuer or the Guarantors will have priority with respect to their collateral over the claims of unsecured creditors, such as the holders of the Notes, to the extent of the value of the assets securing such indebtedness.

The Notes and the Guarantees will not be secured by any of the Issuer's or the Guarantors' assets. As a result, claims of the secured creditors of the Issuer will have priority with respect to the assets securing their indebtedness over the claims of holders of the Notes. As such, the Notes and the Guarantees will be effectively subordinated to any existing and future secured indebtedness and other secured obligations of the Issuer and the Guarantors, as the case may be, to the extent of the value of the assets securing such indebtedness or other obligations (except to the extent such assets in the future also secure the Notes and the Guarantees on an equal and rateable basis or priority basis). In the event of any foreclosure, dissolution, winding up, liquidation, reorganization, administration or other bankruptcy or insolvency proceeding of the Issuer or any Guarantor at a time when it has secured obligations, holders of secured indebtedness will have priority claims to the assets of the Issuer or such Guarantor that constitute their collateral (other than to the extent such assets in the future also secure the Notes and the Guarantees on an equal and rateable basis). The holders of the Notes will participate rateably with all holders of the unsecured indebtedness of the Issuer and the Guarantors, and potentially with all their other respective general creditors, based upon the respective amounts owed to each holder or creditor, in the remaining assets of the Issuer and the Guarantors, as the case may be. The claims of holders of the Notes and other unsecured creditors will also depend on whether there is any value left in the bankruptcy estate besides any secured assets. If any of the secured indebtedness of the Issuer or any Guarantor becomes due or the creditors thereunder proceed against the operating assets that secure such indebtedness, our assets remaining after repayment of that secured indebtedness may not be sufficient to repay all amounts owing in respect of the Notes. As a result, holders of Notes may receive less, rateably, than holders of secured indebtedness of the Issuer or the Guarantors.

Many of the covenants in the Indenture will be suspended if the Notes are rated investment grade.

Many of the covenants contained in the Indenture will be suspended if the Notes are rated investment grade by at least two of Standard & Poor's Ratings Service, Moody's Investors Services and Fitch Ratings Inc., provided at such time no default under the Indenture has occurred and is continuing. These covenants will be suspended for the duration of the period during which the Notes maintain an investment grade rating and include covenants that restrict, among other things, our ability to pay dividends, to incur debt and to enter into certain other transactions. There can be no assurance that the Notes will ever be rated investment grade, or that if they are rated investment grade, the Notes will maintain such ratings. Suspension of these covenants, however, would allow us to engage in certain transactions that would not be permitted while these covenants were in force, and such transactions will not result in a breach of the Indenture if the Notes fail to maintain an investment grade rating. See "*Description of the Notes—Certain Covenants—Suspension of Covenants on Achievement of Investment Grade Status*."

Early redemption of the Notes may reduce the yield expected by the holders of the Notes.

The Notes may be redeemed at the option of the Issuer as more fully described in "*Description of the Notes*." In the event that the Issuer exercises the option to redeem the Notes, the holders of the Notes may suffer a lower than expected yield and may not be able to reinvest the funds on the same terms.

Each Guarantee may be subject to certain limitations on enforcement and may be limited by applicable laws or subject to certain limitations or defenses that may limits validity and enforceability.

Each Guarantee will provide the holders of the Notes with a direct claim against the relevant Guarantor. However, the Indenture provides that each Guarantee will be limited to the maximum amount that may be guaranteed by the relevant Guarantor without, among other things, rendering the relevant Guarantee, as it relates to that Guarantor, voidable or otherwise ineffective or limited under applicable law or causing the officers of the Guarantor to incur personal civil or criminal liability, and enforcement of each such Guarantee would be subject to certain generally available defences and laws. These laws and defences include those that relate to corporate benefit and uncommercial transactions, fraudulent conveyance or transfer, voidable preference, financial assistance, corporate purpose, capital maintenance or similar laws, regulations or defences affecting the rights of creditors generally. See "*Certain Insolvency and Enforceability Considerations*."

Under bankruptcy, insolvency, fraudulent conveyance and other laws in England and Wales, Guarantees can be challenged and a court could (i) declare unenforceable against third parties (including the beneficiaries thereof) and/or void any legal act performed by a Guarantor (including, without limitation, the granting by it of the Guarantees), (ii) require, if payment had already been made under a Guarantee, that the recipient (and possibly, subsequent transferees thereof) return the payment to the relevant Guarantor and (iii) take other action that is detrimental to you, typically if the court found, *inter alia*, that:

- the relevant Guarantee was incurred with actual intent to give preference to one creditor over another, hinder, delay or defraud any present or future creditors or shareholders of the Guarantor or, when the granting of the Guarantee has the effect of giving a creditor a preference over another when the Guarantors contemplated filing for insolvency or the Guarantors subsequently entered an insolvency process or when the recipient was aware that the Guarantor was insolvent or it would be rendered insolvent when it granted the relevant Guarantee or security interest;
- the Guarantor did not receive fair consideration or consideration of equivalent value in money or money's worth or corporate benefit for the relevant Guarantee and the Guarantor was: (i) insolvent or rendered insolvent because of the relevant Guarantee; (ii) undercapitalized or became undercapitalized because of the relevant Guarantee; or (iii) intended to incur, or believed that it would incur, indebtedness beyond its ability to pay at maturity;
- the Guarantor incurred debts beyond its ability to pay those debts as they mature;
- the relevant Guarantees were held to exceed the corporate objects of the Guarantor or not to be in the best interests or for the corporate benefit of the Guarantor; or
- the amount paid or payable under the relevant Guarantee was in excess of the maximum amount permitted under applicable law.

These or similar laws may also apply to any future guarantee granted by any of our subsidiaries under the Indenture. Limitations on the enforceability of judgments obtained in New York courts could limit the enforceability of any Guarantee against any Guarantor. See "*Certain Insolvency and Enforceability Considerations*."

We may not be able to obtain the funds required to repurchase the Notes upon a change of control.

The Notes contain provisions relating to certain events constituting a "change of control" in relation to the Issuer. Upon the occurrence of a change of control, the Issuer is required to make an offer to purchase all outstanding Notes at a price equal to 101% of their principal amount plus accrued and unpaid interest and additional amounts, if any. If a change of control were to occur, we can provide no assurance that we will have sufficient funds to pay the purchase price of the outstanding Notes and any other indebtedness with similar provisions.

In addition, our other indebtedness may contain restrictions or repayment requirements with respect to certain events or transactions that could constitute a change of control under the terms of the Indenture, the USPP Notes, the 2014 Revolving Credit Facility, the Term Loan Facility and the Bilateral Agreements. The inability to purchase the Notes, the USPP Notes, or repay loans under the 2014 Revolving Credit Facility, the Term Loan Facility or the Bilateral Agreements upon the occurrence of a change of control would constitute an event of default under the terms and conditions governing the Notes the USPP Notes, the 2014 Revolving Credit Facility, the Term Loan Facility and the Bilateral Agreements, which would trigger a cross-default under the Notes and vice versa. See "*Description of the Notes—Certain Covenants—Change of Control*."

Enforcing your rights as a holder of the Notes may prove difficult.

The Issuer and the Guarantors are organized under the laws of England and Wales. In addition, the Notes, the Guarantees and the Indenture will be governed by the laws of the State of New York.

In the event of a bankruptcy, insolvency or similar event, proceedings could be initiated in England and Wales, the United States or both jurisdictions. Any multi-jurisdictional proceeding is likely to be complex and costly for creditors and otherwise may result in greater uncertainty and delay regarding the enforcement of your rights. Your rights under the Notes and the Guarantees will be subject to such bankruptcy, insolvency and administrative laws, and there can be no assurance that you will be able to effectively enforce your rights in such complex, multiple bankruptcy, insolvency or similar proceedings.

In addition, the bankruptcy, insolvency, administrative and other laws of England and Wales may be materially different from, or be in conflict with those of the United States and other jurisdictions with which you may be familiar, including in the areas of the rights of creditors, the priority of governmental and other creditors, the ability to obtain post-petition interest and the duration of the proceedings. The application of these laws, or any conflict among them, could call into question whether any particular jurisdiction's laws should apply, adversely affect your ability to enforce your rights under the Notes in the relevant jurisdictions or limit any amounts that you may receive.

The laws of England and Wales limit the ability of the Guarantors to guarantee debt of other companies. As a result, a court in those jurisdictions may deem the Guarantees to be invalid or reduce the amount of guaranteed obligations available to satisfy claims under the Notes. See "*Certain Insolvency and Enforceability Considerations*."

The insolvency laws of England and Wales may not be as favourable to you as those of another jurisdiction with which you may be familiar.

The Issuer and the Guarantors are incorporated under the laws of England and Wales. Accordingly, and assuming that the Issuer's and the Guarantors' centres of main interests (within the meaning of EU Council Regulation No. 1346/2000 of May 29, 2000 on insolvency proceedings, as amended (the "**EUIR**")) are in England and Wales, that there is no change to the situation of the obligors' centres of main interests and that the obligors have no establishments elsewhere (assuming that the centres of main interests are located in a jurisdiction where the EUIR is applicable), insolvency proceedings with respect to any of those entities would be likely to proceed under, and be governed by, English insolvency law (although this could be challenged and secondary/ancillary proceedings could be opened in other jurisdictions). English insolvency law may not be as favourable to investors as the laws of the United States or other jurisdictions with which investors are familiar. In the event that any one or more of the Issuer or the Guarantors experiences financial difficulty, it is not possible to predict with certainty the outcome of insolvency or similar proceedings. Provided the centres of main interests of the Issuer and the Guarantors remain in England and Wales, and those companies do not have establishments in other jurisdictions at any time, insolvency proceedings relating to the Issuer and the Guarantors are likely to be commenced in England and Wales. However, the concepts of a company's centre of main interests and its other establishments are fluid and factual concepts that may change. To the extent any of the Issuer or the Guarantors has a centre of main interests or an establishment that is outside England and Wales, other jurisdictions' insolvency laws may become relevant. See "*Certain Insolvency and Enforceability Considerations*" with respect to English insolvency law.

The EU Insolvency Regulation has been replaced by the Regulation (EU) 2015/848 of the European Parliament and of the Council dated May 20, 2015 (the "**New EUIR**") which became effective as of June 26, 2015, and which will be applicable to insolvency proceedings opened after June 26, 2017. The EUIR remains applicable to insolvency proceedings opened before that date.

The New EUIR includes, among others, specifications regarding the identification of the centre of main interests. Pursuant to Article 3(1) of the New EUIR, the centre of main interests of a company or legal person is presumed to be located in the Member State of the registered office in the absence of proof to the contrary. That presumption shall only apply if the registered office has not been moved to another Member State within a three month period prior to the request for the opening of insolvency proceedings. Specifically, it should be possible to rebut this presumption where the company's central administration is located in a Member State other than that of its registered office, and where a comprehensive assessment of all the relevant factors establishes, in a manner that is ascertainable by third parties, that the company's actual centre of management and supervision and of the management of its interests is located in that other Member State. In this regard, special consideration should be given to creditors and their perception as to where a debtor conducts the administration of its interests. Another change under the New EUIR focuses on the definition of "establishment" as a prerequisite to open "territorial proceedings" (secondary proceedings). From June 26, 2017 onwards, "establishment" will mean any place of operations where a debtor carries out or has carried out in the three month period prior to the request to open main insolvency proceedings a non-transitory economic activity with human means and assets.

On June 23, 2016, the UK held a referendum to decide on the UK's membership of the EU. The UK vote was to leave the EU. The terms on which the UK will exit the EU are not certain and therefore it is not possible to know what impact any exit by the UK from the EU will have on the application of EU law (including the EU Insolvency Regulation or the New EU Insolvency Regulation) to, or in connection with, any insolvency proceedings (including, without limitation, the commencement of such insolvency proceedings and the jurisdiction of the UK courts to open such insolvency proceedings) to which the Issuer or any of the Guarantors may be subject.

Credit ratings may not reflect all risks, are not recommendations to buy or hold securities and may be subject to revision, suspension or withdrawal at any time.

One or more independent credit rating agencies may assign credit ratings to the Notes. The credit ratings address our ability to perform our obligations under the terms of the Notes and credit risks in determining the likelihood that payments will be made when due under the Notes. The ratings may not reflect the potential impact of all risks related to the structure, the market, other risk factors discussed in this offering memorandum and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal by the rating agency at any time. No assurance can be given that a credit rating will remain constant for any given period of time or that a credit rating will not be lowered or withdrawn entirely by the credit rating agency if in its judgment circumstances in the future so warrant. A suspension, reduction or withdrawal at any time of the credit rating assigned to the Notes by one or more of the credit rating agencies may adversely affect the cost and terms and conditions of our financings and could adversely affect the value and trading of the Notes.

Transfers of the Notes will be subject to certain restrictions.

The Issuer has not agreed to register and does not intend to register the Notes under the U.S. Securities Act or any securities laws of any state or any other jurisdiction of the United States. The holders of the Notes may not offer to sell the Notes, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable securities laws of any state or any other jurisdiction of the United States. The Issuer has not undertaken to register the Notes or to effect any exchange offer for the Notes in the future. Furthermore, the Issuer has not registered and does not intend to register the Notes under any other country's securities laws. Prospective investors in the Notes should read the discussion in the section entitled "*Notice to Investors*" for further information about these transfer restrictions. It is the obligation of the investors in the Notes to ensure that their subscription for or subsequent offers, sales or transfers of the Notes comply with any applicable securities laws.

The market value of the Notes could decrease if our creditworthiness worsens.

The market value of the Notes will suffer if the market perceives us to be less likely to fully perform all obligations under the Notes when they fall due. This could occur, for example, because of the materialization of any of the risks listed in this "*Risk Factors*" section. Even if our ability to fully perform all obligations under the Notes when they fall due has not actually decreased, market participants could nevertheless have a different perception. In addition, market participants' estimation of the creditworthiness of corporate debtors in general or debtors operating in the same business as us could adversely change, causing the market value of the Notes to fall. If any of these events occurs, third parties would only be willing to purchase Notes for a lower price than before the materialization of these risks. Under these circumstances, the market value of the Notes could decrease.

There is no established trading market for the Notes and no assurance that the holders of the Notes will be able to sell them.

There is no existing market for the Notes. We will make an application to the Exchange to list the Notes on its Official List and admit them to trading thereon, but cannot guarantee the liquidity of any market that may develop for the Notes, the ability of the holders of the Notes to sell such Notes or the price at which they may be able to sell such Notes. Liquidity and future trading prices of the Notes depend on many factors, including, among other things, prevailing interest rates, results of operations, the market for similar securities and general economic conditions. The Initial Purchasers have informed us that they intend to make a market in the Notes after completing the Offering. They are not, however, obligated to do so. Any market-making that is commenced may be halted at any time. In addition, changes in the overall market for high yield securities and changes in our financial performance in the markets in which we operate may adversely affect the liquidity of any trading market in the Notes that does develop and any market price quoted for the Notes. As a result, we cannot ensure that an active trading market will actually develop for the Notes.

Historically, markets for non-investment grade debt such as the Notes have been subject to disruptions that have caused substantial volatility in the prices of such debt. Any market for the Notes may be subject to similar disruptions. Any such disruptions may affect the liquidity and trading of the Notes independent of our financial performance and prospects and may have an adverse effect on the holders of the Notes.

The Notes may not become, or remain, listed on the Exchange.

Although the Issuer intends to have the Notes listed on the Official List of the Exchange and admitted to trading thereon as promptly as practicable following the Issue Date (and, in any event, before the first coupon payment date in respect of the Notes) and to maintain such listing as long as the Notes are outstanding, the Issuer cannot assure prospective investors that the Notes will become or remain listed. If the Issuer cannot maintain the listing of the Notes on the Official List of the Exchange or it becomes unduly onerous to make or maintain such listing, the Issuer may cease to make or maintain such listing on the Official List of the Exchange, provided that it will use commercially reasonable efforts to obtain and maintain the listing of the Notes on another recognized listing exchange for high yield issuers, although there can be no assurance that the Issuer will be able to do so. Although no assurance is made as to the liquidity of the Notes as a result of listing on the Official List of the Exchange or another recognized listing exchange for high yield issuers in accordance with the Indenture, failure to be approved for listing or the delisting of the Notes from the Official List of the Exchange or another stock exchange in accordance with the Indenture may have a material adverse effect on a holder's ability to resell the Notes in the secondary market.

Prospective investors may face foreign exchange risks by investing in the Notes.

The Notes are denominated and payable in British pounds sterling. If prospective investors measure their investment returns by reference to a currency other than the British pounds sterling, an investment in the Notes entails foreign exchange related risks due to, among other factors, possible significant changes in the value of the British pound sterling, relative to the currency by reference to which such prospective investors measure their returns because of economic, political or other factors over which we have no control. Depreciation of the British pounds sterling, against the currency by reference to which prospective investors measure their respective investment returns could cause a decrease in the effective yield of the Notes below their stated coupon rates and could result in a loss to investors when the return of the Notes is translated into the currency by reference to which such investors measure their investment returns. There may be tax consequences for prospective investors as a result of any foreign exchange gains or losses for any investment in the Notes. Please see "*Tax Considerations*."

The Notes will initially be held in book-entry form and therefore prospective investors must rely on the procedures of the relevant clearing systems to exercise any rights and remedies.

Unless and until the Notes in definitive registered form, or definitive registered Notes, are issued in exchange for book-entry interests, owners of book-entry interests will not be considered owners or the holders of the Notes. The common depositary for Euroclear and Clearstream, or its nominee, will be the sole holder of the global notes representing the Notes. After payment to the common depositary, we will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of book-entry interests.

Accordingly, if an investor owns a book-entry interest, it must rely on the procedures of Euroclear or Clearstream, as applicable, and if it is not a participant in Euroclear or Clearstream, on the procedures of the participant through which it owns its interest, to exercise any rights and obligations as a holder of the Notes. See "*Book-Entry; Delivery and Form.*" Unlike the holders of the Notes themselves, owners of book-entry interests will not have any direct rights to act upon our solicitations for consents, requests for waivers or other actions from the holders of the Notes. Instead, if an investor owns a book-entry interest, it will be permitted to act only to the extent it has received appropriate proxies to do so from Euroclear or Clearstream, or if applicable, from a participant in these systems. There can be no assurance that procedures implemented for the granting of such proxies will be sufficient to enable investors to vote on any matters or otherwise exercise their rights with respect to the Notes on a timely basis.

Similarly, upon the occurrence of an event of default, unless and until definitive registered Notes are issued in respect of all book-entry interests, if an investor owns a book-entry interest it will be restricted to acting through Euroclear or Clearstream, as applicable. We can provide no assurance that the procedures to be implemented through Euroclear or Clearstream, as applicable, will be adequate to ensure the timely exercise of the investors' rights under the Notes. See "*Book-Entry; Delivery and Form.*"

The Notes may not be a suitable investment for all investors.

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the merits and risks of investing in the Notes;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect their investment and their ability to bear the applicable risks.

Potential investors should not invest in the Notes unless they have the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio. The investment activities of investors are subject to applicable investment laws and regulations and/or review or regulation by certain authorities and each potential investor should consult its legal advisers or the appropriate regulators.

USE OF PROCEEDS

We expect the gross proceeds from the issuance and sale of the Notes to be £300 million.

We intend to use the proceeds of the Offering, together with cash on balance sheet, to (a) repay the drawings under the 2016 Revolving Credit Facility in full; (b) partially repay the drawings under the 2014 Revolving Credit Facility and the Term Loan Facility; and (c) pay costs, expenses and fees (including the Initial Purchasers' fees, legal, accounting and other fees and expenses) in connection with the Refinancing.

The following table summarizes the currently expected sources and uses of funds in connection with the Refinancing.

Sources of funds	**(£ millions)**	**Uses of funds**	**(£ millions)**
Notes offered hereby	300	Repayment of drawings under current facilities	300
Cash on balance sheet	7	Fees and expenses[1]	7
Total sources	**307**	**Total uses**	**307**

(1) Represents estimated fees and expenses associated with the Offering, including the Initial Purchasers' fees, legal and accounting expenses and other transaction costs.

CAPITALIZATION

The following table sets forth our consolidated capitalization, along with our cash and cash equivalents, as at September 30, 2016:

- on a historical basis, which is derived from our Financial Statements included elsewhere in this offering memorandum; and
- as adjusted to give effect to the Refinancing, as if it had occurred on September 30, 2016.

You should read this table in conjunction with sections entitled "*Use of Proceeds*," "*Business*," "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments*," as well as the Financial Statements and the notes thereto included in this offering memorandum.

	As at September 30, 2016	**Adjustments**	**As at September 30, 2016 (adjusted)**
	(unaudited)	**(unaudited)** **(£ millions)**	**(unaudited)**
Cash and Cash Equivalents	**—**	**(7)**	**(7)**
Loans and Borrowings			
Notes offered hereby	—	300	300
2014 Revolving Credit Facility(1)	460	(200)	260
USPP Notes(2)(3)	142	—	142
2014 Bilateral Agreement(4)	50	—	50
Term Loan Facility(5)	100	(50)	50
2016 Revolving Credit Facility(6)	50	(50)	—
Receivables Purchase Agreement Facility(7)	63	—	63
Bank overdrafts	15	—	15
Total Loans and Borrowings	**880**	**—**	**880**
Shareholders' equity	157	(7)	150
Total capitalization	**1,037**	**(14)**	**1,023**

(1) The 2014 Revolving Credit Facility has a total capacity of £560 million. As at September 30, 2016, the total amount outstanding under the 2014 Revolving Credit Facility was £460 million.

(2) Consists of $185 million aggregate principal amount of senior notes maturing in three tranches ($139 million on July 17, 2021, $25 million on July 17, 2024 and $21 million on July 17, 2026). The USPP Notes proceeds were swapped to sterling to give £109 million and the net debt includes retranslation of the USPP Notes funds at the rates achieved where hedged by cross-currency interest swaps.

(3) We have cash flow hedges in place to swap the currency and interest rate risk on the USPP Notes from USD to GBP and from fixed US Treasury interest rates to fixed GBP interest rates, with a fair value of £33 million as at September 30, 2016.

(4) Represents amounts outstanding under the 2014 Bilateral Agreement with a total commitment of £50 million, which matures on July 14, 2019. The terms of the 2014 Bilateral Agreement are consistent with the terms of the 2014 Revolving Credit Facility.

(5) Consists of a committed term loan facility of £100 million. £50 million mature on May 31, 2018 and £50 million mature on July 14, 2019.

(6) Consists of a revolving credit facility of £100 million, with a final maturity date of May 31, 2018.

(7) Consists of a £75 million facility to be drawn under the Receivables Purchase Agreement Facility, which expires on September 26, 2018.

Other than as disclosed above, there has been no material change in our total capitalization since September 30, 2016.

SELECTED FINANCIAL INFORMATION

The tables below present selected consolidated financial information for the Group as at and for the years ended March 31, 2014, 2015 and 2016, as at and for the six months ended September 30, 2015 and 2016 and as at and for the twelve months ended September 30, 2016. The financial information as at and for the years ended March 31, 2014, 2015 and 2016 has been extracted or derived from the Annual Financial Statements. The financial information as at and for the six months ended September 30, 2015 and 2016 has been extracted or derived from the Interim Financial Statements. The financial information as at and for the twelve months ended September 30, 2016 has been extracted or derived from the Annual Financial Statements as at and for the year ended March 31, 2016 and the Interim Financial Statements. The Financial Statements are included elsewhere in this offering memorandum. The information below should be read in conjunction with the Financial Statements and accompanying notes included elsewhere in the offering memorandum and the discussion in sections entitled "*Presentation of Financial and Other Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations*."

Selected Consolidated Headline Income Statement Information

	For the year ended March 31,			For the six months ended September 30,		For the twelve months ended September 30,
	2014	**2015**	**2016**	**2015**	**2016**	**2016**
	(audited)	**(audited)**	**(audited)**	**(unaudited)**	**(unaudited)**	**(unaudited)**
				(£ millions)		
Revenue						
On-net revenue	1,259	1,333	1,399	697	670	1,372
Off-net revenue	128	87	55	27	24	52
Corporate revenue	340	375	384	188	208	404
Total revenue	**1,727**	**1,795**	**1,838**	**912**	**902**	**1,828**
Cost of sales	(769)	(815)	(845)	(425)	(433)	(853)
Gross Profit	**958**	**980**	**993**	**487**	**469**	**975**
Operating expenses excluding amortisation and depreciation	(745)	(735)	(733)	(397)	(339)	(675)
EBITDA[(1)]	**213**	**245**	**260**	**90**	**130**	**300**
Depreciation	(77)	(78)	(72)	(36)	(35)	(71)
Amortisation	(35)	(42)	(49)	(23)	(30)	(56)
Share of results of joint ventures	(7)	(8)	(8)	(6)	(5)	(7)
Operating profit	**94**	**117**	**131**	**25**	**60**	**166**
Net finance costs	(20)	(22)	(24)	(11)	(14)	(27)
Profit before taxation	**74**	**95**	**107**	**14**	**46**	**139**
Taxation	(13)	(19)	(28)	(3)	(11)	(36)
Profit for the period attributable to the owners of the Company	**61**	**76**	**79**	**11**	**35**	**103**

(1) Headline EBITDA is headline operating profit plus charges for headline depreciation, headline amortisation and headline share of results of joint ventures.

Selected Consolidated Balance Sheet Information

	As at March 31,			As at September 30,
	2014	2015	2016	2016
	(audited)	(audited)	(audited) (£ millions)	(unaudited)
Assets				
Non-current assets				
Goodwill	479	490	495	495
Other intangible assets	141	178	227	237
Property, plant and equipment	305	290	302	289
Investment in joint ventures	7	10	9	9
Trade and other receivables	—	—	3	4
Derivative financial instruments	—	11	18	28
Deferred tax assets	107	130	115	111
Total non-current assets	**1,039**	**1,109**	**1,169**	**1,173**
Current assets				
Inventories	24	31	57	32
Trade and other receivables	260	313	294	333
Current income tax receivables	—	1	3	—
Cash and cash equivalents	—	10	10	—
Total current assets	**284**	**355**	**364**	**365**
Total assets	**1,323**	**1,464**	**1,533**	**1,538**
Current liabilities				
Trade and other payables	(456)	(516)	(563)	(475)
Current income tax payable	(14)	—	—	(5)
Borrowings	(37)	—	(25)	(90)
Provisions	(2)	(34)	(18)	(11)
Total current liabilities	**(509)**	**(550)**	**(606)**	**(581)**
Non-current liabilities				
Borrowings	(460)	(615)	(684)	(790)
Derivative financial instruments	—	(1)	(1)	—
Provisions	(7)	(1)	(11)	(10)
Total non-current liabilities	**(467)**	**(617)**	**(696)**	**(800)**
Total liabilities	**(976)**	**(1,167)**	**(1,302)**	**(1,381)**
Net assets	**347**	**297**	**231**	**157**
Equity				
Share capital	1	1	1	1
Share premium	684	684	684	684
Translation reserve	(64)	(65)	(64)	(63)
Demerger reserve	(513)	(513)	(513)	(513)
Retained earnings and other reserves	239	190	123	48
Total equity	**347**	**297**	**231**	**157**

Selected Consolidated Cash Flow Statement Information

	For the year ended March 31,			For the six months ended September 30,		For the twelve months ended September 30,
	2014	2015	2016	2015	2016	2016
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)	(unaudited)
				(£ millions)		
Operating activities						
Operating profit	**51**	**54**	**38**	**3**	**44**	**79**
Share-based payments	4	4	5	2	4	7
Depreciation	77	83	72	36	35	71
Amortisation of other operating intangible fixed assets	35	42	49	23	30	56
Amortisation of acquisition intangibles	21	12	10	5	5	10
Share of losses of joint ventures	7	8	8	6	5	7
Profit on disposal of property, plant and equipment	—	(3)	—	—	—	—
Profit on disposal of subsidiaries and customer bases	—	(5)	—	1	—	(1)
Operating cash flows before movements in working capital	**195**	**195**	**182**	**76**	**123**	**229**
Decrease/(increase) in trade and other receivables	(36)	(44)	15	18	(40)	(43)
Decrease/(increase) in inventory	(1)	(7)	(26)	(6)	25	5
Increase/(decrease) in trade and other payables	7	26	17	15	(46)	(44)
Increase/(decrease) in provisions	(5)	26	(6)	(16)	(8)	2
Cash generated from operations	**160**	**196**	**182**	**87**	**54**	**149**
Income taxes paid	—	(2)	—	—	3	3
Net cash flows generated from operating activities	**160**	**194**	**182**	**87**	**57**	**152**
Investing activities						
Acquisition of subsidiaries and joint ventures, net of cash acquired	(8)	(38)	(14)	(5)	(6)	(15)
Disposal of subsidiaries and customer bases	—	—	2	—	—	2
Investment in intangible assets	(42)	(49)	(106)	(49)	(48)	(105)
Investment in property, plant and equipment	(65)	(67)	(72)	(42)	(51)	(81)
Disposal of property, plant and equipment	—	4	12	—	—	12
Cash flows used in investing activities	**(115)**	**(150)**	**(178)**	**(96)**	**(105)**	**(187)**
Financing activities						
Settlement of Group ESOT shares	6	2	2	2	2	2
Net sale of own shares	(39)	—	61	61	—	—
Payment of contingent consideration	—	—	—	—	(8)	(8)
Drawdown of borrowings	90	109	90	55	143	178
Interest paid	(17)	(22)	(22)	(11)	(14)	(25)
Dividends paid	(99)	(116)	(135)	(85)	(100)	(150)
Cash flows generated from/(used in) financing activities	**(59)**	**(27)**	**(4)**	**22**	**23**	**(3)**
Net (decrease)/increase in cash and cash equivalents	**(14)**	**17**	**—**	**13**	**(25)**	**(38)**
Cash and cash equivalents at the start of the year	7	(7)	10	10	10	23
Cash and cash equivalents at the end of the year	**(7)**	**10**	**10**	**23**	**(15)**	**(15)**

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the information in the sections entitled "Presentation of Financial and Other Data" and "Selected Financial Information" of this offering memorandum. The following discussion should also be read in conjunction with the Financial Statements together with the related notes included elsewhere in this offering memorandum.

The following discussion includes forward-looking statements based on assumptions about our future business. Our actual results could differ materially from those contained in these forward-looking statements as a result of many factors, including but not limited to those described in the sections entitled "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors" of this offering memorandum.

OVERVIEW

We are the UK's leading value-for-money provider of fixed-line phone and broadband services to residential and businesses customers. Our fixed-line services are offered through an extensive and technologically advanced network, covering approximately 96% of UK's homes. In addition to our fixed-line connectivity offerings, we provide pay TV services through our part ownership of the YouView platform and mobile services through an MVNO arrangement with Vodafone (which we intend to transition to Telefónica UK during 2017). We offer our phone and broadband services both on a retail and wholesale basis, and leverage our existing fixed-line customer base and our extensive fixed network to offer dual play (fixed-line phone and broadband internet), triple play (dual play plus pay TV or mobile) and quad play (dual play plus pay TV and mobile) products.

Our consumer business offers quad play products incorporating broadband internet, voice, pay TV and mobile to Retail customers through a simple tariff structure and low prices. Our unique non-subscription pay TV offering provides flexible access to free and pay-to-view third-party content through the YouView platform. As at September 30, 2016, we had approximately 3.0 million Retail phone and broadband customers, approximately 1.3 million of which also subscribed to our pay TV service and approximately 793,000 were mobile customers.

Our fast growing B2B division, TTB, offers a wide range of data connectivity and next generation voice products to businesses across the UK. We provide fixed-line phone, broadband internet (including high speed Ethernet), data networking and other connectivity solutions to private companies and public sector organizations, both directly and on a wholesale basis through approximately 850 partners. As at September 30, 2016, we had approximately 899,000 Wholesale broadband and phone customers, and approximately 39,000 connected data lines. We are one of only three national network providers in the UK that offer wholesale connectivity services, broadband, FTTC and Ethernet to large national ISPs, such as the Post Office and Telecom Plus.

In the periods under review, we have consistently generated strong revenues. We had £1,795 million and £1,838 million of headline revenue for the years ended March 31, 2015 and 2016, respectively, and £902 million of headline revenue for the six months ended September 30, 2016. Our headline EBITDA and headline EBITDA margin increased from £245 million and 13.6%, respectively, for the year ended March 31, 2015 to £260 million and 14.1%, respectively, for the year ended March 31, 2016 and £130 million and 14.4% for the six months ended September 30, 2016. Our capital expenditure cash outflows were £112 million, £166 million and £99 million for the years ended March 31, 2015 and 2016 and six months ended September 30, 2016, respectively. This represented 6.2%, 9.0% and 11.0% of our headline revenue for the respective periods. In addition, our leverage ratio was 2.4x, 2.6x and 2.8x for the years ended March 31, 2015 and 2016 and the six months ended September 30, 2016, respectively, and our interest coverage ratio was at the level of 11.1x, 11.8x and 12.0x, respectively, for the same periods.

RECENT DEVELOPMENTS

Interim Dividend for the year ending March 31, 2017

On December 16, 2016 the Issuer paid an interim dividend for the year ending March 31, 2017 in the amount of 5.29 p per share, or approximately £50 million.

New Tariff Plans

At the beginning of October 2016, we replaced all of our existing consumer connectivity tariffs with a new, radically simpler range of fixed low price plans. These new plans give customers the freedom to choose and fix their own package for 18 months by tailoring mix-and-match broadband, mobile, TV and land-line calls to suit their needs. Customers can choose between two new simple packages, each inclusive of line rental:

- "Fast Broadband": for speeds of up to 17Mbps (which also includes (i) our "Essential SIM" feature, providing 200 minutes, unlimited SMS and 500MB of data and (ii) access to the TalkTalk TV Store); and
- "Faster Fibre Broadband": for speeds of up to 38Mbps (which also includes (i) our "Essential SIM" feature, providing 200 minutes, unlimited SMS and 500MB of data and (ii) access to the TalkTalk TV Store).

Uniquely in the market, we have also made these new plans available to all of our existing customers (on legacy tariffs, such as Simply Broadband, Essentials TV and Plus TV) who are able to move to these plans by re-contracting with us for 18 months. Our existing customers have responded extremely well to the new plans. In particular: (a) ten times as many customers have re-contracted than in an average month, (b) many more have chosen the Faster Fibre Broadband plan than expected, (c) attachment rates for calling and TV boosts have also been stronger than we had expected. These outcomes reflect the attractiveness of our simple and clear pricing, and while the take up on the new plans might be at a lower ARPU, the 18 months re-contracting will help reduce churn. Customers who chose not to re-contract have received an approximately 9%-10% price increase on their existing packages.

Industry

In December 2016, Sky announced the launch of its mobile proposition (based on its MVNO agreement with Telefónica UK). This offering is aimed at its existing fixed-line phone, broadband and TV customer base. The offering's data pricing is comparable to the wider UK market.

Regulation

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 has specifically stated that if legal separation cannot be made to work, then full structural separation remains an option. Currently Ofcom is considering a more detailed legal separation proposal. It is expected to notify and consult with the European Commission accordingly in early 2017. Such consultations are required to allow Ofcom to implement the proposed solution.

Whether BT is ultimately structurally or legally separated from BTOR, we expect reductions in the wholesale price of BTOR's GEA, and thus a reduction in our wholesale costs. If BTOR is fully separated, it would be economically rational for the separated entity to support such a price reduction in order to drive take up on their network from all ISPs.

BASIS OF FINANCIAL PRESENTATION

General

We prepared our Annual Financial Statements for the years ended March 31, 2014 2015 and 2016 and our Interim Financial Statements in accordance with IFRS as adopted by the EU. Our financial year ends on March 31 of each calendar year. See "*Presentation of Financial and Other Data*."

We present income statement items on a headline basis. Headline income statement line items are calculated by adding non-operating amortisation and exceptional items to statutory income statement line items. A reconciliation of headline revenue to statutory revenue, headline EBITDA to statutory EBITDA and statutory EBITDA to statutory operating profit is presented in "*—Reconciliation of Headline and Statutory Income Statement Items"* below.

We present our consolidated Financial Statements in British pound sterling, which is the currency of the principal economic environment in which we operate.

Headline Revenue Presentation

Our Board of Directors generally considers the results of the business as a whole when assessing the performance of the business and making decisions about the allocation of resources. We have no material operations outside the UK and as a result, do not split our revenue into geographic segments.

We report headline revenues according to the following structure: (a) on-net revenue, (b) off-net revenue and (c) corporate revenue. We further break down corporate revenue into (i) carrier revenue, (ii) data revenue and (iii) voice revenue.

The table below presents our headline revenue broken down into (a) on-net revenue, (b) off-net revenue and (c) corporate revenue for the years ended March 31, 2014, 2015 and 2016 and six months ended September 30, 2015 and 2016:

	For the year ended March 31,			For the six months ended September 30,	
	2014	2015	2016	2015	2016
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
			(£ millions)		
Headline revenue					
On-net	1,259	1,333	1,399	697	670
Off-net	128	87	55	27	24
Corporate	340	375	384	188	208
Total headline revenue	**1,727**	**1,795**	**1,838**	**912**	**902**

Headline on-net revenue

Headline on-net revenue is generated by our Retail and Wholesale customers who receive services through our own network. As at September 30, 2016 we had approximately 4 million on-net customers, representing 98.0% of our total customers. These customers generated £1,259 million; £1,333 million; £1,399 million and £670 million of our headline revenue, or 72.9%; 74.3%; 76.1% and 74.3% of our total headline revenue, for the years ended March 31, 2014, 2015 and 2016 and six months ended September 30, 2016, respectively.

Headline off-net revenue

Off-net customers are connected with lines leased from BT Wholesale in geographies where we have not installed our own equipment in the local exchange. On December 24, 2014 we disposed our Consumer off-net broadband customer base to Fleur Telecom Limited ("**Fleur**"), a member of Daisy Communications Group to enable us to simplify our tariffs and enable future systems savings. We currently provide wholesale off-net services only through TTB to our partner channels such as the Post Office. As at September 30, 2016 we had 69,000 off-net customers, representing 2.0% of our total customers. These customers generated £128 million; £87 million; £55 million and £24 million of our headline revenue, or 7.4%; 4.8%; 3.0% and 2.7% of our total headline revenue, for the years ended March 31, 2014, 2015 and 2016 and six months ended September 30, 2016, respectively.

Headline corporate revenue

Headline corporate revenue is generated by B2B customers, to whom we offer services under the TTB brand. Basic phone and broadband products for B2B customers, primarily home office and small to medium enterprises ("**SME**"), are accounted for either as part of our on-net or off-net revenue, as appropriate. Headline corporate revenue refers exclusively to revenue that we generate by providing large business customers with the speed and connectivity to support enterprise focused products. Customers generating headline corporate revenue accounted for £340 million; £375 million; £384 million and £208 million of our headline revenue, or 19.7%; 20.9%; 20.9% and 23.0% of our total headline revenue, for the years ended March 31, 2014, 2015 and 2016 and six months ended September 30, 2016, respectively.

The following table presents our headline corporate revenue broken down into (i) carrier revenue, (ii) data revenue and (iii) voice revenue for the years ended March 31, 2014, 2015 and 2016 and six months ended September 30, 2015 and 2016:

	For the year ended March 31,			For the six months ended September 30,	
	2014	2015	2016	2015	2016
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
			(£ millions)		
Headline corporate revenue					
Carrier	78	105	119	55	72
Data	70	97	120	54	75
Voice	192	173	145	79	61
Total headline corporate revenue	**340**	**375**	**384**	**188**	**208**

Carrier revenue

Carrier revenue is generated by data and voice traffic terminated and/or transited on our extensive UK voice network with other telecommunication services providers. This trading generated £78 million; £105 million; £119 million and £72 million of headline revenue, or 22.9%; 28.0%; 30.9% and 34.6% of our total headline corporate revenue for the years ended March 31, 2014, 2015 and 2016 and six months ended September 30, 2016, respectively.

Data revenue

Data revenue is generated by our large B2B customers that subscribe to Ethernet and EFM solutions that represent our fastest growth segment. As at September 30, 2016 we had 39,300 lines. These customers generated £70 million; £97 million; £120 million and £75 million of headline revenue, or 20.6%; 25.9%; 31.3% and 36.1% of our total headline corporate revenue for the years ended March 31, 2014, 2015 and 2016 and six months ended September 30, 2016, respectively.

Voice revenue

Voice revenue is generated by B2B customers that mainly use our legacy voice solutions, a market that has been contracting over a number of years. On April 22, 2015, we acquired all shares in tIPicall Limited, a company providing VoIP services. We aim to grow this next generation voice product, as the established trend of decline in legacy voice solutions continues. These voice revenue customers generated £192 million; £173 million; £145 million and £61 million of headline revenue, or 56.5%; 46.1%; 37.8% and 29.3% of our total headline corporate revenue for the years ended March 31, 2014, 2015 and 2016 and six months ended September 30, 2016, respectively.

Reconciliation of Headline and Statutory Income Statement Items

We present our income statement items on a headline basis. Headline income statement line items are calculated by adding non-operating amortisation and exceptional items to statutory income statement line items.

The table below presents a reconciliation of our headline income statement line items with statutory income statement line items for the years ended March 31, 2014 and 2015:

	For the year ended March 31,					
	2014			2015		
	Headline	Non-operating amortisation and exceptional items	Statutory	Headline	Non-operating amortisation and exceptional items	Statutory
	(audited)	(audited)	(audited)	(audited)	(audited)	(audited)
	(£millions)					
Revenue	**1,727**	**(5)**(1)	**1,722**	**1,795**	**—**	**1,795**
Cost of sales	(769)	—	(769)	(815)	—	(815)
Gross profit	**958**	**(5)**	**953**	**980**	**—**	**980**
Operating expenses excluding amortisation and depreciation	(745)	(17)(2)	(762)	(735)	(46)(3)	(781)
EBITDA	**213**	**(22)**	**191**	**245**	**(46)**	**199**
Depreciation	(77)	—	(77)	(78)	(5)(4)	(83)
Amortisation	(35)	(21)(5)	(56)	(42)	(12)(6)	(54)
Share of results of joint ventures	(7)	—	(7)	(8)	—	(8)
Operating profit	**94**	**(43)**	**51**	**117**	**(63)**	**54**
Net finance costs	(20)	—	(20)	(22)	—	(22)
Profit before taxation	**74**	**(43)**	**31**	**95**	**(63)**	**32**
Taxation	(13)	10(7)	(3)	(19)	59(8)	40
Profit for the year attributable to the owners of the Company	**61**	**(33)**	**28**	**76**	**(4)**	**72**

(1) Represents prompt payment discounts and historic termination charge settlements with the mobile network operators, which are recognised as revenue.

(2) Consists of (i) £3 million of income resulting from the determination by Ofcom in December 2012, that BT had overcharged us for certain wholesale Ethernet services. Accordingly, BT was required to make repayments to us for these overcharges and (ii) £20 million of costs relating to the implementation of our MTTS programme. See "—*Trends and Other Key Factors Impacting our Results of Operations—Making TalkTalk Simpler (MTTS).*"

(3) Consists of (i) £29 million of costs relating to the implementation of our MTTS programme. See "—*Trends and Other Key Factors Impacting our Results of Operations—Making TalkTalk Simpler (MTTS)*"; (ii) £9 million of exceptional items related to acquisitions and disposals, consisting of (x) £4 million of costs incurred for the migration of customers onto our network and integration costs, including redundancy; (y) £10 million of costs in respect of committed future programmes predominantly for migration, reorganisation and related costs; and (z) £5 million of profit generated from the sale of our existing off-net broadband customer base to Fleur; and (iii) £8 million of costs relating to the planned migration of mobile customers to the new MVNO agreement with Telefónica UK.

(4) Represents a £5 million impairment charge recognised in respect of equipment decommissioned or replaced before the end of their useful economic life.

(5) Represents £21 million amortisation of acquisition intangibles.

(6) Consists of (i) £6 million of impairment charges recognised in respect of a billing system replaced before the end of its useful economic life; (ii) £6 million amortisation of acquisition intangibles.

(7) Represents a tax credit of £10 million arising on items (1), (2) and (5) above.

(8) Consists of (i) a tax credit of £14 million arising on items (3), (4) and (6) above; (ii) tax credits of £45 million comprising a further £29 million in respect of tax losses acquired in the acquisition of Video Networks ("**VNL**"), following the increase in the time period used to recognise losses from five to ten years and £16 million for the resolution of legacy demerger items.

The table below presents a reconciliation of our headline income statement line items with statutory income statement line items for the years ended March 31, 2015 and 2016:

	For the year ended March 31,					
	2015			2016		
	Headline	Non-operating amortisation and exceptional items	Statutory	Headline	Non-operating amortisation and exceptional items	Statutory
	(audited)	(audited)	(audited)	(audited)	(audited)	(audited)
	(£millions)					
Revenue	**1,795**	**—**	**1,795**	**1,838**	**(3)**[(1)]	**1,835**
Cost of sales	(815)	—	(815)	(845)	—	(845)
Gross profit	**980**	**—**	**980**	**993**	**(3)**	**990**
Operating expenses excluding amortisation and depreciation	(735)	(46)[(2)]	(781)	(733)	(80)[(3)]	(813)
EBITDA	**245**	**(46)**	**199**	**260**	**(83)**	**177**
Depreciation	(78)	(5)[(4)]	(83)	(72)	—	(72)
Amortisation	(42)	(12)[(5)]	(54)	(49)	(10)[(6)]	(59)
Share of results of joint ventures	(8)	—	(8)	(8)	—	(8)
Operating profit	**117**	**(63)**	**54**	**131**	**(93)**	**38**
Net Finance costs	(22)	—	(22)	(24)	—	(24)
Profit before taxation	**95**	**(63)**	**32**	**107**	**(93)**	**14**
Taxation	(19)	59[(7)]	40	(28)	16[(8)]	(12)
Profit for the year attributable to the owners of the Company	**76**	**(4)**	**72**	**79**	**(77)**	**2**

(1) Represents an increased number of credits provided to retain customers following the 2015 Cyber Attack, which are recognised as revenue. See "*—Trends and Other Key Factors Impacting our Results of Operations—The 2015 Cyber Attack*."

(2) Consists of (i) £29 million of costs relating to the implementation of our MTTS programme. See "*—Trends and Other Key Factors Impacting our Results of Operations—Making TalkTalk Simpler (MTTS)*"; (ii) £9 million of exceptional costs/profit related to acquisitions and disposals, consisting of (x) £4 million of costs incurred for the migration of customers onto our network and integration costs, including redundancy; (y) £10 million of costs in respect of committed future programmes predominantly for migration, reorganisation and related costs; and (z) £5 million of profit generated from the sale of our existing off-net broadband customer base to Fleur; and (iii) £8 million of costs relating to the planned migration of mobile customers to the new MVNO agreement with Telefónica UK.

(3) Consists of (i) £41 million of costs relating to the implementation of our MTTS programme. See "*—Trends and Other Key Factors Impacting our Results of Operations—Making TalkTalk Simpler (MTTS)*"; (ii) £39 million of costs relating to the 2015 Cyber Attack, including costs incurred for restoring our online capability with enhanced security features, associated IT costs, incident response and consultancy costs and the provision of free upgrades to customers. See "*—Trends and Other Key Factors Impacting our Results of Operations—The 2015 Cyber Attack*."

(4) Represents a £5 million impairment charge recognised in respect of equipment decommissioned or replaced before the end of their useful economic life.

(5) Represents £21 million amortisation of acquisition intangibles.

(6) Represents the amortisation of acquisition intangibles relating to the acquisition of broadband customer bases from Virgin Media Limited and Tesco Stores Limited and the acquisition of Blinkbox Entertainment Limited.

(7) Consists of (i) a tax credit of £14 million arising on items (2), (4) and (5) above; (ii) tax credits of £45 million comprising a further £29 million in respect of VNL tax losses following the increase in the time period used to recognise losses from five to ten years and £16 million for the resolution of legacy demerger items.

(8) Represents a tax credit of £16 million arising on items (1), (3) and (6) above.

The table below presents a reconciliation of our headline income statement line items with statutory income statement line items for the six months ended September 30, 2015 and 2016:

	For the six months ended September 30,					
	2015			2016		
	Headline	Non-operating amortisation and exceptional items	Statutory	Headline	Non-operating amortisation and exceptional items	Statutory
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	(£millions)					
Revenue	**912**	**—**	**912**	**902**	**—**	**902**
Cost of sales	(425)	—	(425)	(433)	—	(433)
Gross profit	**487**	**—**	**487**	**469**	**—**	**469**
Operating expenses excluding amortisation and depreciation	(397)	(17)[1]	(414)	(339)	(11)[2]	(350)
EBITDA	**90**	**(17)**	**73**	**130**	**(11)**	**119**
Depreciation	(36)	—	(36)	(35)	—	(35)
Amortisation	(23)	(5)[3]	(28)	(30)	(5)[3]	(35)
Share of results of joint ventures	(6)	—	(6)	(5)	—	(5)
Operating profit	**25**	**(22)**	**3**	**60**	**(16)**	**44**
Net Finance costs	(11)	—	(11)	(14)	—	(14)
Profit before taxation	**14**	**(22)**	**(8)**	**46**	**(16)**	**30**
Taxation	(3)	4[4]	1	(11)	2[5]	(9)
Profit for the period attributable to the owners of the Company	**11**	**(18)**	**(7)**	**35**	**(14)**	**21**

(1) Consists of (i) £19 million of costs relating to the implementation of our MTTS programme. See "*—Trends and Other Key Factors Impacting our Results of Operations—Making TalkTalk Simpler (MTTS)*"; (ii) £3 million of net exceptional income in relation to the broadband customer base we acquired from Virgin Media Limited; and (iii) a £1 million exceptional charge relating to the sale of our off-net broadband customer to Fleur.

(2) Consists of (i) £10 million of costs relating to the implementation of our MTTS programme. See "*—Trends and Other Key Factors Impacting our Results of Operations—Making TalkTalk Simpler (MTTS)*"; and (ii) £1 million of charges incurred from the sale of our existing off-net broadband customer base to Fleur.

(3) Represents an amortisation charge in respect of acquisition intangibles.

(4) Represents a tax credit of £3 million recognised in relation to the costs incurred for our MTTS programme and a tax credit of £1 million recognised on costs relating to the amortisation of acquisition intangibles.

(5) Represents a tax credit of £2 million recognised in relation to the costs incurred for our MTTS programme.

TRENDS AND OTHER KEY FACTORS IMPACTING OUR RESULTS OF OPERATIONS

The following are the key factors that have significantly affected our results of operations and financial condition during the periods under review, or which we expect will significantly affect our operations in the future.

Competition

Our results of operations are affected by competition, as we operate in competitive industries and compete with a number of companies that provide a broad range of communications products and services and entertainment, news and information content to consumers. Our principal competitors across all our products and services are BT, Sky and Virgin Media.

The UK telecommunication market structure is experiencing structural changes, as both Ofcom and the UK Government have acknowledged a need to promote competition and drive investment across the market. Ofcom is committed to help improve competition among broadband providers by opening up access to BT's infrastructure. Ofcom has also proposed to make it easier for consumers to switch providers.

We believe that we have a number of competitive advantages. At the core of our competitive position is our network that reaches 96% of UK households and our status as an established value-for-money provider of telecommunication services. We believe that we are well placed to benefit from an increased trend toward a more competition-friendly regulatory framework in the UK. See "*Risk Factors—Risks Relating to our Business and Industry—We face significant competition in the markets in which we operate, which could result in decreases in the number of current and potential customers, revenues and profitability*" and *"Industry Regulation."*

Churn

Movement of our customers to our competitors (an effect known as "churn") is a factor which could negatively affect our customer base growth and revenue. Our business may encounter churn as a result of high levels of competition. In addition to competitive alternatives, churn levels may be affected by changes in our or our competitors' prices, our level of customer satisfaction, brand reputation and trust, the relocation of subscribers and exceptional effects such as the 2015 Cyber Attack, which resulted in a spike in churn. Increases in churn may lead to increased subscriber acquisition costs and reduced revenue.

With the exception of one-off events, such as the 2015 Cyber Attack, the key drivers of churn for our business are predominantly customer service related rather than price driven, as customers tend to leave us for service related issues rather than because they have found less expensive alternatives. Improving service and customer experience measures through our MTTS programme has therefore been a key management focus, allied with driving increased penetration of additional products, which also enhances customer loyalty.

As the majority of our customers are on-net customers, our management focuses on the churn in this revenue generation group. For the six months ended September 30, 2016 and the years ended March 31, 2016, 2015 and 2014, our average monthly on-net churn was 1.4%, 1.6%, 1.4% and 1.6%, respectively, calculated as a percentage of on-net customers leaving our network in each of the relevant periods.

We believe that the following factors help to reduce our level of churn:

- fundamentally, customers have tended to leave our network because of service issues, therefore the most effective means of reducing churn is to improve the service we provide. Our MTTS programme has been running for 3 years and is delivering material improvements to our customers' experience, which helps to reduce churn throughout the business, see "*—Making TalkTalk Simpler (MTTS)*"; and
- we believe that customers who subscribe to multiple services are less likely to leave our services. We aim to leverage our existing phone and broadband customer base to drive penetration of other products. As at March 31, 2016, 38.0%, 19.0% and 19.0% of our phone and broadband customer base also subscribed to our TV, mobile and fibre products, respectively, see "*Business—Overview—Strategy—Achieve significant scale benefits."*

The 2015 Cyber Attack

In October 2015, our website was subject to a significant and sustained cyber attack.

The 2015 Cyber Attack drove elevated churn for a short period, which led to a loss of approximately 95,000 broadband customers in the third quarter of the year ended March 31, 2016. An extended period through which we were unable to trade effectively also led to a reprioritisation of a number of initiatives in the MTTS. See *"—Making TalkTalk Simpler (MTTS)*."

We believe that the actions we took following the 2015 Cyber Attack to focus on our existing customers and to restore normality have more than mitigated any lasting impact on the business. This focus, together with the customer experience benefits of MTTS, helped us to stabilise the broadband base in the fourth quarter of the year ended March 31, 2016, drive strong growth in RGUs, recover customer trust and satisfaction according to a number of metrics and deliver the lowest ever churn in our history of 1.3% in the fourth quarter of the year ended March 31, 2016. Equally, the learnings from our detailed review of systems and processes following the 2015 Cyber Attack have helped us to prioritise elements of our trading approach and strategy, which are helping us to deliver future improvements in profitability. The on-net wholesale base was not directly affected by the 2015 Cyber Attack.

We incurred exceptional items in an amount of £42 million in relation to the 2015 Cyber Attack in the year ended March 31, 2016. 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.

Since the 2015 Cyber Attack we have changed our approach to risk and mitigation and implemented a number of monitoring activities, such as vulnerability scanning, penetration testing and the data loss prevention solution. In addition, we have implemented an extensive programme of cultural change, including behaviours, values and ways of working. See "*Business—Overview—Strengths—Strong track record of operational improvement*."

Making TalkTalk Simpler (MTTS)

During the year ended March 31, 2013, we began a wide ranging MTTS transformation programme, which aims to improve our customers' experience and reduce our costs, through driving process and efficiency improvements. MTTS comprises detailed initiatives to simplify tariffs and access methods, simplify and upgrade our systems and networks, make better use of our data and drive increasing online self-service by customers. Since its implementation, MTTS has been delivering material improvements and incremental cost savings, reducing our subscriber acquisition costs ("**SAC**") through lower churn and costs per add ("**CPA**").

During the year ended March 31, 2014, we achieved incremental cost savings of £15 million from our MTTS programme, together with the continuing benefits of legacy operating efficiency programmes, and incurred exceptional costs related to MTTS of £20 million (compared with exceptional costs of £7 million for the year ended March 31, 2013). These costs include work on the implementation of a programme to cease provision of non-core legacy access methods such as IP Stream, building a detailed roadmap for a Group-wide systems upgrade, improved data standards and executive level reporting and the launch of our service and billing app MyTalkTalk on both the iOS and Android platforms. A total tax credit of £5 million has been recognised on these costs in the year ended March 31, 2014.

During the year ended March 31, 2015, we achieved further incremental cost savings of £17 million from our MTTS programme, and incurred exceptional project management, consultancy, migration and call centre costs of £29 million. These costs include work on improving consumer and B2B customer operations, services and rationalising customer tariffs and exiting Group legacy products and access methods. A total tax credit of £7 million has been recognised on these costs in the year ended March 31, 2015.

During the year ended March 31, 2016, we achieved incremental cost savings of £21 million from our MTTS programme through, among other things: (a) better network performance from improved traffic management and the deployment of faster backhaul circuits; (b) fewer missed engineer appointments and improved resolution of problem orders through case management; (c) the implementation of live chat and voice biometrics; (d) improved fault diagnosis and resolution, reducing engineering cost and unnecessary customer contacts and (e) savings from implementing changes to our organisational structure.

During the year ended March 31, 2016, we incurred exceptional costs of £41 million from the implementation of the MTTS programme. These costs mainly result from improving customer experience systems and processes and implementing changes to our organisational structure, exiting office locations and preparing for the move in April 2017 from our sites in Irlam and Warrington to a new single location at the Soapworks, Salford. A total tax credit of £8 million has been recognised on these costs in the year ended March 31, 2016.

Overall, as at September 30, 2016, our total annualized cost savings relating to the MTTS programme since its implementation amounted to over £70 million.

Headline EBITDA and impact of exceptional items

EBITDA is a widely recognised benchmark for measuring profitability and cash-flows in the telecommunication industry. Therefore, the Board of Directors closely monitors our statutory EBITDA, headline EBITDA and headline EBITDA margin as key measures of our financial performance. See "*—Basis of Financial Presentation—Reconciliation of Headline and Statutory Income Statement Items.*" None of these are measures of financial performance under IFRS as adopted by the EU. They may not be comparable to similarly titled measures used by other companies. Therefore you should not consider our statutory EBITDA, headline EBITDA or headline EBITDA margin as substitutes for operating profit or cash flows generated from operating activities reported in the Financial Statements.

We define "statutory EBITDA" as statutory income before income tax, net finance costs, share of results of joint ventures, and depreciation and amortisation for the relevant period. We calculate statutory EBITDA by adding back to our statutory operating profit or loss charges for statutory depreciation, statutory amortisation and statutory share of results of joint ventures. We define headline EBITDA as statutory EBITDA adjusted for the effect of exceptional items. Headline EBITDA margin is the ratio of our headline EBITDA for a period to our headline revenue for the same period.

The table below presents a reconciliation of our headline EBITDA to our statutory EBITDA and our statutory EBITDA to our statutory operating profit for the years ended March 31, 2014, 2015 and 2016 and six months ended September 30, 2015 and 2016 were as follows:

	For the year ended March 31,			For the six months ended September 30,	
	2014	**2015**	**2016**	**2015**	**2016**
	(audited)	**(audited)**	**(audited)**	**(unaudited)**	**(unaudited)**
			(£ millions)		
Headline EBITDA[1]	**213**	**245**	**260**	**90**	**130**
Headline EBITDA margin[2] (%)	**12.3%**	**13.6%**	**14.1%**	**9.9%**	**14.4%**
Exceptional items—Revenue	(5)[3]	—	(3)[4]	—	—
Exceptional items—Operating expenses	3[5]	—	(39)[6]	—	—
Exceptional items—Operating efficiencies[7]	(20)	(29)	(41)	(19)	(10)
Exceptional items—Acquisitions and disposal	—	(9)[8]	—	2[9]	(1)[10]
Exceptional items—Mobile migration	—	(8)[11]	—	—	—
Statutory EBITDA[12]	**191**	**199**	**177**	**73**	**119**
Depreciation	(77)	(83)	(72)	(36)	(35)
Amortisation[13]	(56)	(54)	(59)	(28)	(35)
Share of results of joint ventures	(7)	(8)	(8)	(6)	(5)
Statutory operating profit	**51**	**54**	**38**	**3**	**44**

(1) Headline EBITDA is headline operating profit plus charges for headline depreciation, headline amortisation and headline share of results of joint ventures.

(2) Headline EBITDA margin is headline EBITDA as a percentage of headline revenue.

(3) Represents prompt payment discounts and historic termination charge settlements with the mobile network operators, which are recognised as revenue.

(4) Represents an increased number of credits provided in order to retain customers following the 2015 Cyber Attack, which are recognised as revenue.

(5) Represents income resulting from the determination by Ofcom in December 2012, that BT had overcharged us for certain wholesale Ethernet services. Accordingly, BT was required to make repayments to us for these overcharges.

(6) Represents costs relating to the 2015 Cyber Attack, including costs incurred for restoring our online capability with enhanced security features, associated IT costs, incident response and consultancy costs and the provision of free upgrades to customers. See "*—The 2015 Cyber Attack*."

(7) Represents costs relating to the implementation of our MTTS programme. See "*—Making TalkTalk Simpler (MTTS)*."

(8) Represents (i) £4 million of costs incurred for the migration of customers onto our network and integration costs, including redundancy; (ii) £10 million of costs in respect of committed future programmes predominantly for migration, reorganisation and related costs; and (iii) £5 million of profit generated from the sale of our existing off-net broadband customer base to Fleur.

(9) Represents net exceptional income of £3 million in relation to the broadband customer base we acquired from Virgin Media Limited, partially offset by a £1 million exceptional charge relating to the sale of our off-net broadband customer to Fleur.

(10) Represents £1 million of charges incurred from the sale of our existing off-net broadband customer base to Fleur.

(11) Represents costs relating to the planned migration of mobile customers to the new MVNO agreement with Telefónica UK.

(12) Statutory EBITDA is statutory operating profit plus charges for statutory depreciation, statutory amortisation and statutory share of results of joint ventures.

(13) Amortisation includes amortisation of acquisition intangibles of £21 million, £6 million and £10 million for the years ended March 31, 2014, 2015 and 2016 respectively. For the six months ended September 30, 2015 and 2016 amortisation includes amortisation of acquisition intangibles of £5 million.

Future growth

Our revenue growth strategy is built upon maintaining a broadly stable to modestly growing base of on-net households, while driving growth in the number of products taken per household and driving strong growth in our B2B division through an expanding base of data connections. With respect to our on-net base, which comprises both wholesale and retail customers, our strategy is focused on driving ARPU through growth in the penetration of RGUs in the existing base, rather than aggressively growing the base itself. In order to monitor the growth of our customer base, our management tracks net-adds of customers by product type. Net-adds are the net of new customers subscribing to our services and customers now discontinuing their subscriptions with us, within a certain period.

The following table shows our net-adds, by key product, for the years ended March 31, 2014, 2015 and 2016 and six months ended September 30, 2015 and 2016:

	For the year ended March 31,			For the six months ended September 30,	
	2014	**2015**(1)	**2016**(2)	**2015**(1)	**2016**(2)
	(thousands)				
Net-adds(3) by product					
Broadband (on-net)	190	117	(181)	(80)	(29)
TV	687	497	(25)	25	(56)
Fibre	134	272	225	99	76
Mobile	109	180	235	132	94
Data (EFM and Ethernet)	7.2	8.8	8.9	4.5	4.2

(1) Net-adds for the year ended March 31, 2015 and the six months ended September 30, 2015 were impacted by our decision to disconnect approximately 72,000 non-paying customers in the six months ended September 30, 2015.

(2) Net-adds for the year ended March 31, 2016 and the six months ended September 30, 2016 were impacted by the spike in churn related to the 2015 Cyber Attack. See "—*The 2015 Cyber Attack*."

(3) Net-adds is the net of customers that joined our network during the relevant period and customers that left our network during the same period.

HISTORICAL HEADLINE RESULTS OF OPERATIONS

Headline results of operations for the six months ended September 30, 2015 and 2016

The following table shows our consolidated headline results for the six months ended September 30, 2015 and 2016:

	For the six months ended September 30,		
	2015	**2016**	**% change**
	(unaudited)	(unaudited)	(unaudited)
	(£ millions)		
Revenue(1)			
On-net revenue	697	670	(3.9)%
Off-net revenue	27	24	(11.1)%
Corporate revenue	188	208	10.6%
Total revenue	**912**	**902**	**(1.1)%**
Cost of sales	(425)	(433)	1.9%

	For the six months ended September 30,		
	2015	2016	% change
	(unaudited)	(unaudited)	(unaudited)
	(£ millions)		
Gross Profit	**487**	**469**	**(3.7)%**
Operating expenses excluding amortisation and depreciation	(397)	(339)	(14.6)%
EBITDA[(2)]	**90**	**130**	**44.4%**
Depreciation	(36)	(35)	(2.8)%
Amortisation	(23)	(30)	30.4%
Share of results of joint ventures	(6)	(5)	(16.7)%
Operating profit	**25**	**60**	**140.0%**
Net finance costs	(11)	(14)	27.3%
Profit before taxation	**14**	**46**	**228.6%**
Taxation	(3)	(11)	266.7%
Profit for the period attributable to the owners of the Company	**11**	**35**	**218.2%**

(1) Headline revenue is statutory revenue before exceptional items.

(2) Headline EBITDA is headline operating profit plus charges for headline depreciation, headline amortisation and headline share of results of joint ventures.

Headline revenue

Our headline revenue for the six months ended September 30, 2016 was £902 million, compared with £912 million for the six months ended September 30, 2015, a decrease of 1.1%.

Headline on-net revenue

Headline on-net revenue for the six months ended September 30, 2016 was £670 million, compared with £697 million for the six months ended September 30, 2015, a decrease of 3.9%. This decrease reflected a reduction in our on-net customer base, mainly due to our decision to disconnect approximately 72,000 non-paying customers in the six months ended September 30, 2015, arising from a change in credit terms from 180 days to the industry standard of 90 days and approximately 95,000 customers leaving our network due to the effect of the 2015 Cyber Attack.

Headline off-net revenue

Headline off-net revenue for the six months ended September 30, 2016 was £24 million, compared with £27 million for the six months ended September 30, 2015, a decrease of 11.1%. This decrease reflects the decline in our wholesale partners' off-net customer base.

Headline corporate revenue

The following table presents our headline corporate revenue for the six months ended September 30, 2015 and 2016:

	For the six months ended September 30,		
	2015	2016	% change
	(unaudited)	(unaudited)	(unaudited)
	(£ millions)		
Headline corporate revenue			
Carrier	55	72	30.9%
Data	54	75	38.9%
Voice	79	61	(22.8)%
Total	**188**	**208**	**10.6%**

Headline corporate revenue for the six months ended September 30, 2016 was £208 million, compared with £188 million for the six months ended September 30, 2015, an increase of 10.6%. This increase was primarily due to strong growth of Carrier headline revenue by 30.9%, to £72 million for the six months ended September 30, 2016 from £55 million for the six months ended September 30, 2015, and Data headline revenue by 38.9% to £75 million for the six months ended September 30, 2016 from £54 million for the six months ended September 30, 2015. The growth in Carrier headline revenue was mainly driven by a specific business win and increased bilateral and UK transit trading. The growth in Data headline revenue was principally attributable to approximately 8,600 new connections to our Ethernet and EFM base. This was partially offset by the ongoing decline in legacy voice revenues by 22.8%, to £61 million for the six months ended September 30, 2016 from £79 million for the six months ended September 30, 2015.

Headline cost of sales

Headline cost of sales for the six months ended September 30, 2016 was £433 million, compared with £425 million for the six months ended September 30, 2015, an increase of 1.9%. This increase was primarily due to an increase in low-margin Carrier trading; where the higher revenues come with higher associated cost of sales. In addition to this, continued growth in the fibre base saw a higher cost of sales charge. This was partially offset by BTOR cost of sales savings as a result of the lower customer base.

Headline gross profit

For the reasons set forth above, our headline gross profit for the six months ended September 30, 2016 was £469 million, compared with £487 million for the six months ended September 30, 2015, a decrease of 3.7%. The gross profit margin decline from 53.4% to 52.0% reflects a number of effects including: the greater weight of low margin carrier revenues in the mix (8.0% in the six months ended September 30, 2015 compared with 6.0% in the six months ended September 30, 2016); the lower weight of retail revenues versus wholesale revenues in the on-net mix; and lower year-on-year voice usage, partly offset by the growth in high margin data revenue (8.3% of total revenues in the six months ended September 30, 2015 compared with 5.9% in the six months ended September 30, 2016) and the benefits of MTTS.

Headline operating expenses excluding amortisation and depreciation

Our headline operating expenses excluding amortisation and depreciation for the six months ended September 30, 2016 were £339 million, compared with £397 million for the six months ended September 30, 2015, a decrease of 14.6%.

The following table presents our headline operating expenses excluding amortisation and depreciation for the six months ended September 30, 2015 and 2016:

	For the six months ended September 30,		
	2015	**2016**	**% change**
	(unaudited)	**(unaudited)** **(£ millions)**	**(unaudited)**
Headline operating expenses excluding amortisation and depreciation			
Operating expenses	245	245	—
SAC and marketing	152	94	(38.2)%
Total	**397**	**339**	**(14.6)%**

Headline operating expenses

Headline operating expenses for the six months ended September 30, 2016 remained flat at £245 million, compared with £245 million for the six months ended September 30, 2015, with network and IT investment (which has driven improved peak time throughput and much improved latencies), mainly offset by MTTS benefits (from contact centre and retention efficiencies and property costs) and reduced BT regulated backhaul costs.

Headline SAC and marketing

Headline SAC and marketing for the six months ended September 30, 2016 was £94 million, compared with £152 million for the six months ended September 30, 2015, a decrease of 38.2%. This decrease was primarily due to the reduced volume of Retail connections (driving just over half of the year-on-year reduction); reduced channel costs (just under a third of the year-on-year reduction) from an extended sales and distribution agreement with Dixons Carphone PLC and the phasing of certain marketing costs into the second half of the year ending March 31, 2017. This was partially offset by higher SAC from the growth in data connections by our B2B customers.

Headline EBITDA

For the reasons set forth above, our headline EBITDA for the six months ended September 30, 2016 was £130 million, compared with headline EBITDA of £90 million for the six months ended September 30, 2015, an increase of 44.4%.

Headline depreciation and amortisation

Our headline depreciation and amortisation charges for the six months ended September 30, 2016 were £65 million, compared with £59 million for the six months ended September 30, 2015, an increase of 10.2%. This increase was primarily due to prior year capitalisation of intangibles in relation to MTTS, innovation and our network, as we brought forward some programmes as a result of the 2015 Cyber Attack, for example the re-platforming of our online channels.

The following table shows the breakdown of headline depreciation and amortisation charges for the six months ended September 30, 2015 and 2016:

	For the six months ended September 30,		
	2015	2016	% change
	(unaudited) (£ millions)		
Headline depreciation and amortisation charges			
Depreciation of property, plant and equipment	36	35	(2.8)%
Amortisation of other operating intangible fixed assets	23	30	30.4%
Total	**59**	**65**	**10.2%**

Headline depreciation of property, plant and equipment

Headline depreciation of property, plant and equipment for the six months ended September 30, 2016 was £35 million, compared with £36 million for the six months ended September 30, 2015, a decrease of 2.8%.

Headline amortisation of other operating intangible fixed assets

Headline amortisation for the six months ended September 30, 2016 was £30 million, compared with £23 million for the six months ended September 30, 2015, an increase of 30.4%.

Headline share of results of joint ventures

Headline share of results of joint ventures for the six months ended September 30, 2016 was a loss of £5 million, compared with a loss of £6 million for the six months ended September 30, 2015, a decrease of 16.7%.

Headline operating profit

For the reasons set forth above, our headline operating profit for the six months ended September 30, 2016 was £60 million, compared with £25 million for the six months ended September 30, 2015, an increase of 140.0%.

Headline net finance costs

Headline net finance costs for the six months ended September 30, 2016 were £14 million, compared with £11 million for the six months ended September 30, 2015, an increase of 27.3%. This increase was primarily due to the application of a higher blended interest rate of 3.01%, as compared to a blended interest rate of 2.95% for the six months ended September 30, 2015, to a higher level of average debt and additional fees incurred on the extension of certain debt facilities including the Receivables Purchase Agreement Facility.

Headline profit before taxation

For the reasons set forth above, our headline profit before taxation for the six months ended September 30, 2016 was £46 million, compared with a £14 million for the six months ended September 30, 2015, an increase of 228.6%.

Headline taxation

For the six months ended September 30, 2016 we recognised a tax charge of £11 million, compared with £3 million for the six months ended September 30, 2015, an increase of 266.7%.

The effective headline tax rate in the six months ended September 30, 2016 was 24.0% on headline profit before taxation of £46 million, compared with an effective headline tax rate of 20.0% on headline profit before taxation of £14 million for the six months ended September 30, 2015. For the six months ended September 30, 2016, the impact of exceptional items resulted in a statutory tax charge of £9 million, compared with a tax credit of £1 million in the six months ended September 30, 2015. The effective rate of tax has increased from the prior year due to a reduction in the future statutory tax rate applied to deferred tax assets from 18.0% to 17.0%.

Headline profit for the period attributable to the owners of the Company

For the reasons set forth above, our headline profit for the period attributable to the owners of the Company for the six months ended September 30, 2016 was £35 million, compared with £11 million for the six months ended September 30, 2015, an increase of 218.2%.

Headline results of operations for the years ended March 31, 2014, 2015 and 2016

The following table shows our consolidated headline results for the years ended March 31, 2014, 2015 and 2016:

	For the year ended March 31,				
	2014	**2015**	**2016**	**% change 2014 v 2015**	**% change 2015 v 2016**
	(audited)	**(audited) (£ millions)**	**(audited)**	**(unaudited)**	**(unaudited)**
Revenue[1]					
On-net revenue	1,259	1,333	1,399	5.9%	5.0%
Off-net revenue	128	87	55	(32.0)%	(36.8)%
Corporate revenue	340	375	384	10.3%	2.4%
Total revenue	**1,727**	**1,795**	**1,838**	**3.9%**	**2.4%**
Cost of sales	(769)	(815)	(845)	6.0%	3.7%
Gross Profit	**958**	**980**	**993**	**2.3%**	**1.3%**
Operating expenses excluding amortisation and depreciation	(745)	(735)	(733)	(1.3)%	(0.3)%
EBITDA[2]	**213**	**245**	**260**	**15.0%**	**6.1%**
Depreciation	(77)	(78)	(72)	1.3%	(7.7)%
Amortisation	(35)	(42)	(49)	20.0%	16.7%
Share of results of joint ventures	(7)	(8)	(8)	14.3%	—
Operating profit	**94**	**117**	**131**	**24.4%**	**12.0%**
Net finance costs	(20)	(22)	(24)	10.0%	9.1%
Profit before taxation	**74**	**95**	**107**	**28.4%**	**12.6%**
Taxation	(13)	(19)	(28)	46.2%	47.3%
Profit for the period attributable to the owners of the Company	**61**	**76**	**79**	**24.6%**	**3.9%**

(1) Headline revenue is statutory revenue before exceptional items.

(2) Headline EBITDA is headline operating profit plus charges for headline depreciation, headline amortisation and headline share of results of joint ventures.

Headline revenue

Our headline revenue for the year ended March 31, 2016 was £1,838 million, compared with £1,795 million for the year ended March 31, 2015, an increase of 2.4%, which in turn was an increase of 3.9% from £1,727 million for the year ended March 31, 2014.

Headline on-net revenue

Headline on-net revenue for the year ended March 31, 2016 was £1,399 million, compared with £1,333 million for the year ended March 31, 2015, an increase of 5.0%. This increase was primarily driven by a growth in ARPU, as a result of an increase in the pricing of our products and additional RGUs per household, as compared to the year ended March 31, 2015. Whilst our on-net customer base decreased by 4.3% from 4,177 thousand as at March 31, 2015 to 3,996 thousand as at March 31, 2016, our on-net ARPU increased by 5.8% from £26.97 for the year ended March 31, 2015 to £28.53 for the year ended March 31, 2016. This increase was partially offset by lower voice usage, lower promotional activity and the mix impact of growing our lower ARPU wholesale base at a faster rate than our retail base. In addition to this, our retail revenues for the year ended March 31, 2016 were negatively affected by the 2015 Cyber Attack, which resulted in a spike in churn and an extended period over which we were unable to trade from our online channels.

Headline on-net revenue for the year ended March 31, 2015 was £1,333 million, compared with £1,259 million for the year ended March 31, 2014, an increase of 5.9%. This increase was primarily driven by a growth in our customer base due to our focus on revenue diversification and building a scalable quad play solution and an increase in the pricing of our products, as compared to the year ended March 31, 2014. Our on-net customer base increased by 2.9% from 4,060 thousand as at March 31, 2014 to 4,177 thousand as at March 31, 2015. This increase was partially offset by lower voice usage, the mix impact of growing our lower ARPU wholesale base at a faster rate than our retail base and lower promotional investment.

Headline off-net revenue

Headline off-net revenue for the year ended March 31, 2016 was £55 million, compared with £87 million for the year ended March 31, 2015, a decrease of 36.8%. This decrease was principally due to the sale of our consumer off-net broadband subscriber base to Fleur on December 24, 2014.

Headline off-net revenue for the year ended March 31, 2015 was £87 million, compared with £128 million for the year ended March 31, 2014, a decrease of 32.0%. This decrease was mainly the result of the continued decline in our voice-only and off-net broadband customer bases, as we focus on growing our on-net customer base.

Headline corporate revenue

The following table presents our headline corporate revenue for the years ended March 31, 2014, 2015 and 2016:

	For the year ended March 31,			% change	
	2014	2015	2016	2014 v 2015	2015 v 2016
	(audited)	(audited) (£ millions)	(audited)	(unaudited)	(unaudited)
Headline corporate revenue					
Carrier	78	105	119	34.6%	13.3%
Data	70	97	120	38.6%	23.7%
Voice	192	173	145	(9.9)%	(16.2)%
Total headline corporate revenue	**340**	**375**	**384**	**10.3%**	**2.4%**

Headline corporate revenue for the year ended March 31, 2016 was £384 million, compared with £375 million for the year ended March 31, 2015, an increase of 2.4%. This increase was driven by strong growth of data revenues by 23.7%, to £120 million for the year ended March 31, 2016 from £97 million for the year ended March 31, 2015, mainly due to 8,900 net additions to our data (Ethernet and EFM) customer base in the year ended March 31, 2016. Carrier revenues grew by 13.3%, to £119 million for the year ended March 31, 2016 from £105 million for the year ended March 31, 2015. The growth in data and carrier revenues helped offset the ongoing decline in legacy voice revenues, which declined by 16.2%, to £145 million for the year ended March 31, 2016 from £173 million for the year ended March 31, 2015.

Headline corporate revenue for the year ended March 31, 2015 was £375 million, compared with £340 million for the year ended March 31, 2014, an increase of 10.3%. This increase was driven by strong growth of data revenues by 38.6%, to £97 million for the year ended March 31, 2015 from £70 million for the year ended March 31, 2014, mainly due to 8,800 net additions to our data (Ethernet and EFM) customer base in the year ended March 31, 2015. Carrier revenues also delivered a strong growth of 34.6%, to £105 million for the year ended March 31, 2015 from £78 million for the year ended March 31, 2014, primarily due to higher usage of 118 numbers. The growth in data and carrier revenues helped offset the decline in legacy voice revenues by 9.9%, to £173 million for the year ended March 31, 2015 from £192 million for the year ended March 31, 2014, driven by a move from premium rate numbers and the decrease in regulated call termination rates.

Headline cost of sales

Headline cost of sales for the year ended March 31, 2016 was £845 million, compared with £815 million for the year ended March 31, 2015, an increase of 3.7%. This increase was primarily due to the continued growth in fibre and mobile bases. In the first half of the year ended March 31, 2016, the impact of higher than expected mobile data usage drove higher cost of sales. In addition to this, there was an increase in low-margin Carrier trading, where the higher annual revenues come with higher associated cost of sales. This was offset by BT cost of sales savings as a result of a lower on-net customer base year on year and significantly lower legacy voice usage by our B2B customers.

Headline cost of sales for the year ended March 31, 2015 was £815 million, compared with £769 million for the year ended March 31, 2014, an increase of 6.0%. This increase was primarily due to an increase in low-margin Carrier trading, where the higher annual revenues come with higher associated cost of sales. In addition to this, a TV content deal drove higher TV cost of sales, whilst continued growth in the fibre and mobile bases saw a higher cost of sales charge year on year. Increased connections year on year also drove higher connection cost of sales. This was offset by lower boosts and usage by our Retail customers, along with lower legacy voice usage by our B2B customers.

Headline gross profit

Our headline gross profit for the year ended March 31, 2016 was £993 million, compared with a gross profit of £980 million for the year ended March 31, 2015, an increase of 1.3%. The movement in gross profit margin from 54.6% to 54.0% during the year reflects a number of effects: pricing activity and high margin data revenue growth, together with benefits of approximately £5 million from the disconnection of non-paying customers and benefits of approximately £2 million from MTTS, which were offset by the impact of higher than expected mobile data usage from our unlimited SIM promotion in the first half of the year ended March 31, 2016, continued reduction in voice revenues, and an adverse mix effect from the growth in TTB relative to that in the consumer business.

Our headline gross profit for the year ended March 31, 2015 was £980 million, compared with a gross profit of £958 million for the year ended March 31, 2014, an increase of 2.3%. This was mainly due to customer growth and the impact of price changes. This was partly offset by a change in the mix from the continued reduction in voice revenues, growth in fibre and TV content and increased scale of our B2B Wholesale business.

Headline operating expenses excluding amortisation and depreciation

Our headline operating expenses excluding amortisation and depreciation for the year ended March 31, 2016 were £733 million, compared with £735 million for the year ended March 31, 2015, a decrease of 0.3%, which in turn was a decrease of 1.3% from £745 million for the year ended March 31, 2014.

The following table shows the breakdown of our headline operating expenses excluding amortisation and depreciation for the years ended March 31, 2016, 2015 and 2014:

	For the year ended March 31,			% change	
	2014	2015	2016	2014 v 2015	2015 v 2016
	(audited)	(audited) (£ millions)	(audited)	(unaudited)	(unaudited)
Headline operating expenses excluding amortisation and depreciation					
Operating expenses	427	426	473	(0.2)%	11.0%
SAC and marketing	318	309	260	(2.8)%	(15.9)%
Total	**745**	**735**	**733**	**(1.3)%**	**(0.3)%**

Headline operating expenses

Headline operating expenses for the year ended March 31, 2016 were £473 million, compared with £426 million for the year ended March 31, 2015, an increase of 11.0%. The total increase in operating expenses of £47 million reflects our ongoing investments in innovation programmes, specifically in mobile innovation, FTTP and Blinkbox, for which we incurred operating expenses of £13 million, operating expenses incurred for infrastructure, network and IT of £15 million and transformation costs of £31 million, which include our MTTS programme, property related costs and management overhead costs, offset by £12 million of benefits from MTTS.

Headline operating expenses for the year ended March 31, 2015 were £426 million, compared with £427 million for the year ended March 31, 2014, a decrease of 0.2%. This slight decrease was driven by £17 million of benefits from MTTS in the year ended March 31, 2015, in the form of greater efficiency through our systems and supply chain, including procurement savings and supplier rebates. These benefits were partially offset by costs from scaling our business, including customer service, network capacity and resilience, as well as investments in innovation projects and incremental TV operating costs from the Blinkbox acquisition.

Headline SAC and marketing

Headline SAC and marketing for the year ended March 31, 2016 was £260 million, compared with £309 million for the year ended March 31, 2015, a decrease of 15.9%. The key drivers of the overall reduction in SAC were: reduced volumes in broadband and TV, lower costs per add in fibre from the significant step-up in self-installation, a less SAC intensive mix in mobile and a much improved distribution channel mix. Our focus on existing customers and the benefits of MTTS helped to reduce churn in the second half of the year ended March 31, 2016 and enabled us to maintain a stable broadband base with fewer gross additions. This, together with the impact of more efficient distribution channels on costs per add, delivered a £31 million reduction in SAC as compared to the previous year. In addition, we refocused marketing spend, which resulted in a £6 million reduction of marketing costs and saw a one-off reduction of £8 million as a result of the disruption caused by the 2015 Cyber Attack.

Headline SAC and marketing for the year ended March 31, 2015 was £309 million, compared with £318 million for the year ended March 31, 2014, a decrease of 2.8%. This reduction was mainly driven by reduced costs of acquiring broadband and TV customers due to an increased proportion of customers who self-install their broadband and fibre products, and improving the channel mix to lower cost online channels. Churn rate decreased from 1.6% for the year ended March 31, 2014 to 1.4% for the year ended March 31, 2015, supported by improved customer service and the increased penetration of TV, mobile and fibre products in our customer base. These efficiency savings were partly reinvested in driving higher mobile and fibre growth as part of our broader trading strategy.

Headline EBITDA

For the reasons set forth above, our headline EBITDA for the year ended March 31, 2016 was £260 million, compared with of £245 million for the year ended March 31, 2015, an increase of 6.1%, which in turn was an increase of 15.0% from £213 million for the year ended March 31, 2014.

Headline depreciation and amortisation

Our headline depreciation and amortisation charges for the year ended March 31, 2016 were £121 million, compared with £120 million for the year ended March 31, 2015, an increase of 0.8%, which in turn was an increase of 7.1% from £112 million for the year ended March 31, 2014.

The following table shows the breakdown of our headline depreciation and amortisation charges for the years ended March 31, 2016, 2015 and 2014:

	For the year ended March 31,			% change	
	2014	2015	2016	2014 v 2015	2015 v 2016
	(audited)	(audited) (£ millions)	(audited)	(unaudited)	(unaudited)
Headline depreciation and amortisation charges					
Depreciation	77	78	72	1.3%	(7.7)%
Amortisation	35	42	49	20.0%	16.7%
Total	**112**	**120**	**121**	**7.1%**	**0.8%**

Headline depreciation

Headline depreciation for the year ended March 31, 2016 was £72 million, compared with £78 million for the year ended March 31, 2015, a decrease of 7.7%.

Headline depreciation for the year ended March 31, 2015 was £78 million, compared with £77 million for the year ended March 31, 2014, an increase of 1.3%.

Headline amortisation

Headline amortisation for the year ended March 31, 2016 was £49 million, compared with £42 million for the year ended March 31, 2015, an increase of 16.7%.

Headline amortisation for the year ended March 31, 2015 was £42 million, compared with £35 million for the year ended March 31, 2014, an increase of 20.0%.

Headline share of results of joint ventures

Headline share of results of joint ventures for the year ended March 31, 2016 remained flat at a loss of £8 million, compared with the year ended March 31, 2015.

Headline share of results of joint ventures for the year ended March 31, 2015 amounted to a loss of £8 million, compared with a loss of £7 million for the year ended March 31, 2014, an increase of 14.3%. This increase was primarily due to a higher share of losses allocated to us from the YouView TV Limited joint venture.

Headline operating profit

For the reasons set forth above, our headline operating profit for the year ended March 31, 2016 was £131 million, compared with £117 million for the year ended March 31, 2015, an increase of 12.0%, which in turn was an increase of 24.4% from £94 million for the year ended March 31, 2014.

Headline net finance costs

Headline net finance costs for the year ended March 31, 2016 were £24 million, compared with £22 million for the year ended March 31, 2015, an increase of 9.1%. This increase was primarily due to a slightly higher blended interest rate of 3.07%, compared with a blended interest rate of 3.00% for the year ended March 31, 2015, on higher levels of average net debt.

Headline net finance costs for the year ended March 31, 2015 were £22 million, compared with £20 million for the year ended March 31, 2014, an increase of 10.0%. This increase was primarily due to higher interest payments as a result of higher net debt, partially offset by a lower blended interest rate of 3.00%, compared with 3.39% for the year ended March 31, 2014, due to better refinancing terms.

Headline profit before taxation

For the reasons set forth above, our headline profit before taxation for the year ended March 31, 2016 was £107 million, compared with £95 million for the year ended March 31, 2015, an increase of 12.6%, which in turn was an increase of 28.4% from £74 million for the year ended March 31, 2014.

Headline taxation

For the year ended March 31, 2016 we recognised a headline tax charge of £28 million, compared with £19 million for the year ended March 31, 2015, an increase of 47.3%. For the year ended March 31, 2015 we recognised a headline tax charge of £19 million, compared with £13 million for the year ended March 31, 2014, an increase of 46.2%.

The effective headline tax rate for the year ended March 31, 2016 was 26.0%, representing a tax charge of £28 million, compared with an effective headline tax rate of 20.0%, representing a tax charge of £19 million, for the year ended March 31, 2015. The increased tax rate was due to the impact on the deferred tax asset of a reduction in the UK statutory corporation tax rate from 20.0% to 17.0% over the period from April 1, 2017 to April 1, 2020. In addition, a £2 million tax charge has been recognised in exceptional items, reflecting the impact of the same rate change on the deferred tax asset recognised through exceptional items in the year ended March 31, 2015.

The effective headline tax rate for the year ended March 31, 2015 was 20.0%, representing a tax charge of £19 million, compared with an effective headline tax rate of 18.0%, representing a tax charge of £13 million, for the year ended March 31, 2014. This was broadly in line with the statutory tax rate of 21.0%. We recognised tax credits of £40 million in the year ended March 31, 2015, including two exceptional tax credits comprising (i) £29 million in respect of losses acquired in the acquisition of VNL, as the now well established TV business enabled us to recognise losses over a longer time period and (ii) £16 million for the resolution of legacy items.

In the year ended March 31, 2014, we recognised tax credits of £nil.

Headline profit for the period attributable to the owners of the Company

For the reasons set forth above, our headline profit attributable to the owners of the Company for the year ended March 31, 2016 was £79 million, compared with £76 million for the year ended March 31, 2015, an increase of 3.9%, which in turn was an increase of 24.6% from £61 million for the year ended March 31, 2014.

LIQUIDITY AND CAPITAL RESOURCES

Historically, our principal sources of liquidity have been our operating cash flows as well as a combination of bank facilities, the USPP Notes, retained profits and equity. Our liquidity needs consist of funding operating expenses, changes in working capital, capital expenditures, debt service requirements and other liquidity requirements that may arise from time to time, including, without limitation: (i) refinancing of outstanding debt, (ii) acquisitions and other investment opportunities, and (iii) payments in the ordinary course of business.

As at September 30, 2016, we had £162 million and £96 million of undrawn committed and uncommitted borrowing facilities, respectively. We believe that, following the issuance of the Notes, our operating cash flows, borrowing capacity under existing credit facilities and the proceeds of the Notes offered hereby will be sufficient to meet our reasonably foreseeable liquidity requirements and commitments. Our actual financing requirements will depend on a number of factors, many of which are beyond our control. See *"Risk Factors—Risks Relating To Our Financial Position—We require a significant amount of cash to service our debt and sustain our operations. Our ability to generate cash depends on many factors beyond our control, and we may not be able to generate sufficient cash to service our debt*" and "*Description of Other Indebtedness*."

Historical cash flows

The following table sets forth, for the years ended March 31, 2014, 2015 and 2016 and six months ended September 30, 2015 and 2016 our consolidated cash flows generated from operating activities, cash flows used in investing activities and cash flows used in financing activities.

	For the year ended March 31,			For the six months ended September 30,	
	2014	2015	2016	2015	2016
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
			(£ millions)		
Operating cash flows before movements in working capital	**195**	**195**	**182**	**76**	**123**
Movements in working capital	(35)	1	—	11	(69)
Cash generated from operations	**160**	**196**	**182**	**87**	**54**
Income taxes paid	—	(2)	—	—	3
Net cash flows generated from operating activities	**160**	**194**	**182**	**87**	**57**
Cash flows used in investing activities	**(115)**	**(150)**	**(178)**	**(96)**	**(105)**
Cash flows generated from/(used in) financing activities	**(59)**	**(27)**	**(4)**	**22**	**23**
Net (decrease)/increase in cash and cash equivalents	**(14)**	**17**	**—**	**13**	**(25)**
Cash and cash equivalents at the start of the year	7	(7)	10	10	10
Cash and cash equivalents at the end of the period	**(7)**	**10**	**10**	**23**	**(15)**

Operating cash flows before movements in working capital

Our operating cash flows before movements in working capital were £123 million in the six months ended September 30, 2016 and £76 million in the six months ended September 30, 2015 for the reasons discussed in the section entitled "*—Historical Headline Results of Operations—Headline Results of Operations for the six months ended September 30, 2015 and 2016*."

Our operating cash flows before movements in working capital were £182 million in the year ended March 31, 2016, £195 million in the year ended March 31, 2015 and £195 million in the year ended March 31, 2014 for the reasons discussed in "*—Historical Headline Results of Operations—Headline Results of Operations for the years ended March 31, 2014, 2015 and 2016*."

Movements in working capital

The following table shows the movements in our working capital in the years ended March 31, 2014, 2015 and 2016 and six months ended September 30, 2015 and 2016:

	For the year ended March 31,			For the six months ended September 30,	
	2014	**2015**	**2016**	**2015**	**2016**
	(audited)	**(audited)**	**(audited)**	**(unaudited)**	**(unaudited)**
			(£ millions)		
Decrease/(increase) in trade and other receivables	(36)	(44)	15	18	(40)
Decrease/(increase) in inventory	(1)	(7)	(26)	(6)	25
Increase/(decrease) in trade and other payables	7	26	17	15	(46)
Increase/(decrease) in provisions	(5)	26	(6)	(16)	(8)
Total	**(35)**	**1**	**—**	**11**	**(69)**

We had a working capital requirement of £69 million in the six months ended September 30, 2016. This was due to an increase in trade and other receivables of £40 million, a decrease in trade and other payables of £46 million and a decrease in provisions of £8 million. The increase in trade and other receivables was mainly due to the timing of payments in relation to the extended distribution agreement with Dixons Carphone plc and increased prepayments including for marketing spend ahead of the launch of fixed low price plans. The decrease in trade and other payables was mainly due to the phasing of stock payments.

The decrease in provisions was mainly due to the partial unwinding of prior year provisions related to the 2015 Cyber Attack. These effects were partially offset by a decrease in inventory of £25 million. We expect to see an improvement in working capital in the second half of the year ending March 31, 2017, as most of the first half outflows reverse.

We had a working capital surplus of £11 million in the six months ended September 30, 2015. This was due to a decrease in trade and other receivables of £18 million and an increase in trade and other payables of £15 million. This was partially offset by an increase in inventory of £6 million and an increase in provisions of £16 million.

We had a working capital surplus of £nil in the year ended March 31, 2016. This was due to a decrease in trade and other receivables of £15 million and an increase in trade and other payables of £17 million. These effects were fully offset by an increase in inventory of £26 million and a decrease in provisions of £6 million.

We had a working capital surplus of £1 million in the year ended March 31, 2015. This was due to an increase in trade and other payables of £26 million and an increase of provisions of £26 million. This was largely offset by an increase in trade and other receivables of £44 million and an increase in inventory of £7 million.

We had a working capital requirement of £35 million in the year ended March 31, 2014. This was due to an increase in trade and other receivables, inventory and provisions of £36 million, £1 million and £5 million, respectively.

Net cash flows generated from operating activities

Net cash flows generated from operating activities were £57 million in the six months ended September 30, 2016 and £87 million in the six months ended September 30, 2015. The amount for the six months ended September 30, 2016 includes a tax refund of £3 million in respect of income tax paid in the year ended March 31, 2015. The decrease in net cash flows generated from operating activities in the six months ended September 30, 2015 was primarily due to changes in working capital discussed above.

Net cash flows generated from operating activities were £182 million in the year ended March 31, 2016 and £194 million in the year ended March 31, 2015. The amount for the year ended March 31, 2015 includes a deduction for income taxes paid of £2 million, while there was no deduction for income taxes paid in the year ended March 31, 2016. The decrease in net cash flows generated from operating activities in the year ended March 31, 2016, as compared with the year ended March 31, 2015 was primarily due to movements in working capital discussed above.

Net cash flows generated from operating activities were £194 million in the year ended March 31, 2015 and £160 million in the year ended March 31, 2014. The amount for the year ended March 31, 2015 includes a deduction for income taxes paid of £2 million, while there was no deduction for income taxes paid in the year ended March 31, 2014. The increase in net cash flows generated from operating activities in the year ended March 31, 2015, as compared with the year ended March 31, 2014 was primarily due to movements in working capital discussed above.

Cash flows used in investing activities

Cash flows used in investing activities were £105 million in the six months ended September 30, 2016, £96 million in the six months ended September 30, 2015, £178 million in the year ended March 31, 2016, £150 million in the year ended March 31, 2015 and £115 million in the year ended March 31, 2014.

The following table shows our cash flows used in investing activities for the six months ended September 30, 2015 and 2016 and the years ended March 31, 2014, 2015 and 2016:

	For the year ended March 31,			For the six months ended September 30,	
	2014	2015	2016	2015	2016
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
			(£ millions)		
Acquisition of subsidiaries and joint ventures, net of cash acquired	(8)	(38)	(14)	(5)	(6)
Disposal of subsidiaries and customer bases	—	—	2	—	—
Investment in intangible assets	(42)	(49)	(106)	(49)	(48)
Investment in property, plant and equipment	(65)	(67)	(72)	(42)	(51)
Disposal of property, plant and equipment	—	4	12	—	—
Cash flows used in investing activities	**(115)**	**(150)**	**(178)**	**(96)**	**(105)**

During the six months ended September 30, 2016, we invested £6 million in subsidiaries and joint ventures, which represents investments mainly relating to the YouView joint venture. Investments in intangible assets and property, plant and equipment were £99 million, which included the impact of a delay in delivering certain elements of quarter four 2016 expenditure into the first half of 2017, which has driven a first half weighting to capital expenditure. Other capital expenditure during the period related to our ongoing investment in MTTS, the development of our new mobile CRM and billing platform, together with core systems and network investment.

During the six months ended September 30, 2015, we invested £5 million in subsidiaries and joint ventures, which represents the initial consideration for tIPicall Limited, a company providing VoIP services. Investments in intangible assets and property, plant and equipment were £91 million, of which £18 million relates to MTTS, £15 million to the development of our new mobile billing platform and the balance to the development of our core systems and network.

During the year ended March 31, 2016, we invested £14 million in subsidiaries and joint ventures, mainly representing £8 million of expenditure in respect of the YouView joint venture, £1 million in respect of the York FTTP joint venture and £5 million in respect of the initial consideration for tIPicall Limited. We received £2 million in relation to the disposal of our off-net broadband customer base. Investments in intangible assets and property, plant and equipment were £166 million, and was higher than our long run average of 6%-7% of revenues as a result of the phasing of our investment in innovation projects and some pulling forward of MTTS investment as a result of the 2015 Cyber Attack. This expenditure was focused on meeting the forecast demands for our network (*e.g.,* higher capacity backhaul circuits), MTTS programmes and innovation (*e.g.,* hardware equipment for the Ultra Fibre Optic trial in York and the build of our new mobile billing system and associated functionalities). Disposal of property, plant and equipment was £12 million, which related to the disposal of network equipment and computer hardware.

During the year ended March 31, 2015, we acquired subsidiaries and joint ventures for £38 million, which included £8 million of expenditure in respect of the YouView joint venture, £3 million in respect of the York FTTP joint venture and £27 million in respect of the initial consideration for the acquisition of broadband and voice customers from both Virgin Media Limited and Tesco Stores Limited and the acquisition of Blinkbox Entertainment Limited ("**Blinkbox**"). Blinkbox was one of the leading on-demand providers of pay content in the

UK and worked across multiple platforms and devices, both inside and outside the home. Blinkbox's established technical expertise in multi-platform, multi-device content delivery and incremental content relationships were highly complementary to our strategy of being the best value-for-money TV provider in the UK.

Investments in intangible assets and property, plant and equipment was £112 million and was once again focused on meeting the forecast demands for our network and on driving efficiency through MTTS. Disposal of property, plant and equipment was £4 million, which related to the disposal of a data centre.

During the year ended March 31, 2014, we acquired subsidiaries and joint ventures for £8 million, which included £5 million of expenditure in respect of the YouView joint venture and £3 million to complete the acquisition of Future Office Communications Limited. Investments in intangible assets and property, plant and equipment were £107 million, where we continued to invest in the network, rolling out to a further 303 exchanges, and increased network capacity to 1.2tb, alongside investing in IT systems to support continued growth.

Cash flows used in financing activities

Cash flows used in financing activities were £23 million inflow for the six months ended September 30, 2016, £22 million inflow for the six months ended September 30, 2015, £4 million outflow in the year ended March 31, 2016, £27 million outflow in the year ended March 31, 2015 and £59 million outflow in the year ended March 31, 2014.

The following table shows our cash flows used in financing activities for the six months ended September 30, 2015 and 2016 and the years ended March 31, 2014, 2015 and 2016:

	For the year ended March 31,			For the six months ended September 30,	
	2014	**2015**	**2016**	**2015**	**2016**
	(audited)	**(audited)**	**(audited)**	**(unaudited)**	**(unaudited)**
			(£ millions)		
Financing activities					
Settlement of Group ESOT shares	6	2	2	2	2
Net (purchase)/sale of own shares	(39)	—	61	61	—
Contingent consideration	—	—	—	—	(8)
Drawdown of borrowings	90	109	90	55	143
Interest paid	(17)	(22)	(22)	(11)	(14)
Dividend paid	(99)	(116)	(135)	(85)	(100)
Cash flows (used in)/generated from financing activities	**(59)**	**(27)**	**(4)**	**22**	**23**

In the six months ended September 30, 2016 we had an inflow of £2 million relating to the in-year settlement of Group share schemes. We drew down £143 million under various facilities, incurred interest payments of £14 million and paid £100 million in dividends to our shareholders. In addition, we paid £8 million in respect of contingent consideration for prior period acquisitions of the Virgin Media off-net broadband base and the Tesco broadband base.

In the six months ended September 30, 2015 we had an inflow of £61 million from our Employee Share Ownership Trust ("**ESOT**"), resulting from the decision by the trustees of the ESOT to reassess the number of shares required to satisfy the ESOT's obligations under our share award plans. A further inflow of £2 million relates to the in-year settlement of Group share schemes. We drew down £55 million under various facilities, incurred interest payments of £11 million and paid £85 million in dividends to our shareholders.

In the year ended March 31, 2016 we had an inflow of £61 million from ESOT, resulting from the decision by the trustees of the ESOT to reassess the number of shares required to satisfy the ESOT's obligations under our share award plans. A further inflow of £2 million relates to the in-year settlement of Group share schemes. We drew down £90 million under various facilities and incurred interest payments of £22 million. The remaining outflow of £135 million comprised the payment of dividends to our shareholders.

In the year ended March 31, 2015 we had an outflow of £27 million, which includes outflows of £116 million for the payment of dividends and £22 million for interest payments, partially offset by inflows of £109 million from drawings under various facilities and of £2 million relating to the in-year settlement of Group share schemes.

In the year ended March 31, 2014 we had an outflow of £59 million, which includes outflows of £99 million for the payment of dividends and £17 million for interest payments. The outflow also includes £39 million resulting from the vesting of the second tranche of our share scheme, which required us to purchase the participants' shares, and share repurchases by the Employee Benefit Trust in anticipation of future exercise of share options. These outflows were partially offset by inflows from the in-year settlement of Group share schemes in an amount of £6 million and drawdowns under various facilities of £90 million.

Planned Cash Requirements and Capital Expenditure Plan

We anticipate that our cash requirements in the near to medium term will consist principally of expenditures to upgrade and expand our network, to fund our MTTS programme, to complete the build of mobile billing systems and to service our debt. The following discussion sets out our principal cash needs based, among other things, on our existing capital expenditure plan, our outstanding bonds, bank loans and other contractual commitments.

Beyond our contractually committed capital expenditures, our investment plan for the near to medium term is largely discretionary. These expenditures could include:

- continued system development to improve customer experience across retail and wholesale network expansion to meet customer demand and to drive structural cost savings by deploying next generation switches and dark fibre;
- complete build of FTTP across York which involves 40 thousand more homes at a £20 million cost over 18 months from Spring 2017; and
- building an inside out mobile network, including investments in a thick network and Femto technology roll-out.

Contractual obligations

Our principal contractual obligations consist of obligations in respect of financial indebtedness that is owed under our outstanding bonds and credit facilities.

The table below sets out the maturities of our financial liabilities, as at September 30, 2016, based on the agreements in place as at that date. The amounts disclosed in the table below 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. We expect that our contractual commitments may evolve over time in response to current business and market conditions, with the result that future amounts due may differ considerably from the expected amounts payable set out in the table below.

	Carrying amount as at September 30, 2016	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
			(unaudited) (£ millions)				
Borrowings	(973)	(135)	(106)	(575)	(6)	(111)	(40)
Derivative financial instruments—receivable	33	—	—	—	—	25	8
Trade and other payables	(415)	(415)	—	—	—	—	—
Total	**(1,355)**	**(550)**	**(106)**	**(575)**	**(6)**	**(86)**	**(32)**

Financial obligations

As at September 30, 2016, we had total committed facilities of £994 million and uncommitted facilities of £111 million, with headroom of £162 million and £96 million of committed and uncommitted facilities, respectively.

2014 Revolving Credit Facility

On July 14, 2014, the Issuer, as borrower, the Guarantors, as guarantors, and the lenders as described therein entered into the 2014 Revolving Credit Facility. The 2014 Revolving Credit Facility has a total capacity of £560 million. The final maturity date of the drawings under the 2014 Revolving Credit Facility is July 14, 2019.

As at September 30, 2016, we had £460 million outstanding under the 2014 Revolving Credit Facility. We expect to repay £200 million of drawings under the 2014 Revolving Credit Facility using the proceeds of the Offering. Following the completion of the Refinancing, the amount outstanding under the 2014 Revolving Credit Facility is expected to be £260 million. See "*Use of Proceeds*."

2016 Revolving Credit Facility

On January 6, 2016, the Issuer, as borrower, the Guarantors, as guarantors, and the lenders as described therein entered into the 2016 Revolving Credit Facility. The 2016 Revolving Credit Facility has a total capacity of £100 million. The final maturity date of the 2016 Revolving Credit Facility is May 31, 2018.

As at September 30, 2016, we had £50 million outstanding under the 2016 Revolving Credit Facility. We expect to repay all of the drawings under the 2016 Revolving Credit Facility in full using the proceeds of the Offering. See "*Use of Proceeds*."

2014 Bilateral Agreement

On July 14, 2014, the Issuer, as borrower, and a lender as described therein entered into the 2014 Bilateral Agreement. The final maturity date of the drawings under the 2014 Bilateral Agreement is July 14, 2019. As at September 30, 2016, we had £50 million outstanding under the 2014 Bilateral Agreement.

Term Loan Facility

On July 14, 2014, the Issuer, as borrower, the Guarantors, as guarantors, and a lender as described therein entered into the £100 million Term Loan Facility. Out of £100 million, £50 million mature on May 31, 2018 and £50 million mature on July 14, 2019.

As at September 30, 2016, we had £100 million outstanding under the Term Loan Facility. We expect to repay £50 million of drawings under the Term Loan Facility using the proceeds of the Offering. Following the completion of the Refinancing, the amount outstanding under the Term Loan Facility is expected to be £50 million. See "*Use of Proceeds*."

USPP Notes

On July 17, 2014, the Issuer issued $185 million aggregate principal amount senior notes, consisting of (i) $139 million aggregate principal amount of 4.29% senior notes due July 17, 2021 (ii) $25 million aggregate principal amount of 4.70% senior notes due July 17, 2024 and (iii) $21 million aggregate principal amount of 4.85% senior notes due July 17, 2026. The USPP Notes are guaranteed by the Guarantors on an unsecured basis.

As at September 30, 2016, we had £142 million outstanding under the USPP Notes, net of derivatives (cash flow hedges) of £33 million.

Receivables Purchase Agreement Facility

On September 16, 2016, the Issuer entered into the Receivables Purchase Agreement Facility which contains a £75 million loan facility, expiring in September 2018. Under this agreement, we have the ability on a rolling basis to sell our receivables in exchange for a discounted consideration. We continue to consolidate the relevant receivables on the grounds that not substantially all the risks and rewards of ownership of such receivables have been transferred under the programme.

As at September 30, 2016, we had £63 million outstanding under the Receivables Purchase Agreement Facility.

Bank overdrafts

We use bank overdraft facilities to assist in short term cash management; these uncommitted facilities bear interest at a margin over the Bank of England base rate. As at September 30, 2016, we had £15 million in bank overdrafts outstanding.

Financial leasing agreements

As at September 30, 2016, we had no material financial leasing agreements in place.

Pension obligations

We provide various defined contribution pension schemes for the benefit of a significant number of its employees. For the year ended March 31, 2016, we incurred pension costs of £4 million for our employees (including our Board of Directors and Executive Committee). We do not operate a defined benefit pension scheme.

Commitments

We have in the normal course of business entered into various multi-year supply and working capital agreements for core network, IT and customer equipment. Expenditure contracted, but not provided for in the Financial Statements amounted to £264 million, £318 million, £450 million and £32 million for the six months ended September 30, 2016 and the year ended March 31, 2016, 2015 and 2014, respectively. Of this amount, £52 million, £55 million, £85 million and £23 million, for the six months ended September 30, 2016 and the year ended March 31, 2016, 2015 and 2014, respectively, related to capital commitments and £39 million, £25 million, £nil million and £nil million, for the six months ended September 30, 2016 and the year ended March 31, 2016, 2015 and 2014, respectively, related to the supply of customer equipment.

Contingent obligations

Apart from the commitments described above and in the section entitled "*Risk Factors*", we have no material contingent obligations.

As at March 31, 2014, we had received £33 million in total in relation to an Ofcom determination that BT had overcharged us for certain wholesale Ethernet services. During the year ended March 31, 2015, BT lost its appeal against Ofcom's determination in the Competition Appeal Tribunal and appealed to the Court of Appeal. This appeal is due to be heard in the Court of Appeal in March 2017. We consider the appeal unlikely to succeed based on the advice received and so have not recorded any liability for repayment as at September 30, 2016, although the outcome of the appeal is not yet certain.

OFF-BALANCE SHEET ARRANGEMENTS

We lease network infrastructure and offices under non-cancellable operating leases.

The table below presents our outstanding commitments for future minimum payments under our operating leases as at March 31, 2014, 2015 and 2016 and September 30, 2015 and 2016:

	As at March 31,			As at September 30,	
	2014	**2015**	**2016**	**2015**	**2016**
	(audited)	**(audited)**	**(audited)**	**(unaudited)**	**(unaudited)**
			(£ millions)		
Operating leases					
Less than 1 year	39	37	44	41	37
2 to 5 years	61	65	64	58	55
Greater than 5 years	55	58	67	55	62
Total	**155**	**160**	**175**	**154**	**154**

Other than the operating leases discussed above and the commitments described under the caption "*—Liquidity and Capital Resources—Financial Obligations*," we do not have any material off-balance sheet arrangements.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to the following risks from the use of financial instruments: credit risk, liquidity risk and market risk (including currency risk and interest rate risk).

Credit risk

Financial assets, which potentially subject us to credit risk, consist principally of trade and other receivables, non-current investments and investments in joint ventures, derivative financial instruments and cash and cash equivalents. We regularly monitor our exposure to credit risk. 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 our exposures. Trade receivables primarily comprise balances due from fixed-line customers, and provision is made for any receivables that are considered to be irrecoverable.

Our exposure to credit risk as at March 31, 2014, 2015 and 2016 as well as September 30, 2016 was concentrated as follows:

	As at March 31,			As at September 30,
	2014	2015	2016	2016
	(audited)	(audited)	(audited) (£ millions)	(unaudited)
Cash and cash equivalents	—	10	10	—
Trade and other receivables[(1)]	260	313	294	333
Non-current investments and investments in joint ventures	7	10	9	9
Non-current trade and other receivables	—	—	3	4
Derivative financial instruments	—	11	18	28
Total	**267**	**344**	**334**	**374**

(1) Net of impairment losses.

Impairment losses

The aging of trade receivables and other receivables as at March 31, 2014, 2015 and 2016 as well as September 30, 2016 was:

	Gross	Impairment	Gross	Impairment	Gross	Impairment	Gross	Impairment
	As at Mar 31, 2014	As at Mar 31, 2014	As at Mar 31, 2015	As at Mar 31, 2015	As at Mar 31, 2016	As at Mar 31, 2016	As at Sept 30, 2016	As at Sept 30, 2016
	(audited) (£ millions)						(unaudited)	
Not Past Due	74	(2)	95	(1)	65	(1)	79	(2)
Past Due 0 to 2 months	14	(2)	20	(1)	28	(1)	43	(2)
Past Due 2 to 4 months	17	(4)	19	—	21	—	20	(1)
Past Due over 4 months	64	(26)	44	(23)	60	(28)	67	(36)
Total	**169**	**(34)**	**178**	**(25)**	**174**	**(30)**	**209**	**(41)**

Impairment allowances are cumulative, including all prior years. The movements in the provisions for impairment in respect of trade receivables during the years ended March 31, 2014, 2015 and 2016, as well as the six months ended September 30, 2016 were as follows:

	For the year ended March 31			For the six months ended September 30
	2014	2015	2016	2016
	(audited)	(audited)	(audited) (£ millions)	(unaudited)
Opening balance	(33)	(34)	(25)	(30)
Charged to the income statement	(52)	(62)	(71)	(36)
Receivables written off as irrecoverable	51	71	66	25
Balance at period end	**(34)**	**(25)**	**(30)**	**(41)**

Liquidity risk

We manage our 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 us. Headroom is assessed based on historical experience as well as by assessing current business risks, including foreign exchange movements. Our existing bank debt facilities do not expire until May 2018 and July 2019, the USPP Notes mature in three tranches in July 2021, 2024 and 2026.

It is our policy to refinance debt maturities significantly ahead of maturity dates.

Currency risk

We utilise 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 U.S. dollar. We also use cross-currency swaps to hedge our U.S. dollar denominated borrowings (USPP Notes). As at September 30, 2016, the adjustment to translate our net debt to sterling at swap rates to reflect the impact of hedging was £33 million, compared with £20 million, £16 million and £nil as at March 31, 2016, 2015 and 2014, respectively.

Our exposure to foreign currency risk as at March 31, 2014, 2015 and 2016, as well as at September 30, 2016 was as follows:

	As at March 31,						As at September 30,	
	2014		2015		2016		2016	
	GBP	Other	GBP	USD	GBP	USD	GBP	USD
	(audited)	(audited)	(audited)	(audited)	(audited)	(audited)	(unaudited)	
	(£ millions)							
Borrowings before derivatives	**497**	**—**	**490**	**125**	**580**	**129**	**738**	**142**
Derivatives	(7)	7[1]	—	(16)[2]	—	(20)[2]	—	(33)[2]
Borrowings after derivatives	**490**	**7**	**490**	**109**	**580**	**109**	**738**	**109**

(1) Represents £10 million of euro derivatives and £(3) million of derivatives in U.S. dollar.

(2) Represents amounts to be received as part of the cross currency interest swaps in place at the end of each period. See "*—Derivative Financial Instruments*."

Interest rate risk

Our interest rates risks arise primarily from cash, cash equivalents and borrowings, all of which are at floating rates of interest and thus expose us 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 under "*—Derivative Financial Instruments*", we have cash flow hedges in place to mitigate our interest rate risk on our borrowings.

As at March 31, 2014, 2015 and 2016 and September 30, 2016, the interest rate profile of our interest-bearing financial instruments was:

Variable rate instruments	Carrying amounts			
	March 31,			September 30,
	2014	2015	2016	2016
	(audited)	(audited)	(audited)	(unaudited)
	(£ millions)			
Borrowings	497	615	709	880
Trade and other payables	456	516	563	475
Total	**953**	**1,131**	**1,272**	**1,355**

Sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date, without giving effect to interest rate swaps, would have increased (decreased) profit or loss by:

	Profit or loss (£ millions)	
	100 basis points increase	100 basis points decrease
March 31, 2014 (audited)		
Variable rate instruments	(3)	3

	Profit or loss (£ millions)	
	100 basis points increase	100 basis points decrease
March 31, 2015 (audited)		
Variable rate instruments	(3)	3

	Profit or loss (£ millions)	
	100 basis points increase	100 basis points decrease
March 31, 2016 (audited)		
Variable rate instruments	(4)	4

	Profit or loss (£ millions)	
	100 basis points increase	100 basis points decrease
September 30, 2016 (unaudited)		
Variable rate instruments	(6)	6

Capital risk management

We manage our capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders.

Our capital structure of consists of debt, which includes the borrowings, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings. We review the capital structure on an annual basis including reviewing opportunities to access other sources of finance including the public debt markets.

We use the external ratio of net debt to headline EBITDA to monitor our capital structure and has a medium-term ratio target of 2.0x. In the short term, this ratio will be temporarily exceeded as we execute our business strategy.

DERIVATIVE FINANCIAL INSTRUMENTS

As at September 30, 2016 we had both derivative financial liabilities and derivative financial assets. As at September 30, 2016 we had no embedded derivatives.

As at September 30, 2016 we had cash flow hedges in place to (i) swap the interest rate risk on the 2014 Revolving Credit Facility from floating to fixed and (ii) swap the currency and interest rate risk on the USPP Notes from USD to GBP and from fixed US Treasury interest rates to fixed GBP interest rates. The fair value of these instruments as at September 30, 2016 was £33 million. As the hedges were fully effective there has been no income statement impact.

ACCOUNTING POLICIES REQUIRING MANAGEMENT JUDGMENT AND DISCRETION

We prepare our financial statements in accordance with IFRS as adopted by the EU. Certain financial reporting standards under IFRS require us to make judgments or to use our discretion in determining the values to be recorded, as described in the notes to our Annual Financial Statements included elsewhere in this offering memorandum. The most material of these include the following:

Rebates receivable from suppliers

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

Revenue recognition for bundled transactions

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 telecommunication 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 subject to an adjustment for in-contract churn; and
- data service solutions and other service contracts are recognised as we fulfil our performance obligations.

Revenue is measured at fair value of the consideration received or receivable. When we sell 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. We apply judgement in determining the amount of revenue we recognise for delivered elements. This is limited to the amounts billed for that element.

Taxation

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.

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.

Exceptional items

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 we 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.

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 our other critical accounting judgements where the basis for judgement is estimation.

Impairment of goodwill

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.

We have two cash generating units ("**CGU**")—TalkTalk Consumer and TTB. 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. Our 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. 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.

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. Our future cash flows are taken from the five year plan approved by our management 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.

Valuation of intangibles

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 capitalized 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. Our 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.

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 we will benefit from the assets.

Impairment of assets

We review 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, we make 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.

Property, plant and equipment

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:

Property, plant and equipment	Depreciation
Short leasehold improvements	10% or the lease term if less than ten years
Land and buildings	3.33% per year
Network equipment and computer hardware	12-50% per year
Furniture and fittings	20-25% per year

INDUSTRY OVERVIEW

The UK telecommunication market comprises fixed-line, mobile and pay TV services. This is Europe's largest (and the world's fifth largest) telecommunication services market, in terms of annual revenue (Source: Ofcom; International Communications Market Report 2015). It generated £37.5 billion in revenues in 2015, which represented a 0.5% increase compared with 2014, mainly due to an increase in retail fixed revenues (driven by increased take-up of superfast broadband), which was partially offset by a fall in wholesale service revenue (driven by falling mobile call termination rates). Over the last five years UK telecommunication services retail revenues as reported by Ofcom have increased, and 2015 revenues were £1.2 billion, or 3.2%, higher than in 2010, primarily resulting from growth in fixed-line revenues (Source: Ofcom; The Communications Market Report (August 2016)).

UK FIXED-LINE TELECOMMUNICATIONS: A STRUCTURALLY ATTRACTIVE MARKET

Fixed-line telecommunication services consist of fixed data (mainly broadband internet) and voice services offered over copper and cable networks. Fibre services for domestic premises (superfast broadband) are offered predominantly through FTTC which relies upon copper for the last mile of delivery. Fibre services for business applications are offered via Ethernet connectivity. Cable is available across approximately 55% of the UK, although not in uniformly contiguous geographies, reflecting historically diverse build patterns.

The UK fixed-line market is a competitive, but structurally attractive market with a number of distinguishing features.

Significant investment required to develop a scale network

Building a new national fixed-line network would require a sizeable investment, in terms of time and money. Significant capital expenditure would be needed due to the large physical build requirements. In addition, any such development today would be extremely technologically challenging given, among other things, physical constraints in BTOR's exchanges where unbundling network equipment is housed and BTOR's capacity to deliver connections in those exchanges. Of the four fixed-line operators in the UK, Sky and the Group have built their networks over the last decade, through unbundled architecture deployed across BT's national exchange footprint. However, when the Group and Sky entered the market, broadband was a far less established product.

Growing demand for bandwidth

The industry has been experiencing strong and sustained demand for better fixed-line connectivity from households and businesses, which is expected to continue. In particular, while the total number of households in the UK is expected to remain flat at approximately 27 million through 2021, the number of households subscribed to fixed-line telephony, broadband internet and pay TV services is expected to increase at a CAGR of 1.0%, 1.3% and 2.4%, respectively, from 2016 to 2021 (Source: Ofcom; The Communications Market 2012-2016; ONS). At the same time, data usage in the UK is growing exponentially, driven by device proliferation and video so that mobile users are expected to increase their data traffic from 0.96GB/month in 2015 to 5.6GB/month in 2020, while households are expected to increase their fixed-line traffic from 84.5GB/month in 2015 to 202.1GB/month in 2020 (Source: Cisco). As a result, demand for telecommunication services is set to remain high and continue to grow.

Poor substitutes

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 differential in economics, coupled with providers increasingly offering bundled triple and quad play products to increase wallet share and loyalty, is driving convergence between fixed and mobile providers (such as the recent acquisition by BT of EE).

Supplier power constrained by strong regulation

There is a clear history of pro-competition regulation in the UK telecommunication industry over 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. Ofcom will continue to regulate strongly BT's dominant market position to ensure access to BTOR's core infrastructure on fair terms. In keeping with this remit, Ofcom has recently confirmed its intention to seek a legal separation of BTOR from BT Group, which will underpin another boost to pro-competition regulation for the benefit of non-incumbent operators.

Therefore, whilst the market for fixed-line telecommunication services in the UK is promotionally intense, it remains fundamentally rational in terms of price setting, allowing for inflationary price increases. Such rational customer approach, premium positioning of the three largest operators (BT, Sky and Virgin Media) and structural features of the market (significant investment required to enter the market, the absence of affordable substitutes, exponential demand for bandwidth and strong regulation of the incumbent supplier) underpin the large opportunity in the market for a value-for-money operator, such as the Group.

FIXED-LINE TELECOMMUNICATION SERVICES

Fixed Broadband

UK internet revenues from residential and SME users (non-corporate) were £5.1 billion in 2015, virtually all of which came from broadband services. It is estimated that 86% of UK's adult population had access to the internet at their homes in 2016 (Source: Ofcom; The Communications Market Report (August 2016)).

There are four main internet services providers in the UK: BT, Sky, Virgin Media and the Group. BT is the country's largest provider of fixed broadband services to residential and SME customers. In 2015 BT's market share was 32% (excluding EE), followed by Sky with 23%, Virgin Media with 19%, the Group with 13%, and EE with 4%. Other providers made up 8% of the market (Source: Ofcom; The Communications Market Report (August 2016)).

The UK fixed broadband market has shown steady growth historically, increasing from 19.6 million lines in 2010 to 24.7 million lines in 2015 at a CAGR of 4.7%. Of these 24.7 million fixed broadband lines at the end of 2015, 5.9 million, or 24%, were non-LLU ADSL, 8.6 million, or 35%, were LLU ADSL, 4.7 million, or 19%, were cable and 5.4 million, or 22%, were fibre (Source: Ofcom; The Communications Market Report (August 2016)).

In 2015, the number of fibre-based lines grew by 1.8 million, or 50%, and the number of cable-based lines has continued to grow steadily (Source: Ofcom; The Communications Market Report (August 2016)). Demand for greater bandwidth, driven by growth in video streaming and online gaming, saw the number of superfast broadband connections, i.e. those providing actual speeds of at least 30Mbps, increase by 2.0 million, or 24%, during 2015 (Source: Ofcom; The Communications Market Report (August 2016)).

UK revenues from corporate data services were £2.6 billion in 2015, and represent revenues from web hosting, Ethernet/digital leased line services, IP-VPN services and, to a far lesser extent, revenues from frame/cell services. These revenues have been relatively stable, and despite declining at a CAGR of 1% over the five years from 2010, increased by 0.1% year-on-year in 2015 (Source: Ofcom; The Communications Market Report (August 2016)). In addition, volumes of Ethernet connections are growing, with Ovum forecasting a growth in service end points at a CAGR of 11% between 2013 and 2020 (Source: Ovum).

Fixed-line Telephony

In 2015, fixed-line access and call revenues in the UK were £8.4 billion, generated across 33.2 million fixed lines. The majority of these revenues came from line rental and bundled calls (Source: Ofcom; The Communications Market Report (August 2016)). The four main residential landline providers in the UK are BT, Sky, Virgin Media and the Group.

Fixed-line telephony volumes continue to be impacted by substitution towards text-based forms of communication and mobile calls. Over the past five years, the total volume of voice calls has fallen by 37 billion minutes, or 15%, and during the same period, fixed voice volumes have fallen by 49 billion minutes, or 40%. Despite this decline in fixed-line telephony volumes, the number of fixed lines has remained relatively stable over the past five years, as consumers require these for internet connections (Source: Ofcom; The Communications Market Report (August 2016)).

In 2015, total fixed voice call volumes in the UK fell by 7.0 billion minutes, or 9%, to 74 billion minutes. This year-on-year decline was broadly representative of the five-year decline at a CAGR of 10% (Source: Ofcom; The Communications Market Report (August 2016)).

Compared with the trend in call volumes, total revenue from fixed lines and average revenue per fixed line have both fallen at a CAGR of 2% over the past five years. In 2015 this decrease further slowed down to a CAGR of 0.1%. Revenues have been supported by price increases from the major providers, particularly in line rental, where average revenues have increased over the last five years by £2.48 to £15.03 per month, which represented an increase of 20% over five years at a CAGR of 3.7%. For example, the price of BT's standard line rental has increased by 35% since 2010 (Source: Ofcom; The Communications Market Report (August 2016)).

The number of fixed lines (PSTN lines and ISDN channels) in the UK has remained fairly stable over the past five years. An increase in the number of residential lines offset a decrease in the number of business lines, which has fallen due to the increased uptake of VoIP calls. The growth in residential lines (1.8 million in the five years from 2010) has been driven by increased broadband internet penetration, for which most homes require a fixed voice line, and an increase in the number of households. Ofcom's data show that 73% of people with a fixed-line use it for internet access (Source: Ofcom; The Communications Market Report (August 2016)).

MOBILE TELECOMMUNICATION SERVICES

In 2015, total mobile revenues in the UK were £15.2 billion, the majority of which came from access and bundled services. Total revenues have increased slightly over the five years since 2010, with access and bundled charges steadily growing, but out-of-bundle revenues (calls, messages, and data) falling. There are four main operators in the UK market: BT (EE) with 29%, Telefónica UK with 27%, Vodafone with 19%, and Three with 11% market shares, in each case, in 2015. MVNOs and resellers, including the Group, make up the remaining 15% of the market (Source: Ofcom; The Communications Market Report (August 2016)).

Trends in mobile usage over the five years from 2010 to 2015 show an increase in the total number of call minutes, in line with the number of subscriptions at a CAGR of 1.7%, but a significant decline in sent messages at a CAGR of 4.8% driven by increasing use of instant messaging services and emails on smartphones (Source: Ofcom; The Communications Market Report (August 2016)). Smartphone availability and usage has increased with the expansion of mobile data services. In the UK, mobile data usage was 67% higher in 2015 than in 2014, and by the end of 2015, more than 45% of mobile connections were a 4G service (Source: Ofcom; The Communications Market Report (August 2016)).

In addition, the market has demonstrated a strong growth in SIM-only contracts, driven by phone owners holding on to their handsets for longer periods. In June 2010, almost four users in ten, or 38%, had owned their handsets for less than six months, a figure that had declined by ten percentage points by 2015. Over the same period, the proportion of phone owners that had their device for more than 18 months had increased from 14% to 23% (Source: YouGov Research—SMIX Tracker). This trend has driven growth in demand for SIM-only contracts, especially those lasting for 12 months: the number of new SIM-only contracts sold in October 2016 grew to over 360,000, a year-on-year increase of 13.5%, with 12 months contract SIMs growing by nearly 20% (Source: Gfk).

PAY TV

The UK TV industry is characterised by a significant Public Service Broadcasting (PSB) sector. This includes the BBC, which provides content predominantly through a government funded model (license fee), as well as private sector channels, such as ITV, Channel 4 and Channel 5, which operate under an advertising-driven model. As such, whilst there are just over 11 million pay TV subscribing households in the UK, over 80% of viewing, whether live or catch-up is of free to air content (Source: Broadcasters' Audience Research Board). In recent years, video on demand (VoD) has become increasingly popular in the UK, in terms of both free and paid-for content.

At the end of 2015, the four main pay TV providers had a total of approximately 17.8 million subscribers, with Sky being the largest with 11.3 million subscribers. Sky's TV packages are available on a standalone basis or when bundled with broadband and fixed line. BT and the Group each had approximately 1.4 million pay TV subscribers at the end of 2015. Their pay TV offerings are only available when bundled with broadband and fixed line, and include various options for movies and sports channels (Source: Ofcom; The Communications Market Report (August 2016)). In addition, the UK pay TV market is seeing strong incursions by Over the Top (OTT) content providers such as Netflix, Amazon Prime and Youtube. The four main providers all offer VoD and out-of-home viewing options (Source: Ofcom; The Communications Market Report (August 2016)).

TRENDS IN BUNDLING

In the UK, there has been a trend towards bundling over the last decade, and in 2016, 68% of 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 50% in 2010, and 29% in 2005, driven by the growth in triple play bundled services (Source: Ofcom; The Communications Market Report (August 2016)). The UK continues to lag other European countries in the take-up of bundled products, in part because of the historic separation of fixed and mobile ownership. The acquisition by BT of EE in 2016 is expected to accelerate the trend for bundling fixed and mobile propositions. However, the driver remains very much supply-push rather than demand-pull.

BUSINESS

OVERVIEW

Introduction

We are the UK's leading value-for-money provider of fixed-line phone and broadband services to residential and businesses customers. Our fixed-line services are offered through an extensive and technologically advanced network, covering approximately 96% of UK's homes. In addition to our fixed-line connectivity offerings, we provide pay TV services through our part ownership of the YouView platform and mobile services through an MVNO arrangement with Vodafone (which we intend to transition to Telefónica UK during 2017). We offer our phone and broadband services both on a retail and wholesale basis, and leverage our existing fixed-line customer base and our extensive fixed network to offer dual play (fixed-line phone and broadband internet), triple play (dual play plus pay TV or mobile) and quad play (dual play plus pay TV and mobile) products.

Our consumer business offers quad play products incorporating broadband internet, voice, pay TV and mobile to Retail customers through a simple tariff structure and low prices. Our unique non-subscription pay TV offering provides flexible access to free and pay-to-view third-party content through the YouView platform. As at September 30, 2016, we had approximately 3.0 million Retail phone and broadband customers, approximately 1.3 million of which also subscribed to our pay TV service and approximately 793,000 were mobile customers.

Our fast growing B2B division, TTB, offers a wide range of data connectivity and next generation voice products to businesses across the UK. We provide fixed-line phone, broadband internet (including high speed Ethernet), data networking and other connectivity solutions to private companies and public sector organizations, both directly and on a wholesale basis through approximately 850 partners. As at September 30, 2016, we had approximately 899,000 Wholesale broadband and phone customers, and approximately 39,000 connected data lines. We are one of only three national network providers in the UK that offer wholesale connectivity services, broadband, FTTC and Ethernet to large national ISPs, such as the Post Office and Telecom Plus.

Strengths

Our strengths include the following:

- ***Structurally attractive fixed-line market in the UK***. The UK's fixed-line market is structurally attractive for an existing value-for-money provider of a national scale, such as the Group. Firstly, we believe it would require a sizeable investment, in time and money, to roll-out a 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. Secondly, 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 so that mobile users are expected to increase their data traffic from 0.96GB/month in 2015 to 5.6GB/month in 2020, while households are expected to increase their fixed-line traffic from 84.5GB/month in 2015 to 202.1GB/month in 2020 (Source: Cisco). Thirdly, there is a clear history of pro-competition regulation in our industry over 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. As a result of these characteristics, whilst the market for our services is promotionally intense, it remains fundamentally rational in terms of price setting, allowing for inflationary price increases.
- ***Advanced fixed-line infrastructure***. Our fixed-line network currently covers approximately 96% of UK's homes with MPF and SMPF broadband. The only comparable fixed-line unbundled network is operated by Sky, which covers approximately 90% of the UK's population. At the same time, 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 take control of 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.

- ***Leading value-for-money positioning***. Our network confers a structural cost advantage that has enabled us to deliver value-for-money telecommunication services to customers, with our consumer fixed-line propositions significantly less expensive than those offered by our competitors. Our value proposition makes us the fourth largest residential fixed-line phone and broadband provider with a 14% market share, based on customer numbers (Source: Ofcom). Our pay TV offer is focused on the large pool of value-conscious free to air households in the UK (which we estimate to be approximately 10 million households nationwide) that have not historically wanted to participate in the premium subscription based pay TV market. We focus on providing customers with flexible, non-subscription access to a wide range of third-party owned content and have grown to be the third largest operator in the pay TV market with an 8% share based on customer numbers (Source: Ofcom). In addition, we offer mobile services through an MVNO arrangement currently with Vodafone that we intend to transition to Telefónica UK during 2017. This new MVNO arrangement will give us access to 4G and national roaming and allow us to build our own thick core network.

  We have leveraged our existing consumer fixed-line scale and our extensive network to drive growth in dual play, triple play and quad play products. These products enable our customers to save significantly more money, as compared to products offered by our competitors, while driving ARPU and reducing customer churn. As the market moves towards triple and quad play bundles, our competitors are using the bundles to protect a premium product in the bundle. Conversely, as we are the value provider in all four products (phone, broadband, pay TV and mobile), the more products our customers take from us, the more money we are able to save them relative to the competition.

  Through TTB we provide a wide range of value-for-money connectivity solutions including basic phone and broadband, high speed Ethernet, and legacy and next generation voice services. We have seen particularly strong growth in our high margin data connections (Ethernet) business over the last three years, with revenue growth compounding at over 30%. Our 2015 acquisition of tIPicall is helping us forge a strong and fast growing IP-VPN to compliment this growth in data products. In addition, through our wholesale partners that operate as ISPs, we provide phone, broadband and FTTC connectivity to over 900,000 end customers, giving us an approximately 35% share of UK’s wholesale market, second only to BT.

- ***Strong track record of operational improvement***. We have a strong proven track record of operational improvement. Since the Demerger in 2010, we have delivered over £150 million of cost savings through integration and back-office simplification programmes. This began with the integration of the Tiscali business in 2010, which delivered over £100 million of gross cost savings, through significant back office cost reductions, culminating 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 which, in turn, is intended to enable sustainable revenue growth through a transformed brand reputation. Cost savings from MTTS totalled over £70 million from its introduction in 2013 to the date of this offering memorandum. In particular, we made significant progress in the year ended March 31, 2016 on our operational efficiency initiatives, including a comprehensive rebuilding of our online channels with enhanced security features, a significant improvement in network performance, improvements to order provisioning through case management, improvements in customer service through implementation of live chat and voice biometrics and improved fault diagnosis and resolution, reducing engineering cost and unnecessary customer contact. Further progress was made on all MTTS work streams in the six months ended September 30, 2016, achieving £17 million in gross cost savings during that period. Our operational improvements have resulted in the reduction in calls into our contact centres from approximately 2.5 million in July 2010 to approximately 1.0 million in July 2016 and a reduction of complaints filed with Ofcom from approximately 1,000 in April 2012 to approximately 300 in July 2016, whilst at the same time driving down churn on our on-net customer base to 1.4% per month in the three months ended September 30, 2016.

- ***Proven historical performance and strengthening financial outlook***. In the periods under review, we have consistently generated strong revenues. We had £1,795 million and £1,838 million of headline revenue for the years ended March 31, 2015 and 2016, respectively, and £1,828 million of headline revenue for the twelve months ended September 30, 2016. Our headline EBITDA and headline EBITDA margin increased from £245 million and 13.6%, respectively, for the fiscal year ended March 31, 2015 to £260 million and 14.1%, respectively, for the fiscal year ended March 31, 2016 and £300 million and 16.4% for the twelve months ended September 30, 2016.

Our capital expenditure cash outflows were £112 million, £166 million and £174 million for the years ended March 31, 2015 and 2016 and twelve months ended September 30, 2016, respectively. This represented 6.2%, 9.0% and 9.5% of our headline revenue for the respective periods. Following a period of heightened expenditure on systems to support MTTS, mobile and FTTP we expect the ratio of capital expenditure to revenues to revert to our normal 6%—7% from the year ending March 31, 2017. Our leverage ratio was at the level of 2.4x, 2.6x and 2.8x for the years ended March 31, 2015 and 2016 and the twelve months ended September 30, 2016, respectively, and an interest coverage ratio was at the level of 11.1x, 11.8x and 12.0x, respectively, for the same periods. We expect to substantially reduce our leverage ratio for the year ended March 31 2017, and target a medium term ratio of 2.0x.

- ***Highly experienced management team***. Our senior management team has the combined expertise of more than 90 years in the telecommunication industry. The Chairman of our Board of Directors, Sir Charles Dunstone, founded the Group in 2002. Our Chief Executive Officer, Ms. Dido Harding, Baroness Harding of Winscombe, joined us in 2010 from Sainsbury, where she was a member of the Operating Board, having previously worked for Tesco in various senior positions. We believe that the collective industry knowledge and leadership capabilities of our senior management team will enable us to continue to successfully execute our strategy.

Strategy

Our business model is underpinned by our own next generation network, a sustainable regulatory cost advantage over access to key parts of BT's network infrastructure and a low cost operating model, which collectively allow us to price competitively. The political and regulatory environment in which this framework evolves is critical to our business model and presents significant opportunities for us. Our strategy is to:

- ***Leverage and expand our network***. The size and all-IP nature of our fixed-line network allow us to scale it very efficiently for growing usage, enabling us to support growing customer demand for high speeds and greater data consumption. We have a defined programme of investment in the network to increase capacity and efficiency in line with the expected growth in demand for high speeds and data consumption. 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 fibre customers.

  We expect that network investments over the next two years will be focused on enhancing the capability of our NGE and NGA networks. Having completed our NGE programme of upgrading all regional nodes within our fixed-line network in 2016, we have begun to upweight exchanges on the new NGA architecture, with over 100 expected to be completed by the end of March 2017. We expect another 3,000 exchanges to be completed over the next 18-24 months. This programme is expected to reduce our costs to serve all our customers and drive further improvements in customer satisfaction.

  Over the course of the next ten years we expect to see bandwidth usage across our network increase 10 times. These technology improvements will enable us to scale the network for this demand and will allow us to substantially drive down our costs. By the end of our relatively modest network investment programme we expect the entire data network to be brand new, simplified and functionally using the latest Tier 1 capability. We will also strive to take advantage of regulatory developments, such as regulatory dark fibre, to ensure an even more material step down in operating costs, putting us in a position to deliver the significantly increased bandwidth and capacity that our customers are expected to require.

- ***Continue to provide value-for-money products***. A structural cost advantage conferred by our existing network enables us to be a value-for-money provider in all the products we sell. Following the launch of fixed-line phone and broadband services in 2006, we have leveraged our network and fixed-line customer base by offering additional value-for-money services to consumers such as Internet Protocol television ("**IPTV**"), FTTC and mobile. Customers typically save more money with us the more products they take. In addition, as we have designed our network for peak consumer usage during the evening, we are able to leverage this capacity during the daytime for B2B customers, enabling us to offer a wide range of value-for-money voice and data connectivity products to customers ranging from small office/home office businesses and small and medium sized enterprises to multi-site national enterprises. We believe that our value-for-money positioning and growing product offer will continue to drive customer loyalty and sustainable overall revenue growth through revenue-per-user growth from existing customers, (which is significantly less expensive than increasing revenue by adding new customers). It will also ensure that we are well positioned to take advantage of favourable usage and socio-demographic trends, with a growing number of older and smaller households in the UK, growing data usage and growing triple and quad play penetration.

- ***Achieve significant scale***. 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 TV (approximately 37% of phone and broadband base), mobile (approximately 22% of phone and broadband base) and FTTC (approximately 21% of phone and broadband base) bases. We expect that our quad-play approach will put us in a position to further capitalize on the growing trend amongst UK consumers to save money by taking bundled products on top of their fixed-line subscriptions. We expect the majority of our customers to subscribe for all four products in the future, underpinning our scale growth opportunity.

  Our B2B division, which is already a scale business, with revenues of over £500 million in the year ended March 31, 2016, has material further opportunities to grow in the fragmented B2B market. In particular, our B2B division currently has a 10%-12% share of the UK's national and metro Ethernet market, where current forecasts of 11% CAGR (Source: Ovum) would take our share to around 16% by 2020. In addition, our share in the IP-VPN market is currently approximately 2% and, while the market is forecast to grow at a CAGR of 2% (Source: Ovum), we see a significant growth opportunity. We also see steady growth opportunities in our wholesale phone and broadband business.

- ***Simplify systems and processes to achieve further operational efficiency***. As a relatively young business that has grown very rapidly since the Demerger, we have a significant opportunity to further simplify our technology platform and customer processes to deliver a higher quality and more secure customer experience.

  MTTS is our Group-wide ranging transformation programme that is delivering material customer service improvements, reducing churn, driving operating cost savings, reducing subscriber acquisition costs and ultimately, creating a simpler, better business and transformed brand reputation. We aim to continue our work on all components of MTTS to deliver a seamless self-service operating model which will be better for customers and lower cost to operate. We expect this to result in a further £35 million to £40 million of savings, through improved customer services, in the year ending March 31, 2017 (of which £17 million have already been delivered during the six months ended September 30, 2016), and annualised savings beyond this period are expected to be at a substantially higher level.

- ***Drive disruptive innovation***. We have a strong heritage of launching innovative and disruptive products that leverage our network scale, engineering expertise and cost advantage to save customers money. We were the first fixed-line operator in the UK to offer free fixed-line calls between customers, free broadband, unlimited downloads to broadband customers, network level home internet security, a free TV product (on the YouView platform), business broadband at under £5 per month and free nuisance and suspicious call blocking.

  Our two key future innovation opportunities are FTTP and inside-out mobile.

  - We have made significant progress towards achieving critical success factors (cost per home, customer experience and penetration) in our FTTP proof of concept in York and are taking measured steps to further test the economics of a broader roll-out. Our initial build has covered nearly 14,000 homes, with over 2,500 customers signing up to the service with us and Sky since the beginning of 2016 (over 18% penetration in the six months ended September 30, 2016). Build costs have come at £417 per home, significantly under our £500 per home target, and customer take-up and satisfaction are also running ahead of targets. Following the success of this first phase, we plan to begin extending the network across the rest of York. The roll-out is expected to start in the Spring of 2017 and reach a further 40,000 homes over a period of 18 months, covering the vast majority of the city's premises. Our York project was conceived as a joint venture with Sky and City Fibre Holdings, but we plan to acquire Sky's equity in the joint venture in 2017, with Sky becoming a long term wholesale customer. The full York roll-out is expected to cost us approximately £20 million over 18 months to complete.

Beyond York and depending on us successfully proving the economics of the build, we plan to investigate the feasibility of a larger parallel build across five to six cities in different parts of the UK, involving approximately 150,000 homes. Building work on any such extended pilot is unlikely to begin until the year ending March 31, 2019. If the results of this pilot prove the economics of FTTP then there will be a long-term potential of reaching five to ten million homes over a ten year minimum build time. Such network development is expected to be funded with external capital, consistent with our existing financing policy.

- Separately, we are in the advanced stages of a femtocell testing programme that is expected to lead to the roll-out of active cells in customers' homes from 2018/19. These indoor cells will allow mobile traffic to be offloaded onto our fixed-line network, thereby delivering a much improved indoor mobile experience and savings on the costs payable under our MVNO arrangements.

Both these innovations will allow us to deliver disruptive value-for-money propositions that leverage the economics of our fixed-line network.

HISTORY

Created in 2004 as the telecommunication division of CPW, a retailer of mobile phones and related products, the Group was demerged and listed on the London Stock Exchange in 2010.

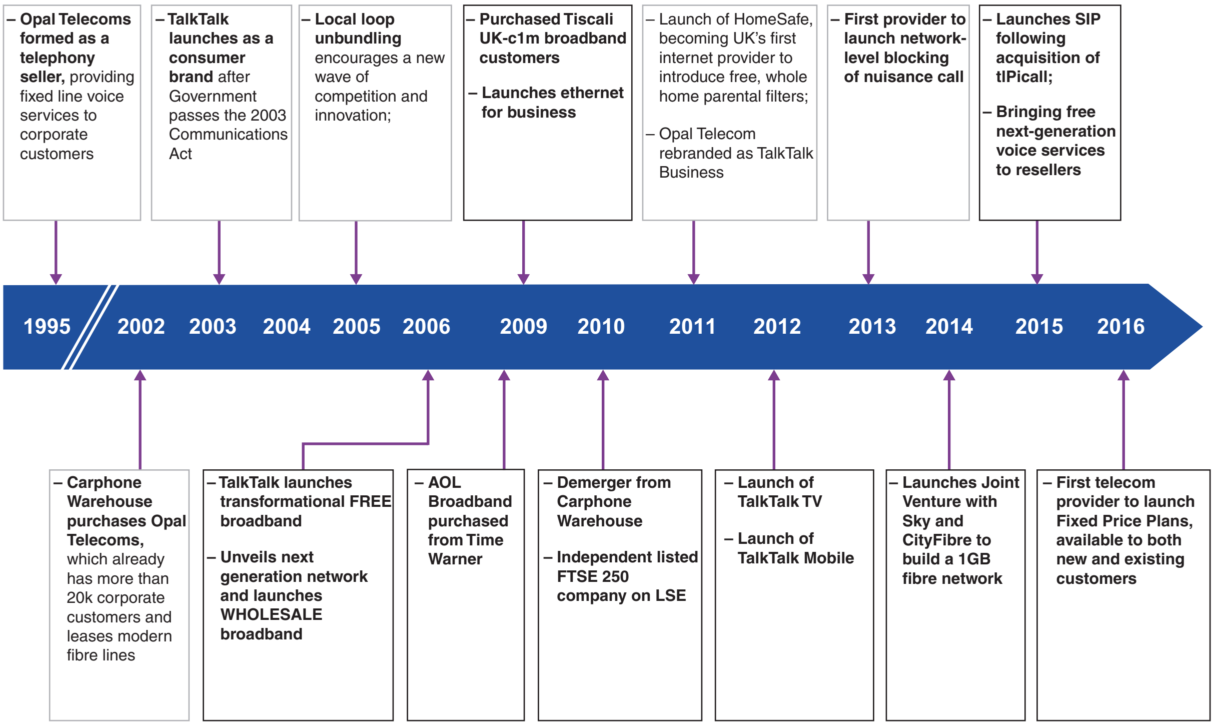
We have a long history of positive disruption and challenging industry conventions. Having launched a market-beating voice offer in 2004, we began building our unbundled local loop network in 2005. In 2006 we launched the UK's first ever free broadband offer. This marked a pivotal moment in the evolution of the UK telecommunication sector, and firmly established the Group as the value-for-money champion in the market.

Increased competition and uptake in connectivity services, coupled with a compelling pricing proposition, fuelled significant growth for the business over subsequent years. Through a combination of acquisitions and organic growth, we expanded rapidly, acquiring the businesses of AOL UK and Tiscali UK in 2007 and 2009, respectively. In 2010, we began offering additional consumer services in the form of mobile SIMs. We completed our suite of quad play services with the launch of a flexible, value-for-money pay TV service and mobile handsets in 2012. In 2015, we acquired the Tesco's broadband service business, comprised of broadband (MPF, SMPF, and IP Stream) and voice customers. We also acquired 100% of TalkTalk TV Entertainment Limited (formerly Blinkbox) from Tesco Holdings Limited, which provides movies and TV series online for on-demand streaming and downloading.

Our B2B division, TTB, was founded in 1995 as Opal Telecom. TTB has capitalised on the scale, performance and reach of our network to create a portfolio of business grade connectivity and hosted solutions, available either direct or through a wide range of wholesale partners.

TTB has consistently demonstrated significant growth and is the only wholesale provider of broadband and Ethernet connectivity outside of BT Group. It now serves over 180,000 businesses across the UK.

The graphic below shows our corporate timeline from 1995 to today:



PRODUCTS AND SERVICES

Services to consumers

We provide value-for-money phone, broadband, fibre, TV, and mobile to UK homes, differentiated by a clear and simple tariff structure, low prices, flexibility and the inclusion of valuable services, such as unlimited broadband usage, call monitoring, voicemail and HomeSafe®, our market-leading network-based security service. We also offer mobile services to our phone and broadband customers through a MVNO agreement with Vodafone that we intend to transition to a new MVNO relationship with Telefónica UK during 2017. 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). It is 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. It is uniquely non-subscription based and includes access to the TalkTalk TV Store for all broadband customers—a service we have built following the acquisition of Blinkbox in 2015. Our bundled packaging and pricing are designed to encourage our customers to purchase multiple services across our product portfolio by offering incentives to customers who subscribe to two or more of our products.

Broadband and fibre (superfast broadband)

At the beginning of October 2016, we replaced all of our existing consumer connectivity tariffs with a new, radically simpler range of fixed low price plans. These new plans give customers the freedom to choose and fix their own package for 18 months by tailoring mix-and-match broadband, mobile, TV and land-line calls to suit their needs. Customers can choose between two new simple packages, each inclusive of line rental: "Fast Broadband" and "Faster Fibre Broadband".

"Fast Broadband"

"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 analog telephone line using the 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 and 500MB of data and (ii) access to the TalkTalk TV Store.

As at March 31, 2015 and 2016 and September 30, 2016, we had approximately 3.4 million, 3.2 million and 3.1 million Retail phone and broadband customers, respectively.

“Faster Fibre Broadband”

“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 FTTC network using the VDSL technology, which allows for download speeds of up to 38Mbps. This is approximately 4.5 times faster than UK’s average standard ADSL download speeds. Customers are able to further enhance their broadband internet experience with one of our “Broadband Boosts”: fixed fibre speed boost, allowing to increase download speeds to up to 76Mbps, which is approximately 17 times faster uploading and approximately 7 times faster downloading than UK’s average standard ADSL speeds. The plan also includes (i) our “Essential SIM” feature, providing 200 minutes, unlimited SMS and 500MB of data and (ii) access to the TalkTalk TV Store.

As at March 31, 2015 and 2016 and September 30, 2016, we had approximately 0.5 million, 0.7 million and 0.8 million fibre customers, respectively.

Uniquely in the market, we have also made these new plans available to all of our existing customers (on legacy tariffs, such as Simply Broadband, Essentials TV and Plus TV) who are able to move to these plans by re-contracting with us for 18 months. Our existing customers have responded extremely well to the new plans. In particular: (a) ten times as many customers have re-contracted than in an average month, (b) many more have chosen the “Faster Fibre Broadband” plan than expected, (c) attachment rates for calling and TV boosts have also been stronger than we had expected. These outcomes reflect the attractiveness of our simple and clear pricing, and while the take up on the new plans might be at a lower ARPU, the 18 months re-contracting will help reduce churn. Customers who chose not to re-contract will pay an approximately 9%-10% price increase on their existing packages.

Mobile

We offer mobile exclusively to our existing phone and broadband customers under an MVNO agreement with Vodafone, that we intend to transition to Telefónica UK during 2017. The change in MVNO will provide us with access to 4G, the opportunity to build our own thick core and ultimately offload mobile traffic onto our femto small cell network. We have made progress in the first phase of testing the migration of customers from Vodafone to Telefónica UK MVNO. This process involves moving existing mobile customers onto our new CRM and billing platform and launching a 4G service on Telefónica UK’s network for new customers. In the six months ended September 30, 2016, we deployed our new platforms to live environments, provisioned our own TalkTalk 4G SIMs on the Telefónica UK network and made available live calls, SMSs, data sessions and number porting with other MNOs. Following the completion of this design and test phase, we intend to begin bulk billing migrations and service launch on the Telefónica UK network during Spring 2017, followed by network migrations.

Our mobile proposition is aimed primarily at households that want secondary or tertiary devices or SIM cards. While we offer a wide and expanding range of mid-priced handsets under post pay contracts, we see the longer term opportunity to be very much SIM-driven, with multiple SIM contracts per household driving ARPU growth and reducing churn.

As at March 31, 2015 and 2016 and September 30, 2016, we had approximately 0.5 million, 0.7 million and 0.8 million mobile customers, respectively.

TV

Our pay TV offer, available only to TalkTalk fixed-line customers, launched in 2012, is exclusively non-subscription based and aimed at approximately 10 million UK households that have not historically participated in the premium subscription-based pay TV market. Although we do not commission or own rights to TV programmes, we aim to give our customers as wide a range of content as possible. We provide flexible access to over 80 free-to-air channels, an advanced interactive programme guide and an extensive range of premium 1 month subscription and pay-to-view services. To that end, we have commercial relationships with key content suppliers, such as Sky, BT Sports and Netflix. As a value-for-money provider offering customers control over their content costs, we appeal to a different segment, as compared to other TV providers, and therefore are able to offer content owners access to incremental revenues.

Our customers are able to take TV services on a minimum 30 day commitment, often as their first venture into pay TV. Our user-friendly platform guides them through the selection process, whether signing up for a month’s commitment or a pay-per-view film and all purchases are added to their monthly bill.

In April 2016, we launched the TalkTalk TV Store, one of the UK's most comprehensive internet streaming television services that allows our broadband customers to stream live television channels and watch on demand content through their web browser, anywhere in the UK with a broadband connection. Customers are able to also discover new shows with customized recommendations and ratings. Customers with iOS or Android mobile devices can also watch television channels, manage their TalkTalk TV boxes and discover new shows on their mobile devices.

During the six months ended September 30, 2016, we concluded a number of content deals including the renewal of our full Sky content for a further three years. This enables our customers to continue viewing leading pay TV channels, including Sky1, Sky Living, Sky Arts, as well as the full portfolio of Sky Sports and Sky Cinema, and Sky Box Office PPV events. In June 2016, we also added BT Sports, so coupled with Sky Sports our customers can now watch all leading sports in the UK, including Formula 1, Ryder Cup, and all English Premier League football games.

Our strategy of making the broadest content available on the most flexible terms is based on our long term commitment to the YouView platform, which continues to grow in value. We have recently commenced the roll-out of our next generation YouView software across the existing set top box base. This will offer a significantly enhanced and market leading user interface as well as performance, further improving engagement with our TV customers.

As at March 31, 2015 and 2016 and September 30, 2016, we had approximately 1.4 million, 1.4 million and 1.3 million TV customers, respectively.

Services to business customers

We offer an extensive range of fixed-line services to our B2B customers, 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 access the market either directly or through partner channels with approximately 80% of revenue 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.

Our B2B division is organised around our products and channels to market. Through the Direct channel, we offer a range of data solutions from Business Broadband & Fibre, through to high value Ethernet circuits, and Wide Area Networks (MPLS IP-VPN). Across our voice portfolio we also offer both "Legacy Voice" and "Next Generation Voice" services (*e.g.,* B2B SIP VoIP and Hosted Unified Comms).

Through our Partner channel 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, broadband and fibre. Having a wholesale offering allows us to work with Systems Integrators, such as Fujitsu, who often combine connectivity and data solutions from multiple providers to offer large customers a bespoke solution. This allows us to focus on our core offering, without having to offer complex and margin dilutive products and services demanded by larger customers.

Our suite of data connectivity products, which are typically subject to multi-year contracts, offer different bandwidths and low cost price options. Building from broadband, through to FTTC, EFM and ultimately EAD, we offer competitively priced high speed connectivity that exploits our significant network capability and reach. Data revenues generate returns significantly in excess of our average and are the fastest growing product set by revenue in our offering to corporates, with a significant and accelerating pipeline of data connections.

The Voice segment of the business product offering comprises declining legacy revenues and our newly launched, next generation voice product powered by our recent tIPicall acquisition, which gives us significant capability in the B2B SIP VoIP market.

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

LEGAL PROCEEDINGS

We may from time to time become involved in various claims and lawsuits arising in the ordinary course of our business. Except as disclosed in this offering memorandum, we are not currently involved in any material legal, governmental or arbitration proceedings which would, individually or in the aggregate, adversely affect our business, results of operations or financial condition, and, we are not aware of any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which we are aware), during the past three years, which may have, or have had in the recent past, significant effects on our financial position or profitability.

INDUSTRY REGULATION

OVERVIEW

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 authorization 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, license 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 the retail market, 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), 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, which is able to take a longer term, more holistic view than the triennial market reviews. Though this did not set new regulation, it did provide a high level strategy and outline market and regulatory direction for the next decade that included: encouraging more FTTP investment by BT's rivals (through improving wholesale access to BT's ducts and poles); possible introduction of fully regulated pricing through charge controls on GEA rather than the current minimum margin regulation; increasing the degree of independence of BTOR from BT, possibly including structural separation and a "step change" in BTOR's service quality. Some of these strategic changes will be implemented through the triennial market reviews. The question of BTOR separation is being considered separately to the 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 only structural separation can deliver the full 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 has specifically stated that if legal separation cannot be made to work, then full structural separation remains an option. Currently Ofcom is considering a more detailed legal separation proposal. It is expected to notify and consult with the European Commission accordingly in early 2017. Such consultations are required to allow Ofcom to implement the proposed solution.

Whether BT is structurally or legally separated, we would expect reductions in the wholesale price of GEA, and thus a reduction in our wholesale costs. If BTOR is fully separated, it would nonetheless remain a regulated monopoly and the arguments for bringing down the wholesale price of GEA are equally applicable. Moreover, it would be economically rational for the separated entity to support such a reduction in order to drive take up on their network from all CPs. Such a position is clearly not rational for BTOR, whilst it is owned by BT and therefore incentivised to protect BT's retail share. Given the increasing degree of public and political scrutiny currently being brought to bear on BT (and increasingly on Ofcom itself), a charge control on GEA becomes even more likely should the regulator opt for what is widely considered the "softer decision" to merely legally separate BTOR.

Broadband Services

LLU charge control and service standards

In June 2014, Ofcom published the Fixed Access Market Review ("**FAMR**"), which included the new LLU charge control for the period to March 31, 2017. Metallic Path Facility (the facility that enables both the provision of voice and broadband services) charges rose from £83.92 to £86.11. The FAMR also established new minimum standards on BT for provisioning and repair of copper access lines, as well as a new requirement for BT to report a range of key performance indicators. Ofcom is expected to begin formally consulting in early 2017 on the next FAMR and LLU charge control. The review has been delayed whilst Ofcom conducts the Strategic Review and is unlikely to be completed until early 2018. The methodology that Ofcom will use to set LLU prices for the forthcoming period is well established and based on the regulatory accounts of BTOR. The most recent regulatory accounts have been produced following changes to the cost attribution methodology decided on by Ofcom that significantly reduce BT's costs allocated to BTOR and increase the costs allocated to other BT divisions. This is likely to result in the future LLU charge being lower than the current charge. Ofcom is taking various steps to ensure regulation continues during the gap between market reviews and has so far refused to accept proposals from BTOR to keep LLU charges flat between April 2016 and a when new charge control is imposed.

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. Whilst the price of GEA is not currently regulated, we had 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 2015, with the first compliance report published in June 2015. Both BT and us appealed the decision (on different grounds). The Competition Appeals Tribunal dismissed all key aspects of BT's appeal and all of our appeal.

Ofcom's upcoming FAMR will consider regulation of GEA, including whether a charge control should be imposed and, if so, how it should be designed. Ofcom's proposals will be set out in a consultation in early 2017. In May 2016, Ofcom published a consultation on its proposed approach to modelling the costs of GEA. This analysis data would be used in the event that a charge control is applied and is the first step in the process towards imposing a charge control. Analysis we have commissioned from Frontier Economics suggests that were a charge control to be introduced using the same methodology as LLU, it would be around £3 (compared with £7.60 current average price). Whilst Ofcom might not require an immediate reduction in prices to £3, it is clear that were a charge control to be introduced, it would be lower than the current price we pay.

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 roll-out their own FTTP networks. Ofcom will likely impose specific regulation on BT as part of its FAMR including: better information availability, a requirement on BT to use the wholesale products itself and improved operational processes. In December 2016, 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 and charge controls on the prices BTOR can charge. Duct and pole access could benefit us by reducing the cost and increasing the speed of 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 2017 using money from the publicly funded BBC Licence Fee, under-spend from the Analogue TV Switch-Off Project and other sources of public investment to stimulate private investment. To achieve this aim, the Government established: (i) the Broadband Delivery UK programme, which is focused on delivering broadband to areas that the market will not serve of its own accord (mainly rural areas); and (ii) the Urban Broadband Fund, which intended to establish "super connected" cities with internet capabilities of between 80 Mbps to 100 Mbps and comprehensive mobile broadband coverage.

In November 2015, 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. Government is bringing forward legislation in the Digital Economy Bill to give the Secretary of State an explicit power to introduce a new broadband USO 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 design of the USO. Government plans to launch a consultation on the scope of the USO, along with draft secondary legislation, in early 2017. We are working closely with Government and Ofcom on the issue. Notably, the Government has specified that the USO must not be detrimental to wider competition, stating that it "will need to be designed to minimise any market distortion." Ofcom has made it clear publicly that it does not think that BT's USO commitment should be linked to Ofcom's decisions on BTOR separation or GEA charge control.

Business Connectivity Market Regulation

In May 2016, Ofcom published the final statement of its Business Connectivity Market Review, 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 costs reductions, the opportunity to lower costs further through using dark fibre, ability to innovate our products and an improvement in provisioning quality, which will increase customer satisfaction.

Mobile telephony

EU roaming regulations for mobile telephony services

As an MVNO, we are subject to EU regulations relating to retail 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, impose measures to guard against bill shock in respect of data roaming and set maximum roaming rates within the EU.

In November 2015, the EU passed legislation on the maximum retail roaming surcharges that apply from April 30, 2016 and the removal of roaming surcharges from June 15, 2017. The European Commission is reviewing the wholesale roaming market, fair use policies and sustainability mechanisms required to implement this policy. We are engaging with the review and implementing the required changes to our roaming tariffs.

Switching

Ofcom is consulting on proposals to reform switching of mobile communications services. It expects to publish its conclusions in Spring 2017. It is also continuing its work on switching of triple play services and is due to publish its policy statement in Summer 2017. We continue to engage with Ofcom on these reforms. The Government has introduced measures to make it easier for consumers to switch between telecommunication and TV providers in the Digital Economy Bill. The bill is currently being debated in Parliament. We are supportive of a simpler, more customer friendly switching regime, which we believe will favour a value-for-money provider such as ourselves and are working closely with Government on the issue. Indications to date are that this bill will pass.

TELEVISION AND VIDEO-ON-DEMAND REGULATION

In the UK, we are required to hold individual licenses 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**") licenses are granted and administered by Ofcom. Under these licenses, 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 license may result in the imposition of fines on the license holder and, ultimately, the license 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, the prohibition on providing an ODPS.

Ofcom previously imposed a Wholesale Must Offer ("**WMO**") obligation on Sky, following a finding that Sky has 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

European Commission Digital Single Market

In May 2015, the European Commission published 16 initiatives as part of the Digital Single Market agenda. The measures seek to strengthen access to digital goods and services across Europe, improve regulatory frameworks and strengthen digital growth by tackling issues such as skills shortages. The European Commission is currently consulting on the proposals. We believe that major changes are unlikely to come into force before 2018.

Appeals reform

A further significant change proposed in the Digital Economy Bill is the strengthening of the regime for legal appeals against Ofcom decisions. The Government proposes imposing 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, and a process that does not favour the biggest businesses with the largest legal budgets, will be beneficial to us.

Investigatory Powers Bill

The Investigatory Powers Act 2016, which consolidates and updates existing legislation governing the retention and sharing of communications data received royal assent on November 29, 2016. We worked with Government on the details of the legislation and how it would 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. The first notifications are expected to be sent 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 favors challenger businesses such as ourselves. Ofcom and UK Government have consistently stated over the last 12 months that they see competition as the 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 change in appeals regime are all actions that favor challenger businesses such as ourselves, and curb the supplier power that BT has over us.

MANAGEMENT

OVERVIEW OF MANAGEMENT STRUCTURE OF THE ISSUER

The Issuer is managed by a board of directors and an executive committee.

The Issuer's Board of Directors consists of twelve directors, six of which are independent, non-executive directors. The Chairman of the Issuer's board of directors is Sir Charles Dunstone.

The business address of the directors of the Issuer is at the Issuer's registered office and principal place of business at 11 Evesham Street, London W11 4AR, United Kingdom.

BOARD OF DIRECTORS

The following table sets forth the name, age as at the date of this offering memorandum and position of each member of the board of directors of the Issuer:

Name	Age	Position
Sir Charles Dunstone	52	Chairman
Dido Harding	49	Chief Executive Officer
Iain Torrens	48	Chief Financial Officer
Tristia Harrison	43	Managing Director of Consumer Business
Charles Bligh	48	Managing Director of TTB, Technology and Security
Ian West	52	Senior Independent Non-Executive Director
John Gildersleeve	72	Deputy Chairman, Non-Executive Director
John Allwood	65	Non-Executive Director
Sir Howard Stringer	74	Non-Executive Director
James Powell	55	Non-Executive Director
Roger Taylor	52	Non-Executive Director
Cath Keers	51	Non-Executive Director

Sir Charles Dunstone is the founder of CPW and the Group. He was appointed Chairman of the Issuer in 2010 and has directed the development of the Group to become one of the leading fixed-line telecommunication businesses in the UK. He is Chairman of Dixons Carphone PLC.

Dido Harding, Baroness Harding of Winscombe, has been Chief Executive Officer of the Issuer since February 2010. Prior to that, Dido was Convenience Director at J Sainsbury PLC, having been appointed to Sainsbury's operating board in March 2008. Dido joined Sainsbury's from Tesco PLC where she held a variety of senior roles. Dido is also a Non-Executive Member of the Court of the Bank of England, a member of the House of Lords, and a Trustee of Go On UK, a charity. She was previously a Non-Executive Director of The British Land Company PLC.

Iain Torrens was appointed Chief Financial Officer of the Issuer in January 2015. Prior to joining the Group, 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.

Tristia Harrison is the Managing Director of our consumer business. Tristia joined CPW in 2000 and has since held a number of senior management and executive positions in CPW and in the Group. Tristia is also a Trustee at Comic Relief and national charity Ambitious about Autism.

Charles Bligh is the Managing Director of TTB, technology and security. He joined the Group in November 2011. Previously Charles worked at IBM for a number of their subsidiaries across the globe for 22 years where he held a number of senior executive and board roles working in large product and service businesses. Charles has worked internationally in Australia, the US, UK and emerging markets in Asia. Charles is also a Trustee of the National Children's Orchestras of Great Britain.

Ian West joined the Board of Directors in February 2011 and is the Senior Independent Director. He has been involved in the TMT sector for over 25 years as a manager, director and investor. Ian held numerous roles at Sky plc 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 AG, Germany's largest cable company, until 2011. Ian has been a non-executive director of the Issuer since February 2011 and became Statutory Independent Director on May 16, 2013.

John Gildersleeve is Deputy Chairman, having joined the Board of Directors in January 2010. He is also currently Chairman of The British Land Company PLC, Non-Executive Deputy Chairman and Senior Independent Director of Spire Healthcare PLC and Non-Executive Director of Pick n Pay Stores Limited, a company listed on the Johannesburg Stock Exchange in South Africa. Previously, he was an Executive Director of Tesco PLC and a Non-Executive Director of Dixons Carphone PLC.

John Allwood joined the Board of Directors in 2010. He has spent his entire career in media and telecommunications and held a number of senior executive positions in these sectors including Chief Executive Officer of Orange UK, between 2000 and 2004. Prior to that John spent eight years at Mirror Group PLC as Finance Director and Chief Executive Officer. After leaving Orange he was Managing Director of Telegraph Media Group Ltd and Chief Operating Officer, Finance Director of Mecom Group PLC and was Non-Executive Director of CPW. In addition to his role at the Issuer, he is a Chairman of Romanes Media Group Limited and Senior Non-Executive Director at IMI mobile plc.

Sir Howard Stringer joined the Board of Directors in July 2012. Until June 2013, he was Chairman of Sony Corporation, where previous appointments included President and Chief Executive Officer. Prior to Sony Corporation, Sir Howard had a distinguished 30 year career as a journalist, producer and executive at CBS Inc. as well as the Chairman and Chief Executive Officer of TELE-TV. Sir Howard is also the Chairman of the American Film Institute, Said Business School, Oxford, and New York Presbyterian Ophthalmology Center, as well as a board member of the BBC and Time Inc.

James Powell joined the Board of Directors in July 2012. James is Chief Technology Officer of Nielsen Holdings plc. Prior to this, he spent 14 years at Thomson Reuters Corporation, where he was Chief Technology Officer, having previously held a number of senior leadership positions including Chief Technology Officer for Enterprise, Chief Technology Officer and Global Head of Product Development, Head of Technology Strategy and Chief Technology Officer for the Reuters Financial division. He has also held senior leadership positions at Solace Systems, Inc., Citadel Investment Group LLC and TIBCO Finance Technology Inc.

Roger Taylor joined the Board of Directors in November 2015. He was previously non-executive deputy chairman of the Issuer from January 2010 until July 2012. He previously served as the deputy chairman of Dixons Carphone PLC and was Chief Executive Officer and Chief Financial Officer of CPW. He was also a director of Virgin Mobile France until 2014. In addition, Roger is a partner in Freston Road Investments LLP, which invests in a number of private businesses including Student Castle Limited, Five Guys UK Limited and Housesimple Limited amongst others.

Cath Keers joined the Board of Directors in August 2016, having previously been Customer Director and Marketing Director of Telefónica UK and, later, a Non-Executive Director of Telefónica Europe plc. Cath was formerly a Non-Executive Director of Home Retail Group plc, and is currently a Non-Executive Director of Royal Mail plc and LV=.

CONFLICTS OF INTEREST

There are no conflicts of interest between the duties to the Issuer of the directors listed above, and their private interests and other duties.

MANAGEMENT TEAM

The Issuer's current senior management team, in addition to the Executive Directors listed above, is as follows:

Name	Age	Position
Jeff Dodds	43	Managing Director—Mobile
Nigel Sullivan	50	Group Human Resources Director
Gary Steen	45	Chief Technology Officer
Tim Morris	52	General Counsel and Company Secretary
Tom Webber	36	Group Change Director

Jeff Dodds joined the Group and the senior management team in April 2016. Previously, he was Chief Executive Officer of Tele2 in the Netherlands and held senior positions at Virgin Media.

Nigel Sullivan joined the Group and the senior management team in 2010. Previously, he was Group HR Director at Wincanton and held senior HR positions at Rover Group, Nortel Networks and Marconi.

Gary Steen joined the Group in January 2012 and joined the senior management team in July 2014. Previously, he was Chief Technology Officer at MDS.

Tim Morris 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 CPW and, prior to that, a partner at DLA Piper LLP.

Tom Webber joined the Group in April 2011 and joined the senior management team in September 2015. Previously, Tom led HR for Operations at Smiths News and was a Divisional HR Director at Wincanton.

BOARD COMMITTEES

The Board of Directors has delegated certain matters such as audit, remuneration, nomination of candidates for different positions within the Issuer and compliance to committees of the Board of Directors.

Audit Committee

The audit committee consists of four members: Mr. John Allwood (Chair), Mr. Ian West, Mr. James Powell and Ms. Cath Keers. The Committee assists the Board of Directors with its oversight responsibilities regarding the quality and integrity of our financial statements, our compliance with legal and regularity requirements, the auditors' qualifications and independence, internal audits and other related matters.

Remuneration Committee

The remuneration committee is composed of three members: Mr. John Gildersleeve (Chair), Mr. Ian West and Mr. Roger Taylor. The remuneration committee assists the Board of Directors with the implementation and development of remuneration and benefits policies, including bonuses for the directors and employees and the implementation of the share options plans (as described below).

Nomination Committee

The nomination committee is composed of four members: Mr. John Gildersleeve (Chair), Mr. John Allwood, Sir Howard Stringer and Mr. Ian West. The nomination committee assists the Board of Directors with the recruitment and selection of the Board of Directors.

COMPENSATION FOR DIRECTORS AND MANAGERS

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, Executive Committee members and other key senior management, there are two long term incentive plans—the Discretionary Share Option Plan ("**DSOP**") and the Shareholder Value Plan ("**SVP**"), operating 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 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. The Remuneration 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.

Total compensation for our Board of Directors and the members of the Executive Committee for the year ended March 31, 2016 was £7.3 million.

PRINCIPAL SHAREHOLDERS

The Issuer's issued share capital as at the date of this offering memorandum is £955,615.46, divided into 955,615,464 ordinary shares, with a nominal value of £0.001 each.

The Issuer's ordinary shares entitle their holders to exercise a vote in the Issuer's general meeting of shareholders for each share owned. They also grant certain information rights and rights to receive dividends and distributions of assets in the event of liquidation *pro-rata* with the percentage of share capital held.

As at December 15, 2016, the Issuer had been notified of the following persons who, directly or indirectly, held interests in three per cent (3%) or more of the voting rights attached to the Issuer's share capital:

Name	Ordinary shares	% of voting rights
Sir Charles Dunstone	294,059,396	30.8%
Capital Research Global Investors	141,126,891	14.8%
David Ross	116,160,528	12.2%
INVESCO Asset Management Limited	113,288,620	11.9%
Jupiter Asset Management Ltd	28,376,183	3.0%
Others	262,603,846	27.5%
Total	**955,615,464**	**100.0%**

Sir Charles Dunstone is a controlling shareholder within the definition set out in the listing rules of the London Stock Exchange. The Issuer 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 the listing rules of the London Stock Exchange.

DESCRIPTION OF OTHER INDEBTEDNESS

The following descriptions are summaries of certain provisions of the documents listed below governing certain of our indebtedness and does not purport to be complete and is subject to, and qualified in its entirety by reference to, the underlying documents.

2014 REVOLVING CREDIT FACILITY

On July 14, 2014, the Issuer, as borrower, the Guarantors, as guarantors, and the lenders as described therein entered into the 2014 Revolving Credit Facility. The 2014 Revolving Credit Facility has a total capacity of £560 million. The final maturity date of the drawings under the 2014 Revolving Credit Facility is July 14, 2019.

As at September 30, 2016, we had £460 million outstanding under the 2014 Revolving Credit Facility. We expect to repay £200 million of drawings under the 2014 Revolving Credit Facility using the proceeds of the Offering. Following the completion of the Refinancing, the amount outstanding under the 2014 Revolving Credit Facility is expected to be £260 million. See "*Use of Proceeds*."

2016 REVOLVING CREDIT FACILITY

On January 6, 2016, the Issuer, as borrower, the Guarantors, as guarantors, and the lenders as described therein entered into the 2016 Revolving Credit Facility. The 2016 Revolving Credit Facility has a total capacity of £100 million. The final maturity date of the 2016 Revolving Credit Facility is May 31, 2018.

As at September 30, 2016, we had £50 million outstanding under the 2016 Revolving Credit Facility. We expect to repay all of the drawings under the 2016 Revolving Credit Facility in full using the proceeds of the Offering. See "*Use of Proceeds*."

2014 BILATERAL AGREEMENT

On July 14, 2014, the Issuer, as borrower, and a lender as described therein entered into the 2014 Bilateral Agreement. The final maturity date of the drawings under the 2014 Bilateral Agreement is July 14, 2019. As at September 30, 2016, we had £50 million outstanding under the 2014 Bilateral Agreement.

TERM LOAN FACILITY

On July 14, 2014, the Issuer, as borrower, the Guarantors, as guarantors, and a lender as described therein entered into the £100 million Term Loan Facility. Out of £100 million, £50 million mature on May 31, 2018 and £50 million mature on July 14, 2019.

As at September 30, 2016, we had £100 million outstanding under the Term Loan Facility. We expect to repay £50 million of drawings under the Term Loan Facility using the proceeds of the Offering. Following the completion of the Refinancing, the amount outstanding under the Term Loan Facility is expected to be £50 million. See "*Use of Proceeds*."

USPP NOTES

On July 17, 2014, the Issuer issued $185 million aggregate principal amount senior notes, consisting of (i) $139 million aggregate principal amount of 4.29% senior notes due July 17, 2021 (ii) $25 million aggregate principal amount of 4.70% senior notes due July 17, 2024 and (iii) $21 million aggregate principal amount of 4.85% senior notes due July 17, 2026. The USPP Notes are guaranteed by the Guarantors on an unsecured basis.

As at September 30, 2016, we had £142 million outstanding under the USPP Notes, net of derivatives (cash flow hedges) of £33 million.

RECEIVABLES PURCHASE AGREEMENT FACILITY

On September 16, 2016, the Issuer entered into the Receivables Purchase Agreement Facility which contains a £75 million loan facility, expiring in September 2018. Under this agreement, we have the ability on a rolling basis to sell our receivables in exchange for a discounted consideration. We continue to consolidate the relevant receivables on the grounds that not substantially all the risks and rewards of ownership of such receivables have been transferred under the programme.

As at September 30, 2016, we had £63 million outstanding under the Receivables Purchase Agreement Facility.

DERIVATIVE FINANCIAL INSTRUMENTS

As at September 30, 2016, the fair value of derivative financial instruments (cash flow hedges) amounted to £33 million. See "*Management's Discussion and Analysis of Financial Condition and Results of Operation—Derivative Financial Instruments.*"

DESCRIPTION OF THE NOTES

In this "*Description of the Notes*," the word "Issuer" refers only to TalkTalk Telecom Group PLC and not to any of its Subsidiaries (as defined hereafter), except for the purposes of financial data determined on a consolidated basis. The word "Notes," unless the context requires otherwise, also refers to "book entry interests" in the Notes, as defined herein. The definitions of certain other terms used in this description are set forth throughout the text or under "*—Certain Definitions*."

The Issuer will issue £300,000,000 aggregate principal amount of % Senior Notes due 2022 (the "**Notes**") under an indenture dated on or about , 2017 (the "**Indenture**") between, among others, the Issuer, the Guarantors and BNY Mellon Corporate Trustee Services Limited, as trustee (the "**Trustee**"). The terms of the Notes include those set forth in the Indenture.

The Indenture is unlimited in aggregate principal amount, of which £300,000,000 aggregate principal amount of Notes will be issued in this Offering. We may in the future, subject to applicable law, issue an unlimited principal amount of additional Notes having identical terms and conditions (other than the Issue Date) as the Notes (together with the Notes, the "**Additional Notes**"). We will only be permitted to issue Additional Notes in compliance with the covenants contained in the Indenture, including the covenant restricting the Incurrence of Debt (as described below under "*—Certain Covenants—Limitation on Debt*"). The Notes and any Additional Notes will be treated as a single class for all purposes under the Indenture, including, without limitation, with respect to waivers, amendments, redemptions and offers to purchase.

The following description is a summary of the material terms of the Indenture. It does not, however, restate the Indenture in its entirety and where reference is made to a particular provision of the Indenture, such reference, including the definitions of certain terms, is qualified in its entirety by reference to all of the provisions of the Notes and the Indenture. You should read the Indenture and the Notes because they contain additional information and because they and not this description define your rights as a Holder of the Notes. A copy of the Indenture may be obtained from the Issuer at the address indicated under "*Listing and General Information*." The Indenture is not qualified under, does not incorporate provisions by reference to, and is not otherwise subject to, the U.S. Trust Indenture Act of 1939, as amended (the "**TIA**") including Section 316(b) thereof.

The Issuer will make an application to The Channel Islands Securities Exchange Authority Limited (the "**Exchange**") for the listing of, and the permission to deal in the Notes, on the Official List of the Exchange. The Issuer can provide no assurance that this application will be accepted. See "*—Payments on the Notes—Paying Agent*."

The registered Holder of a Note will be treated as the owner of it for all purposes. Only registered Holders will have rights under the Indenture.

Brief Description of the Structure and Ranking of the Notes and the Guarantees

The Notes

The Notes:

(a) are the Issuer's general unsecured obligations;

(b) mature on , 2022;

(c) rank equally in right of payment with all of the Issuer's existing and future debt that is not subordinated in right of payment to the Notes;

(d) are structurally subordinated to all existing and future debt of Subsidiaries of the Issuer that do not provide Guarantees;

(e) are effectively subordinated to all existing and future secured debt of the Issuer to the extent of the assets securing such debt; and

(f) are guaranteed on a senior basis by the Guarantors.

The Guarantees

Each Guarantee:

(a) is a general unsecured obligation of the Guarantor that granted such Guarantee;

(b) ranks equally in right of payment with all of such Guarantor's existing and future debt that is not subordinated in right of payment to such Guarantee;

(c) is effectively subordinated to all existing and future secured debt of such Guarantor to the extent of the assets securing such debt; and

(d) ranks senior in right of payment to any and all of such Guarantor's existing and future debt that is subordinated in right of payment to its Guarantee.

General

As at September 30, 2016, after giving effect to the Offering and the use of proceeds therefrom, total borrowings of the Issuer and Guarantors and the non-guarantor subsidiaries would have been £880 million and £nil million, respectively.

The Guarantors represented 94.9% of our headline revenue, 87.2% of our headline EBITDA and 96.7% of our total assets for the year ended March 31, 2016 and 94.8% of our headline revenue, 85.6% of our headline EBITDA; and 96.7% of our total assets for the six months ended September 30, 2016.

The Notes are effectively subordinated in right of payment to all Debt and other liabilities and commitments (including trade payables and lease obligations) of the Issuer's Subsidiaries that are not Guarantors. Any right of the Issuer to receive assets of any of its Subsidiaries upon the Subsidiary's liquidation or reorganization (and the consequent right of the Holders to participate in those assets) will be effectively subordinated to the claims of that Subsidiary's creditors, except to the extent that the Issuer is itself recognized as a creditor of the Subsidiary, in which case the claims of the Issuer would still be subordinated in right of payment to any security in the assets of the Subsidiary and any Debt of the Subsidiary senior to that held by the Issuer.

As at the Issue Date, all of the Issuer's Subsidiaries will be "Restricted Subsidiaries." However, under the circumstances described below under "*—Certain Covenants—Designation of Restricted and Unrestricted Subsidiaries*," the Issuer will be permitted to designate certain of its Subsidiaries as "Unrestricted Subsidiaries." Unrestricted Subsidiaries of the Issuer will not be subject to the restrictive covenants in the Indenture. Further, Unrestricted Subsidiaries of the Issuer will not Guarantee the Notes.

Although the Indenture contains limitations on the amount of additional Debt that the Issuer, the Guarantors and the Restricted Subsidiaries may incur, the amount of such additional Debt could be substantial. The Indenture will permit additional Debt to be secured.

Principal, Maturity and Interest

The Notes will mature on , 2022 unless redeemed prior thereto as described herein. The redemption price at maturity will be 100% of the principal amount. The Issuer will issue the Notes in the aggregate principal amount of £300,000,000. Each Note will bear interest at a rate per annum of % and will be payable semi-annually from , 2017, or from the most recent interest payment date to which interest has been paid or provided for, whichever is later. Interest will be payable on each Note on and of each year, commencing on , 2017. Interest will be payable to Holders of record on each Note in respect of the principal amount thereof outstanding as at the immediately preceding or , as the case may be. If the due date for any payment in respect of the Notes is not a Business Day at the place where such payment is due to be paid, the Holder thereof will not be entitled to payment of the amount until the next succeeding Business Day at such place, and will not be entitled to any further interest or other payment as a result of such delay. The rights of Holders in beneficial interest of the Notes to receive the payments on such Notes are subject to applicable procedures or Euroclear and/or Clearstream.

Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

From time to time, subject to the Issuer's compliance with the covenants contained in the Indenture, including the covenants restricting the incurrence of Debt (as described below under "*—Certain Covenants—Limitation on Debt*"), the Issuer is permitted to issue additional Notes, which shall have terms substantially identical to the Notes except in respect of any of the following terms which shall be set forth in an Officer's Certificate supplied to the Trustee (the "**Additional Notes**"):

(a) the title of such Additional Notes;

(b) the aggregate principal amount of such Additional Notes;

(c) the date or dates on which such Additional Notes will be issued;

(d) the rate or rates (which may be fixed or floating) at which such Additional Notes shall bear interest and, if applicable, the interest rate basis, formula or other method of determining such interest rate or rates, the date or dates from which such interest shall accrue, the interest payment dates on which such interest shall be payable or the method by which such dates will be determined, the record dates for the determination of Holders thereof to whom such interest is payable and the basis upon which such interest will be calculated;

(e) the currency or currencies in which such Additional Notes shall be denominated and the currency in which cash or government obligations in connection with such series of Additional Notes may be payable;

(f) the date or dates and price or prices at which, the period or periods within which, and the terms and conditions upon which, such Additional Notes may be redeemed, in whole or in part;

(g) if other than denominations of £100,000 and in integral multiples of £1,000 in excess thereof the denominations in which such Additional Notes shall be issued and redeemed; and

(h) the ISIN, Common Code, CUSIP or other securities identification numbers with respect to such Additional Notes.

Such Additional Notes will be treated, along with all other series of Notes, as a single class for the purposes of the Indenture with respect to waivers, amendments and all other matters which are not specifically distinguished for such series. Unless the context otherwise requires, for all purposes of the Indenture and this "*Description of the Notes*," references to "*Notes*" shall be deemed to include references to the Initial Notes as well as any Additional Notes. For all purposes other than U.S. federal income tax purposes, the Notes and any Additional Notes shall be deemed to form one series, and references to the "Notes" shall be deemed to refer to the Initial Notes as well as any Additional Notes. In the event that any Additional Notes are not fungible with any Notes previously issued for U.S. federal income tax purposes, such non-fungible Additional Notes shall be issued with a separate ISIN, Common Code, CUSIP or other securities identification number, as applicable, so that they are distinguishable from such previously issued Notes.

Form of Notes

The Notes will be issued only in fully registered form without coupons and only in denominations of £100,000 and integral multiples of £1,000 in excess thereof.

The Notes will be initially in the form of one global Note (the "**Global Note**"). The Global Note will be deposited with a common depositary for Euroclear and Clearstream or registered in the name of the nominee of such common depositary. Ownership of interests in the Global Note, referred to in this description as "book-entry interests," will be limited to persons that have accounts with Euroclear or Clearstream or their respective participants. The terms of the Indenture will provide for the issuance of Definitive Registered Notes in certain circumstances.

See "*Book-Entry; Delivery and Form.*"

Transfer

The Notes will be subject to certain restrictions on transfer and certification requirements, as described under "*Notice to Investors*."

All transfers of book-entry interests between participants in Euroclear or Clearstream will be effected by Euroclear or Clearstream pursuant to customary procedures and subject to applicable rules and procedures established by Euroclear or Clearstream and their respective participants. See "*Book-Entry; Delivery and Form.*"

Payments on the Notes; Paying Agent

The Issuer will make all payments, including principal of, premium, if any, and interest on the Notes, at its office or through agent in London, England that it will maintain for these purposes. Initially, that agent will be The Bank of New York Mellon, London Branch (the "**Paying Agent**"). The Issuer may change the Paying Agent without prior notice to the Holders. In addition, the Issuer or any of its Subsidiaries may act as Paying Agent in connection with the Notes other than for the purposes of effecting a redemption described under "*—Optional Redemption*" or an offer to purchase the Notes described under either of "*—Certain Covenants—Change of Control*" or "*—Certain Covenants—Limitation on Asset Sales*." The Issuer will make all payments in same-day funds.

Holders will not be responsible for any service charge for any registration of transfer, exchange or redemption of the Notes, but the Issuer may require payment of a sum sufficient to cover any transfer tax or similar governmental charge payable in connection with any such registration of transfer or exchange.

Guarantees

General

Under the Indenture, the Guarantors will jointly and severally agree to guarantee the due and punctual payment of all amounts payable under the Notes, including principal, premium, if any, and interest payable under the Notes.

The obligations of each Guarantor under its Guarantee will be limited to an amount not to exceed the maximum amount that can be guaranteed by such Guarantor by law or without resulting in its obligations under its Guarantee being voidable or unenforceable under applicable laws relating to fraudulent transfer, fraudulent conveyance, corporate benefit or similar laws affecting the rights of creditors generally. Each Guarantor that makes a payment or distribution under its Guarantee will be entitled to contribution from any other Guarantor.

Release of the Guarantees

A Guarantee will be automatically and unconditionally released (and thereupon will terminate and be discharged and be of no further force and effect):

(1) upon the sale or disposition (including through merger, consolidation, amalgamation or other combination) or conveyance, transfer or lease of the Capital Stock, or all or substantially all of the assets, of the Guarantor (or a Holding Company thereof) if such sale is made in compliance either with the covenant described under "*—Certain Covenants—Limitation on Asset Sales*" or with the covenant described under "*—Certain Covenants—Merger, Consolidation or Sale of Assets*";

(2) in connection with any sale or other disposition of the Capital Stock of the Guarantor (or Capital Stock of any Holding Company of such Guarantor (other than the Issuer)) (whether by direct sale or through a holding company) to a Person that is not (either before or after giving effect to such transaction) the Issuer or a Restricted Subsidiary of the Issuer, if the sale or other disposition does not violate the provisions set forth below under "*—Certain Covenants—Limitation on Asset Sales*" and as a result of such disposition such Guarantor no longer qualifies as a Subsidiary of the Issuer;

(3) upon a defeasance or satisfaction and discharge of the Indenture that complies with the provisions under "*—Defeasance*" or "*—Satisfaction and Discharge*;"

(4) upon the designation by the Issuer of the Guarantor (or a Holding Company thereof) as an Unrestricted Subsidiary in compliance with the terms of the Indenture;

(5) upon the liquidation or dissolution of the Guarantor; provided that no Default or Event of Default has occurred and is continuing;

(6) upon repayment in full of the Notes;

(7) in the case of any Restricted Subsidiary that after the Issue Date is required to guarantee the Notes pursuant to the covenant described under "*—Certain Covenants—Limitation on Guarantees of Debt by Restricted Subsidiaries*", the release or discharge of the guarantee of Debt by such Restricted Subsidiary which resulted in the obligation to guarantee the Notes; or

(8) as described under "*—Amendments and Waivers*."

Upon any occurrence giving rise to a release of a Guarantee as specified above, the Trustee will execute, subject to the receipt of certain Officer's Certificates and/or opinions from or on behalf of the Issuer, any documents reasonably required in order to evidence or effect such release, discharge and termination in respect of such Guarantee. Neither the Issuer nor any Guarantor will be required to make a notation on the Notes to reflect any such Guarantee or any such release, termination or discharge. Each of the releases and amendments set forth above shall be effected by the Trustee without any consent of the Holders or any other action or consent on the part of the Trustee.

Limitations on the value of the Guarantees

The Notes are guaranteed by the Guarantors on a joint and several basis. The obligations of the Guarantors under the Guarantees are contractually limited to reflect limitations under applicable law with respect to maintenance of share capital, corporate benefit, fraudulent conveyance and other legal restrictions applicable to the Guarantors and their respective shareholders, directors and general partners. For a description of such limitations, see "*Risk Factors—Risks Related to the Notes and the Guarantees—Each Guarantee may be subject* *to certain limitations on enforcement and may be limited by applicable laws or subject to certain limitations or defenses that may limits validity and enforceability*" and "*Certain Insolvency and Enforceability Considerations*."

Additional Amounts

All payments made under or with respect to the Notes or the Guarantees will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, levies, imposts, assessments or governmental charges of whatever nature imposed or levied by or on behalf of any jurisdiction in which the Issuer or any Guarantor is organized, engaged in business, resident for tax purposes, or from or through which payment on the Notes is made, or any political subdivision or authority thereof or therein, having the power to tax (each, a "Relevant Taxing Jurisdiction") and any interest, penalties and other liabilities with respect thereto (collectively, "Taxes"), unless the withholding or deduction of such Taxes is required by law or by the authority of a Relevant Taxing Jurisdiction's interpretation or administration thereof. In the event that the Issuer or a Guarantor is required to so withhold or deduct any amount for or on account of any such Taxes from any payment made under or with respect to the Notes, the Issuer or Guarantor, as the case may be, will pay such additional amounts ("Additional Amounts") as may be necessary so that the net amount received by each Holder of the Notes (including Additional Amounts) after such withholding or deduction will be not less than the amount that such Holder would have received if such Taxes had not been required to be withheld or deducted.

Notwithstanding the foregoing, neither the Issuer nor any Guarantor will pay Additional Amounts to a Holder or beneficial owner of any Note in respect or on account of:

(a) any Taxes that are imposed or levied by a Relevant Taxing Jurisdiction by reason of the Holder's (or, if applicable, its partner's, shareholder's or beneficial owner's) present or former connection with such Relevant Taxing Jurisdiction (including, but not limited to, citizenship, nationality, residence, domicile, or existence of a business, a permanent establishment, a place of business or a place of management present or deemed present within the Relevant Taxing Jurisdiction) other than the mere receipt or holding of any Note or by reason of the receipt of payments thereunder or the exercise or enforcement of rights under such Note, any Guarantee or the Indenture;

(b) any Taxes that are imposed or withheld by reason of the failure of the Holder or beneficial owner of any Note, prior to the relevant date on which a payment under and with respect to the Notes is due and payable (the "**Relevant Payment Date**"), to comply with the Issuer's written request addressed to the Holder at least 30 calendar days prior to the Relevant Payment Date to provide accurate information with respect to any certification, identification, information or other reporting requirements concerning nationality, residence, identity or connection with the Relevant Taxing Jurisdiction which the Holder or such beneficial owner is legally required to satisfy, whether imposed by statute, treaty, regulation or administrative practice, in each such case by the Relevant Taxing Jurisdiction, as a precondition to exemption from, or reduction in the rate of deduction or withholding of, Taxes imposed by the Relevant Taxing Jurisdiction (including, without limitation, a certification that the Holder or beneficial owner is not resident in the Relevant Taxing Jurisdiction);

(c) any estate, inheritance, gift, sales, personal property or similar Taxes;

(d) any Tax that is payable other than by deduction or withholding from payments made under or with respect to any Note or Guarantee;

(e) any Tax which would not have been so imposed but for the presentation (where presentation is required in order to receive payment) by the Holder or beneficial owner of a Note for payment on a date more than 30 days after the date on which such payment becomes due and payable or the date on which payment thereof is duly provided for, whichever occurs later, except to the extent that the Holder or beneficial owner would have been entitled to such Additional Amounts on presenting the same for payment on any day (including the last day) within such 30-day period;

(f) any Taxes imposed on or with respect to any payment by the Issuer or Guarantor to the Holder if such Holder is a fiduciary or any person other than the beneficial owner of such payment to the extent that Taxes would not have been imposed on such payment had such Holder been the beneficial owner of such Note; or

(g) any withholding or deduction required to be made from a payment pursuant to sections 1471-1474 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), as of the issue date (or any amended or successor version that is substantively comparable and not materially more onerous to comply with), any current or future regulations or official interpretations thereof, any similar law or regulation adopted pursuant to an intergovernmental agreement between a non-U.S. jurisdiction and the United States with respect to the foregoing or any agreements entered into pursuant to section 1471(b)(1) of the Code.

In addition, Additional Amounts will not be payable with respect to any Taxes that are imposed in respect of any combination of the above items.

The Issuer or Guarantors will also make or cause to be made such withholding or deduction of Taxes and remit the full amount of Taxes so deducted or withheld to the relevant taxing authority in accordance with all applicable laws. The Issuer will, upon request, make available to the Holders, within 30 days after the date on which the payment of any Taxes so deducted or withheld is due pursuant to applicable law, certified copies of tax receipts evidencing such payment by the Issuer or if, notwithstanding the Issuer's reasonable efforts to obtain such receipts, the same are not obtainable, other evidence reasonably satisfactory to the Trustee of such payment by the Issuer.

At least 30 calendar days prior to each date on which any payment under or with respect to the Notes is due and payable, if the Issuer or a Guarantor will be obliged to pay Additional Amounts with respect to such payment (unless such obligation to pay Additional Amounts arises after the 30th day prior to the date on which payment under or with respect to the Notes is due and payable, in which case it will be promptly thereafter), the Issuer or Guarantor will deliver to the Trustee and the Paying Agent an Officer's Certificate stating that such Additional Amounts will be payable and the amounts so payable and setting forth such other information as is necessary to enable the Trustee or Paying Agent to pay such Additional Amounts to the Holders and beneficial owners on the payment date. The Trustee and the Paying Agent shall be entitled to rely solely on such Officer's Certificate as conclusive proof that such payments are necessary.

In addition, the Issuer or the Guarantors will pay (i) any present or future stamp, issue, registration, transfer, documentation, court, excise or property taxes or other similar taxes, charges and duties, including interest, penalties and Additional Amounts with respect thereto imposed or levied by any Relevant Taxing Jurisdiction, in respect of the execution, issue, delivery or registration of the Notes, the Indenture or the Guarantees, or any other document or instrument referred to thereunder (other than transfers of the Notes following the initial resale of the Notes by the Initial Purchasers); (ii) any such taxes, charges or duties imposed by any Relevant Taxing Jurisdiction as a result of, or in connection with, the enforcement of the Notes, Guarantees or any other such document or instrument following the occurrence of any Event of Default with respect to the Notes; and (iii) any stamp, court or documentary taxes (or similar charges or levies) imposed by any Relevant Taxing Jurisdiction with respect to the receipt of any payments with respect to the Notes or the Guarantees (limited to any such taxes (or similar charges or levies) that are not excluded under clauses (a) through (c) or (e) through (g) above or any combination thereof).

The foregoing provisions will survive any termination, defeasance or discharge of the Indenture and will apply *mutatis mutandis* to any jurisdiction in which any Surviving Entity (as defined below) or successor person to the Issuer or a Guarantor is organized, engaged in business, or resident for tax purposes or any political subdivision or taxing authority or agency thereof or therein.

Whenever in the Indenture or this "*Description of the Notes*" there is mentioned, in any context, the payment of principal (and premiums, if any), Redemption Price, interest or any other amount payable under or with respect to any Note (including payments thereof made pursuant to any Guarantee), such mention will be deemed to include mention of the payment of Additional Amounts.

Optional Redemption

General

Any redemption and notice of redemption may, at the Issuer's discretion, be subject to the satisfaction of one or more conditions precedent (including, without limitation, in the case of a redemption related to an Equity Offering, the consummation of such Equity Offering and, in the case of a redemption of the Notes, the incurrence of indebtedness the proceeds of which will be used to redeem the Notes). In addition, if such redemption or notice is subject to satisfaction of one or more conditions precedent, such notice shall state that, in the Issuer's discretion, the redemption date may be delayed until such time as any or all such conditions shall be satisfied, or such redemption may not occur and such notice may be rescinded in the event that any or all such conditions shall not have been satisfied by the redemption date, or by the redemption date so delayed.

In the case of any partial redemption, unless otherwise required by law, the Notes to be redeemed will be selected in compliance with the requirements of the principal securities exchange, if any, on which the Notes are listed, and in compliance with the applicable procedures and requirements of the relevant depositary, or, if the Notes are not listed, and the relevant depositary has no such procedures or requirements, then on a *pro rata* basis, by lot or by such other method as the Trustee in its sole discretion will deem to be fair and appropriate, although no Note of £100,000 in original principal amount or less will be redeemed in part. The Trustee, Paying Agent or Registrar shall not be liable for any selection made under this paragraph. If any Note is to be redeemed in part only, the notice of redemption relating to that Note will state the portion of the principal amount thereof to be redeemed. A new Note in principal amount equal to the unredeemed portion thereof will be issued and delivered in the name of the Holder thereof upon cancellation of the original Note.

Unless the Issuer defaults in the payment of the redemption price, interest will cease to accrue on the Notes or portion thereof called for redemption on the applicable redemption date. Any such redemption or notice may, at the Issuer's discretion, be subject to one or more conditions precedent.

Optional Redemption prior to , 2019 upon Equity Offering

At any time prior to , 2019, upon not less than 10 nor more than 60 days' notice, the Issuer may on any one or more occasions redeem up to 40% of the aggregate principal amount of Notes at a redemption price of % of their principal amount, plus accrued and unpaid interest, if any, to the redemption date, with the net proceeds from one or more Equity Offerings. The Issuer may only do this, however, if:

(a) at least 50% of the aggregate principal amount of Notes that were initially issued (calculated after giving effect to the issuance of any Additional Notes) would remain outstanding immediately after the proposed redemption; and

(b) the redemption occurs within 90 days after the closing of such Equity Offering.

Optional Redemption prior to , 2019

At any time prior to , 2019, upon not less than 10 nor more than 60 days' notice, the Issuer may also redeem all or part of the Notes at a redemption price equal to 100% of the principal amount thereof plus the Applicable Redemption Premium and accrued and unpaid interest to the redemption date.

Optional Redemption on or after , 2019

At any time on or after , 2019 and prior to maturity, upon not less than 10 nor more than 60 days' notice, the Issuer may redeem all or part of the Notes. These redemptions will be in amounts of £100,000 or integral multiples of £1,000 in excess thereof at the following redemption prices (expressed as percentages of their principal amount at maturity), plus accrued and unpaid interest, if any, to the redemption date, if redeemed during the 12-month period commencing on of the years set forth below.

Year	Redemption Price
2019	%
2020	%
2021 and thereafter	100.00%

Redemption Upon Changes in Withholding Taxes

The Issuer may, at its option, redeem the Notes, in whole but not in part, at any time upon giving not less than 10 nor more than 60 days' notice to the Holders, at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest thereon, if any, to the redemption date and all Additional Amounts, if any, then due and which will become due on the date of redemption as a result of the redemption or otherwise, if the Issuer determines in good faith that the Issuer or any Guarantor is or, on the next date on which any amount would be payable in respect of the Notes, would be obliged to pay Additional Amounts (as defined above under "—*Additional Amounts*") which are more than a *de minimis* amount in respect of the Notes or the Guarantees pursuant to the terms and conditions thereof, which the Issuer or Guarantor cannot avoid by the use of reasonable measures available to it (including making payment through a Paying Agent located in another jurisdiction and, in the case of the Guarantor, only if the payment giving rise to such requirement cannot be made by the Issuer or another Guarantor without the obligation to pay Additional Amounts), as a result of:

(a) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of any Relevant Taxing Jurisdiction (as defined above under "—*Additional Amounts*") affecting taxation which becomes effective on or after the date of the Indenture or, if the Relevant Taxing Jurisdiction has changed since the date of the Indenture, on or after the date on which the then current Relevant Taxing Jurisdiction became the Relevant Taxing Jurisdiction under the Indenture; or

(b) any change in the official application, administration, or interpretation of the laws, treaties, regulations or rulings of any Relevant Taxing Jurisdiction (including a holding, judgment or order by a court of competent jurisdiction) on or after the date of the Indenture or, if the Relevant Taxing Jurisdiction has changed since the date of the Indenture, on or after the date on which the then current Relevant Taxing Jurisdiction became the Relevant Taxing Jurisdiction under the Indenture (each of the foregoing clauses (a) and (b), a "**Change in Tax Law**").

Notwithstanding the foregoing, the Issuer may not redeem the Notes under this provision if the Relevant Taxing Jurisdiction changes under the Indenture and the Issuer is obliged to pay Additional Amounts as a result of a Change in Tax Law of the then current Relevant Taxing Jurisdiction which, at the time the latter became the Relevant Taxing Jurisdiction under the Indenture, had been publicly announced as being or having been formally proposed.

Notwithstanding the foregoing, no such notice of redemption will be given (a) earlier than 60 days prior to the earliest date on which the Issuer or Guarantor would be obliged to make such payment of Additional Amounts or withholding if a payment in respect of the Notes were then due and (b) unless at the time such notice is given, the obligation to pay Additional Amounts remains in effect.

Prior to the publication or, where relevant, mailing of any notice of redemption pursuant to the foregoing, the Issuer will deliver to the Trustee:

(a) an Officer's Certificate stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer to so redeem have occurred (including that such obligation to pay such Additional Amounts cannot be avoided by the Issuer or Guarantor taking reasonable measures available to it); and

(b) an opinion of independent tax counsel of recognized standing, qualified under the laws of the Relevant Taxing Jurisdiction and reasonably satisfactory to the Trustee to the effect that the Issuer or Guarantor, as the case may be, is or would be obliged to pay such Additional Amounts as a result of a Change in Tax Law.

The Trustee will accept such Officer's Certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent as described above, in which event it will be conclusive and binding on the Holders.

The foregoing provisions will apply mutatis mutandis to any successor person, after such successor person becomes a party to the Indenture, with respect to a Change in Tax Law occurring after the time such successor person becomes a party to the Indenture.

Notice of Optional Redemption

If the Notes are listed on the Official List of the Exchange and the rules of the Exchange so require, the Issuer will inform the Exchange of the principal amount of the Notes that have not been redeemed in connection with any optional redemption. If fewer than all the Notes are to be redeemed at any time, the Notes will be selected in accordance with the methods described "*—Optional Redemption—General*."

Mandatory Redemption; Offers to Purchase; Open Market Purchases

The Issuer will not be required to make any mandatory redemption or sinking fund payments with respect to the Notes. However, under certain circumstances, the Issuer may be required to offer to purchase the Notes as described under the captions "*—Certain Covenants—Change of Control*" and "*—Certain Covenants—Limitation on Asset Sales*." The Issuer and the Restricted Subsidiaries may at any time and from time to time purchase Notes in the open market or otherwise.

Certain Covenants

The Indenture will contain, among others, the following covenants.

Limitation on Debt

(1) The Issuer will not, and will not permit any Restricted Subsidiary to, create, issue, incur, assume, guarantee or in any manner become directly or indirectly liable with respect to or otherwise become

responsible for, contingently or otherwise, the payment of (individually and collectively, to "**Incur**" or, as appropriate, an "**Incurrence**"), any Debt (including any Acquired Debt); *provided* that the Issuer and any Restricted Subsidiary will be permitted to Incur Debt (including Acquired Debt) if, at the time of such Incurrence and after giving effect to the Incurrence of such Debt and the application of the proceeds thereof, on a *pro forma* basis, the Consolidated Leverage Ratio would not be greater than 4.00 to 1.00; and

(2) This "*Limitation on Debt*" covenant will not, however, prohibit the following (collectively, "Permitted Debt"):

(a) the Incurrence by the Issuer or any Restricted Subsidiary of Debt under Credit Facilities in an aggregate principal amount at any one time outstanding not to exceed (i) £895.0 million *plus* (ii) in the case of any refinancing of any Debt permitted under this clause, the aggregate amount of fees, underwriting discounts, premiums and other costs and expenses incurred in connection with such refinancing;

(b) the Incurrence by the Issuer of Debt pursuant to the Notes (other than Additional Notes) and the Incurrence of Debt by the Guarantors pursuant to the Guarantees (other than Guarantees of Additional Notes);

(c) any Debt of the Issuer or any Restricted Subsidiary outstanding on the Issue Date (other than Debt described in clauses (a) or (b) of this paragraph (2));

(d) the Incurrence by the Issuer or any Restricted Subsidiary of intercompany Debt between the Issuer and any Restricted Subsidiary or between or among Restricted Subsidiaries; *provided* that:

(i) if the Issuer or a Guarantor is the obligor on any such Debt and the lender of such Debt is not the Issuer or a Guarantor, it is unsecured and expressly subordinated in right of payment to the prior payment in full in cash (whether upon Stated Maturity, acceleration or otherwise) and the performance in full of its obligations under the Notes or its Guarantee, as the case may be; and

(ii) (x) any disposition, pledge or transfer of any such Debt to any Person (other than a disposition, pledge or transfer to the Issuer or a Restricted Subsidiary) and (y) any transaction pursuant to which any Restricted Subsidiary that has Debt owing from the Issuer or another Restricted Subsidiary ceases to be a Restricted Subsidiary, will, in each case, be deemed to be an Incurrence of such Debt not permitted by this clause (d);

(e) (i) guarantees by the Issuer or any Restricted Subsidiary of Debt of the Issuer or any Restricted Subsidiary, in each case so long as the Incurrence of such Debt is permitted under the terms of the Indenture; or

(ii) without limiting the covenant described under "—*Limitation on Liens*," Debt arising by reason of any Lien granted by or applicable to such Person securing Debt of the Issuer or any Restricted Subsidiary so long as the Incurrence of such Debt is permitted under the terms of the Indenture;

(f) the Incurrence by the Issuer or any Restricted Subsidiary of Debt represented by Capitalized Lease Obligations, mortgage financings, purchase money obligations or other Debt Incurred or assumed in connection with the acquisition, lease, rental or development and improvement of real or personal, movable or immovable, property or assets (including, without limitation, network assets), in each case, Incurred for the purpose of financing or refinancing all or any part of the purchase price, lease expense or cost of construction or improvement of property plant or equipment used in the Issuer's or any Restricted Subsidiary's business (including any reasonable related fees or expenses Incurred in connection with such acquisition or development); *provided* that the principal amount of such Debt so Incurred when aggregated with other Debt previously Incurred in reliance on this clause (f) and still outstanding shall not in the aggregate exceed the greater of £25.0 million and 8.4% of Consolidated EBITDA; *provided further* that such Debt exists prior to or on the date of such acquisition, lease, rental or development and improvement or is created within 270 days thereafter;

(g) the Incurrence by the Issuer or any Restricted Subsidiary of Debt arising from agreements providing for guarantees, indemnities or obligations in respect of earnouts or other purchase price adjustments in connection with the acquisition or disposition of assets, including, without limitation, shares of Capital Stock, other than guarantees or similar credit support given by the Issuer or any Restricted Subsidiary of Debt Incurred by any Person acquiring all or any portion of such assets for the purpose of financing such acquisition; *provided* that the maximum aggregate liability in respect of all such Debt permitted pursuant to this clause (g) will at no time exceed the gross proceeds, including non-cash proceeds (the Fair Market Value of such non-cash proceeds being measured at the time received and without giving effect to any subsequent changes in value), actually received from the sale of such assets;

(h) the Incurrence by the Issuer or any Restricted Subsidiary of Debt under Hedging Agreements entered into in the ordinary course of business and not for speculative purposes;

(i) the Incurrence by the Issuer or any Restricted Subsidiary of Debt in respect of workers' compensation and claims arising under similar legislation, or pursuant to self-insurance obligations and not in connection with the borrowing of money or the obtaining of advances or credit;

(j) Debt owed on a short-term basis of no longer than 30 days to banks and other financial institutions Incurred in the ordinary course of business of the Issuer and its Restricted Subsidiaries with such banks or financial institutions that arises in connection with ordinary banking arrangements to manage cash balances of the Issuer and its Restricted Subsidiaries;

(k) the Incurrence of Debt by the Issuer or any Restricted Subsidiary arising from (i) the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently (except in the case of daylight overdrafts) drawn against insufficient funds in the ordinary course of business; *provided* that such Debt is extinguished within 30 business days of Incurrence, (ii) bankers' acceptances, performance, surety, judgment, appeal or similar bonds, instruments or obligations and (iii) completion guarantees provided or letters of credit obtained by the Issuer or any Restricted Subsidiary in the ordinary course of business;

(l) the Incurrence by the Issuer or any Restricted Subsidiary of Permitted Refinancing Debt in exchange for or the net proceeds of which are used to refund, replace or refinance Debt Incurred by it pursuant to, or described in, paragraphs (1), 2(b), (c), (l) and (y) of this "Limitation on Debt" covenant, as the case may be;

(m) Customer deposits and advance payments received in the ordinary course of business from customers for goods purchased in the ordinary course of business;

(n) Management Advances;

(o) any customary cash management, cash pooling or netting or setting off arrangements in the ordinary course of business;

(p) without limiting the covenant described under "*—Limitation on Guarantees of Debt by Restricted Subsidiaries*," the guarantee by the Issuer or any Restricted Subsidiary of Debt that was permitted to be incurred by another provision of this covenant; *provided* that if the Debt being guaranteed is subordinated to the Notes or is unsecured, then the guarantee shall be subordinated or unsecured to the same extent as the Debt guaranteed;

(q) without limiting the covenant described under *"—Limitation on Liens*," Debt arising by reason of any Lien granted by or applicable to such Person securing Debt of the Issuer or any Restricted Subsidiary so long as the Incurrence of such Debt is permitted under the terms of the Indenture;

(r) Debt consisting of (i) the financing of insurance premiums, (ii) take or pay obligations contained in supply agreements or (iii) rental guarantees, in each case, in the ordinary course of business;

(s) guarantees of the obligations of Qualified Joint Ventures at any time outstanding not exceeding the greater of £50.0 million and 16.7% of Consolidated EBITDA in aggregate principal amount;

(t) (x) the Incurrence of Debt by the Issuer or any Restricted Subsidiary to finance an acquisition or (y) Acquired Debt; *provided* that, after giving *pro forma* effect to such acquisition, (i) the Issuer would have been able to incur £1.00 of additional Debt pursuant to paragraph (1) of this covenant or (ii) the Consolidated Leverage Ratio would not be greater than immediately prior to such acquisition and incurrence; and

(u) Debt of the Issuer or any Restricted Subsidiary relating to any VAT liabilities or deferral of PAYE taxes with the agreement of the UK HM Revenue and Customs (including guarantees by a Restricted Subsidiary in favor of the UK HM Revenue and Customs in connection with the UK tax liability of the Issuer or any Restricted Subsidiary (including, without limitation, any VAT liabilities));

(v) Debt relating to any Receivables Financing that (except for Limited Recourse, Permitted Liens and Standard Securitization Undertakings) is not recourse to the Issuer or any Restricted Subsidiary of the Issuer other than a Receivables Entity;

(w) obligations arising from the leasing of equipment and other assets (including mobile handsets) in the ordinary course of business;

(x) any lease, concession or license of property (or Guarantee thereof) which would be considered an operating lease under IFRS; and

(y) the Incurrence of Debt by the Issuer or any Restricted Subsidiary (other than and in addition to Debt permitted under clauses (a) through (x) above) in an aggregate principal amount at any one time outstanding not to exceed the greater of £50.0 million and 16.7% of Consolidated EBITDA.

(3) For purposes of determining compliance with this "*Limitation on Debt*" covenant, in the event that an item of Debt meets the criteria of more than one of the categories of Permitted Debt described in clauses (a) through (y) of paragraph (2) above, or is entitled to be Incurred pursuant to paragraph (1) of this "*Limitation on Debt*" covenant, the Issuer will be permitted to classify such item of Debt on the date of its Incurrence in any manner that complies with this "*Limitation on Debt*" covenant. Debt under Credit Facilities outstanding on the date on which the Notes are first issued will initially be deemed to have been Incurred on such date in reliance on the exception provided by clause (a) of paragraph (2) above. In addition, any item of Debt initially classified as Incurred pursuant to one of the categories of Permitted Debt described in clauses (b) through (y) of paragraph (2) above, or entitled to be Incurred pursuant to paragraph (1) of this "*Limitation on Debt*" covenant, may later be reclassified by the Issuer such that it will be deemed as having been Incurred pursuant to such new clause or paragraph (1) of this "*Limitation on Debt*" covenant to the extent that such reclassified Debt could be Incurred pursuant to such new clause or paragraph (1) of this "*Limitation on Debt*" covenant at the time of such reclassification. Debt permitted by this covenant need not be permitted solely by reference to one provision permitting such Debt but may be permitted in part by one such provision and in part by one or more other provisions of this covenant permitting such Debt.

(4) For purposes of determining compliance with any restriction on the Incurrence of Debt in Sterling where Debt is denominated in a different currency, the amount of such Debt will be the Sterling Equivalent determined on the date of such determination; *provided* that if any such Debt denominated in a different currency is subject to a Currency Agreement (with respect to Sterling) covering principal amounts payable on such Debt, the amount of such Debt expressed in Sterling will be adjusted to take into account the effect of such agreement. The principal amount of any Permitted Refinancing Debt Incurred in the same currency as the Debt being refinanced will be the Sterling Equivalent of the Debt being refinanced determined on the date such Debt being refinanced was initially Incurred. Notwithstanding any other provision of this "*Limitation on Debt*" covenant, for purposes of determining compliance with this "*Limitation on Debt*" covenant, increases in Debt solely due to fluctuations in the exchange rates of currencies will not be deemed to exceed the maximum amount that the Issuer or a Restricted Subsidiary may Incur under the "*Limitation on Debt*" covenant.

(5) For purposes of determining any particular amount of Debt under the "*Limitation on Debt*" covenant:

(a) obligations in the form of letters of credit, guarantees or Liens, in each case supporting Debt otherwise included in the determination of such particular amount will not be included;

(b) any Liens granted pursuant to the equal and ratable provisions referred to in the "*Limitation on Liens*" covenant will not be treated as Debt; and

(c) accrual of interest, accrual of dividends, the accretion or amortization of original issue discount or of accreted value, the obligation to pay commitment fees and the payment of interest or dividends in the form of additional Debt, will not, in any case, be treated as Debt.

Limitation on Restricted Payments

(1) The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, take any of the following actions (each of which is a "**Restricted Payment**" and which are collectively referred to as "**Restricted Payments**"):

(a) declare or pay any dividend on or make any distribution (whether made in cash, securities or other property) with respect to any of the Issuer's or any Restricted Subsidiary's Capital Stock (including, without limitation, any payment in connection with any merger, consolidation, amalgamation or other combination involving the Issuer or any Restricted Subsidiary) (other than to the Issuer or any Restricted Subsidiary) except for dividends or distributions payable solely in shares of the Issuer's Qualified Capital Stock or in options, warrants or other rights to acquire such shares of Qualified Capital Stock or in Subordinated Shareholder Debt;

(b) purchase, redeem or otherwise acquire or retire for value (including, without limitation, in connection with any merger, consolidation, amalgamation or other combination), directly or indirectly, any shares of the Issuer's Capital Stock or any Capital Stock of a Holding Company of the Issuer held by persons other than the Issuer or a Restricted Subsidiary or any options, warrants or other rights to acquire such shares of Capital Stock;

(c) make any principal payment on, or repurchase, redeem, defease or otherwise acquire or retire for value, prior to any scheduled principal payment, sinking fund payment or Stated Maturity, any Subordinated Debt (other than (i) any such payment, purchase, repurchase, redemption, defeasance or other acquisition or retirement or in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case, due within one year of the date of payment, purchase, repurchase, redemption, defeasance or other acquisition or retirement and (ii) intercompany Debt between the Issuer and any Restricted Subsidiary or among Restricted Subsidiary);

(d) make any payment (whether of principal, interest or other amounts) on, or purchase, repurchase, redeem, defease or otherwise acquire or retire for value any Subordinated Shareholder Debt (other than any payment of interest thereon in the form of additional Subordinated Shareholder Debt); or

(e) make any Restricted Investment in any Person.

If any Restricted Payment described above is not made in cash, the amount of the proposed Restricted Payment will be the Fair Market Value of the asset to be transferred as at the date of transfer.

(2) Notwithstanding paragraph (1) above, the Issuer or any Restricted Subsidiary may make a Restricted Payment if, at the time of and after giving *pro forma* effect to such proposed Restricted Payment:

(a) no Default or Event of Default has occurred and is continuing;

(b) the Issuer could Incur at least £1.00 of additional Debt pursuant to the ratio set forth in paragraph (1) of the "*Limitation on Debt*" covenant; and

(c) the aggregate amount of all Restricted Payments declared or made after the Issue Date, and after giving effect to any reductions required by paragraph (4) below, does not exceed the sum of:

(i) 50% of aggregate Consolidated Net Income on a cumulative basis during the period beginning on October 1, 2016 and ending on the last day of the Issuer's last fiscal half ending prior to the date of such proposed Restricted Payment (or, if such aggregate cumulative Consolidated Net Income shall be a negative number, minus 100% of such negative amount); *plus*

(ii) the aggregate Net Cash Proceeds and the Fair Market Value of property or assets or marketable securities received by the Issuer after the Issue Date as equity capital contributions or from the issuance or sale (other than to any Subsidiary) of shares of the Issuer's Qualified Capital Stock (including upon the exercise of options, warrants or rights) or warrants, options or rights to purchase shares of the Issuer's Qualified Capital Stock (except, in each case to the extent such proceeds are used to purchase, redeem or otherwise retire Capital Stock or Subordinated Debt as set forth in clauses (d) or (e) of paragraph (3) below) (excluding the Net Cash Proceeds and the Fair Market Value of property or assets or marketable securities received from the issuance of the Issuer's Qualified Capital Stock financed, directly or indirectly, using funds borrowed from the Issuer or any Subsidiary until and to the extent such borrowing is repaid); *plus*

(iii) (x) the amount by which the Issuer's Debt or Debt of any Restricted Subsidiary is reduced on the Issuer's consolidated balance sheet after the Issue Date upon the conversion or exchange (other than by a Subsidiary) of such Debt into the Issuer's Qualified Capital Stock and (y) the aggregate Net Cash Proceeds and the Fair Market Value of property or assets or marketable securities received after the Issue Date by the Issuer from the issuance or sale (other than to any Subsidiary) of Redeemable Capital Stock that has been converted into or exchanged for the Issuer's Qualified Capital Stock, to the extent such Redeemable Capital Stock was originally sold for cash or Cash Equivalents, together with, in the case of both clauses (x) and (y), the aggregate Net Cash Proceeds and the Fair Market Value of property or assets or marketable securities received by the Issuer at the time of such conversion or exchange (excluding the Net Cash Proceeds from the issuance of the Issuer's Qualified Capital Stock financed, directly or indirectly, using funds borrowed from the Issuer or any Subsidiary until and to the extent such borrowing is repaid); *plus*

(iv) repurchases, redemptions or other acquisitions or retirements of any such Restricted Investment, proceeds realized upon the sale or other disposition to a Person other than the Issuer or a Restricted Subsidiary of any such Restricted Investment, repayments of loans or advances or other transfers of assets (including by way of dividend, distribution, interest payments or returns of capital) to the Issuer or any Restricted Subsidiary, less the cost of the disposition of such Investment and net of taxes, (y) if such Investment constituted a guarantee, an amount equal to the amount of such guarantee upon the full and unconditional release of such guarantee and (z) in the case of the designation of an Unrestricted Subsidiary as a Restricted Subsidiary (as long as the designation of such Subsidiary as an Unrestricted Subsidiary was deemed a Restricted Payment), the Fair Market Value of the Issuer's interest in such Subsidiary; *plus*

(v) in the event that the Issuer or any Restricted Subsidiary makes any Investment in a Person that, as a result of or in connection with such Investment, becomes a Restricted Subsidiary, an amount equal to the Fair Market Value of Issuer's or such Restricted Subsidiary's existing interest in such Person that was previously treated as a Restricted Payment.

(3) Notwithstanding paragraphs (1) and (2) above, the Issuer and any Restricted Subsidiary may take the following actions so long as (with respect to clauses (o) and (p) below) no Default or Event of Default has occurred and is continuing:

(a) the payment of any dividend within 60 days after the date of its declaration if at such date of its declaration such payment would have been permitted by the provisions of this "*Limitation on Restricted Payments*" covenant;

(b) cash payments in lieu of issuing fractional shares pursuant to the exchange or conversion of any exchangeable or convertible securities;

(c) the purchase, repurchase, redemption, defeasance or other acquisition, cancellation or retirement for value of any Capital Stock of the Issuer or any Restricted Subsidiary of the Issuer (including any options, warrants or other rights in respect thereof) and loans, advances, dividends or distributions by the Issuer to any Parent to permit any Parent to purchase, repurchase, redeem, defease or otherwise acquire, cancel or retire for value Capital Stock of the Issuer, any Restricted Subsidiary or any Parent (including any options, warrants or other rights in respect thereof), or payments to purchase, repurchase, redeem, defease or otherwise acquire, cancel or retire for value Capital Stock of the Issuer, any Restricted Subsidiary or any Parent (including any options, warrants or other rights in respect thereof), in each case, from any current or former officer, director, consultant, or employee of the Issuer or any of its Restricted Subsidiaries or any Parent pursuant to any equity subscription agreement, management equity plan, stock option agreement, shareholders' agreement or similar agreement; *provided* that the aggregate price paid for all such repurchased, redeemed, acquired or retired Capital Stock may not exceed an amount (net of repayments of any such loans or advances) equal to:

(i) £15.0 million in any twelve-month period (with unused amounts in any twelve-month period being carried over to the succeeding twelve-month periods); *plus*

(ii) the Net Cash Proceeds received by the Issuer or its Restricted Subsidiaries since the Issue Date (including through receipt of proceeds from the issuance or sale of its Capital Stock or Subordinated Shareholder Debt to a Parent), or as a contribution to the equity of the Issuer from the issuance or sale of Capital Stock (including any options, warrants or other rights in respect thereof) to any current or former officer, director or employee of the Issuer, any Restricted Subsidiary or any Parent; *plus*

(iii) the Net Cash Proceeds of key man life insurance policies, in each case, to the extent such Net Cash Proceeds are not included in any calculation under clause 2(c)(ii) of this covenant, and

provided, further, that cancellation of Debt owing to the Issuer or any Restricted Subsidiary from members of management, directors or employees of any Parent, the Issuer or Restricted Subsidiaries in connection with a repurchase of Capital Stock of the Issuer or any Parent will not be deemed to constitute a Restricted Payment for purposes of this covenant or any other provision of the Indenture;

(d) the repurchase, redemption or other acquisition or retirement for value of any shares of the Issuer's Capital Stock or options, warrants or other rights to acquire such Capital Stock in exchange for (including any such exchange pursuant to the exercise of a conversion right or privilege in connection with which cash is paid in lieu of the issuance of fractional shares or scrip), or out of the Net Cash Proceeds of a substantially concurrent issuance and sale (other than to a Subsidiary) of, shares of the Issuer's Qualified Capital Stock or options, warrants or other rights to acquire such Capital Stock or Subordinated Shareholder Debt;

(e) the prepayment, repayment, purchase, repurchase, redemption, defeasance or other acquisition or retirement for value or payment of principal of any Subordinated Debt in exchange for, or out of the Net Cash Proceeds of the issuance and sale (other than to a Subsidiary) of, shares of the Issuer's Qualified Capital Stock or Subordinated Shareholder Debt;

(f) the prepayment, repayment, purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of Subordinated Debt (other than Redeemable Capital Stock) in exchange for, or out of the Net Cash Proceeds of the Incurrence (other than to a Subsidiary) of, Permitted Refinancing Debt;

(g) the declaration or payment of any dividend or distribution to holders of Capital Stock of a Restricted Subsidiary on a *pro rata* basis or on a basis that results in the receipt by the Issuer or a Restricted Subsidiary of dividends or distributions of greater value than the Issuer or such Restricted Subsidiary would receive on a *pro rata* basis;

(h) the repurchase of Capital Stock deemed to occur upon the exercise of stock options with respect to which payment of the cash exercise price has been forgiven if the cumulative aggregate value of such deemed repurchases does not exceed the cumulative aggregate amount of the exercise price of such options received;

(i) the declaration and payment of dividends to holders of any class or series of Redeemable Capital Stock issued in accordance with the "*Limitation on Debt*" covenant;

(j) the purchase, repurchase, redemption, retirement or other acquisition for value of Capital Stock deemed to occur upon the exercise of stock options, warrants or other securities, if such Capital Stock represents a portion of the exercise price of such options, warrants or other securities;

(k) any purchase, repurchase, redemption, defeasance or other acquisition or retirement of Subordinated Debt of the Issuer or any of its Restricted Subsidiaries pursuant to provisions similar to those described under "—*Change of Control*;" provided that all Notes validly tendered by Holders in connection with a Change of Control Offer have been repurchased, redeemed or acquired for value, as applicable;

(l) the purchase, repurchase, redemption, acquisition or retirement of Subordinated Debt of the Issuer or any Restricted Subsidiary with any Excess Proceeds remaining after consummation of an Excess Proceeds Offer pursuant to the covenant described under "—*Limitation on Asset Sales*;"

(m) Permitted Parent Payments;

(n) the distribution or payment of Receivables Fees and the purchase of receivables pursuant to a receivables repurchase obligation in connection with a Receivable Financing;

(o) any other Restricted Payment; *provided* that the total aggregate amount of Restricted Payments made under this clause (o) does not exceed £30.0 million;

(p) any Restricted Payment; *provided* that the Consolidated Leverage Ratio would not be greater than 3.00 to 1.00 or, following the second anniversary of the Issue Date, 2.75 to 1.00, in each case, on a *pro forma* basis after giving effect to such Restricted Payment; and

(q) the payment by the Issuer of any remaining dividend for the fiscal year ending March 31, 2017 in an amount not to exceed £105.0 million.

(4) The actions described in clauses (a), (g) and (o) of paragraph (3) above are Restricted Payments that will be permitted to be made in accordance with paragraph (3) but that will reduce the amount that would otherwise be available for Restricted Payments under clause (c) of paragraph (2) above.

Limitation on Transactions with Affiliates

(1) The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into or suffer to exist any transaction or series of related transactions (including, without limitation, the sale, purchase, exchange or lease of assets or property or the rendering of any service), with, or for the benefit of, any Affiliate of the Issuer or any other Restricted Subsidiary having a value greater than £5.0 million, unless such transaction or series of transactions is entered into in good faith and:

(a) such transaction or series of transactions is on terms that, taken as a whole, are not materially less favorable to the Issuer or such Restricted Subsidiary, as the case may be, than those that could have been obtained in a comparable arm's-length transaction with third parties that are not Affiliates;

(b) with respect to any transaction or series of related transactions involving aggregate payments or the transfer of assets or the provision of services, in each case having a value greater than £20.0 million, the Issuer will deliver a resolution of its Board of Directors (attached to an Officer's Certificate to the Trustee) resolving that such transaction complies with clause (a) above and that the fairness of such transaction has been approved by a majority of the Disinterested Members, if any, of the Board of Directors; and

(c) with respect to any transaction or series of related transactions involving aggregate payments or the transfer of assets or the provision of services, in each case having a value greater than £30.0 million, the Issuer will deliver to the Trustee a written opinion of an Independent Financial Advisor stating that the transaction or series of transactions is fair to the Issuer or such Restricted Subsidiary from a financial point of view or that the terms are not materially less favorable to the Issuer or its relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by the Issuer or such Restricted Subsidiary with an unrelated Person on an arm's length basis.

(2) Notwithstanding the foregoing, the restrictions set forth in this description will not apply to:

(i) customary directors' fees, indemnities and similar arrangements (including the payment of directors' and officers' insurance premiums), consulting and advisory fees, employee compensation, employee and director bonuses, employment agreements and arrangements or employee benefit arrangements, including stock options or legal fees, as long as the Issuer's Board of Directors has approved the terms thereof and deemed the services performed or thereafter to be performed for amounts to be fair consideration therefor;

(ii) Permitted Investments (other than pursuant to clause (c)(iii), (q) or (t) of the definition thereof) and any Restricted Payment not prohibited by the "*Limitation on Restricted Payments*" covenant;

(iii) any Management Advances or Permitted Parent Payments and any waiver or transaction with respect thereto;

(iv) agreements and arrangements existing on the Issue Date and any amendment, extension, renewal, refinancing, modification or supplement thereto; *provided* that any such amendment, extension, renewal, refinancing, modification or supplement to the terms thereof is not more disadvantageous, taken as a whole, to the holders of the Notes and to the Issuer and the Restricted Subsidiaries, as applicable, in any material respect than the original agreement or arrangement as in effect on the Issue Date;

(v) the issuance of securities or other payments, awards or grants in cash, securities or similar transfers pursuant to, or for the purpose of the funding of, employment arrangements, stock options, stock ownership plans and other similar arrangements, as long as the terms thereof are or have been previously approved by the Issuer's Board of Directors;

(vi) the granting and performance of registration rights for the Issuer's securities;

(vii) transactions between or among the Issuer and the Restricted Subsidiaries or between or among Restricted Subsidiaries;

(viii) any issuance of Capital Stock (other than Redeemable Capital Stock) of the Issuer;

(ix) the existence of, or the performance by the Issuer or any of its Restricted Subsidiaries of its obligations under the terms of, any stockholders agreement (including any registration rights agreement or purchase agreement relating thereto) to which it is a party as at the Issue Date and any similar agreements which it may enter into thereafter; *provided*, *however*, that the existence of, or the performance by the Issuer or any of its Restricted Subsidiaries of, obligations under any future amendment to any such existing agreement or under any similar agreement entered into after the Issue Date shall only be permitted by this clause (ix) to the extent that the terms of any such amendment or new agreement are not otherwise disadvantageous to the holders of the Notes when taken as a whole;

(x) transactions with a Person that is an Affiliate of the Issuer solely because the Issuer or a Restricted Subsidiary of the Issuer owns Capital Stock in such Person or solely because the Issuer or a Restricted Subsidiary of the Issuer has the right to designate one or more members of the Board of Directors or similar governing body of such Person; and

(xi) transactions with customers, clients, suppliers or purchasers or sellers of goods or services, in each case in the ordinary course of business, which are fair to the Issuer or the relevant Restricted Subsidiary in the reasonable determination of the Board of Directors or an officer of the Issuer or the relevant Restricted Subsidiary or are on terms no less favorable than those that could reasonably have been obtained at such time from an unaffiliated party.

Limitation on Liens

(1) The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, create, incur, assume or suffer to exist any Lien of any kind or assign or otherwise convey any right to receive any income, profits or proceeds on or with respect to any of the Issuer's or any Restricted Subsidiary's property or assets, including any shares or stock or Debt of any Restricted Subsidiary, whether owned at or acquired after the Issue Date, or any income, profits or proceeds therefrom (except for Permitted Liens) unless:

(a) in the case of any Lien securing Subordinated Debt, the Issuer's obligations in respect of the Notes, the obligations of the Guarantors under the Guarantees and all other amounts due under the Indenture are directly secured by a Lien on such property, assets or proceeds that is senior in priority to the Lien securing the Subordinated Debt until such time as the Subordinated Debt is no longer secured by a Lien; and

(b) in the case of any other Lien, the Issuer's obligations in respect of the Notes, the obligations of the Guarantors under the Guarantees and all other amounts due under the Indenture are equally and ratably secured with the obligation or liability secured by such Lien.

(2) Any such Lien arising as a result of paragraphs (1)(a) or (b) above will be automatically and unconditionally released and discharged concurrently with the unconditional release of the Lien which gave rise to such Lien (other than as a consequence of an enforcement action with respect to the assets subject to such Lien).

Change of Control

(1) If a Change of Control occurs at any time, the Issuer will make an offer (a "**Change of Control Offer**") to each Holder of Notes to purchase such Holder's Notes, in whole or in part, in a principal amount of £100,000 or in integral multiples of £1,000 in excess thereof at a purchase price (the "**Change of Control Purchase Price**") in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of purchase (the "**Change of Control Purchase Date**").

(2) Within 30 days following any Change of Control, the Issuer will send notice of the Change of Control Offer by first-class mail, with a copy to the Trustee, Registrar and each Paying Agent, to each Holder of Notes appearing in the security register on such date, which notice will state:

(a) that a Change of Control has occurred and the date it occurred;

(b) the circumstances and relevant facts regarding such Change of Control;

(c) the Change of Control Purchase Price and the Change of Control Purchase Date, which will be a business day no earlier than 30 days nor later than 60 days after the date such notice is mailed, or such later date as is necessary to comply with any requirements under the Exchange Act and any other applicable securities laws or regulations;

(d) that any Note accepted for payment pursuant to the Change of Control Offer will cease to accrue interest after the Change of Control Purchase Date unless the Change of Control Purchase Price is not paid on such date;

(e) that any Note or part thereof not tendered will continue to accrue interest; and

(f) any other procedures that a Holder of Notes must follow to accept a Change of Control Offer or to withdraw such acceptance.

(3) Upon receipt by the Trustee from the Issuer of an Officer's Certificate stating the aggregate principal amount of Notes or portions thereof being purchased by the Issuer in the Change of Control, the Trustee will promptly authenticate and deliver a new Note or Notes in a principal amount equal to any unpurchased portion of Notes surrendered, if any, to the Holder of Notes in global form or to each Holder of certificated Notes; provided that each such new Note will be in a principal amount of £100,000 or in integral multiples of £1,000 in excess thereof. The Issuer will publicly announce the results of a Change of Control Offer on or as soon as practicable after the Change of Control Purchase Date.

(4) The Issuer will not be required to make a Change of Control Offer following a Change of Control if (i) the Notes have been irrevocably and unconditionally called for redemption as described under "*—Optional Redemption*" or (ii) a third party has made, and not terminated, a tender offer for all of the Notes in the manner and at the times applicable to a Change of Control Offer, at a tender offer purchase price in cash equal to at least 101% of the principal amount thereof on the date of purchase, plus accrued and unpaid interest, if any, and such third party purchases all of the Notes validly tendered and not withdrawn under such tender offer.

The Issuer and the Guarantors will comply with the applicable tender offer rules, including Rule 14e-l under the Exchange Act, and any other applicable securities laws and regulations in connection with a Change of Control Offer. To the extent that the provisions of any securities laws or regulations conflict with provisions of the Indenture, the Issuer and the Guarantors will comply with such applicable securities laws and regulations and will not be deemed to have breached their obligations under the Indenture by virtue of such conflict.

If and for so long as the Notes are listed on the Exchange and the rules of the Exchange so require, the Issuer will notify the Exchange of any Change of Control Offer.

The occurrence of certain events that would constitute a Change of Control could constitute a default under the Existing Credit Facilities. The Issuer's future debt and the future debt of its Subsidiaries may also contain provisions that, if certain events occur, would require such debt to be repurchased. In addition, the exercise by the holders of the Notes of their right to require a repurchase of the Notes upon a Change of Control could cause a default under the Existing Credit Facilities and any such future debt, even if the Change of Control itself does not, due to the possible financial effect on the Issuer or the Guarantors of such repurchase.

Not all business combinations or acquisitions of us by third parties would necessarily result in a Change of Control and may not result in a Change of Control Offer to holders of the Notes. The provisions of the Indenture will not give Holders the right to require the repurchase of the Notes in the event of certain transactions including a reorganization, restructuring, merger or similar transaction that may adversely affect Holders of the Notes, if such transaction is not a transaction defined as a Change of Control. Any such transaction, however, would have to comply with the applicable provisions of the Indenture, including those described under "*—Certain Covenants—Limitation on Debt*." The existence, however, of a Holder of the Notes' right to require the Issuer to repurchase such Holder's Notes upon a Change of Control may deter a third party from acquiring the Issuer or any of its Subsidiaries if such acquisition would constitute a Change of Control.

If a Change of Control Offer is made, the Issuer will not be able to provide any assurance that it will have available funds sufficient to pay the Change of Control Purchase Price for all the Notes that might be delivered by holders of the Notes seeking to accept the Change of Control Offer. Even if sufficient funds were available, the terms of any other debt of the Issuer and its Subsidiaries may prohibit the repurchase of the Notes prior to their scheduled maturity. If the Issuer were not able to prepay any debt containing any such restrictions, or obtain requisite consents, the Issuer would be unable to fulfill its repurchase obligations to holders of Notes who accept the Change of Control Offer. If a Change of Control Offer was not made or consummated or the Change of Control Purchase Price was not paid when due, such failure would result in an Event of Default and would give the Trustee and the holders of the Notes the rights described under "*—Events of Default*." An Event of Default under the Indenture, unless waived, would result in a cross-default under certain of the financing arrangements described under "*Description of Other Indebtedness*," including under the Existing Credit Facilities.

If Holders of not less than 90% in aggregate principal amount of the outstanding Notes validly tender and do not withdraw such Notes in a Change of Control Offer and the Issuer, or any third party making a Change of Control Offer in lieu of the Issuer as described above, purchases all of the Notes validly tendered and not withdrawn by such holders, the Issuer or such third party will have the right, upon not less than 10 nor more than 60 days' prior notice (provided that such notice is given not more than 10 days following such purchase pursuant to the Change of Control Offer described above) to redeem all Notes that remain outstanding following such purchase at a price in cash equal to 101% of the principal amount thereof on the redemption date plus accrued and unpaid interest (if any) to but not including the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

The definition of "Change of Control" includes a disposition of all or substantially all of the assets of the Issuer and the Restricted Subsidiaries to any Person. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of such phrase under applicable law. Accordingly, in certain circumstances, there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of "all or substantially all" of the assets of the Issuer and the Restricted Subsidiaries. As a result, it may be unclear as to whether a Change of Control has occurred and whether a Holder of Notes may require the Issuer to make an offer to repurchase the Notes as described above.

The provisions of the Indenture relating to the Issuer's obligation to make an offer to repurchase the Notes following a Change of Control may be waived or modified with the prior written consent of the Holders of a majority in principal amount of the Notes. See "*—Amendments and Waivers*" below.

Limitation on Asset Sales

(1) The Issuer will not, and will not permit any Restricted Subsidiary to, consummate any Asset Sale unless:

(a) the consideration the Issuer or such Restricted Subsidiary receives for such Asset Sale is not less than the Fair Market Value of the assets sold (as determined by the Issuer's Board of Directors);

(b) at least 75% of the consideration the Issuer or such Restricted Subsidiary receives in respect of such Asset Sale consists of:

(i) cash (including any Net Cash Proceeds received from the conversion to cash within 180 days of such Asset Sale of securities, notes or other obligations received in consideration of such Asset Sale);

(ii) Cash Equivalents (including any Net Cash Proceeds received from the conversion to cash within 180 days of such Asset Sale of securities, notes or other obligations received in consideration of such Asset Sale);

(iii) the assumption by the purchaser of (x) the Issuer's Debt or Debt of any Restricted Subsidiary (other than Subordinated Debt) as a result of which neither the Issuer nor any of the Restricted Subsidiaries remains obliged in respect of such Debt or (y) Debt of a Restricted Subsidiary that is no longer a Restricted Subsidiary as a result of such Asset Sale, if the Issuer and each other Restricted Subsidiary is released from any guarantee of such Debt as a result of such Asset Sale;

(iv) Replacement Assets;

(v) any Designated Non-cash Consideration received by the Issuer or any of its Restricted Subsidiaries in such Asset Sale; *provided* that the aggregate Fair Market Value of such Designated Non-cash Consideration, taken together with the Fair Market Value at the time of receipt of all other Designated Non-cash Consideration received pursuant to this clause (v), less the amount of Net Proceeds previously realized in cash from prior Designated Non-cash Consideration does not exceed (with the Fair Market Value of each item of Designated Non- cash Consideration being measured at the time received and without giving effect to subsequent changes in value) the greater of £25.0 million and 8.4% of Consolidated EBITDA; or

(vi) a combination of the consideration specified in clauses (i) through (v); and

(c) the Issuer delivers an Officer's Certificate to the Trustee certifying that such Asset Sale complies with the provisions described in the foregoing clauses (a) and (b).

(2) If the Issuer or any Restricted Subsidiary consummates an Asset Sale, the Net Cash Proceeds of the Asset Sale, within 365 days of the consummation of such Asset Sale (or the Issuer or any such Restricted Subsidiary may enter into a binding commitment to so use; provided that such Net Cash Proceeds are so used within 180 days after the expiration of the aforementioned 365 day period), may be used by the Issuer or such Restricted Subsidiary to:

(a) permanently repay or prepay any then outstanding Debt of the Issuer, or Debt of any Restricted Subsidiary (and to permanently reduce the corresponding commitment by an equal amount if such Debt is a revolving credit borrowing) owing to a Person other than the Issuer or a Restricted Subsidiary, as applicable;

(b) to make a capital expenditure or to invest in any Replacement Assets; or

(c) any combination of the foregoing.

The amount of such Net Cash Proceeds not so used as set forth in this paragraph (2) constitutes "Excess Proceeds." Pending the final application of any such Net Cash Proceeds, the Issuer may temporarily reduce revolving credit borrowings or otherwise invest such Net Cash Proceeds in any manner that is not prohibited by the terms of the Indenture.

(3) When the aggregate amount of Excess Proceeds exceeds £30.0 million, the Issuer will, within 30 Business Days, make an offer to purchase (an "**Excess Proceeds Offer**") from all holders of Notes and, at the Issuer's election, from the holders of any *Pari Pass*u Debt, to the extent required by the terms thereof, on a *pro rata* basis, in accordance with the procedures set forth in the Indenture or the agreements governing any such *Pari Passu* Debt, the maximum principal amount, in the case of the Notes (expressed as a minimum amount of £100,000 and integral multiples of £1,000 in excess thereof) of the Notes and any such *Pari Passu* Debt that may be purchased with the amount of the Excess Proceeds. The offer price as to each Note and any such Pari Passu Debt will be payable in cash in an amount equal to (solely in the case of the Notes) 100% of the principal amount of such

Note and (solely in the case of *Pari Passu* Debt) no greater than 100% of the principal amount (or accreted value, as applicable) of such *Pari Passu* Debt, plus, in each case, accrued and unpaid interest, if any, to the date of purchase.

To the extent that the aggregate principal amount of Notes and any such *Pari Passu* Debt tendered pursuant to an Excess Proceeds Offer is less than the aggregate amount of Excess Proceeds, the Issuer may use the amount of such Excess Proceeds not used to purchase Notes and *Pari Passu* Debt for general corporate purposes that are not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes and any such *Pari Passu* Debt validly tendered and not withdrawn by holders thereof exceeds the aggregate amount of Excess Proceeds, the Notes and any such *Pari Passu* Debt to be purchased will be allocated on a *pro rata* basis (based upon the principal amount of Notes and the principal amount or accreted value of such *Pari Passu* Debt tendered by each holder). Upon completion of each such Excess Proceeds Offer, the amount of Excess Proceeds will be reset to zero.

(4) If the Issuer is obliged to make an Excess Proceeds Offer, the Issuer will purchase the Notes and *Pari Passu* Debt, at the option of the holders thereof, in whole or in part in a minimum amount of £100,000 and integral multiples of £1,000 in excess thereof on a date that is not earlier than 30 days and not later than 60 days from the date the notice of the Excess Proceeds Offer is given to such Holders, or such later date as may be required under the Exchange Act.

Pending the final application of any Net Proceeds, the Issuer may temporarily reduce revolving credit borrowings or otherwise invest the Net Proceeds in any manner that is not prohibited by the Indenture.

If the Issuer is required to make an Excess Proceeds Offer, the Issuer will comply with the applicable tender offer rules, including Rule 14e-1 under the Exchange Act and any other applicable securities laws and regulations, including the requirements of any applicable securities exchange on which Notes are then listed. To the extent that the provisions of any securities laws or regulations conflict with the provisions of this "*Limitation on Asset Sales*" covenant, the Issuer will comply with such securities laws and regulations and will not be deemed to have breached its obligations described in this "*Limitation on Asset Sales*" covenant by virtue thereof.

Limitation on Guarantees of Debt by Restricted Subsidiaries

(1) The Issuer will not permit any Restricted Subsidiary that is not a Guarantor, directly or indirectly, to guarantee, assume or in any other manner become liable for the payment of any Debt outstanding under any Credit Facility incurred under clause 2(a) of the covenant described under "*—Limitation on Debt*" or any other Public Debt of the Issuer or any Guarantor (other than the Notes), unless such Restricted Subsidiary executes and delivers within 30 days a supplemental indenture to the Indenture providing for a Guarantee of payment of the Notes by such Restricted Subsidiary on the same terms as the guarantee of such other Debt; and with respect to any guarantee of Subordinated Debt by such Restricted Subsidiary, any such guarantee shall be subordinated to such Restricted Subsidiary's Guarantee with respect to the Notes at least to the same extent as such Subordinated Debt is subordinated to the Notes. Any Guarantee of payment of the Notes may contain limitations on Guarantor liability to the extent reasonably necessary to recognize certain defenses generally available to guarantors or other considerations under applicable law or regulation.

(2) The provisions of the preceding paragraph will not be applicable to any guarantee of any Restricted Subsidiary existing on the Issue Date or that existed at the time such Person became a Restricted Subsidiary if the guarantee was not Incurred in connection with, or in contemplation of, such Person becoming a Restricted Subsidiary.

(3) Any Guarantee of the Notes granted pursuant to the provisions described in the first paragraph of this covenant may provide by its terms that it will be automatically and unconditionally released and discharged the release of the Guarantees on the terms and conditions and in the circumstances described under the heading "*—Guarantees—Release of the Guarantees*." A Guarantee of a future Guarantor may also be released at the option of the Issuer if at the date of such release there is no Debt of such Guarantor outstanding which was Incurred after the Issue Date and which could not have been Incurred in compliance with the Indenture as at the date of such release if such Guarantor were not designated as a Guarantor as at that date. The Trustee shall take all necessary actions to effectuate any release of a Note Guarantee in accordance with these provisions, subject to customary protections and indemnifications.

(4) Notwithstanding the foregoing, the Issuer will not be obligated to cause such Restricted Subsidiary to guarantee the Notes to the extent such Guarantee would reasonably be expected to give rise to or result in (a) any conflict with or violation of applicable law; (b) any risk of personal liability for the officers, directors, shareholders or partners of such Restricted Subsidiary; or (c) any cost, expense, liability or obligation (including with respect to any Taxes but excluding any reasonable guarantee or similar fee payable to the Issuer or any Restricted Subsidiary) other than reasonable expenses and other than reasonable governmental expenses incurred in connection with any governmental or regulatory filings required as a result of, or any measures pursuant to the first paragraph of this covenant undertaken in connection with, such Guarantee.

Limitation on Dividends and Other Payment Restrictions Affecting Restricted Subsidiaries

(1) The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, create or otherwise cause or suffer to exist or become effective any consensual encumbrance or restriction of any kind on the ability of any Restricted Subsidiary to:

(a) pay dividends, in cash or otherwise, or make any other distributions on or in respect of its Capital Stock or any other interest or participation in, or measured by, its profits;

(b) pay any Debt owed to the Issuer or any other Restricted Subsidiary;

(c) make loans or advances to the Issuer or any other Restricted Subsidiary; or

(d) transfer any of its properties or assets to the Issuer or any other Restricted Subsidiary,

provided that (i) the priority of any Preferred Stock in receiving dividends or liquidating distributions prior to dividends or liquidating distributions being paid on common stock and (ii) the subordination of (including the application of any standstill requirements to) loans or advances made to the Issuer or any Restricted Subsidiary to other Debt Incurred by the Issuer or any Restricted Subsidiary shall not be deemed to constitute such an encumbrance or restriction.

(2) The provisions of the "*Limitation on Dividends and Other Payment Restrictions Affecting Restricted Subsidiaries*" covenant described in paragraph (1) above will not apply to:

(a) encumbrances and restrictions imposed by the Notes, the Indenture, the Guarantees or the Existing Credit Facilities;

(b) encumbrances or restrictions imposed by Debt permitted to be Incurred under Credit Facilities or any guarantee thereof in accordance with the "*Limitation on Debt*" covenant or pursuant to paragraph (2) of such "Limitation on Debt" covenant; *provided* that in the case of any such encumbrances or restrictions imposed under any Credit Facilities, such encumbrances or restrictions taken as a whole are not materially less favorable to the Holders taken as a whole than those imposed by the Existing Credit Facilities as at the Issue Date;

(c) encumbrances or restrictions contained in any agreement in effect on the Issue Date (other than an agreement described in another clause of this paragraph (2));

(d) with respect to restrictions or encumbrances referred to in clause (1)(d) above, encumbrances and restrictions: (i) that restrict in a customary manner the subletting, assignment or transfer of any properties or assets that are subject to a lease, license, conveyance or other similar agreement to which the Issuer or any Restricted Subsidiary is a party; and (ii) contained in operating leases for real property and restricting only the transfer of such real property upon the occurrence and during the continuance of a default in the payment of rent;

(e) encumbrances or restrictions contained in any agreement or other instrument of a Person or relating to assets acquired by the Issuer or any Restricted Subsidiary in effect at the time of such acquisition (but not created in contemplation thereof), which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired;

(f) encumbrances or restrictions contained in contracts for sales of Capital Stock or assets permitted by the "*Limitation on Asset Sales*" covenant with respect to the assets or Capital Stock to be sold pursuant to such contract or in customary merger or acquisition agreements (or any option to enter into such contract) for the purchase or acquisition of Capital Stock or assets or any of the Issuer's Subsidiaries by another Person;

(g) encumbrances or restrictions imposed by applicable law or regulation or by governmental licenses, concessions, franchises or permits;

(h) encumbrances or restrictions on cash or other deposits or net worth imposed by customers under contracts entered into the ordinary course of business;

(i) customary limitations on the distribution or disposition of assets or property of a Restricted Subsidiary in joint venture agreements entered into the ordinary course of business and in good faith; *provided* that such encumbrance or restriction is applicable only to such Restricted Subsidiary; *provided further*, that:

    (i) the encumbrance or restriction is not materially less favorable to the Holders taken as a whole than is customary in comparable agreements (as determined in good faith by the Issuer); and

    (ii) the Issuer determines in good faith that any such encumbrance or restriction will not materially affect the ability of the Issuer or any Guarantor to make any principal or interest payments on the Notes;

(j) in the case of clause 1(d) above, customary encumbrances or restrictions in connection with purchase money obligations, mortgage financings and Capitalized Lease Obligations for property acquired in the ordinary course of business;

(k) any encumbrance or restriction arising by reason of customary non-assignment provisions in agreements;

(l) any encumbrance or restriction arising pursuant to an agreement or instrument relating to any Debt permitted to be Incurred after the Issue Date pursuant to the provisions of the covenant described under "*—Limitation on Debt*:" (i) if the encumbrances and restrictions contained in any such agreement or instrument taken as a whole are not materially less favorable to the Holders taken as a whole than the encumbrances and restrictions contained in the Indenture (as determined in good faith by the Issuer); or (ii) if such encumbrance or restriction is not materially more disadvantageous to the holders of the Notes than is customary in comparable financings (as determined in good faith by the Issuer);

(m) any encumbrances or restrictions imposed by any amendments, modifications, restatements, renewals, extensions, increases, supplements, refundings, replacements or refinancings of the contracts, instruments or obligations referred to in clauses (a) and (l) of this paragraph (2); *provided* that such amendments, modifications, restatements, renewals, extension, increases, supplements, refundings, replacements or refinancings are, in the good faith judgment of the Issuer's Board of Directors, no more restrictive (taken as a whole) with respect to such encumbrances or restrictions than those contained in the encumbrances or restrictions prior to such amendment, modification, restatement, renewal, extension, increase, supplement, refunding, replacement or refinancing; or

(n) with respect to restrictions or encumbrances referred to in clause (1)(d) above, encumbrances or restrictions existing by reason of any Lien permitted under "*—Limitation on Liens*."

Designation of Unrestricted and Restricted Subsidiaries

(i) The Issuer's Board of Directors may designate any Subsidiary (including newly acquired or newly established Subsidiaries) to be an "Unrestricted Subsidiary" only if:

    (a) no Default has occurred and is continuing at the time of or after giving effect to such designation;

    (b) the Issuer would be permitted to make an Investment at the time of designation (assuming the effectiveness of such designation) pursuant to the "*Limitation on Restricted Payments*" covenant in an amount equal to the greater of (i) the net book value of the Issuer's interest in such Subsidiary calculated in accordance with IFRS or (ii) the Fair Market Value of the Issuer's interest in such Subsidiary;

    (c) the Issuer would be permitted under the Indenture to Incur at least £1.00 of additional Debt pursuant to the ratio set forth in paragraph (1) of the "*Limitation on Debt*" covenant at the time of such designation (assuming the effectiveness of such designation);

    (d) such Subsidiary is not liable, directly or indirectly, with respect to any Debt, Lien or other obligation that, if in default, would result (with the passage of time or giving of notice or otherwise) in a default on any of the Issuer's Debt or Debt of any Restricted Subsidiary; *provided* that an Unrestricted Subsidiary may provide a Guarantee for the Notes;

(e) such Subsidiary, either alone or in the aggregate with all other Unrestricted Subsidiaries, does not operate, directly or indirectly, all or substantially all of the businesses of the Issuer and its Subsidiaries; and

(f) such Subsidiary is a Person with respect to which neither the Issuer nor any Restricted Subsidiary has any direct or indirect obligation to:

(i) subscribe for additional Capital Stock of such Person; or

(ii) maintain or preserve such Person's financial condition or to cause such Person to achieve any specified levels of operating results.

(ii) In the event of any such designation, the Issuer will be deemed to have made an Investment constituting a Restricted Payment pursuant to the "*Limitation on Restricted Payments*" covenant for all purposes of the Indenture in an amount equal to the greater of (i) the net book value of the Issuer's interest in such Subsidiary calculated in accordance with IFRS or (ii) the Fair Market Value of the Issuer's interest in such Subsidiary.

(iii) The Indenture will further provide that neither the Issuer nor any Restricted Subsidiary will at any time:

(a) provide a guarantee of, or similar credit support to, any Debt of any Unrestricted Subsidiary (including of any undertaking, agreement or instrument evidencing such Debt); *provided* that the Issuer may pledge Capital Stock or Debt of any Unrestricted Subsidiary on a non-recourse basis as long as the pledgee has no claim whatsoever against the Issuer other than to obtain such pledged property, except to the extent permitted under the "*Limitation on Restricted Payments*" and "*Limitation on Transactions with Affiliates*" covenants;

(b) be directly or indirectly liable for any Debt of any Unrestricted Subsidiary, except to the extent permitted under the "*Limitation on Restricted Payments*" and "*Limitation on Transactions with Affiliates*" covenants; or

(c) be directly or indirectly liable for any other Debt that provides that the holder thereof may (upon giving notice, the lapse of time or both) declare a default thereof (or cause the payment thereof to be accelerated or payable prior to its final scheduled maturity) upon the occurrence of a default with respect to any other Debt that is Debt of an Unrestricted Subsidiary (including any corresponding right to take enforcement action against such Unrestricted Subsidiary).

(iv) The Issuer's Board of Directors may designate any Unrestricted Subsidiary as a Restricted Subsidiary:

(a) if no Default or Event of Default has occurred and is continuing at the time of, or will occur and be continuing after giving effect to, such designation; and

(b) unless such designated Unrestricted Subsidiary shall not have any Debt outstanding (other than Debt that would be Permitted Debt), immediately before and after giving effect to such proposed designation, and after giving *pro forma* effect to the Incurrence of any such Debt of such designated Unrestricted Subsidiary as if such Debt was Incurred on the date of its designation as a Restricted Subsidiary, the Issuer could Incur at least £1.00 of additional Debt pursuant to the ratio set forth in paragraph (1) of the "*Limitation on Debt*" covenant.

(v) Any such designation as an Unrestricted Subsidiary or Restricted Subsidiary by the Issuer's Board of Directors will be evidenced to the Trustee by filing a resolution of the Issuer's Board of Directors with the Trustee giving effect to such designation and an Officer's Certificate certifying that such designation complies with the foregoing conditions, and giving the effective date of such designation. Any such filing with the Trustee must occur within 45 days after the end of the Issuer's fiscal quarter in which such designation is made (or, in the case of a designation made during the last fiscal quarter of the Issuer's fiscal year, within 90 days after the end of such fiscal year).

Reports to Holders

(i) So long as any Notes are outstanding, the Issuer will furnish to the Trustee:

(a) annual reports containing, to the extent applicable, the following information: (a) audited consolidated balance sheets of the Issuer as of the end of the two most recent fiscal years and audited consolidated income statements and statements of cash flow of the Issuer for the two most recent fiscal years, including complete footnotes to such financial statements and the report of the independent auditors on the financial statements; (b) an operating and financial review of the audited financial statements, including a discussion of the results of operations, financial condition, and liquidity and capital resources of the Issuer; (c) a description of the business of the Issuer; and (d) a description of management and shareholders, material debt instruments, material affiliate transactions, material risk factors and material subsequent events all in substantially the same form as presented in the Offering Memorandum, within 120 days following the end of each fiscal year; provided that the information in clause (d) may be provided in the footnotes to the audited financial statements.

(b) semi-annual financial information of the Issuer as of and for the period from the beginning of each year to the close of the first half period, together with comparable information for the corresponding period of the preceding year, and an operating and financial review of the financial statements, including a discussion of the results of operations, financial condition, and material changes in liquidity and financial resources of the Issuer within 90 days following the end of the fiscal half; and

(c) promptly after the occurrence of a material acquisition, disposition or restructuring, any change of the Chief Executive Officer or the Chief Financial Officer of the Issuer or a change in auditors of the Issuer or any other material event, a report containing a description of such event.

(ii) No report need include separate financial statements for any Guarantors or non-Guarantor Subsidiaries of the Issuer or any disclosure with respect to the results of operations or any other financial or statistical disclosure not of a type included in this Offering Memorandum.

(iii) At any time that any of the Issuer’s subsidiaries are Unrestricted Subsidiaries and any such Unrestricted Subsidiary or a group of Unrestricted Subsidiaries, taken as a whole, constitutes a Significant Subsidiary of the Issuer, then the semi-annual and annual financial information required by the first paragraph of this “Reports to Holders” covenant will include a reasonably detailed presentation, either on the face of the financial statements or in the footnotes thereto, of the financial condition and results of operations of the Issuer and its Restricted Subsidiaries separate from the financial condition and results of operations of the Unrestricted Subsidiaries of the Issuer.

(iv) The Issuer will furnish to the Trustee such other information that is required to make publicly available under the requirements of the London Stock Exchange as a result of having its ordinary shares admitted for trading on such exchange. Notwithstanding the first paragraph of this covenant, upon the Issuer complying with the public reporting requirements of the London Stock Exchange (regardless of whether the Issuer’s ordinary shares are admitted for trading on such exchange), to the extent that such requirements include an obligation to prepare and make publicly available annual reports, information, documents and other reports with the London Stock Exchange, the Issuer will be deemed to have complied with the provisions contained in clauses (i)(a), (b) and (c) above.

(v) Notwithstanding the foregoing, the Issuer will be deemed to have provided such information to the Trustee, the holders of the Notes and prospective purchasers of the Notes if such information referenced above in clauses (i)(a), (b) and (c) above or alternatively, in the preceding paragraph, has been posted on the Issuer’s website.

Merger, Consolidation or Sale of Assets

Issuer

(1) The Issuer will not, directly or indirectly, in a single transaction or through a series of transactions, merge, consolidate, amalgamate or other combine with or into any other Person or sell, assign, convey, transfer, lease or otherwise dispose of, or take any action pursuant to any resolution passed by the Issuer’s Board of Directors or shareholders with respect to a demerger or division pursuant to which the Issuer would dispose of, all or substantially all of the Issuer’s properties and assets to any other Person or Persons and the Issuer will not permit any Restricted Subsidiary to enter into any

such transaction or series of transactions if such transaction or series of transactions, in the aggregate, would result in the sale, assignment, conveyance, transfer, lease or other disposition of all or substantially all of the properties and assets of the Issuer and its Restricted Subsidiaries on a consolidated basis to any other Person or Persons. The previous sentence will not apply if at the time and immediately after giving effect to any such transaction or series of transactions:

(a) either: (i) the Issuer will be the continuing corporation; or (ii) the Person (if other than the Issuer) formed by or surviving any such merger, consolidation, amalgamation or other combination or to which such sale, assignment, conveyance, transfer, lease or disposition of all or substantially all of the properties and assets of the Issuer and the Restricted Subsidiaries on a consolidated basis has been made (the "**Surviving Entity**"):

   (x) will be a corporation duly incorporated and validly existing under the laws of any member state of the European Union as at the Issue Date, the United States of America, any state thereof, or the District of Columbia, Canada or any province of Canada, Norway or Switzerland; and

   (y) will expressly assume, by a supplemental indenture, in a form satisfactory to the Trustee, the Issuer's obligations under the Notes and the Indenture;

(b) immediately after giving effect to such transaction or series of transactions on a *pro forma* basis (and treating any obligation of the Issuer or any Restricted Subsidiary Incurred in connection with or as a result of such transaction or series of transactions as having been Incurred by the Issuer or such Restricted Subsidiary at the time of such transaction), no Default or Event of Default will have occurred and be continuing;

(c) immediately after giving effect to such transaction or series of transactions on a *pro forma* basis (on the assumption that the transaction or series of transactions occurred on the first day of the fiscal half immediately prior to the consummation of such transaction or series of transactions with the appropriate adjustments with respect to the transaction or series of transactions being included in such *pro forma* calculation), (i) the Issuer (or the Surviving Entity if the Issuer is not the continuing obligor under the Indenture) could Incur at least £1.00 of additional Debt pursuant to the ratio set forth in paragraph (1) of the "*Limitation on Debt*" covenant or (ii) the Consolidated Leverage Ratio would not be greater than the Consolidated Leverage Ratio immediately before such transaction; and

(d) the Issuer or the Surviving Entity has delivered to the Trustee, in form and substance satisfactory to the Trustee, an Officer's Certificate and an opinion of counsel, each stating that such merger, consolidation, amalgamation or other combination or sale, assignment, conveyance, transfer, lease or other disposition, and if a supplemental indenture is required in connection with such transaction, such supplemental indenture, comply with the requirements of the Indenture and that all conditions precedent in the Indenture relating to such transaction have been satisfied and that the Indenture and the Notes constitute legal, valid and binding obligations of the Issuer or the Surviving Entity, enforceable in accordance with their terms.

(2) The Surviving Entity will succeed to, and be substituted for, and may exercise every right and power of, the Issuer under the Indenture, but, in the case of a lease of all or substantially all of the Issuer's assets, the Issuer will not be released from the obligation to pay the principal of, premium, if any, and interest, on the Notes.

(3) Nothing in the Indenture will prevent any Restricted Subsidiary from consolidating with, merging into or transferring all or substantially all of its properties and assets to the Issuer, a Guarantor or any other Restricted Subsidiary. The Issuer may consolidate or otherwise combine with or merge into an Affiliate incorporated or organized for the purpose of changing the legal domicile of the Issuer, reincorporating the Issuer in another jurisdiction or changing the legal form of the Issuer.

Although there is a limited body of case law interpreting the phrase "all or substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve "all or substantially all" of the property or assets of a Person.

For as long as the Notes are listed on the Official List of the Exchange and to the extent that the rules of the Exchange so require, the Issuer will notify the Exchange of any such merger, consolidation, amalgamation or other combination or sale.

Guarantors

(1) Subject to the provisions described under "*—Guarantees—Release of the Guarantees*," no Guarantor will, directly or indirectly, in a single transaction or through a series of transactions, merge, consolidate, amalgamate or other combine with or into any other Person or sell, assign, convey, transfer, lease or otherwise dispose of, or take any action pursuant to any resolution passed by such Guarantor's Board of Directors or shareholders with respect to a demerger or division pursuant to which such Guarantor will dispose of, all or substantially all of such Guarantor's properties and assets to any other Person or Persons. The previous sentence will not apply if at the time and immediately after giving effect to any such transaction or series of transactions:

(a) such Guarantor is the surviving corporation or the Person formed by or surviving any such consolidation or merger (if other than such Guarantor) or to which such sale, assignment, transfer, lease, conveyance or other disposition will have been made is a corporation organized or existing under the laws of any member state of the European Union as at the Issue Date, the United States of America, any state thereof, or the District of Columbia, Canada or any province of Canada, Norway or Switzerland (such Guarantor or such Person, as the case may be, being herein called the "**Successor Guarantor**");

(b) the Successor Guarantor (if other than such Guarantor) expressly assumes all the obligations of such Guarantor under its Guarantee and the Indenture, pursuant to supplemental indentures and/or agreements in form reasonably satisfactory to the Trustee;

(c) immediately after giving *pro forma* effect to such transaction, no Default or Event of Default exists and is continuing; and

(d) the Guarantor or the Successor Guarantor has delivered to the Trustee, in form and substance satisfactory to the Trustee, an Officer's Certificate and an opinion of counsel, each stating that such merger, consolidation, amalgamation or other combination or sale, assignment, conveyance, transfer, lease or other disposition, and if a supplemental indenture is required in connection with such transaction, such supplemental indenture, comply with the requirements of the Indenture and that all conditions precedent in the Indenture relating to such transaction have been satisfied and that the Indenture and the Guarantee constitutes a legal, valid and binding obligation of the Guarantor or Successor Guarantor, enforceable in accordance with its terms.

(2) The Successor Guarantor will succeed to, and be substituted for, and may exercise every right and power of, the relevant Guarantor under the Indenture.

(3) Nothing in the Indenture prevents any Restricted Subsidiary from consolidating with, merging into or transferring all or substantially all of its properties and assets to the Issuer, a Guarantor or any other Restricted Subsidiary.

Statement as to Compliance

The Issuer will deliver to the Trustee no later than the date on which the Issuer is required to deliver annual reports pursuant to the covenant described under "*—Reports to Holders*" above, an Officer's Certificate stating that in the course of the performance by the relevant officers of their respective duties as an officer of the Issuer they would normally have knowledge of any Default and whether or not such officers know of any Default that occurred during such period and, if any, specifying such Default, its status and what action the Issuer is taking or proposes to take with respect thereto.

Payments for Consent

The Issuer will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any Holder of Notes for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes unless such consideration is offered to be paid and is paid to all Holders of the Notes that consent, waive or agree to amend in the time frame set forth in any documents distributed relating to such consent, waiver or agreement.

Notwithstanding the foregoing, the Issuer and its Restricted Subsidiaries shall be permitted, in any offer or payment of consideration for, or as an inducement to, any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes, to exclude Holders of the Notes in any jurisdiction where (1) the solicitation of such consent, waiver or amendment, including in connection with an exchange offer or offer to purchase for cash or (2) the payment of the consideration therefor (i) could reasonably be interpreted to require the Issuer or any of its Restricted Subsidiaries to file a registration statement, prospectus or similar document under any applicable securities laws or listing requirements (including, but not limited to, the U.S. federal securities laws, the United Kingdom and the laws of the European Union or its member states), which the Issuer in its sole discretion determines (acting in good faith) would be materially burdensome; or (ii) such solicitation would otherwise not be permitted under applicable law in such jurisdiction.

Suspension of Covenants on Achievement of Investment Grade Status

If on any date following the Issue Date, the Notes have achieved Investment Grade Status and no Default or Event of Default has occurred and is continuing (a "**Suspension Event**"), then, beginning on that day and continuing until such time, if any, at which the Notes cease to have Investment Grade Status (the "**Reversion Date**"), the provisions of the Indenture summarized under the following captions will not apply to the Notes:

(1) "*—Limitation on Restricted Payments*";

(2) "*—Limitation on Debt*";

(3) "*—Limitation on Dividends and Other Payment Restrictions Affecting Restricted Subsidiaries*";

(4) "*—Limitation on Transactions with Affiliates*"; and

(5) "*—Limitation on Asset Sales*."

and, in each case, any related default provision of the Indenture will cease to be effective and will not be applicable to the Issuer and its Restricted Subsidiaries.

Such covenants and any related default provisions will again apply according to their terms from the first day on which a Suspension Event ceases to be in effect. Such covenants will not, however, be of any effect with regard to actions of the Issuer or its Restricted Subsidiaries properly taken during the continuance of the Suspension Event, and no action taken prior to the Reversion Date will constitute a Default or Event of Default. The "*Limitation on Restricted Payments*" covenant will be interpreted as if it has been in effect since the date of the Indenture but not during the continuance of the Suspension Event. On the Reversion Date, all Debt Incurred during the continuance of the Suspension Event will be deemed to have been outstanding on the Issue Date, so that it is classified as permitted under clause (c) of the second paragraph of the covenant described under "*—Limitation on Debt*". In addition, the Indenture will also permit, without causing a Default or Event of Default, the Issuer or any of the Restricted Subsidiaries to honor any contractual commitments or take actions in the future after any date on which the Notes cease to have an Investment Grade Status as long as the contractual commitments were entered into during the Suspension Event and not in anticipation of the Notes no longer having an Investment Grade Status. Upon the occurrence of a Suspension Event, the amount of Excess Proceeds shall be reset at zero. The Issuer shall notify the Trustee that the conditions set forth in the first paragraph under this caption has been satisfied, provided that, no such notification shall be a condition for the suspension of the covenants described under this caption to be effective. There can be no assurance that the Notes will ever achieve or maintain an Investment Grade Status.

Financial calculations for Limited Condition Acquisitions

When calculating the availability under any basket or ratio under the Indenture, in each case in connection with a Limited Condition Acquisition, the date of determination of such basket or ratio and of any Default or Event of Default shall, at the option of the Issuer, be the date the definitive agreements for such Limited Condition Acquisition are entered into and such baskets or ratios shall be calculated on a *pro forma* basis after giving effect to such Limited Condition Acquisition and the other transactions to be entered into in connection therewith (including any Incurrence of Debt and the use of proceeds thereof) as if they occurred at the beginning of the applicable reference period for purposes of determining the ability to consummate any such Limited Condition Acquisition (and not for purposes of any subsequent availability of any basket or ratio).

For the avoidance of doubt, (x) if any of such baskets or ratios are exceeded as a result of fluctuations in such basket or ratio (including due to fluctuations in Consolidated EBITDA of the Company or the target company) subsequent to such date of determination and at or prior to the consummation of the relevant Limited Condition Acquisition, such baskets or ratios will not be deemed to have been exceeded as a result of such fluctuations solely for purposes of determining whether the Limited Condition Acquisition and the related transactions are permitted hereunder and (y) such baskets or ratios shall not be tested at the time of consummation of such Limited Condition Acquisition or related transactions; provided, further, that if the Issuer elects to have such determinations occur at the time of entry into such definitive agreement, any such transactions (including any Incurrence of Debt and the use of proceeds thereof) shall be deemed to have occurred on the date the definitive agreements are entered into and outstanding thereafter for purposes of calculating any baskets or ratios under the Indenture after the date of such agreement and before the consummation of such Limited Condition Acquisition.

Events of Default

Each of the following will be an "Event of Default" under the Indenture:

(a) default for 30 days in the payment when due of any interest or any Additional Amounts on any Note;

(b) default in the payment of the principal of or premium, if any, on any Note at its Maturity (upon acceleration, optional or mandatory redemption, if any, required repurchase or otherwise);

(c) failure to comply with the provisions of "*—Certain Covenants—Merger, Consolidation or Sale of Assets*;"

(d) [reserved];

(e) failure to comply with any covenant or agreement of the Issuer or of any Restricted Subsidiary that is contained in the Indenture (other than specified in clause (a), (b) or (c) above) and such failure continues for a period of 60 days after notice by the Trustee or the Holders of at least 25% in principal amount of the outstanding Notes;

(f) default under the terms of any instrument evidencing or securing the Debt of the Issuer or any Restricted Subsidiary having an outstanding principal amount in excess of £40.0 million individually or in the aggregate, if that default:

   (x) results in the acceleration of the payment of such Debt; or

   (y) is caused by the failure to pay such Debt at final maturity thereof after giving effect to the expiration of any applicable grace periods (and other than by regularly scheduled required prepayment) and such failure to make any payment has not been waived or the maturity of such Debt has not been extended;

(g) any Guarantee ceases to be, or shall be asserted in writing by any Guarantor, or any Person acting on behalf of any Guarantor, not to be in full force and effect or enforceable in accordance with its terms (other than as provided for in the Indenture or any Guarantee);

(h) one or more final judgments, orders or decrees (not subject to appeal and not covered by insurance) shall have been rendered against the Issuer or any Restricted Subsidiary either individually or in an aggregate amount, in each case in excess of £40.0 million, and either a creditor shall have commenced an enforcement proceeding upon such judgment, order or decree or there shall have been a period of 60 consecutive days or more during which a stay of enforcement of such judgment, order or decree was not (by reason of pending appeal or otherwise) in effect; and

(i) the occurrence of certain events of bankruptcy, insolvency, receivership, schemes of arrangement (where any creditors are impaired) or reorganization with respect to the Issuer or any Restricted Subsidiary.

However, a Default under clauses (e), (f) or (h) above will not constitute an Event of Default until the Trustee or the Holders of 25% in principal amount of the outstanding Notes under the Indenture notify the Issuer of the Default and, with respect to clauses (e) and (h) the Issuer does not cure such default within the time specified in clauses (e) or (h) above, as applicable, after receipt of such notice.

If an Event of Default (other than as specified in clause (i) above) occurs and is continuing, the Trustee or the Holders of not less than 25% in aggregate principal amount of the Notes then outstanding by written notice to the Issuer (and to the Trustee if such notice is given by the holders) may, and the Trustee, upon the written request of such Holders, shall, declare the principal of, premium, if any, any Additional Amounts and accrued interest on all of the outstanding Notes immediately due and payable, and upon any such declaration all such amounts payable in respect of the Notes will become immediately due and payable.

If an Event of Default specified in clause (i) above occurs and is continuing, then the principal of, premium, if any, Additional Amounts and accrued and unpaid interest on all of the outstanding Notes shall become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder of Notes.

In the event of a declaration of acceleration of the Notes because an Event of Default described in clause (f) under "Events of Default" has occurred and is continuing, the declaration of acceleration of the Notes shall be automatically annulled if the event of default or payment default triggering such Event of Default pursuant to clause (f) shall be remedied or cured, or waived by the holders of the Debt, or the Debt that gave rise to such Event of Default shall have been discharged in full, within 30 days after the declaration of acceleration with respect thereto and if (1) the annulment of the acceleration of the Notes would not conflict with any judgment or decree of a court of competent jurisdiction and (2) all existing Events of Default, except non-payment of principal, premium or interest on the Notes that became due solely because of the acceleration of the Notes, have been cured or waived.

The Holders of not less than a majority in aggregate principal amount of the outstanding Notes may, on behalf of the Holders of all of the Notes, waive any past defaults under the Indenture (except a default in the payment of the principal of, premium, if any, and Additional Amounts or interest on any Note in which case, the consent of the holders of 90% of the then outstanding Notes shall be required) and rescind any such acceleration with respect to such Notes and its consequences if such rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

No Holder of any of the Notes has any right to institute any proceedings with respect to the Indenture or any remedy thereunder unless the holders of at least 25% in aggregate principal amount of the outstanding Notes have made a written request and offered an indemnity and/or security satisfactory to the Trustee to institute such proceeding as Trustee under the Notes and the Indenture, the Trustee has failed to institute such proceeding within 60 days after receipt of such notice and the Trustee within such 60-day period has not received directions inconsistent with such written request by holders of a majority in aggregate principal amount of the outstanding Notes. Such limitations do not, however, apply to a suit instituted by a Holder of a Note for the enforcement of the payment of the principal of, premium, if any, and Additional Amounts or interest on such Note on or after the respective due dates expressed in such Note.

If an Event of Default occurs and is continuing and notice from the Issuer is given to the Trustee in accordance with the notice provisions of the Indenture, the Trustee will mail to each Holder of the Notes notice of the Event of Default within 60 Business Days after its occurrence. Except in the case of an Event of Default in the payment of principal of, premium, if any, Additional Amounts or interest on any Notes, the Trustee may withhold the giving of such notice to the holders of such Notes if it determines in good faith that withholding the giving of such notice is in the best interests of the holders of the Notes.

The Indenture will provide that (1) if a Default occurs for a failure to deliver a required certificate in connection with another default (an "**Initial Default**") then at the time such Initial Default is cured, such Default for a failure to report or deliver a required certificate in connection with the Initial Default will also be cured without any further action and (2) any Default or Event of Default for the failure to comply with the time periods prescribed in the covenant entitled "*Certain Covenants—Reports to Holders*" or otherwise to deliver any notice or certificate pursuant to any other provision of the Indenture shall be deemed to be cured upon the delivery of any such report required by such covenant or notice or certificate, as applicable, even though such delivery is not within the prescribed period specified in the Indenture.

The Trustee may assume without inquiry, in the absence of actual knowledge, that the Company is duly complying with its obligations contained in the Indenture required to be observed and performed by it, and that no Default or Event of Default or other event that would require repayment of the Notes has occurred.

The Trustee is under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request or direction of any of the holders of the Notes unless such holders offer to the Trustee indemnity and/or security satisfactory to the Trustee against the costs, expenses and liabilities which might be incurred thereby.

Defeasance

The Indenture will provide that the Issuer may, at its option and at any time prior to the Stated Maturity of the Notes, elect to have the obligations of the Issuer and the Guarantors discharged with respect to the outstanding Notes ("**Legal Defeasance**"). Legal Defeasance means that the Issuer will be deemed to have paid and discharged the entire Debt represented by the outstanding Notes except as to:

(a) the rights of holders of outstanding Notes to receive payments in respect of the principal of, premium, if any, Additional Amounts and interest on such Notes when such payments are due from the trust referred to below;

(b) the Issuer's obligations to issue temporary Notes, register, transfer or exchange any Notes, replace mutilated, destroyed, lost or stolen Notes, maintain an office or agency for payments in respect of the Notes and segregate and hold such payments on trust;

(c) the rights, powers, trusts, duties and immunities of the Trustee and the obligations of the Issuer and the Guarantors in connection therewith; and

(d) the Legal Defeasance provisions of the Indenture.

If the Issuer exercises its legal defeasance option, payment of the Notes may not be accelerated because of an Event of Default other than an Event of Default under clauses (a) or (b) of the definition thereof.

In addition, the Issuer may, at its option and at any time, elect to have the obligations of the Issuer and the Guarantors released with respect to certain covenants set forth in the Indenture ("**Covenant Defeasance**") and thereafter any failure to comply with such covenants will not constitute a Default or an Event of Default with respect to the Notes. In the event that a Covenant Defeasance occurs, certain events described under "*—Events of Default*" will no longer constitute an Event of Default with respect to the Notes. These events will not include events relating to non-payment, bankruptcy, insolvency, receivership and reorganization. The Issuer may exercise its Legal Defeasance option regardless of whether it has previously exercised any Covenant Defeasance.

In order to exercise either Legal Defeasance or Covenant Defeasance:

(a) the Issuer must irrevocably deposit or cause to be deposited on trust with the Trustee, or such entity (as Agent) as the Trustee may designate for this purpose, for the benefit of the holders of the Notes, cash in Sterling, UK Government Obligations or a combination thereof, in such amounts as will be sufficient, in the opinion of an internationally recognized firm of independent public accountants, to pay and discharge the principal of, premium, if any, Additional Amounts and interest, on the outstanding Notes on the Stated Maturity or on the applicable redemption date, as the case may be, and the Issuer must:

  (i) specify whether the Notes are being defeased to maturity or to a particular redemption date; and

  (ii) if applicable, have delivered to the Trustee an irrevocable notice to redeem all of the outstanding Notes;

(b) in the case of Legal Defeasance, the Issuer must have delivered to the Trustee an opinion of counsel reasonably acceptable to the Trustee stating that: (x) the Issuer has received from, or there has been published by, the U.S. Internal Revenue Service a ruling; or (y) since the Issue Date, there has been a change in applicable U.S. federal income tax law, in either case to the effect that (and based thereon such opinion shall confirm that) the holders of the outstanding Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Legal Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(c) in the case of Legal Defeasance, the Issuer must have delivered to the Trustee opinions of counsel reasonably acceptable to the Trustee to the effect that the holders of the outstanding Notes will not recognize income, gain or loss for tax purposes in the United Kingdom as a result of such Legal Defeasance and will be subject to tax in the United Kingdom on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(d) no Default or Event of Default will have occurred and be continuing: (i) on the date of such deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit); or (ii) insofar as bankruptcy or insolvency events described in clause (i) of "*—Events of Default*" above are concerned, at any time during the period ending on the 123rd day after the date of such deposit;

(e) such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a Default under (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit), the Indenture or any material agreement or instrument to which the Issuer or any Restricted Subsidiary is a party or by which the Issuer or any Restricted Subsidiary is bound;

(f) the Issuer must have delivered to the Trustee an opinion of counsel in the country of the Issuer's incorporation to the effect that after the 123rd day following the deposit, the trust funds will not be subject to the effect of any applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally and an opinion of counsel reasonably acceptable to the Trustee that the Trustee shall have a perfected security interest in such trust funds for the ratable benefit of the holders of the Notes;

(g) the Issuer must have delivered to the Trustee an Officer's Certificate stating that the deposit was not made by the Issuer with the intent of preferring the holders of the Notes over the other creditors of the Issuer with the intent of defeating, hindering, delaying or defrauding creditors of the Issuer or other creditors, or removing assets beyond the reach of the relevant creditors or increasing debts of the Issuer to the detriment of the relevant creditors;

(h) no event or condition exists that would prevent the Issuer from making payments of the principal of, premium, if any, Additional Amounts and interest on the Notes on the date of such deposit or at any time ending on the 123rd day after the date of such deposit; and

(i) the Issuer must have delivered to the Trustee an Officer's Certificate and an opinion of counsel, each stating that all conditions precedent provided for relating to the Legal Defeasance or the Covenant Defeasance, as the case may be, have been complied with.

If the funds deposited with the Trustee to effect Covenant Defeasance are insufficient to pay the principal of, premium, if any, Additional Amounts and interest on the Notes when due because of any acceleration occurring after an Event of Default, then the Issuer and the Guarantors will remain liable for such payments.

Satisfaction and Discharge

The Indenture will be discharged and will cease to be of further effect (except as to surviving rights of registration of transfer or exchange of the Notes as expressly provided for in the Indenture) when:

(a) the Issuer has irrevocably deposited or caused to be deposited with the Trustee (or such entity designated (as Agent) by the Trustee for this purpose) as funds on trust for such purpose an amount in Sterling or UK Government Obligations sufficient to pay and discharge the entire Debt on such Notes that have not, prior to such time, been delivered to the Trustee for cancellation, for principal of, premium, if any, and any Additional Amounts and accrued and unpaid interest on the Notes to the date of such deposit (in the case of Notes which have become due and payable) or to the Stated Maturity or redemption date, as the case may be, and the Issuer has delivered irrevocable instructions to the Trustee under the Indenture to apply the deposited money toward the payment of Notes at Stated Maturity or on the redemption date, as the case may be and either:

    (i) all of the Notes that have been authenticated and delivered (other than destroyed, lost or stolen Notes that have been replaced or paid and Notes for which payment money has been deposited on trust or segregated and held on trust by the Issuer and thereafter repaid to the Issuer or discharged from such trust as provided for in the Indenture) have been delivered to the Trustee for cancellation; or

    (ii) all Notes that have not been delivered to the Trustee for cancellation: (x) have become due and payable (by reason of the mailing of a notice of redemption or otherwise); (y) will become due and payable within one year of Stated Maturity; or (z) are to be called for redemption within one year of the proposed discharge date under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the Issuer's name and at the Issuer's expense;

(b) the Issuer has paid or caused to be paid all other sums payable by the Issuer under the Indenture;

(c) the Issuer has delivered irrevocable instructions to the Trustee to apply the deposited money toward the payment of the Notes at maturity or on the redemption date, as the case may be; and

(d) the Issuer has delivered to the Trustee an Officer's Certificate and an opinion of counsel, each stating that:

    (i) all conditions precedent provided in the Indenture relating to the satisfaction and discharge of the Indenture have been satisfied; and

    (ii) such satisfaction and discharge will not result in a breach or violation of, or constitute a default under, the Indenture or any other agreement or instrument to which the Issuer or any Subsidiary is a party or by which the Issuer or any Subsidiary is bound.

The Trustee shall be entitled to rely conclusively on such Officer's Certificate and opinion of counsel without independent verification, *provided* that any such counsel may rely on an Officer's Certificate as to matters of fact) (including as to compliance with the foregoing clauses (a), (b) and (c)).

If requested by the Issuer, the Trustee may distribute any amounts deposited in trust to the holders of the Notes prior to maturity or the redemption date, as the case may be. In such case, the payment to each Holder will equal the amount such Holder would have been entitled to receive at maturity or on the relevant redemption date, as the case may be.

Amendments and Waivers

With the consent of the holders of not less than a majority in aggregate principal amount of the Notes then outstanding (including consents obtained in connection with a purchase of, or tender offer or exchange offer for, such Notes), the Issuer, the Guarantors and the Trustee are permitted to amend or supplement the Indenture or waive any default or compliance with any provisions thereof; *provided* that no such modification, amendment or waiver may, without the consent of Holders holding not less than 90% of the then outstanding principal amount of the Notes then outstanding (or, alternatively, the consent of each Holder affected thereby):

(a) extend the Stated Maturity of the principal of, or any installment of or Additional Amounts or interest on, any Note (or change any Default or Event of Default under clause (a) of the definition thereof related thereto);

(b) reduce the principal amount of any Note (or Additional Amounts or premium, if any) or the rate of or extend the stated time for payment of interest on any Note (or change any Default or Event of Default under clause (b) of the definition thereof related thereto);

(c) change the coin or currency in which the principal of any Note or any premium or any Additional Amounts or the interest thereon is payable on or after the due dates thereof;

(d) impair the right to institute suit for the enforcement of any payment of any Note in accordance with the provisions of such Note and the Indenture;

(e) make any change to the amendment or waiver provisions which require the Holders' consent described in this sentence;

(f) release any Guarantee except in compliance with the terms of the Indenture.

Notwithstanding the foregoing, without the consent of any Holder of the Notes, the Issuer, the Guarantors and the Trustee may modify, amend or supplement the Indenture to:

(a) evidence the succession of another Person to the Issuer or a Guarantor and the assumption by any such successor of the covenants in the Indenture and in the Notes in accordance with "*—Certain Covenants—Merger, Consolidation or Sale of Assets*;"

(b) add to the Issuer's covenants and those of any Guarantor or any other obligor in respect of the Notes for the benefit of the holders of the Notes or to surrender any right or power conferred upon the Issuer or any Guarantor or any other obligor in respect of the Notes, as applicable, in the Indenture, the Notes or any Guarantee;

(c) cure any ambiguity, omission, defect error or inconsistency;

(d) conform the text of the Indenture, the Notes or any Guarantee to any provision of this Description of the Notes to the extent that such provision in this Description of the Notes was intended to be a verbatim recitation of a provision of the Indenture, the Notes or any Guarantee;

(e) release any Guarantor in accordance with (and if permitted by) the terms of the Indenture;

(f) add a Guarantor under the Indenture;

(g) evidence and provide the acceptance of the appointment of a successor Trustee under the Indenture;

(h) make any change that would provide additional rights or benefits to the Trustee or the Holders or that does not adversely affect the rights or benefits to the Trustee or any of the Holders in any material respect under the Indenture, the Notes or any Guarantee; and

(i) provide for the issuance of Additional Notes in accordance with and if permitted by the terms of and limitations set forth in the Indenture.

In formulating its opinion on such matters, the Trustee shall be entitled to request and rely on such evidence as it deems fit, including, but not limited to, Officer's Certificates and opinions of counsel.

The consent of the Holders is not necessary under the Indenture to approve the particular form of any proposed amendment to the Indenture, the Notes or any Guarantee. It is sufficient if such consent approves the substance of the proposed amendment. A consent to any amendment or waiver under the Indenture by any Holder of the Notes given in connection with a tender of such Holder's Notes will not be rendered invalid by such tender.

Currency Indemnity

Sterling is the sole currency of account and payment for all sums payable under the Notes, the Guarantees and the Indenture. Any amount received or recovered in respect of the Notes or the Guarantees in a currency other than Sterling (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding up or dissolution of the Issuer, any Subsidiary or otherwise) by the Trustee and/or a Holder of the Notes in respect of any sum expressed to be due to such Holder from the Issuer or the Guarantors will constitute a discharge of their obligation only to the extent of the Sterling amount which the recipient is able to purchase with the amount so received or recovered in such other currency on the date of that receipt or recovery (or, if it is not possible to purchase Sterling on that date, on the first date on which it is possible to do so). If the Sterling amount that could be recovered following such a purchase is less than the Sterling amount expressed to be due to the recipient under any Note, the Issuer and the Guarantors will jointly and severally indemnify the recipient against the cost of the recipient's making a further purchase of Sterling in an amount equal to such difference. For the purposes of this paragraph, it will be sufficient for the Trustee and/or Holder to certify that it would have suffered a loss had the actual purchase of Sterling been made with the amount so received in that other currency on the date of receipt or recovery (or, if a purchase of Sterling on that date had not been possible, on the first date on which it would have been possible). These indemnities, to the extent permitted by law:

(a) constitute a separate and independent obligation from the Issuer's and the Guarantors' other obligations;

(b) give rise to a separate and independent cause of action;

(c) apply irrespective of any waiver granted by any Holder of a Note; and

(d) will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note or any other judgment or order.

Notices

All notices to Holders will be validly given if mailed to them at their respective addresses in the register of the Holders, if any, maintained by the Registrar. In addition, for so long as any Notes are listed on the Exchange and the rules of the Exchange so require, any such notice to the Holders shall also be posted on the official website of the Exchange (*www.thecise.com*). In addition, for Notes which are represented by global certificates held on behalf of Euroclear or Clearstream, all notices to Holders will be given by delivery to Euroclear or Clearstream in substitution for the aforesaid mailing.

Each such notice shall be deemed to have been given on the date of such publication or, if published more than once on different dates, on the first date on which publication is made, provided that, if notices are mailed, such notice shall be deemed to have been given on the later of such publication and the seventh day after being so mailed. Any notice or communication mailed to a Holder shall be mailed to such Person by first- class mail or other equivalent means and shall be sufficiently given to him if so mailed within the time prescribed. Failure to mail a notice or communication to a Holder or any defect in it shall not affect its sufficiency with respect to other Holders. If a notice or communication is mailed in the manner provided above, it is duly given, whether or not the addressee receives it.

No Personal Liability of Directors, Officers, Employees and Stockholders

No director, officer, employee, incorporator or stockholder of the Issuer or any Guarantor, as such, will have any liability for any obligations of the Issuer or the Guarantors under the Notes, the Indenture, the Guarantees or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder of Notes by accepting a Note will waive and release all such liability. The waiver and release will be part of the consideration for issuance of the Notes. The waiver may not be effective to waive liabilities under U.S. federal securities laws.

The Trustee

BNY Mellon Corporate Trustee Services Limited is to be appointed as Trustee under the Indenture. The Indenture will provide that, except during the continuance of an Event of Default of which notice from the Issuer is given to the Trustee in accordance with the notice provisions of the Indenture, the Trustee will perform only such duties as are set forth specifically in the Indenture. During the existence of an Event of Default, of which notice from the Issuer is given to the Trustee in accordance with the notice provisions of the Indenture, the Trustee will exercise such of the rights and powers vested in it under the Indenture and use the same degree of care that a prudent Person would use in conducting its own affairs. The permissive rights of the Trustee to take or refrain from taking any action enumerated in the Indenture will not be construed as an obligation or duty. The Trustee will be permitted to engage in other transactions with the Issuer and its Affiliates and Subsidiaries.

The Indenture will contain provisions for the indemnification of the Trustee for any loss, liability, taxes and expenses incurred without gross negligence, willful misconduct or fraud on its part, arising out of or in connection with the acceptance or administration of the Indenture.

The Indenture contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured to its satisfaction.

Governing Law

The Indenture, the Notes and the Guarantees are governed by and construed in accordance with the laws of the State of New York.

Certain Definitions

"**2014 Revolving Credit Facility**" means the £560 million revolving credit facility, dated July 14, 2014, among others, the Issuer, as borrower, the Initial Guarantors, as guarantors, and lenders as described therein.

"**2016 Revolving Credit Facility**" means the £100 million revolving credit facility, dated January 6, 2016, between, among others, the Issuer, as borrower, the Initial Guarantors, as guarantors, and lenders as described therein.

"**Acquired Debt**" means Debt of a Person:

(a) existing at the time such Person becomes a Restricted Subsidiary or is merged into or consolidated with the Issuer or any Restricted Subsidiary; or

(b) assumed in connection with the acquisition of assets from any such Person,

provided that, in each case, such Debt was not Incurred in connection with, or in contemplation of, such Person becoming a Restricted Subsidiary or such acquisition, as the case may be.

Acquired Debt will be deemed to be Incurred on the date the acquired Person becomes a Restricted Subsidiary (or is merged into or consolidated with the Issuer or any Restricted Subsidiary, as the case may be) or the date of the related acquisition of assets from any Person.

"**Affiliate**" means, with respect to any specified Person:

(a) any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person;

(b) any other Person that owns, directly or indirectly, 10% or more of such specified Person's Capital Stock or any officer or director of any such specified Person or other Person or, with respect to any natural Person, any Person having a relationship with such Person by blood, marriage or adoption not more remote than first cousin; or

(c) any other Person 10% or more of the Voting Stock of which is beneficially owned or held, directly or indirectly by such specified Person.

For the purposes of this definition, "control," when used with respect to any specified Person, means the power to direct or cause the direction of the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling," "controlled" have meanings correlative to the foregoing.

"**Applicable Redemption Premium**" means, with respect to any Note on any redemption date, the greater of:

(a) 1.0% of the principal amount of the Note; and

(b) the excess of:

(i) the present value at such redemption date of: (x) the redemption price of such Note at , 2019 (such redemption price being set forth in the table appearing below the caption "*Optional Redemption—Optional Redemption on or after , 2019*" *plus* (y) all required interest payments that would otherwise be due to be paid on such Note during the period between the redemption date and , 2019 (excluding accrued but unpaid interest), computed using a discount rate equal to the Gilt Rate at such redemption date plus 50 basis points; over

(ii) the outstanding principal amount of the Note.

For the avoidance of doubt, calculation of the Applicable Redemption Premium shall not be a duty or obligation of the Trustee or the Paying Agent.

"**Asset Sale**" means any sale, issuance, conveyance, transfer, lease (other than operating leases) or other disposition (including, without limitation, by way of merger, consolidation, amalgamation or other combination or sale and leaseback transaction) (collectively, a "**transfer**"), directly or indirectly, in one or a series of related transactions, of:

(a) any Capital Stock of any Subsidiary (other than directors' qualifying shares or shares required by applicable law to be held by a Person other than the Issuer or a Subsidiary);

(b) all or substantially all of the properties and assets of any division or line of business of the Issuer or any Restricted Subsidiary; or

(c) any other of the Issuer's or any Restricted Subsidiary's properties or assets.

Notwithstanding the preceding, none of the following items will be deemed to be an Asset Sale:

(i) any single transaction or series of related transactions that involves assets or Capital Stock having a Fair Market Value of less than £10.0 million or, if greater, 3.4% of Consolidated EBITDA;

(ii) any transfer or disposition of assets by the Issuer to any Restricted Subsidiary, or by any Restricted Subsidiary to the Issuer or any Restricted Subsidiary and otherwise in accordance with the terms of the Indenture;

(iii) any transfer or disposition of obsolete, damaged, surplus, worn out or permanently retired equipment or facilities or other assets that are no longer useful in the conduct of the Issuer's and any Restricted Subsidiary's business;

(iv) sales or dispositions of receivables in any factoring or supply chain financing transaction in the ordinary course of business or in other Receivable Factoring;

(v) any transfer or disposition of assets that is governed by the provisions of the Indenture described under "*—Certain Covenants—Merger, Consolidation or Sale of Assets*" and "*—Certain Covenants—Change of Control*;"

(vi) for the purposes of "*—Certain Covenants—Limitation on Asset Sales*" only, the making of a Permitted Investment or a Restricted Payment permitted under "*—Certain Covenants—Limitation on Restricted Payments*;"

(vii) the sale, lease, sublease, assignment or other disposition of any real or personal property or any equipment, inventory, trading stock or other assets in the ordinary course of business;

(viii) an issuance or transfer of Capital Stock by a Restricted Subsidiary to the Issuer or to another Restricted Subsidiary or as part of, or pursuant to, an equity incentive or compensation plan approved by the Board of Directors of the Issuer or the issuance of directors' qualifying shares and shares issued to individuals as required by applicable law;

(ix) any issuance, sale or disposition of Capital Stock, Debt or other securities of an Unrestricted Subsidiary;

(x) any Restricted Payment that is permitted to be made, and is made, under the covenant described above under "*—Certain Covenants—Limitation on Restricted Payments*" and the making of any Permitted Payment or Permitted Investment, or other asset sales (or portions thereof to the extent the proceeds of which are used to make such Restricted Payments or Permitted Investments);

(xi) any transfer, termination, unwinding or other disposition of Hedging Agreements in the ordinary course of business and not for speculative purposes;

(xii) sales of assets received by the Issuer or any Restricted Subsidiary upon the foreclosure on a Lien granted in favor of the Issuer or any Restricted Subsidiary or any other transfer of title with respect to any secured investment in default;

(xiii) any disposition in connection with a Permitted Lien;

(xiv) the licensing, sub-licensing, lease or assignment of intellectual property or other general intangibles and licenses, sub-licenses, leases, subleases or assignments of other property, in each case, in the ordinary course of business;

(xv) foreclosure, condemnation or any similar action with respect to any property or other assets;

(xvi) the surrender or waiver of contract rights or the settlement, release or surrender of contract, tort or other claims of any kind;

(xvii) any disposition of assets to a Person who is providing services related to such assets, the provision of which have been or are to be outsourced by the Issuer or any Restricted Subsidiary to such Person;

(xviii) any disposition with respect to property built, owned or otherwise acquired by the Issuer or any Restricted Subsidiary pursuant to customary a sale and leaseback transaction asset securitizations and other similar financings permitted by the Indenture;

(xix) a disposition of cash or Cash Equivalents;

(xx) sales, transfers or other disposition of Investments in joint ventures to the extent required by, or made pursuant to, customary buy/sell arrangements between the joint venture parties set forth in joint venture arrangements and similar binding agreements; provided that any cash or Cash Equivalents received in such sale, transfer or disposition is applied in accordance with the "*—Certain Covenants—Limitation on Asset Sales*" covenant;

(xxi) any sale or other disposition made pursuant to, or as a result of, a final judgement or court order related to a liquidation or unpaid claim; or

(xxii) disposition of receivables in connection with the compromise, settlement or collection thereof in the ordinary course of business or in bankruptcy or similar proceedings and exclusive of factoring or similar arrangements.

"**Average Life**" means, as at the date of determination with respect to any Debt, the quotient obtained by dividing:

(a) the sum of the products of:

(i) the numbers of years from the date of determination to the date or dates of each successive scheduled principal payment of such Debt; multiplied by

(ii) the amount of each such principal payment;

by

(b) the sum of all such principal payments.

"**Bilateral Agreements**" means, collectively (i) the £50 million bilateral revolving credit facility agreement dated July 14, 2014, between the Issuer, as borrower, and the lender as described therein and (ii) the £50 million bilateral revolving credit facility agreement dated August 6, 2015, between the Issuer, as borrower, and the lender as described therein.

"**Board of Directors**" means:

(a) with respect to any corporation, the board of directors or managers of the corporation (which, in the case of any corporation having both a supervisory board and an executive or management board, shall be the executive or management board) or any duly authorized committee thereof;

(b) with respect to any partnership, the board of directors of the general partner of the partnership or any duly authorized committee thereof;

(c) with respect to a limited liability company, the managing member or members (or analogous governing body) or any controlling committee of managing members thereof; and

(d) with respect to any other Person, the board or any duly authorized committee thereof or committee of such Person serving a similar function.

"**Business Day**" means a day other than a Saturday, Sunday or other day on which banking institutions in London, New York or a place of payment under the Indenture are authorized or required by law to close.

"**Capital Stock**" means, with respect to any Person, any and all shares, interests, partnership interests (whether general or limited), participations, rights in or other equivalents (however designated) of such Person's equity, any other interest or participation that confers the right to receive a share of the profits and losses, or distributions of assets of, such Person and any rights (other than debt securities convertible into or exchangeable for Capital Stock), warrants or options exchangeable for, or convertible into, such Capital Stock, whether now outstanding or issued after the Issue Date.

"**Capitalized Lease Obligation**" means, with respect to any Person, any obligation of such Person under a lease of (or other agreement conveying the right to use) any property (whether real, personal or mixed), which obligation is required to be classified and accounted for as a capital lease obligation under IFRS (as in effect on the Issue Date for purposes of determining whether a lease is a capital lease), and, for purposes of the Indenture, the amount of such obligation at any date will be the capitalized amount thereof at such date, determined in accordance with IFRS and the Stated Maturity thereof will be the date of the last payment of rent or any other amount due under such lease prior to the first date such lease may be terminated without penalty. At any date after the Issue Date, the Issuer may, by written notice to the Trustee, make an election to establish that a Capitalized Lease Obligation is an obligation that is required to be classified and accounted for as a capital lease in accordance with IFRS as in effect from time to time. For the avoidance of doubt, prior to any such date of election obligations that are accounted for as operating lease arrangements for financial reporting purposes in accordance with IFRS as in effect on the Issue Date will not be Capitalized Lease Obligations.

"**Cash Equivalents**" means any of the following:

(a) any evidence of Debt denominated in Euro, Sterling or U.S. dollars with a maturity of one year or less from the date of acquisition, issued or directly and fully guaranteed or insured by a member state (an "**EU Member State**") of the European Union whose sole lawful currency on the Issue Date is the Euro, the government of the United Kingdom of Great Britain and Northern Ireland, the United States of America, any state thereof or the District of Columbia, Canada or any province of Canada, Norway or Switzerland or any agency or instrumentality thereof (each, an "**Approved Jurisdiction**");

(b) time deposit accounts, certificates of deposit, money market deposits or bankers' acceptances denominated in Euro, Sterling or U.S. dollars with a maturity of one year or less from the date of acquisition issued by a bank or trust company organized in an EU Member State, the United Kingdom of Great Britain and Northern Ireland, Canada, Norway or Switzerland or any commercial banking institution that is a member of the U.S. Federal Reserve System, in each case having combined capital and surplus and undivided profits of not less than €500.0 million, whose long-term, unsecured, unsubordinated and unguaranteed debt has a rating, at the time any investment is made therein, of at least A or the equivalent thereof from S&P and at least A2 or the equivalent thereof from Moody's;

(c) commercial paper with a maturity of one year or less from the date of acquisition issued by a corporation that is not the Issuer's or any Restricted Subsidiary's Affiliate and which is incorporated under the laws of an EU Member State, United Kingdom of Great Britain and Northern Ireland, the United States of America or any state thereof and, at the time of acquisition, having a short-term credit rating of at least A-1 or the equivalent thereof from S&P or at least P-l or the equivalent thereof from Moody's;

(d) repurchase obligations with a term of not more than thirty days for underlying securities of the type described in clause (a) above, entered into with a financial institution meeting the qualifications described in clause (b) above; and

(e) Investments in money market mutual funds substantially all of the assets of which constitute Cash Equivalents of the kind described in clauses (a) through (d) above.

"**Change of Control**" means the occurrence of any of the following events:

(a) the Issuer becomes aware of any "person" or "group" of related persons (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act as in effect on the Issue Date) other than one or more

Permitted Holders becoming the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act as in effect on the Issue Date), directly or indirectly, of more than 50% of the total voting power of the Voting Stock of the Issuer; *provided* that for the purposes of this clause, no Change of Control shall be deemed to occur by reason of the Issuer becoming a Subsidiary of a Successor Parent; or

(b) the sale of all or substantially all the assets of the Issuer (determined on a consolidated basis), other than by way of merger, consolidation or other business combination transaction, in one or a series of related transactions to another Person other than a Restricted Subsidiary or one or more Permitted Holders.

"**Commission**" means the U.S. Securities and Exchange Commission.

"**Consolidated EBITDA**" means, with respect to any specified Person for any period, the Consolidated Net Income of such Person for such period plus the following to the extent deducted in calculating such Consolidated Net Income, without duplication:

(a) provision for taxes based on income or profits of such Person and its Subsidiaries which are Restricted Subsidiaries for such period; *plus*

(b) the Consolidated Interest Expense of such Person and its Subsidiaries which are Restricted Subsidiaries for such period; *plus*

(c) depreciation, amortization (including, without limitation, amortization of intangibles and deferred financing fees) and other non-cash charges and expenses (including, without limitation, write-downs and impairment of property, plant, equipment and intangibles and other long-lived assets and the impact of purchase accounting on such Person and its Restricted Subsidiaries for such period) of such Person and its Restricted Subsidiaries (excluding any such non-cash charge or expense to the extent that it represents an accrual of or reserve for cash charges or expenses in any future period or amortization of a prepaid cash charge or expense that was paid in a prior period) for such period; *plus*

(d) any expenses, charges or other costs related to the issuance of any Capital Stock, or any permitted investment, acquisition, disposition, recapitalization or listing or the Incurrence of Debt whether or not successful and, in each case, deducted in such period in computing Consolidated Net Income; *plus*

(e) the amount of any minority interest expense consisting of subsidiary income attributable to minority equity interests of third parties in any Restricted Subsidiary in such period or any prior period, except to the extent of dividends declared or paid on, or other cash payments in respect of, Equity Interests held by such parties; *plus*

(f) the amount of management, monitoring, consulting and advisory fees and related expenses paid in such period to the Permitted Holders to the extent permitted by the covenant described under "*—Certain Covenants—Limitation on Affiliate Transactions*"; *plus*

(g) the proceeds of any business interruption insurance received or that become receivable during such period to the extent the associated losses arising out of the event that resulted in the payment of such business interruption insurance proceeds were included in computing Consolidated Net Income; *plus*

(h) payments received or that become receivable with respect to, expenses that are covered by the indemnification provisions in any agreement entered into by such Person in connection with an acquisition to the extent such expenses were included in computing Consolidated Net Income; *plus*

(i) any Receivables Fees and discounts on the sale of accounts receivables in connection with any Receivables Financing representing, in the Issuer's reasonable determination, the implied interest component of such discount for such period; *plus*

(j) any income, charge or other expense attributable to post-employment benefit, pension, fund or similar obligation other than the current service costs and any past service costs and curtailments and settlements attributable to the scheme; *minus*

(k) non-cash items increasing such Consolidated Net Income for such period, other than the reversal of a reserve for cash charges in a future period in the ordinary course of business.

For the purposes of determining "Consolidated EBITDA", *pro forma* effect shall be given to Consolidated EBITDA on the same basis as for calculating the Consolidated Leverage Ratio for the Issuer and its Restricted Subsidiaries.

"**Consolidated Interest Expense**" means, for any period, without duplication and in each case determined in accordance with IFRS, the sum of:

(a) consolidated interest expense of the Issuer and its Restricted Subsidiaries for such period, *plus*, to the extent not otherwise included in consolidated interest expense:

  (i) amortization of original issue discount (but not including deferred financing fees, debt issuance costs and premium, commissions, fees and expenses owed or paid with respect to financings);

  (ii) the net payments made or received pursuant to Hedging Agreements (including amortization of fees and discounts);

  (iii) commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financing and similar transactions; and

  (iv) the interest portion of any deferred payment obligation and amortization of debt issuance costs; *plus*

(b) the interest component of the Issuer's and the Restricted Subsidiaries' Capitalized Lease Obligations accrued and/or scheduled to be paid or accrued during such period other than the interest component of Capitalized Lease Obligations between or among the Issuer and any Restricted Subsidiary or between or among Restricted Subsidiaries; *plus*

(c) the Issuer's and the Restricted Subsidiaries non-cash interest expenses and interest that was capitalized during such period; *plus*

(d) the interest expense on Debt of another Person to the extent such Debt is guaranteed by the Issuer or any Restricted Subsidiary or secured by a Lien on the Issuer's or any Restricted Subsidiary's assets, but only to the extent that such interest is actually paid by the Issuer or such Restricted Subsidiary; *plus*

(e) cash and non-cash dividends due (whether or not declared) on the Issuer's Redeemable Capital Stock and any Restricted Subsidiary's Preferred Stock (to any Person other than the Issuer and any Restricted Subsidiary), in each case for such period,

minus (i) accretion or accrual of discounted liabilities other than Debt; (ii) any expense resulting from the discounting of any Debt in connection with the application of purchase accounting in connection with any acquisition; (iii) any discounts, commissions, fees, interest, expenses and other charges associated with any Receivables Financing; (iv) interest with respect to Debt of any Holding Company of any Person appearing upon the balance sheet of such Person solely by reason of push-down accounting under IFRS; (v) any Additional Amounts with respect to the Notes or other similar tax gross-up on any Debt (including, without limitation, under any Credit Facility), which is included in interest expenses under IFRS; and (vi) any capitalized, accrued or accreting or pay-in-kind interest or principal on Subordinated Shareholder Debt.

"**Consolidated Leverage**" means, as of any date of determination, the sum of the total amount of Debt of the Issuer and its Restricted Subsidiaries, less cash and Cash Equivalents, in each case that would be stated on the balance sheet of the Issuer and its Restricted Subsidiaries on a consolidated basis on such date.

"**Consolidated Leverage Ratio**" means, as at any date of determination, the ratio of: (1) the Consolidated Leverage of the Issuer on such date, to (2) the *pro forma* Consolidated EBITDA for the period of the most recent two consecutive fiscal halves for which internal financial statement are available; *provided* that:

(a) if the Issuer or any Restricted Subsidiary has Incurred any Debt since the beginning of such period that remains outstanding or if the transaction giving rise to the need to calculate the Consolidated Leverage Ratio is an Incurrence of Debt or both, Consolidated EBITDA and Consolidated Leverage for such period shall be calculated after giving effect on a *pro forma* basis, including in respect of anticipated expense and cost reductions and synergies, to such Debt as if such Debt had been Incurred on the first day of such period and the discharge of any other Debt repaid, repurchased, defeased or otherwise discharged with the proceeds of such new Debt as if such discharge had occurred on the first day of such period;

(b) if, since the beginning of such period, the Issuer or any Restricted Subsidiary shall have made any Asset Sale, Consolidated EBITDA for such period shall be reduced by an amount equal to the Consolidated EBITDA (if positive) directly attributable to the assets which are the subject of such asset sale for such period, or increased by an amount equal to the Consolidated EBITDA (if negative) directly attributable thereto, for such period and the Consolidated Leverage for such period shall be reduced by an amount equal to the Consolidated Leverage directly attributable to any Debt of the Issuer or of any Restricted Subsidiary repaid, repurchased, defeased or otherwise discharged with respect to the Issuer and the continuing Restricted Subsidiaries in connection with such Asset Sale for such period (or, if the Capital Stock of any Restricted Subsidiary is sold, the Consolidated Leverage for such period directly attributable to the Debt of such Restricted Subsidiary to the extent the Issuer and the continuing Restricted Subsidiaries are no longer liable for such Debt after such sale);

(c) if, since the beginning of such period the Issuer or any Restricted Subsidiary (by merger, consolidation, amalgamation or other combination or otherwise) shall have made an Investment in any Restricted Subsidiary (or any Person which becomes a Restricted Subsidiary) or an acquisition of assets, including any acquisition of an asset occurring in connection with a transaction causing a calculation to be made hereunder, which constitutes all or substantially all of an operating unit of a business, Consolidated EBITDA and Consolidated Leverage for such period shall be calculated after giving *pro forma* effect thereto (including in respect of anticipated expense and cost reductions and synergies) as if such Investment or acquisition occurred on the first day of such period; and

(d) if, since the beginning of such period any Person (that subsequently became a Restricted Subsidiary or was merged with or into the Issuer or any Restricted Subsidiary since the beginning of such period) shall have made any Asset Sale or any Investment or acquisition of assets that would have required an adjustment pursuant to clause (b) or (c) if made by the Issuer or a Restricted Subsidiary during such period, Consolidated EBITDA and Consolidated Leverage for such period shall be calculated after giving *pro forma* effect thereto as if such asset sale or Investment or acquisition occurred on the first day of such period,

provided, *however*, the *pro forma* calculation of the Consolidated Leverage Ratio shall not give effect to (i) any Debt incurred on the date of determination pursuant to paragraph (2) of "*—Certain Covenants—Limitation on Debt*" or (ii) the discharge on the date of determination of any Debt to the extent that such discharge results from the proceeds incurred pursuant to paragraph (2) of "*—Certain Covenants—Limitation on Debt*."

If any Debt bears a floating rate of interest and is being given *pro forma* effect, the interest expense on such Debt shall be calculated as if the rate in effect on the date of determination had been the applicable rate for the entire period (taking into account any Interest Rate Agreement applicable to such Debt for a period equal to the remaining term of such Interest Rate Agreement).

"**Consolidated Net Income**" means, for any period, the Issuer's and the Restricted Subsidiaries' consolidated net income (or loss) for such period as determined in accordance with IFRS, adjusted by excluding (to the extent included in such consolidated net income or loss), without duplication:

(a) the portion of net income (and the loss unless and to the extent funded in cash by the Issuer or a Restricted Subsidiary) of any Person (other than the Issuer or a Restricted Subsidiary), including Unrestricted Subsidiaries, in which the Issuer or any Restricted Subsidiary has an equity ownership interest, except that the Issuer's or a Restricted Subsidiary's equity in the net income of such Person for such period shall be included in such Consolidated Net Income to the extent of the aggregate amount of dividends or other distributions actually paid to the Issuer or any Restricted Subsidiary in cash dividends or other distributions during such period;

(b) solely for the purpose of determining the amount available for Restricted Payments under paragraph (2)(c)(i) of the covenant described under "*—Certain Covenants—Limitation on Restricted Payments*", the net income (but not the loss) of any Restricted Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Restricted Subsidiary is not at the date of determination permitted, directly or indirectly, by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Restricted Subsidiary or its shareholders (other than (i) restrictions that have been waived or otherwise released, (ii) restrictions pursuant to the Indenture, (iii) contractual restrictions in effect on the Issue Date with respect to a Restricted Subsidiary, and other restrictions with respect to such Restricted Subsidiary that, taken as a whole, are not materially less favorable to the Holders than such restrictions in effect on the Issue Date, and (iv) restrictions specified in the covenant described under "*—Certain Covenants—Limitation on Dividends and Other Payment Restrictions Affecting Restricted Subsidiaries*") except that the Issuer's equity in the net income of any such Restricted Subsidiary for such period will be included in such Consolidated Net Income up to the aggregate amount of cash or Cash Equivalents actually distributed or that could have been distributed by such Restricted Subsidiary during such period to the Issuer or another Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend to another Restricted Subsidiary, to the limitation contained in this clause);

(c) net after-tax gains attributable to the termination of any employee pension benefit plan;

(d) any restoration to net income of any contingency reserve, except to the extent provision for such reserve was made out of income accrued at any time following the Issue Date;

(e) any net gain or loss arising from the acquisition of any securities or extinguishment, under IFRS, of any Debt of such Person;

(f) the net income attributable to discontinued operations (including, without limitation, operations disposed of during such period whether or not such operations were classified as discontinued);

(g) the cumulative effect of a change in accounting principles;

(h) the net gain (or loss) realized upon the sale or other disposition of any asset or disposed operations of the Issuer or any Restricted Subsidiary (including pursuant to a sale/leaseback transaction) which is not sold or otherwise disposed of in the ordinary course of business (as determined in good faith by an Officer or the Board of Directors of the Issuer);

(i) any special, extraordinary, one-off, exceptional, unusual or non-recurring gain, loss, expense or charge (including one-off investment in hardware costs, for example TV set-top boxes, broadband routers and similar) or any charges in respect of any restructuring, redundancy, relocation, refinancing, integration or severance or other post-employment arrangements, signing, retention or completion bonuses, transaction costs (including costs related to the refinancing or any investments), acquisition costs, business optimization, system establishment, software or information technology implementation or development costs, costs related to governmental investigations and curtailments or modifications to pension or post-retirement benefits schemes, litigation or any asset impairment charges or the financial impacts of natural disasters (including fire, flood and storm and related events);

(j) any non-cash compensation charge or expense arising from any grant of stock, stock options or other equity based awards and any non-cash deemed finance charges in respect of any pension liabilities or other provisions;

(k) any unrealized gains or losses in respect of Hedging Agreements or other derivative instruments or forward contracts or any ineffectiveness recognized in earnings related to a qualifying hedge transaction or the fair value or changes therein recognized in earnings for derivatives that do not qualify as hedge transactions, in each case, in respect of Hedging Agreements;

(l) any unrealized foreign currency transaction gains or losses in respect of Debt or other obligations of the Issuer or any Restricted Subsidiary denominated in a currency other than the functional currency of such Person and any unrealized foreign exchange gains or losses resulting from re-measuring assets and liabilities denominated in foreign currencies;

(m) any unrealized foreign currency translation or transaction gains or losses in respect of Debt or other obligations of the Issuer or any Restricted Subsidiary owing to the Issuer or any Restricted Subsidiary;

(n) any goodwill or other intangible asset impairment charge or write-off or write-down; and

(o) the impact of capitalized, accrued or accreting or pay-in-kind interest or principal on Subordinated Shareholder Debt.

"**Comparable Sterling Benchmark Price**" means, with respect to any redemption date, (a) the average of the Sterling Reference Dealer Quotations for such redemption date, after excluding the highest and lowest such Sterling Reference Dealer Quotation or (b) if the Issuer obtains fewer than four such Sterling Reference Dealer Quotations, the average of all such quotations.

"**Credit Facility**" or "**Credit Facilities**" means, one or more debt facilities or indentures, as the case may be, (including the Existing Credit Facilities) or commercial paper facilities, arrangements, instruments or indentures or commercial paper facilities and overdraft facilities, in each case, with banks, insurance companies or other institutional lenders providing for revolving credit loans, term loans, bankers acceptances, receivables financing (including through the sale of receivables to such lenders or to special purpose entities formed to borrow from such lenders against such receivables), notes, letters of credit or other Debt , in each case, as amended, restated, modified, renewed, refunded, replaced, refinanced, repaid, increased or extended in whole or in part from time to time (and whether in whole or in part and whether or not with the original administrative agent and lenders or another administrative agent or agents or other banks, institutions or investors and whether provided under the Existing Credit Facilities or one or more other credit or other agreements, indentures, financing agreements or otherwise) and in each case including all agreements, instruments and documents executed and delivered pursuant to or in connection with the foregoing (including any notes and letters of credit issued pursuant thereto and any Guarantee and collateral agreement, patent and trademark security agreement, mortgages or letter of credit applications and other guarantees, pledges, agreements, security agreements and collateral documents). Without limiting the generality of the foregoing, the term "Credit Facility" shall include any agreement or instrument (a) changing the maturity of any debt Incurred thereunder or contemplated thereby, (b) adding Subsidiaries of the Issuer as additional borrowers or guarantors thereunder, (c) increasing the amount of Debt Incurred thereunder or available to be borrowed thereunder or (d) otherwise altering the terms and conditions thereof.

"**Currency Agreements**" means, in respect of a Person, any spot or forward foreign exchange agreements and currency swap, currency option or other similar financial agreements or arrangements designed to protect such Person against or manage exposure to fluctuations in foreign currency exchange rates.

"**Debt**" means, with respect to any Person, without duplication:

(a) all liabilities of such Person for borrowed money (including overdrafts) or for the deferred purchase price of property or services, excluding any trade payables and other accrued current liabilities Incurred in the ordinary course of business;

(b) all obligations of such Person evidenced by bonds, notes, debentures or other similar instruments;

(c) all reimbursement obligations of such Person in connection with any letters of credit, bankers' acceptances, receivables facilities or other similar facilities;

(d) all debt of such Person created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person (even if the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property), which is due more than one year after its incurrence but excluding trade payables arising in the ordinary course of business;

(e) all Capitalized Lease Obligations of such Person;

(f) all obligations of such Person under or in respect of Hedging Agreements (the amount of any such obligation to be equal at any time to the termination value of such agreement or arrangement giving rise to such obligation that would be payable by such Person at such time);

(g) all Debt referred to in (but not excluded from) the preceding clauses (a) through (f) of other Persons and all dividends of other Persons, the payment of which is secured by (or for which the holder of such Debt has an existing right, contingent or otherwise, to be secured by) any Lien upon or with respect to property (including, without limitation, accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Debt (the amount of such obligation being deemed to be the lesser of the Fair Market Value of such property or asset and the amount of the obligation so secured);

(h) all guarantees by such Person of Debt referred to in this definition of any other Person;

(i) all Redeemable Capital Stock of such Person valued at the greater of its voluntary maximum fixed repurchase price and involuntary maximum fixed repurchase price; and

(j) Preferred Stock of any Restricted Subsidiary,

in each case to the extent it appears as a liability on the balance sheet in accordance with IFRS; *provided* that the term "**Debt**" shall not include: (i) non-interest bearing installment obligations and accrued liabilities Incurred in the ordinary course of business that are (a) not more than 90 days past due or (b) more than 90 days past due but with the consent of the payee or as the result of a *bona fide* ongoing negotiation over such liabilities; (ii) anything accounted for as an operating lease in accordance with IFRS as at the Issue Date; (iii) any pension obligations of the Issuer or a Restricted Subsidiary; (iv) Debt incurred by the Issuer or one of the Restricted Subsidiaries in connection with a transaction where (a) such Debt is borrowed from a bank or trust company incorporated in any member state of the European Union as of the date of the Indenture, or any commercial banking institution that is a member of the U.S. Federal Reserve System, in each case having a combined capital and surplus and undivided profits of not less than €500.0 million, whose debt has a rating immediately prior to the time such transaction is entered into, of at least A or the equivalent thereof by S&P and A2 or the equivalent thereof by Moody's and (b) a substantially concurrent Investment is made by the Issuer or a Restricted Subsidiary in the form of cash deposited with the lender of such Debt, or a Subsidiary or affiliate thereof, in amount equal to such Debt; (v) obligations in respect of Receivables Financing; and (vi) Subordinated Shareholder Debt.

For purposes of this definition, the "**maximum fixed repurchase price**" of any Redeemable Capital Stock that does not have a fixed redemption, repayment or repurchase price will be calculated in accordance with the terms of such Redeemable Capital Stock as if such Redeemable Capital Stock were purchased on any date on which Debt will be required to be determined pursuant to the Indenture, and if such price is based upon, or measured by, the fair market value of such Redeemable Capital Stock, such fair market value will be determined in good faith by the Board of Directors of the issuer of such Redeemable Capital Stock; *provided*, that if such Redeemable Capital Stock is not then permitted to be redeemed, repaid or repurchased, the redemption, repayment or repurchase price shall be the book value of such Redeemable Capital Stock as reflected in the most recent financial statements of such Person.

"**Default**" means any event that is, or after the giving of notice or passage of time or both would be, an Event of Default.

"**Designated Non-cash Consideration**" means the Fair Market Value of non-cash consideration received by the Issuer or one of its Restricted Subsidiaries in connection with an Asset Sale that is so designated as "Designated Non-cash Consideration" pursuant to an Officer's Certificate, setting forth the basis of such valuation, less the amount of cash or Cash Equivalents received in connection with a subsequent sale of such Designated Non-cash Consideration.

"**Disinterested Member**" means, with respect to any transaction or series of related transactions, a member of the Issuer's Board of Directors who does not have any material direct or indirect financial interest in or with respect to such transaction or series of related transactions or is not an Affiliate, or an officer, director, member of a supervisory, executive or management board or employee of any Person (other than the Issuer or a Restricted Subsidiary) who has any direct or indirect financial interest in or with respect to such transaction or series of related transactions.

"**Equity Offering**" means an underwritten offer and sale of Capital Stock (which is Qualified Capital Stock) of the Issuer, or any Holding Company of the Issuer; *provided* that the net proceeds of such underwritten public offer and sale are contributed to the equity capital of the Issuer.

"**Exchange Act**" means the U.S. Securities Exchange Act of 1934, as amended, or any successor statute, and the rules and regulations promulgated by the Commission thereunder.

"**Existing Credit Facilities**" means the Bilateral Agreements, the 2014 Revolving Credit Facility, the 2016 Backstop Facility, the Term Loan Facility and the USPP Notes.

"**Fair Market Value**" means, with respect to any asset or property, the sale value that would be obtained in an arm's-length free market transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Issuer's Board of Directors.

"**Fitch**" means Fitch Ratings Inc., or any of its successors or assigns that is a Nationally Recognized Statistical Rating Organization.

"**Gilt Rate**" means, with respect to any redemption date, the yield to maturity as of such redemption date of UK Government Obligations with a fixed maturity (as compiled by the Office for National Statistics and published in the most recent Financial Statistics that have become publicly available at least two Business Days in London prior to such redemption date (or, if such Financial Statistics are no longer published, any publicly available source of similar market data)) most nearly equal to the period from such redemption date to , 2019; provided, however, that if the period from such redemption date to , 2019 is less than one year, the weekly average yield on actually traded UK Government Obligations denominated in sterling adjusted to a fixed maturity of one year shall be used.

"**guarantee**" means, as applied to any obligation:

(a) a guarantee (other than by endorsement of negotiable instruments for collection or deposit in the ordinary course of business), direct or indirect, in any manner, of any part or all of such obligation; and

(b) an agreement, direct or indirect, contingent or otherwise, the practical effect of which is to assure in any way the payment or performance (or payment of damages in the event of non-performance) of all or any part of such obligation, including, without limiting the foregoing, by the pledge of assets and the payment of amounts drawn down under letters of credit.

"**Guarantee**" means any guarantee of the Issuer's obligations under the Indenture and the Notes by any Restricted Subsidiary or any other Person in accordance with the provisions of the Indenture. When used as a verb, "**Guarantee**" shall have a corresponding meaning.

"**Guarantors**" means TalkTalk Telecom Holdings Limited, TalkTalk Communications Limited and TalkTalk Telecom Limited.

"**Hedging Agreements**" means Currency Agreements and Interest Rate Agreements.

"**Holder**" means the Person in whose name a Note is recorded on the Registrar's books.

"**Holding Company**" of a Person means any other Person (other than a natural person) of which the first Person is a Subsidiary.

"**IFRS**" means International Financial Reporting Standards (a) for purposes of the covenant described under "*—Certain Covenants—Reports to Holders*", as in effect from time to time and (b) for other purposes of the Indenture, as in effect on the Issue Date. Except as otherwise set forth in the Indenture, all ratios and calculations based on IFRS contained in the Indenture shall be computed in accordance with IFRS as in effect on the Issue Date; *provided that* at any date after the Issue Date, the Issuer may, by written notice to the Trustee, make an election to establish that IFRS means IFRS as in effect on a date that is after the Issue Date and on or prior to the date of such election.

"**Independent Financial Advisor**" means an investment banking firm, bank, accounting firm or third-party appraiser, in any such case, of international standing; *provided* that such firm is not an Affiliate of the Issuer.

"**Interest Rate Agreements**" means, in respect of a Person, any interest rate protection agreements and other types of interest rate hedging agreements (including, without limitation, interest rate swaps, caps, floors, collars and similar agreements) designed to protect such Person against or manage exposure to fluctuations in interest rates.

"**Investment Grade Status**" shall occur when all of the Notes receive two of the following:

(1) a rating of "BBB-" or higher from S&P;

(2) a rating of "Baa3" or higher from Moody's; and/or

(3) a rating of "BBB-" or higher from Fitch,

or the equivalent of such rating by any such rating organization or, if no rating of Moody's, Fitch or S&P then exists, the equivalent of such rating by any other Nationally Recognized Statistical Rating Organization.

"**Investments**" means, with respect to any Person, all direct or indirect investments by such Person in other Persons (including Affiliates) in the forms of loans (including Guarantees or other similar obligations), advances or capital contributions (excluding advances or extension of credit to officers, customers, suppliers, directors or employees made in the ordinary course of business), purchases or other acquisitions in consideration of Debt, Capital Stock or other securities, together with all items that are or would be classified as investments on a balance sheet (excluding the notes thereto) prepared in accordance with IFRS. If the Issuer or any Subsidiary of the Issuer sells or otherwise disposes of any Equity Interests of any direct or indirect Subsidiary of the Issuer such that, after giving effect to any such sale or disposition, such Person is no longer a Subsidiary of the Issuer, the Issuer will be deemed to have made an Investment on the date of any such sale or disposition equal to the Fair Market Value of the Issuer's Investments in such Subsidiary that were not sold or disposed of in an amount determined as provided in the definition of Fair Market Value. The acquisition by Issuer or any Subsidiary of the Issuer of a Person that holds an Investment in a third Person will be deemed to be an Investment by Issuer or such Subsidiary in such third Person in an amount equal to the Fair Market Value of the Investments held by the acquired Person in such third Person in an amount determined as provided in the final paragraph of the covenant described above under the caption "—*Certain Covenants—Restricted Payments*." If the Issuer or any Restricted Subsidiary issues, sells or otherwise disposes of any Capital Stock of a Person that is a Restricted Subsidiary such that, after giving effect thereto, such Person is no longer a Restricted Subsidiary, any Investment by the Issuer or any Restricted Subsidiary in such Person remaining after giving effect thereto will be deemed to be a new Investment equal to the fair market value of the Capital Stock of such Subsidiary not sold or disposed of in an amount determined as provided in the final paragraph of the covenant described above under the caption "—*Certain Covenants—Limitation on Restricted Payments*. The amount of any Investment outstanding at any time shall be the original cost of such Investment, reduced (at the Issuer's option) by any dividend, distribution, interest payment, return of capital, repayment or other amount or value received in respect of such Investment.

"**Issue Date**" means , 2017.

"**Issuer**" means TalkTalk Telecom Group PLC, an English public limited liability company and any successor thereto.

"**Lien**" means any mortgage or deed of trust, charge, pledge, lien (statutory or otherwise), security interest, hypothecation, assignment for or by way of security or encumbrance upon or with respect to any property of any kind, real or personal, movable or immovable, now owned or hereafter acquired. A Person will be deemed to own subject to a Lien any property which such Person has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement.

"**Limited Condition Acquisition**" means any acquisition, including by way of merger, amalgamation or consolidation, by the Issuer or one or more of its Restricted Subsidiaries the consummation of which is not conditioned upon the availability of, or on obtaining, third-party financing; provided that Consolidated Net Income (and any other financial term derived therefrom), other than for purposes of calculating any ratios in connection with the Limited Condition Acquisition and the related transactions, shall not include any Consolidated Net Income of or attributable to the target company or assets involved in any such Limited Condition Acquisition unless and until the closing of such Limited Condition Acquisition shall have actually occurred.

"**Limited Recourse**" means a letter of credit, revolving loan commitment, cash collateral account, guarantee or other credit enhancement issued by the Issuer or any Restricted Subsidiary (other than a Receivables Entity) in connection with the incurrence of Debt relating to a Receivables Financing; *provided* that, the aggregate amount of such letter of credit reimbursement obligations and the aggregate available amount of such revolving loan commitments, cash collateral accounts, guarantees (other than guarantees of servicing obligations and other guarantees not concerning the performance of the relevant receivables) or other such credit enhancements of the Issuer or any Restricted Subsidiary (other than a Receivable Entity) shall not exceed 25% of the principal amount of such Debt at any time.

"**Management Advances**" means loans or advances made to, or guarantees with respect to loans or advances made to, directors, officers, employees or consultants of any Parent, the Issuer or any Restricted Subsidiary:

(1) (a) in respect of travel, entertainment or moving related expenses Incurred in the ordinary course of business or (b) for purposes of funding any such person's purchase of Capital Stock or Subordinated Shareholder Debt (or similar obligations) of the Issuer, its Subsidiaries or any Parent;

(2) in respect of moving related expenses Incurred in connection with any closing or consolidation of any facility or office; or

(3) not exceeding £2.0 million in the aggregate outstanding at any time.

"**Maturity**" means, with respect to any debt, the date on which any principal of such debt becomes due and payable as therein or herein provided, whether at the Stated Maturity with respect to such principal or by declaration of acceleration, call for redemption or purchase or otherwise.

"**Moody's**" means Moody's Investors Service, Inc. and its successors.

"**Nationally Recognized Statistical Rating Organization**" means a nationally recognized statistical rating organization within the meaning of Section 3(a)(62) of the Exchange Act.

"**Net Cash Proceeds**" means:

(a) with respect to any Asset Sale, the proceeds thereof in the form of cash or Cash Equivalents (except to the extent that such obligations are financed or sold with recourse to the Issuer or any Restricted Subsidiary), net of:

(i) brokerage commissions and other fees and expenses (including, without limitation, fees and expenses of legal counsel, accountants, investment banks and other consultants) related to such Asset Sale;

(ii) provisions for all taxes paid or payable, or required to be accrued as a liability under IFRS as a result of such Asset Sale;

(iii) all distributions and other payments required to be made to any Person (other than the Issuer or any Restricted Subsidiary) owning a beneficial interest in the assets subject to the Asset Sale; and

(iv) appropriate amounts required to be provided by the Issuer or any Restricted Subsidiary, as the case may be, as a reserve in accordance with IFRS against any liabilities associated with such Asset Sale and retained by the Issuer or any Restricted Subsidiary, as the case may be, after such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as reflected in an Officer's Certificate delivered to the Trustee; and

(b) with respect to any capital contributions, issuance or sale of Capital Stock or options, warrants or rights to purchase Capital Stock, or debt securities or Capital Stock that have been converted into or exchanged for Capital Stock as referred to under "*—Certain Covenants—Limitation on Restricted Payments*," the proceeds of such issuance or sale in the form of cash or Cash Equivalents, payments in respect of deferred payment obligations when received in the form of, or stock or other assets when disposed of for, cash or Cash Equivalents (except to the extent that such obligations are financed or sold with recourse to the Issuer or any Restricted Subsidiary), net of attorney's fees, accountant's fees and brokerage, consultation, underwriting and other fees and expenses actually Incurred in connection with such issuance or sale and net of taxes paid or payable as a result of thereof.

"**Officer's Certificate**" means a certificate signed by an officer of the Issuer, a Guarantor or a Surviving Entity, as the case may be, and delivered to the Trustee.

"**Parent**" means any Person of which the Issuer at any time is or becomes a Subsidiary after the Issue Date and any holding companies established by any Permitted Holder for purposes of holding its investment in any Parent.

"***Pari Passu* Debt**" means Senior Debt including, without limitation, (a) any Debt of the Issuer that ranks equally in right of payment with the Notes or (b) with respect to any Guarantee, any Debt that ranks equally in right of payment to such Guarantee.

"**Permitted Business**" means any business related, ancillary or complementary to the business of the Issuer and the Restricted Subsidiaries on the date of the Indenture.

"**Permitted Debt**" has the meaning given to such term under "*—Certain Covenants—Limitation on Debt*."

"**Permitted Holders**" means (i) Sir Charles Dunstone, (ii) any Affiliate or Related Person of any Permitted Holder and/or (iii) any successor to any Permitted Holder or such Affiliate or Related Person.

"**Permitted Investments**" means any of the following (in each case made by the Issuer or any of its Restricted Subsidiaries):

(a) Investments in cash or Cash Equivalents;

(b) intercompany Debt to the extent permitted under clause (d) of the definition of "Permitted Debt;"

(c) Investments in: (i) the Issuer; (ii) a Restricted Subsidiary (including the Capital Stock of a Restricted Subsidiary); or (iii) another Person (including the Capital Stock of such Person) if as a result of such Investment such other Person becomes a Restricted Subsidiary or such other Person is merged or consolidated with or into, or transfers or conveys all or substantially all of its assets to, the Issuer or a Restricted Subsidiary;

(d) Investments as a result of or retained in connection with an Asset Sale permitted under or made in compliance with "*—Certain Covenants—Limitation on Asset Sales*" to the extent such Investments are non-cash proceeds permitted thereunder;

(e) Investments (i) in payroll, travel, entertainment, moving, other relocation and similar advances to cover matters that are expected at the time of such advances to be treated as expenses in accordance with IFRS and (ii) Investments in the ordinary course of business consisting of endorsements for collection or deposit and customary trade arrangement with customers;

(f) Management Advances;

(g) Investments in the Notes, any Additional Notes and other Debt of the Issuer or any Restricted Subsidiary;

(h) Investments existing, or made pursuant to legally binding commitments in existence, at the Issue Date and any Investment that amends, extends, renews, replaces or refinances an Investment existing on the date of the Indenture; *provided* that the amount of any such Investment may be increased (i) as required by the terms of such Investment as in existence on the Issue Date or (ii) as otherwise permitted under the Indenture;

(i) Investments in Hedging Agreements permitted under clause (h) of "—*Certain Covenants—Limitation on Debt*;"

(j) Investments in a Person to the extent that the consideration therefor consists of the Issuer's Qualified Capital Stock or the net proceeds of the substantially concurrent issue and sale (other than to any Subsidiary) of shares of the Issuer's Qualified Capital Stock or Subordinated Shareholder Debt;

(k) any Investments received (i) in satisfaction of judgments, foreclosure of liens or settlement of debts, (ii) in compromise of obligations of such persons that were Incurred in the ordinary course of business, including pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of any trade creditor or customer or (iii) in compromise or resolution of obligations of trade creditors or customers that were incurred in the ordinary course of business of the Issuer or any of the Restricted Subsidiaries, including pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of any trade creditor or customer; or litigation, arbitration or other disputes;

(l) any transaction to the extent constituting an Investment that is permitted and made in accordance with the provisions of clauses (2)(i), (vii), (viii), (ix), of the covenant described under "—*Certain Covenants—Limitation on Affiliate Transactions*'';

(m) lease, utility and workers' compensation, performance and other similar deposits made in the ordinary course of business;

(n) Investments consisting of purchases and acquisitions of inventory, supplies, materials and equipment or licenses or leases of intellectual property, in any case, in the ordinary course of business and in accordance with the Indenture;

(o) guarantees permitted to be incurred under the "*Limitation on Debt*" covenant and (other than with respect to, or given in connection with the incurrence of, indebtedness) guarantees, keepwells and similar arrangements in the ordinary course of business;

(p) pledges or deposits with respect to leases or utilities provided to third parties in the ordinary course of business or liens otherwise described in the definition of "Permitted Liens" or made in connection with Liens permitted under the covenant "*Limitation on Liens*;"

(q) (i) (x) a minority Investment in any Person engaged in a Permitted Business and (y) Investments by the Issuer or any Restricted Subsidiary in Qualified Joint Ventures or Unrestricted Subsidiaries, including a guarantee thereof or loans or letter of credit thereto, the amount of which, measured by reference to the Fair Market Value of each such Investment on the day it was made but net of any distributions, dividends payments or other returns in respect of such Investments, not to exceed the greater of £30.0 million and 10% of Consolidated EBITDA in the aggregate outstanding at any one time and (iii) any Investment; provided that on the date such Investment is made the Consolidated Leverage Ratio would not be greater than 3.00 to 1.00 on a *pro forma* basis after giving effect to such Restricted Payment; *provided* that if an Investment is made pursuant to this clause in a Person that is not a Restricted Subsidiary and such Person subsequently becomes a Restricted Subsidiary or is subsequently designated a Restricted Subsidiary pursuant to the covenant described above under the caption "—*Certain Covenants—Limitation on Restricted Payments*," such Investment shall thereafter be deemed to have been made pursuant to clause (c) of the definition of "Permitted Investments" and not this clause (q).

(r) Investments acquired after the Issue Date as a result of the acquisition by the Issuer or any of its Restricted Subsidiaries of another Person, including by way of a merger, amalgation or consolidation with or into the Issuer or any of its Restricted Subsidiaries in a transaction that is not prohibited by the covenant described above under the caption "*—Certain Covenants—Merger, Consolidation or Sale of Assets*" to the extent that such Investments were not made in contemplation of such acquisition, merger, amalgamation or consolidation and were in existence on the date of such acquisition, merger, amalgamation or consolidation;

(s) Investments in a Receivables Entity and Investments made in connection with any Receivables Financings; and

(t) other Investments in any Person other than an Affiliate of the Issuer having an aggregate Fair Market Value (measured on the date each such Investment was made but net of any distributions, dividends payments or other returns in respect of such Investments), when taken together with all other Investments made pursuant to this clause (t) that are at the time outstanding, not to exceed £30.0 million *provided* that, if an Investment is made pursuant to this clause in a Person that is not a Restricted Subsidiary and such Person subsequently becomes a Restricted Subsidiary or is subsequently designated a Restricted Subsidiary pursuant to the covenant described under "*—Certain Covenants—Limitation on Restricted Payments*," such Investment shall thereafter be deemed to have been made pursuant to clause (c) of the definition of "Permitted Investments" and not this clause (t).

"**Permitted Liens**" means the following types of Liens:

(a) Liens existing as at the date of the issuance of the Notes;

(b) Liens on any property or assets of a Restricted Subsidiary granted in favor of the Issuer or any Restricted Subsidiary;

(c) Liens on any of the Issuer's or any Restricted Subsidiary's property or assets securing the Notes or any Guarantee;

(d) any interest or title of a lessor under any Capitalized Lease Obligation and Liens to secure Debt (including Capitalized Lease Obligations) permitted by clause (2)(f) of "*—Certain Covenants—Limitation on Debt*";

(e) Liens arising out of conditional sale, title retention, consignment, deferred payment or similar arrangements for the sale or purchase of goods entered into by the Issuer or any Restricted Subsidiary in the ordinary course of business in accordance with the Issuer's or such Restricted Subsidiary's past practices prior to the Issue Date;

(f) statutory Liens of landlords and carriers, warehousemen, mechanics, suppliers, materialmen, repairmen, employees, pension plan administrators or other like Liens arising in the ordinary course of the Issuer's or any Restricted Subsidiary's business and with respect to amounts not yet delinquent for more than 60 days or being contested in good faith by appropriate proceedings and for which a reserve or other appropriate provision, if any, as shall be required in conformity with IFRS shall have been made or Liens arising solely by virtue of any statutory or common law provisions relating to attorney's liens or bankers' liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a creditor depositary institution;

(g) Liens for taxes, assessments, government charges or claims that are not yet delinquent or that are being contested in good faith by appropriate proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with IFRS shall have been made;

(h) Liens Incurred or deposits made to secure the performance of tenders, bids or trade or government contracts, or to secure leases, statutory or regulatory obligations, surety or appeal bonds, performance bonds or other obligations of a like nature Incurred in the ordinary course of business;

(i) zoning restrictions, easements, licenses, reservations, title defects, rights of others for rights-of-way, utilities, sewers, electrical lines, telephone lines, telegraph wires, restrictions, encroachments and other similar charges, encumbrances or title defects incurred in the ordinary course of business that do not in the aggregate materially interfere with in any material respect the ordinary conduct of the business of the Issuer and its Restricted Subsidiaries on the properties subject thereto, taken as a whole;

(j) Liens arising by reason of any judgment, decree or order of any court so long as such Lien is adequately bonded and any appropriate legal proceedings that may have been duly initiated for the review of such judgment, decree or order shall not have been finally terminated or the period within which such proceedings may be initiated shall not have expired;

(k) Liens on property of, or on shares of Capital Stock or Debt of, any Person existing at the time such Person is acquired by, merged with or into or consolidated with, the Issuer or any Restricted Subsidiary (or at the time the Issuer or a Restricted Subsidiary acquires such property, Capital Stock or Debt); *provided* that such Liens: (i) do not extend to or cover any property or assets of the Issuer or any Restricted Subsidiary other than the property or assets acquired or than those of the Person merged into or consolidated with the Issuer or Restricted Subsidiary; and (ii) were created prior to, and not in connection with or in contemplation of, such acquisition, merger, consolidation, amalgamation or other combination;

(l) Liens securing the Issuer's or any Restricted Subsidiary's obligations under Hedging Agreements permitted under clause (2)(h) "*—Certain Covenants—Limitation on Debt*" or any collateral for the Debt to which such Hedging Agreements relate;

(m) Liens Incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security or other insurance;

(n) Liens Incurred in connection with any cash management program established in the ordinary course of business for the Issuer's benefit or that of any Restricted Subsidiary in favor of a bank or trust company of the type described in paragraph (1) of "*—Certain Covenants—Limitation on Guarantees of Debt by Restricted Subsidiaries*;"

(o) Liens made to secure obligations arising from statutory, regulatory, contractual, or warranty requirements of the Issuer or any Restricted Subsidiary, including rights of offset and set-off;

(p) Liens on assets of a Restricted Subsidiary of the Issuer that is not a Guarantor to secure Debt of such Restricted Subsidiary (or any other Restricted Subsidiary that is not a Guarantor) and that is otherwise permitted under the Indenture;

(q) any extension, renewal or replacement, in whole or in part, of any Lien; *provided* that any such extension, renewal or replacement shall be no more restrictive in any material respect than the Lien so extended, renewed or replaced and shall not extend in any material respect to any additional property or assets;

(r) Liens securing Debt Incurred to refinance Debt that has been secured by a Lien permitted by the Indenture; *provided* that: (i) any such Lien shall not extend to or cover any assets not securing the Debt so refinanced; and (ii) the Debt so refinanced shall have been permitted to be Incurred;

(s) purchase money Liens to finance property or assets of the Issuer or any Restricted Subsidiary acquired in the ordinary course of business; *provided* that: (i) the related purchase money Debt shall not exceed the cost of such property or assets and shall not be secured by any property or assets of the Issuer or any Restricted Subsidiary other than the property and assets so acquired; and (ii) the Lien securing such Debt shall be created within 90 days of any such acquisitions;

(t) Liens Incurred by the Issuer or any Restricted Subsidiary with respect to obligations that do not exceed £50.0 million at any one time outstanding;

(u) Liens resulting from escrow arrangements entered into in connection with the disposition of assets;

(v) any right of refusal, right of first offer, option or other arrangement to sell or otherwise dispose of an asset of the Issuer or any Restricted Subsidiary;

(w) leases and subleases of assets (including real property) entered into in the ordinary course of business;

(x) liens arising as a consequence of any finance or capital leases of equipment or other assets (including mobile handsets); and

(y) liens created or subsisting in connection with any Receivables Financing.

"**Permitted Parent Payments**" means, without duplication as to amounts, payments to any Parent to permit such entity to pay:

(a) customary indemnification obligations of any Parent owing to directors, officers, employees or other Persons under its charter or by-laws or pursuant to written agreements with any such Person to the extent relating to the Issuer and/or its Subsidiaries;

(b) obligations of any Parent in respect of directors' fees, remuneration and expenses (including director and officer insurance (including premiums therefore)) to the extent relating to the Issuer and/or its Subsidiaries;

(c) professional fees and expenses of any Parent related to the ownership of the Capital Stock of the Issuer and its Subsidiaries (including, without limitation, accounting, legal, audit corporate reporting, and administrative expenses and other reasonable and normal course expenses required to maintain such Parent's corporate existence or its holding of the Capital Stock of the Issuer);

(d) any income taxes to the extent such income taxes are attributable to the income of the Parent derived from the Issuer and its Subsidiaries or the Issuer and its Subsidiaries and reduced by any such income taxes directly paid by the Issuer or any of its Subsidiaries; and

(e) expenses incurred by any Parent in connection with any public offering or other sale of Capital Stock or Debt, (i) where the net proceeds of such offering or sale are intended to be received by or contributed to the Issuer or a Subsidiary of the Issuer or (ii) in a pro-rated amount of such expenses in proportion to the amount of such net proceeds intended to be so received or contributed to the Issuer or a Subsidiary of the Issuer.

"**Permitted Refinancing Debt**" means any renewals, extensions, substitutions, defeasances, discharges, refinancings or replacements (each, for purposes of this definition and paragraph (2)(l) of "*—Certain Covenants—Limitation on Debt*," a "refinancing") of any Debt of the Issuer or a Restricted Subsidiary or pursuant to this definition, including any successive refinancings, as long as:

(a) such Debt is in an aggregate principal amount (or if Incurred with original issue discount, an aggregate issue price) not in excess of the sum of: (i) the aggregate principal amount (or if Incurred with original issue discount, the aggregate accreted value) then outstanding of the Debt being refinanced; and (ii) an amount necessary to pay any fees and expenses, including premiums and defeasance costs, related to such refinancing;

(b) if the Debt being refinanced is Subordinated Debt, the Stated Maturity of such Debt is no earlier than the Stated Maturity of the Debt being refinanced or, if shorter, the Stated Maturity of the Notes; and

(c) if the Debt being renewed, extended, substituted, defeased, discharged, refinanced or replaced is subordinated in right of payment to the Notes or the Guarantees (as applicable), such Permitted Refinancing Debt is subordinated in right of payment to, the Notes or the Guarantees (as applicable) on terms at least as favorable to the holders of Notes as those contained in the documentation governing the Debt being renewed, extended, substituted, defeased, discharged, refinanced or replaced.

"**Person**" means any individual, corporation, limited liability company, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"**Preferred Stock**" means, with respect to any Person, Capital Stock of any class or classes (however designated) of such Person that is preferred as to the payment of dividends or distributions, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over the Capital Stock of any other class of such Person, whether now outstanding or issued after the Issue Date and including, without limitation, all classes and series of preferred or preference stock of such Person.

"***pro forma***" means, with respect to any calculation made or required to be made pursuant to the terms of the Notes, a calculation made in good faith by the Issuer's chief financial officer.

"**Property**" means, with respect to any Person, any interest of such Person in any kind of property or asset, whether real, personal or mixed, or tangible or intangible, including Capital Stock and other securities of, any other Person. For purposes of any calculation required pursuant to the Indenture, the value of any Property shall be its Fair Market Value.

"**Public Debt**" means any Debt consisting of bonds, debentures, notes or other similar debt securities issued in (1) a public offering registered under the U.S. Securities Act or (2) a private placement to institutional investors that is underwritten for resale in accordance with Rule 144A or Regulation S under the U.S. Securities Act, whether or not it includes registration rights entitling the holders of such debt securities to registration thereof with the Commission for public resale.

"**Qualified Capital Stock**" of any Person means any and all Capital Stock of such Person other than Redeemable Capital Stock.

"**Qualified Joint Venture**" means a joint venture that is not a Subsidiary of the Issuer or any of its Restricted Subsidiaries in which the Issuer or any of its Restricted Subsidiaries has a direct or indirect ownership interest and that is engaged in a Permitted Business.

"**Receivables Entity**" means a Subsidiary of the Issuer or a Guarantor (or another Person formed for the purposes of engaging in a Receivables Financing with the Issuer, a Guarantor or any of their Subsidiaries) which engages in no activities other than in connection with a Receivables Financing and which is designated by the Board of Directors of the Issuer as a "Receivables Entity":

(a) no portion of the Debt or any other obligations of which:

(i) is guaranteed by the Issuer or any Restricted Subsidiary (excluding guarantees of obligations pursuant to Standard Securitization Undertakings);

(ii) is recourse to or obligates the Issuer or any Restricted Subsidiary in any way other than pursuant to Standard Securitization Undertakings; or

(iii) subjects any property or asset of the Issuer or any Restricted Subsidiary, directly or indirectly, contingently or otherwise, to the satisfaction thereof, other than pursuant to Standard Securitization Undertakings;

except, in each such case, Limited Recourse and Permitted Liens as defined in clause (y) of the definition thereof;

(b) with which neither the Issuer or any Restricted Subsidiary has any material contract, agreement, arrangement or understanding (except in connection with a Receivables Financing) other than on terms not materially less favorable to the Issuer or any Restricted Subsidiaries than those that might be obtained at the time from Persons that are not Affiliate of the Issuer, other than fees payable in the ordinary course of business in connection with servicing receivables; and

(c) to which neither the Issuer or nor any Restricted Subsidiary has any obligation to maintain or preserve such entity's financial condition or cause such entity to achieve certain levels of operating results (other than those related to or incidental to the relevant Receivables Financing), except for Limited Recourse.

Any such designation by the Board of Directors of the Issuer shall be evidenced to the Trustee by promptly filing with the Trustee a certified copy of the resolution of the Board of Directors of the Issuer or any relevant Guarantor giving effect to such designation and an Officer's Certificate certifying that such designation complied with the foregoing conditions.

"**Receivables Fee**" means reasonable distributions or payments made directly or by means of discounts with respect to any participation interest issued or sold in connection with, and other fees paid to a Person that is not a Receivables Entity in connection with, any Receivables Financing.

"**Receivables Financing**" means any financing transaction or series of financing transactions that have been or may be entered into by the Issuer or any of its Restricted Subsidiaries pursuant to which the Issuer or any Restricted Subsidiary may sell, convey or otherwise transfer to another Person, or may grant a security interest in, or may give a payment undertaking in respect of, any receivables or interests therein for credit, liquidity management, balance sheet management or other purposes (including discounting, factoring or supply chain financing transactions) (whether such receivables are then existing or arising in the future) including without limitation, all security interests in goods financed thereby, the proceeds of such receivables, and other assets which are customarily sold or in respect of which security interests are customarily granted in connection with securitization, discounting, factoring or supply chain financing transactions involving such assets.

"**Receivables Repurchase Obligation**" means any obligation of a seller of receivables in a Receivables Financing to repurchase receivables arising as a result of a breach of a representation, warranty or covenant or otherwise, including as a result of a receivable or portion thereof becoming subject to any asserted defense, dispute, offset or counterclaim or any kind as a result of any action taken by, any failure to take action by or any other event relating to the seller.

"**Redeemable Capital Stock**" means any class or series of Capital Stock that, either by its terms, by the terms of any security into which it is convertible or exchangeable or by contract or otherwise, is, or upon the happening of an event or passage of time would be, required to be redeemed prior to the final Stated Maturity of the Notes or is redeemable at the option of the Holder thereof at any time prior to such final Stated Maturity (other than upon a change of control of the Issuer in circumstances in which the holders of the Notes would have similar rights), or is convertible into or exchangeable for debt securities at any time prior to such final Stated Maturity; *provided* that any Capital Stock that would constitute Qualified Capital Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of any "asset sale" or "change of control" occurring prior to the Stated Maturity of the Notes will not constitute Redeemable Capital Stock if the "asset sale" or "change of control" provisions applicable to such Capital Stock are no more favorable to the holders of such Capital Stock than the provisions contained in "*—Certain Covenants—Limitation on Asset Sales*" and "*—Certain Covenants—Change of Control*" covenants described herein and such Capital Stock specifically provides that such Person will not repurchase or redeem any such stock pursuant to such provision prior to the Issuer's repurchase of such Notes as are required to be repurchased pursuant to "*—Certain Covenants—Limitation on Asset Sales*" and "*—Certain Covenants—Change of Control*."

"**Related Person**" with respect to any Permitted Holder means:

(a) any controlling equity-holder or majority (or more) owned Subsidiary of such Permitted Holder;

(b) in the case of any individual, any spouse, family member or relative of such individual, any trust or partnership for the benefit of one or more of such individual and any such spouse, family member or relative, or the estate, executor, administrator, committee or beneficiaries of any thereof;

(c) any trust, corporation, partnership or other Person for which one or more of the Permitted Holders and other Related Persons of any thereof constitute the beneficiaries, stockholders, partners or owners thereof, or persons beneficially holding in the aggregate a majority (or more) controlling interest therein; or

(d) any investment fund or vehicle managed, sponsored or advised by such Permitted Holder or any successor thereto or by any Affiliate of such Permitted Holder or any such successor.

"**Replacement Assets**" means non-current properties and assets (including Capital Stock of a Person that is or becomes a Restricted Subsidiary and such Restricted Subsidiary is useful in the Issuer's business or in that of the Restricted Subsidiaries or any and all businesses that in the good faith judgment of the Board of Directors of the Issuer are reasonably related) that replace the properties and assets that were the subject of an Asset Sale or non-current properties and assets that are useful in the Issuer's business or in that of the Restricted Subsidiaries or any and all businesses that in the good faith judgment of the Board of Directors of the Issuer are reasonably related.

"**Restricted Investment**" means an Investment other than a Permitted Investment.

"**Restricted Subsidiary**" means any Subsidiary of the Issuer other than an Unrestricted Subsidiary.

"**S&P**" means Standard and Poor's Ratings Service, a division of The McGraw-Hill Companies, Inc. and its successors.

"**Securities Act**" means the U.S. Securities Act of 1933, as amended, or any successor statute, and the rules and regulations promulgated by the Commission thereunder.

"**Senior Debt**" means (i) any Debt of the Issuer or any Guarantor that is either secured or not Subordinated Debt and (ii) any Debt of a Restricted Subsidiary that is not a Guarantor other than Debt Incurred pursuant to clause (2)(d) of the covenant described under the heading "*—Certain Covenants—Limitation on Debt*."

"**Standard Securitization Undertakings**" means representations, warranties, covenants, guarantees of obligations and indemnities entered into by the Issuer, any Restricted Subsidiary or a Receivables Entity which are reasonably customary in securitization of receivables transactions or other Receivables Financings, including, without limitation, those relating to the servicing of the assets of a Receivables Entity and Limited Recourse, it being understood that any receivables repurchase obligation shall be deemed to be a Standard Securitization Undertaking.

"**Stated Maturity**" means, when used with respect to any Note or any installment of interest thereon, the date specified in such Note as the fixed date on which the principal of such Note or such installment of interest, respectively, is due and payable, and, when used with respect to any other debt, means the date specified in the instrument governing such debt as the fixed date on which the principal of such debt, or any installment of interest thereon, is due and payable.

"**Sterling**" means the lawful currency of the United Kingdom of Great Britain and Northern Ireland.

"**Sterling Equivalent**" means, with respect to any monetary amount in a currency other than Sterling, at any time for the determination thereof, the amount of Sterling obtained by converting such foreign currency involved in such computation into Sterling at the spot rate for the purchase of Sterling with the applicable foreign currency as published under "Currency Rates" in the section of The Financial Times entitled "Currencies, Bonds & Interest Rates" on the date two Business Days prior to such determination.

"**Subordinated Debt**" means Debt of the Issuer or any of the Guarantors that is expressly subordinated in right of payment to the Notes or the Guarantees of such Guarantors, as the case may be.

"**Subordinated Shareholder Debt**" means, collectively, any funds provided to the Issuer by any direct or indirect Parent of the Issuer, or Affiliate of such Parent, pursuant to any security, instrument or agreement, other than Capital Stock, that pursuant to its terms:

(a) does not (including upon the happening of any event) mature or require any amortization or other payment of principal prior the first anniversary of the maturity of the Notes (other than through conversion or exchange of any such security or instrument for Qualified Capital Stock or for any other security or instrument meeting the requirements of the definition);

(b) does not (including upon the happening of any event) require the payment in cash or otherwise, of interest or any other amounts prior to the first anniversary of the maturity of the Notes (provided that interest may accrete while such Subordinated Shareholder Debt is outstanding and accretion interest may become due upon maturity as permitted by clause (a) or acceleration of maturity as permitted by clause (c) below and any interest may be satisfied at any time by the issue to the holders thereof of additional Subordinated Shareholder Debt);

(c) does not (including upon the happening of any event) provide for the acceleration of its maturity and its holders have no right (including upon the happening of any event) to declare a default or event of default or take any enforcement action, prior to the first anniversary of the maturity of the Notes;

(d) is not secured by a Lien or any assets of the Issuer or a Restricted Subsidiary and is not guaranteed by any Subsidiary of the Issuer;

(e) is contractually subordinated and junior in right of payment to the prior payment in full in cash of all obligations (including principal, interest, premium (if any) and Additional Amounts (if any)) of the Issuer under the Notes and the Guarantors under the Guarantees; and

(f) is not (including upon the happening of any event) mandatorily convertible or exchangeable, or convertible or exchangeable at the option of the holder, in whole or in part, prior to the date on which the Notes mature other than into or for Qualified Capital Stock of the Issuer;

provided that in any event or circumstance that results in such Debt ceasing to qualify as Subordinated Shareholder Debt, such Debt shall constitute an Incurrence of such Debt by the Issuer, and any and all Restricted Payments made through the use of the net proceeds from the Incurrence of such Debt since the date of the original issuance of such Subordinated Shareholder Debt shall constitute new Restricted Payments that are deemed to have been made after the date of the original issuance of such Subordinated Shareholder Debt.

"**Subsidiary**" means, with respect to any Person:

(a) a corporation a majority of whose Voting Stock is at the time, directly or indirectly, owned by such Person, by one or more Subsidiaries of such Person or by such Person and one or more Subsidiaries of such Person; and

(b) any other Person (other than a corporation), including, without limitation, a partnership, limited liability company, business trust or joint venture, in which such Person, one or more Subsidiaries of such Person or such Person and one or more Subsidiaries thereof, directly or indirectly, at the date of determination thereof, has at least majority ownership interest entitled to vote in the election of directors, managers or trustees thereof (or other Person performing similar functions).

"**Successor Parent**" with respect to any Person means any other Person with more than 50% of the total voting power of the Voting Stock of which is, at the time the first Person becomes a Subsidiary of such other Person, "beneficially owned" (as defined below) by one or more Persons that "beneficially owned" (as defined below) more than 50% of the total voting power of the Voting Stock of the first Person immediately prior to the first Person becoming a Subsidiary of such other Person. For purposes hereof, "beneficially own" has the meaning correlative to the term "beneficial owner", as such term is defined in Rules 13d-3 and 13d-5 under the Exchange Act (as in effect on the Issue Date).

"**Term Loan Facility**" means the £100 million term loan facility agreement, dated July 14, 2014, among the Issuer, as borrower, the Guarantors, as guarantors, and The Royal Bank of Scotland Finance (Ireland), as mandated lead arranger and lender.

"**UK Government Obligations**" means direct obligations (or certificates representing an ownership interest in such obligations) of the United Kingdom (including any agency or instrumentality thereof) for the payment of which the full faith and credit of such government is given.

"**Unrestricted Subsidiary**" means:

(a) any Subsidiary of the Issuer that at the time of determination is an Unrestricted Subsidiary (as designated by the Issuer's Board of Directors pursuant to the "*Designation of Unrestricted and Restricted Subsidiaries*" covenant); and

(b) any Subsidiary of an Unrestricted Subsidiary.

"**U.S. dollars**" means the lawful currency of the United States of America.

"**USPP Notes**" means the $185 million aggregate principal amount senior notes, issued by the Issuer on July 17, 2014 and consisting of (i) $139 million aggregate principal amount of 4.29% senior notes due July 17, 2021; (ii) $25 million aggregate principal amount of 4.70% senior notes due July 17, 2024; and (iii) $21 million aggregate principal amount of 4.85% senior notes due July 17, 2026.

"**Voting Stock**" means any class or classes of Capital Stock pursuant to which the holders thereof have the general voting power under ordinary circumstances to elect at least a majority of the Board of Directors, managers or trustees (or Persons performing similar functions) of any Person (irrespective of whether or not, at the time, stock of any other class or classes shall have, or might have, voting power by reason of the happening of any contingency).

BOOK-ENTRY; DELIVERY AND FORM

GENERAL

The Notes will be sold outside the United States pursuant to Regulation S under the U.S. Securities Act and will initially be represented by a global note in registered form without interest coupons attached (the "**Global Note**"). The Global Note will be deposited, on the Issue Date, with a common depository and registered in the name of the nominee of the common depository for the accounts of Euroclear and Clearstream.

Ownership of interests in the Global Note (the "**Book-Entry Interests**") will be limited to persons that have accounts with Euroclear and/or Clearstream or persons that may hold interests through such participants. Book-Entry Interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear and Clearstream and their participants. The Book-Entry Interests in the Notes will be issued only in denominations of £100,000 and in integral multiples of £1,000 in excess thereof.

The Book-Entry Interests will not be held in definitive form. Instead, Euroclear or Clearstream, as applicable, will credit on their respective book-entry registration and transfer systems a participant's account with the interest beneficially owned by such participant. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may impair the ability to own, transfer or pledge Book-Entry Interests. In addition, while the Notes are in global form, owners of interest in the Global Note will not have the Notes registered in their names, will not receive physical delivery of the Notes in certificated form and will not be considered the registered owners or "holders" of Notes under the Indenture for any purpose.

So long as the Notes are held in global form, the common depositary for Euroclear and Clearstream (or its nominee) will be considered the sole holder of the Global Note for all purposes under the Indenture. As such, participants must rely on the procedures of Euroclear and/or Clearstream, as applicable, and indirect participants must rely on the procedures of Euroclear and/or Clearstream, as applicable, and the participants through which they own Book-Entry Interests in order to exercise any rights of holders under the Indenture.

Neither we, the Registrar, the Paying Agent, the Trustee, nor any of our or their respective agents will have any responsibility or be liable for any aspect of the records relating to the Book-Entry Interests.

The Notes will be issued in registered form in minimum denominations of £100,000 and integral multiples of £1,000 in excess thereof.

DEFINITIVE REGISTERED NOTES

Under the terms of the Indenture, owners of Book-Entry Interests will receive definitive Notes in registered form (the "**Definitive Registered Notes**"):

- if Euroclear or Clearstream notifies the Issuer that it is unwilling or unable to continue to act as depositary and a successor depositary is not appointed by the Issuer within 120 days,
- if the Issuer, at its option, notifies the Trustee and the Paying Agent in writing that it elects to exchange in whole, but not in part, the Global Note for Definitive Registered Notes,
- if Euroclear or Clearstream so requests following an event of default under the Indenture, or
- if the owner of a Book-Entry Interest requests such exchange in writing delivered through Euroclear and Clearstream following an event of default under the Indenture.

In such an event, the Registrar will issue Definitive Registered Notes, registered in the name or names of the owner and issued in any approved denominations, requested by or on behalf of Euroclear, Clearstream, or the Issuer, as applicable (in accordance with their respective customary procedures and based upon directions received from participants reflecting the beneficial ownership of Book-Entry Interests), and such Definitive Registered Notes will bear the restrictive legend referred to in the section entitled "*Notice to Investors*", unless that legend is not required by the Indenture or applicable law.

To the extent permitted by law, we, the Trustee, the Paying Agent and the Registrar, or any of our or their respective agents, shall be entitled to treat the registered holder of the Global Note as the absolute owner thereof and no person will be liable for treating the registered holder as such.

We will not impose any fees or other charges in respect of the Notes, however, owners of the Book-Entry Interests may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear and/or Clearstream, as applicable.

REDEMPTION OF THE GLOBAL NOTE

In the event the Global Note, or any portion thereof, is redeemed, Euroclear and/or Clearstream, will distribute the amount received by it in respect of the Global Note so redeemed to the holders of the Book-Entry Interests in such Global Note from the amount received by it in respect of the redemption of the Global Note. The redemption price payable in connection with the redemption of such Book-Entry Interests will be equal to the amount received by Euroclear or Clearstream in connection with the redemption of such Global Note (or any portion thereof). We understand that, under existing practices of Euroclear and Clearstream, if fewer than all of the Notes are to be redeemed at any time, Euroclear and Clearstream will credit their respective participants' accounts on a proportionate basis (with adjustments to prevent fractions) or on such other basis as they deem fair and appropriate, *provided, however*, that no Book-Entry Interest of less than £100,000 principal amount at maturity, or less, may be redeemed in part.

PAYMENTS ON THE GLOBAL NOTE

Payments of any amounts owing in respect of the Global Note (including principal, premium, interest, additional interest and additional amounts) will be made by the Issuer to the Paying Agent. The Paying Agent will, in turn, make such payments to the order of the common depositary for Euroclear and Clearstream, which will distribute such payments to participants in accordance with their respective procedures.

Under the Indenture, the Issuer, the Trustee, the Registrar, the Paying Agent and any our or their respective agents will treat the registered holder of the Global Note (for example, the nominee for the common depositary of Euroclear or Clearstream) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, neither we, the Trustee, the Registrar, the Paying Agent, nor any of our or their respective agents has or will have any responsibility or liability for:

- any aspects of the records of Euroclear, Clearstream or any participant or indirect participant relating to, or payments made on account of, a Book-Entry Interest, for any such payments made by Euroclear or Clearstream or any participant or indirect participant, or for maintaining, supervising or reviewing the records of Euroclear, Clearstream or any participant or indirect participant relating to, or payments made on account of, a Book-Entry Interest; or
- payments made by Euroclear, Clearstream or any participant or indirect participant, or for maintaining, supervising or reviewing the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a Book-Entry Interest; or
- Euroclear, Clearstream or any participant or indirect participant.

Payments by participants to owners of Book-Entry Interests held through participants are the responsibility of such participants, as is now the case with securities held for the accounts of subscribers registered in "street name."

CURRENCY OF PAYMENT FOR THE GLOBAL NOTE

The principal of, premium, if any, and interest on, and all other amounts payable in respect of, the Global Note, will be paid to holders of interest in such Notes through Euroclear and/or Clearstream, as applicable, in British pounds sterling.

ACTION BY OWNERS OF BOOK-ENTRY INTERESTS

Euroclear and Clearstream have advised the Issuer that they will take any action permitted to be taken by a holder of the Notes only at the direction of one or more participants to whose account the Book-Entry Interests in the Global Note are credited and only in respect of such portion of the aggregate principal amount of the Notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Note. However, if there is an event of default under the Indenture, each of Euroclear and Clearstream reserves the right to exchange the Global Note for Definitive Registered Notes in certificated form, and to distribute such Definitive Registered Notes to their respective participants.

TRANSFERS

Transfers between participants in Euroclear and/or Clearstream will be effected in accordance with Euroclear's and/or Clearstream's rules, as applicable, and will be settled in immediately available funds. If a holder of Notes requires physical delivery of Definitive Registered Notes for any reason, including to sell the Notes to persons in territories which require physical delivery of such securities or to pledge such securities, such holder of Notes must transfer its interests in the Global Note in accordance with the normal procedures of Euroclear and Clearstream and in accordance with the provisions of the Indenture.

The Global Note will bear a legend to the effect set forth in the section entitled "*Notice to Investors*." Book Entry Interests in the Global Note will be subject to the restrictions on transfers and certification requirements discussed in the section entitled "*Notice to Investors*."

INFORMATION CONCERNING EUROCLEAR AND CLEARSTREAM

All Book-Entry Interests will be subject to the operations and procedures of Euroclear and Clearstream, as applicable. We provide the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of each settlement system are controlled by that settlement system and may be changed at any time. Neither we, nor the Initial Purchasers are responsible for those operations or procedures.

The Issuer understands as follows with respect to Euroclear and Clearstream: Euroclear and Clearstream hold securities for participating organisations. They also facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in the accounts of such participants. Euroclear and Clearstream provide to their participants, among other things, services for safekeeping, administration, clearance, settlement, lending and borrowing of internationally traded securities. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions, such as underwriters, securities brokers and dealers, banks, trust companies and certain other organisations. Indirect access to Euroclear and/or Clearstream is also available to others, such as banks, brokers, dealers and trust companies, that clear through or maintain a custodian relationship with a Euroclear and/or Clearstream participant, either directly or indirectly.

Because Euroclear and Clearstream can only act on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of an owner of a beneficial interest to pledge such interest to persons or entities that do not participate in the Euroclear or Clearstream systems, or otherwise take actions in respect of such interest, may be limited by the lack of a definite certificate for that interest. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests to such person may be limited.

GLOBAL CLEARANCE AND SETTLEMENT UNDER THE BOOK-ENTRY SYSTEM

The Notes represented by the Global Note are expected to be admitted to the Official List of the Exchange and to be admitted to trading thereon, and any permitted secondary market trading activity in such Notes will therefore be required to be settled in immediately available funds.

Although Euroclear and Clearstream currently follow the foregoing procedures in order to facilitate transfers of interests in the Global Note among participants in Euroclear or Clearstream, as the case may be, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or modified at any time. Neither we, the Trustee, the Registrar, the Paying Agent, nor any of our or their respective agents, will have any responsibility for the performance by Euroclear or Clearstream or their respective participants or indirect participants, of their respective obligations under the rules and procedures governing their operations.

Initial Settlement

Initial settlement for the Notes will be made in British pounds sterling. Book-Entry Interests owned through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional bonds in registered form. Book-Entry Interests will be credited to the securities custody accounts of Euroclear and Clearstream holders on the business day following the settlement date against payment for value on the settlement date.

Secondary Market Trading

The Book-Entry Interests will trade through participants of Euroclear or Clearstream and will settle in same-day funds. Since the purchase determines the place of delivery, it is important to establish at the time of trading of any Book-Entry Interests where both the purchaser's and the seller's accounts are located to ensure that settlement can be made on the desired value date.

TAX CONSIDERATIONS

The following is a summary of certain tax consequences of the Offering and is intended as general information only.

UK TAX CONSIDERATIONS

The following is a summary of certain UK income tax considerations in relation to payments of interest and principal with respect to the Notes and certain other UK tax considerations in respect of the Notes. It is based on current law and the published practice of Her Majesty's Revenue and Customs ("**HMRC**"), which may be subject to change, sometimes with retrospective effect. The comments do not deal with other UK tax aspects of acquiring, holding or disposing of Notes. The comments relate only to the position of persons who are absolute beneficial owners of the Notes and may not apply to certain classes of persons, such as dealers in securities, to whom special rules may apply. The following is a general summary for information purposes and should be treated with appropriate caution. It is not intended to be tax advice and it does not purport to describe all of the tax considerations that may be relevant to a prospective purchaser of Notes. Holders of the Notes who may be liable to taxation in jurisdictions other than the UK in respect of their acquisition, holding or disposal of the Notes are particularly advised to consult their professional advisors as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain UK taxation aspects of payments in respect of the Notes. In particular, holders of the Notes should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Notes even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the UK. Holders of the Notes should consult their own professional advisors with respect to their tax position.

Interest on the Notes

The Notes will constitute "quoted Eurobonds", provided they are and continue to be "listed on a recognised stock exchange" within the meaning of Section 1005 of the Income Tax Act 2007. While the Notes are and continue to be quoted Eurobonds, payments of interest on the Notes may be made without withholding or deduction for or on account of UK income tax.

The Notes will be "listed on a recognised stock exchange" for this purpose if they are admitted to trading on an exchange designated as a "recognised stock exchange" by an order made by the Commissioners for HMRC and either they are included in the UK official list (within the meaning of Part 6 of the Financial Services and Markets Act 2000) or they are officially listed, in accordance with provisions corresponding to those generally applicable in EEA states, in a country outside the UK in which there is a "recognised stock exchange." The Exchange is a "recognised stock exchange" for this purpose. The Issuer's understanding of current HMRC practice is that securities which are officially listed and admitted to trading on the Official List of the Exchange may be regarded as "listed on a recognised stock exchange" for this purpose.

In all cases falling outside the exemption described above, interest on the Notes may fall to be paid under deduction of UK income tax at the basic rate (currently 20%) subject to such relief as may be available following a direction from HMRC pursuant to the provisions of any applicable double taxation treaty (a "**Treaty**"), or to any other exemption which may apply.

Payments by a Guarantor

Depending on the correct legal analysis of payments made by a Guarantor as a matter of UK tax law, it is possible that payments by a Guarantor would be subject to withholding on account of UK tax, subject to any applicable exemptions or reliefs (and noting that the exemption and relief set out above would not necessarily be applicable).

Other rules relating to withholding or deductions on account of UK income tax

Where Notes are to be, or may fall to be, redeemed at a premium any such element of premium may constitute a payment of interest. In certain cases, the same could be true for amounts of discount where Notes are issued at a discount. Payments of interest are subject to withholding or deduction on account of UK income tax as outlined above.

Where interest has been paid under deduction of UK income tax, holders of the Notes who are not resident in the UK for tax purposes may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.

The references to "interest" and "principal" in the statements above mean interest and principal (as applicable) as understood in UK tax law. The statements above do not take any account of any different definitions of interest or principal which may prevail under any other law or which may be created by the terms and conditions of the Notes or any related documentation. Holders of the Notes should seek their own professional advice as regards the withholding tax treatment of any payment on the Notes which does not constitute interest or principal as those terms are understood in UK tax law.

The above description of the UK income tax position assumes that there will be no substitution, merger, consolidation or amalgamation of an Issuer and does not consider the tax consequences of any such substitution, merger, consolidation or amalgamation.

Stamp Duty and Stamp Duty Reserve Tax

No stamp duty or stamp duty reserve tax is payable on the issue or transfer of the Notes.

The Proposed Financial Transaction Tax ("FTT")

On February 14, 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State, or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

FATCA

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as "**FATCA**", a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including the UK) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to January 1, 2019, and Notes issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding, unless materially modified after such date. Holders of the Notes should consult their own tax advisors regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

CERTAIN INSOLVENCY AND ENFORCEABILITY CONSIDERATIONS

The following is a summary of certain insolvency and other legal considerations in England and Wales, where the Issuer and each Guarantor is incorporated, and a summary of certain limitations on the validity and enforceability of the Guarantees. The description is only a summary and does not purport to be complete or to discuss all of the limitations or considerations that may affect the validity or enforceability of the Notes or the Guarantees. In addition, the laws of more than one jurisdiction could potentially apply in respect of certain matters and laws in multiple jurisdictions could result in disputes over which jurisdiction's law should apply, which could adversely affect your rights and your ability to enforce your rights and collect payment in full under the Notes or the Guarantees. Prospective investors in the Notes should consult their own legal advisors with respect to all such limitations and considerations.

EUROPEAN UNION

Whilst the Issuer and the Guarantors are companies incorporated under the laws of England and Wales and the Issuer's and the Guarantors' registered offices are also located in England and Wales, pursuant to Council Regulation (EC) No 1346/2000 of May 29, 2000 on insolvency proceedings (as amended) (the "**EU Insolvency Regulation**"), the court which has jurisdiction to open main insolvency proceedings in relation to a company is the court of the Member State (in this section references to Member States exclude Denmark) in which that company has its "centre of main interests" ("**COMI**"). There is a rebuttable presumption that a company's COMI is in the place where it registered office is located and so, unless this presumption was rebutted (about which see further below), any main insolvency proceedings in respect of the Issuer or the Guarantors would be commenced in England and conducted in accordance with the requirements of English insolvency law. The forms of insolvency proceedings which can comprise main proceedings are listed in Annex A to the EU Insolvency Regulation and include, in respect of the UK, administration, compulsory liquidation and creditors' voluntary liquidation with confirmation by the court (see further "*—England and Wales—Administration*" and "*—England and Wales—Liquidation/Winding-Up.*")

It is possible to rebut the presumption that a company's COMI is in the place of its registered office if factors which are both objective and ascertainable by third parties (meaning that they are already in the public domain and what a typical third party would learn as a result of dealing with the company, without making specific enquiries) indicate that the company's COMI is elsewhere (*Re Eurofood IFSC Ltd* ECJ C-341/2004). Factors which may be taken into account include the location of any regulatory authorities and the places where the company's business is managed and operated, board meetings held and the accounts prepared and audited. Where the bodies responsible for the management and supervision of a company are in the same place as its registered office, and where the management decisions of the company are taken from there, the presumption cannot be rebutted (*Interedil Srl (in liquidation) v Fallimento Interedil Srl and another* C-396/09). The point at which a company's COMI falls to be determined is at the time that the relevant insolvency proceedings are opened.

Insolvency proceedings opened in one Member State under the EU Insolvency Regulation are to be recognised in other Member States, although secondary proceedings may additionally be opened in any Member State where the company has an "establishment." An establishment is a place of operations where a company carries out non-transitory economic activities with human means and goods (Article 2(h) of the EU Insolvency Regulation). This means a fixed place of business and dealings with third parties (as opposed to purely internal administration). The effect of secondary proceedings is limited to the assets located in that Member State. The forms of insolvency proceedings which can comprise secondary proceedings are listed in Annex B to the EU Insolvency Regulation and include, in respect of the UK, compulsory liquidation and creditors' voluntary liquidation with confirmation by the court but not administration.

The EU Insolvency Regulation contains provisions dealing with the co-ordination of main and secondary proceedings.

The EU Insolvency Regulation has been replaced by the Regulation (EU) 2015/848 of the European Parliament and of the Council dated May 20, 2015 (the "**New EU Insolvency Regulation**"), which became effective as of June 26, 2015, and which will be applicable to insolvency proceedings opened after June 26, 2017 (subject to certain exceptions). The EU Insolvency Regulation remains applicable to insolvency proceedings opened before that date.

The New EU Insolvency Regulation, among other matters, codifies case law regarding the identification of the center of main interests. Pursuant to Article 3(1) of the New EU Insolvency Regulation, in the case of a company or legal person, the center of main interests is presumed to be located in the country of the registered office in the absence of proof to the contrary. That presumption shall only apply if the registered office has not been moved to another member state within the three-month period prior to the request for the opening of insolvency proceedings. Specifically, the presumption of the center of main interests being at the place of the registered office should be rebuttable if the company's central administration is located in a member state other than the one where it has its registered office, and where a comprehensive assessment of all the relevant factors establishes, in a manner that is ascertainable by third parties, that the company's actual center of management and supervision and the center of the management of its interests is located in that other member state. In this regard, special consideration should be given to creditors and their perception as to where a debtor conducts the administration of its interests. In the event of a shift in the center of main interests, this may require informing the creditors of the new location from which the debtor is carrying out its activities in due course (*e.g.,* by drawing attention to the change of address in commercial correspondence or otherwise making the new location public through other appropriate means). Another change under the New EU Insolvency Regulation focuses on the definition of "establishment" as a prerequisite to open "territorial proceedings" (secondary proceedings). From June 26, 2017 onwards, "establishment" will mean any place of operations where a debtor carries out or has carried out in the three-month period prior to the request to open main insolvency proceedings a non-transitory economic activity with human means and assets. At this stage, it is not possible to conclusively determine what (if any) impact there might be in relation to the Notes.

It remains to be seen what impact the recent vote by the UK to leave the EU will have on the regulatory environment in the EU and the UK and on the applicability of EU law in the UK.

ENGLAND AND WALES

English insolvency law is different to the laws of the United States and other jurisdictions with which investors may be familiar. In the event that the Issuer or Guarantors experience financial difficulty, it is not possible to predict with certainty the outcome of insolvency or similar proceedings. Formal insolvency proceedings under the laws of England and Wales may be initiated in a number of ways, as follows.

Administration

There are two distinct methods for placing a company into administration: (i) an application to court following by a court order for administration (the "**in-court route**"); or (ii) the filing of certain prescribed forms with the court following which the administration takes effect (the "**out-of-court route**"). The in-court route is commenced by an application to court by the company itself, a majority of its directors, one or more of its creditors including contingent or prospective creditors, the Financial Conduct Authority or the Prudential Regulation Authority or certain other designated persons. The out-of-court method of appointment is available only to the directors, the company itself and the holder of a qualifying floating charge ("**QFC**") (see further below for the meaning of this term). No physical court hearing is required and the administrator's appointment takes effect when the court stamps receipt of the relevant forms.

A QFC is defined in paragraph 14 of Schedule B1 to the Insolvency Act 1986 (the "**IA86**") as being a floating charge created by an instrument which either: (i) states on its face that paragraph 14 applies to it; or (ii) purports to empower the holder of the floating charge to appoint an administrative receiver or an administrator of the company. A person is the holder of a QFC if he holds one or more debentures of the company secured by charges and other forms of security, which together relate to the whole or substantially the whole of the company's property and at least one of which is a qualifying floating charge.

When any person other than a holder of a QFC makes an administration appointment (whether by the in-court or out-of-court route), it will be necessary to show that the company is, or is likely to become, unable to pay its debts (see "*—The Insolvency test*"). Regardless of how an administrator is appointed, he will need to consent to act as administrator and to state that, in his opinion, one of the following statutory objectives can be satisfied (the second objective can only be considered if the first objective cannot be satisfied and similarly for the third objective): (i) to rescue the company as a going concern; (ii) to achieve a better result for creditors as a whole than would be likely if the company were wound up without first being in administration; or (iii) to realise property to make a distribution to one or more secured or preferential creditors (see "*—Statutory order of priorities*").

An interim moratorium takes effect when an application to appoint an administrator is made or a notice of intention to appoint an administrator is filed at court. This becomes final once the company is in administration. The moratorium means, among other things, that no other legal process (including legal proceedings, execution, distress or diligence) may be commenced or continued against the company and no step can be taken to enforce security over the company's property (in each case except with the consent of the administrator or the permission of the court), no administrative receiver can be appointed and, except in certain limited circumstances, no resolution can be passed or order be made for the winding-up of the company. This moratorium does not apply to financial collateral that has been created under a financial collateral arrangement within the meaning of the Financial Collateral Arrangements (No. 2) Regulations 2003 (SI 2003/3226) (as amended) (the "**Financial Collateral Regulations**") (generally, such arrangements are in respect of cash or financial instruments, such as shares, bonds or tradable capital market debt instruments).

An administrator owes his duties to the creditors of the company as a whole. Upon appointment, he takes control of the day-to-day running of the company and takes custody or control of all property, to which he thinks the company is entitled. He has broad powers to deal with the company and its assets, except in respect of assets which are subject to fixed charge security. The permission of the court is required to dispose of any such fixed charge assets and the proceeds of sale must be paid to the fixed charge holder. An administrator's powers further extend to investigating why the company failed and, where appropriate, bringing actions against the directors or former directors or seeking to set aside certain transactions (see "*—Antecedent Transaction Laws*" in respect of the latter).

An administration does not itself terminate any contracts and, unlike a liquidator, an administrator does not have the power to disclaim or terminate contracts (although he can choose to breach a contract if he considers it to be in the best interests of the creditors as a whole, in which case the resulting damages will rank as an unsecured debt, see "*—Statutory order of priorities*"). Conversely, contractual terms providing for automatic termination or a right of termination by the counterparty upon the occurrence of an insolvency event (such as administration) will generally be enforceable as they are not considered to be against public policy as a matter of English law. However, there are exceptions to this general approach, most notably in the context of contractual supplies of services considered essential for the conduct of the administration. As of October 1, 2015, counterparties may not terminate these contracts (or the supplies they govern) simply because the company enters administration, except with the consent of the administrator or the permission of the court.

Administrative receivership

Section 72A(1) of the IA86 (which was introduced by the Enterprise Act 2002) imposes a general prohibition on the appointment of administrative receivers subject to limited exceptions set out in sections 72B to 72GA, none of which are relevant in the context of the Offering. The remedy for the holder of a QFC is instead to appoint an administrator (see "*—Administration*").

Liquidation/Winding-Up

Liquidation is a terminal insolvency process pursuant to which the assets of a company are realised by the liquidator and the proceeds distributed to creditors in accordance with a statutory order of priority (see "*—Statutory order of priorities*"), with any surplus paid to the shareholders. Once the liquidator has completed this task, the company will be dissolved and removed from the register of companies.

There are two different types of liquidation: (i) compulsory; and (ii) voluntary, which is in turn divided into members' voluntary liquidation ("**MVL**") and creditors' voluntary liquidation ("**CVL**").

Regardless of how he is appointed, a liquidator owes his duties to the company and its creditors as a whole and has wide powers to do whatever necessary for the conduct of the liquidation. This includes the power to: (i) agree, compromise and pay creditor claims; (ii) sell any of the company's property; (iii) bring or defend any legal proceedings on behalf of the company; (iv) disclaim onerous property or contracts in accordance with section 178 of the IA86; (v) bring actions against the directors or former directors; and (vi) bring actions to set aside certain transactions (see "*—Antecedent Transaction Laws*" in respect of the latter).

In a compulsory liquidation, there is an automatic stay on proceedings being commenced or continued against the company or its property except with the permission of the court. In a voluntary liquidation, there is no such automatic stay although the court may, upon the application of the liquidator or any creditor, order a stay under its general discretionary power in section 112 of the IA86.

Compulsory liquidation

Compulsory liquidation is a court-based procedure pursuant to which a creditor petitions for the winding up of a company and the court makes a winding up order. The grounds which entitle the court to make a winding up order are set out in section 122 of the IA86. The most common grounds are that: (i) the company is unable to pay its debts (see "*—The Insolvency Test*" for the meaning of this term); and (ii) it is just and equitable for the company to be wound up.

Under section 127 of the IA86, any disposition of the company's property, any transfer of the company's shares and any altering of the status of company members is void if made following the "commencement of a winding up", unless the court orders otherwise. If a winding up order is made, it is deemed to have commenced on the date on which the winding up petition was presented. This gives section 127 retrospective effect, meaning that the company cannot enter into any of the specified transactions during the period between the presentation of a winding up petition and the making of a winding up order without first seeking a validation order from the court.

Members' voluntary liquidation

An MVL is a solvent liquidation that is controlled by the shareholders. It commences when the shareholders pass a special resolution to place the company into liquidation and there is no involvement by the court.

Not more than five weeks prior to the making of the winding up resolution, the directors must swear a statutory declaration of solvency stating that, after making full enquiry into the company's affairs, they have formed the opinion that it will be able to pay its debts, including interest and the costs of the MVL process, within a stated period not exceeding 12 months from the start of the liquidation.

Creditors' voluntary liquidation

A creditors' voluntary liquidation is also commenced by the shareholders resolving to place the company into liquidation and has no court involvement. In contrast to an MVL, however, the directors do not swear a statutory declaration of solvency for a CVL (meaning the company can be solvent or insolvent) and, after the shareholders' meeting, a creditors' meeting must also resolve to place the company into liquidation. If the creditors choose a different person to act as liquidator from the shareholders, the creditors' choice will prevail.

The Insolvency Test

The IA86 has no test for or definition of insolvency *per se*, but instead relies on the concept of a company's "inability to pay its debts" as the keystone for many of its provisions. Pursuant to section 123 of the IA86, the circumstances in which a company is deemed unable to pay its debts include, among others, the following: (i) if a creditor to whom the company is indebted in a sum exceeding £750 then due has served a statutory demand on the company requiring the company to pay the sum so due and the company has failed for three weeks to pay, secure or compound the sum; (ii) if it is proved to the satisfaction of the court that the company is unable to pay its debts as they fall due; or (iii) if it is proved to the satisfaction of the court that the value of the company's assets is less than the amount of its liabilities, taking into account its contingent and prospective liabilities.

Statutory order of priorities

A liquidator or administrator will need to comply with the following statutory order of priority when he distributes the proceeds of realised assets to a company's creditors: (i) proceeds of realisations from assets subject to a fixed charge are paid to the fixed charge holder (less any costs of realisation); (ii) expenses of the liquidation or the administration, which includes monies arising under a contract entered into by the administrator or liquidator, or any necessary disbursements made in the ordinary insolvency process; (iii) ordinary preferential debts, being contributions to occupational pension schemes, employment claims (up to a certain statutory maximum) and bank and building society deposits eligible for compensation under the Financial Services Compensation Scheme ("**FSCS**") up to the statutory limit; (iv) secondary preferential debts, being bank and building society deposits eligible for compensation under the FSCS to the extent that the claims exceed the statutory limit, and deposits made through a non-EEA branch of a credit institution that would otherwise have been eligible for FSCS compensation); (v) the prescribed part, which is a ring fenced amount of money that the administrator or liquidator must set aside from realisations from floating charge property to distribute to unsecured creditors—calculated as 50% of the first £10,000 of net realisations and 20% of the net realisations thereafter, up to a maximum of £600,000; (vi) proceeds of floating charge asset realisations (less any costs of realisation, the preferential debts and the prescribed part); (vii) provable debts of unsecured creditors (these rank equally among themselves, unless there are subordination agreements in place between any of them); (viii) statutory interest that arises on debts after the insolvency at either the contractual or a statutory rate; and (ix) non-provable liabilities, being liabilities that do not fall within any of the categories above and which are therefore only recovered in the (unusual) event that all categories above are fully paid.

Any surplus will be paid to the shareholders in accordance with the company's articles of association. There are no equitable subordination provisions under English law, meaning that an unsecured shareholder loan ranks as a provable debt alongside other unsecured creditors and will not be subordinated by law.

In administration or liquidation, any debt payable in a currency other than pounds sterling must be converted into pounds sterling at the ''official exchange rate'' (which is defined from time to time in the subordinate legislation of the IA86) prevailing at the date when the company went into liquidation or administration. This provision overrides any agreement between the parties.

Assets held on trust by the company generally fall outside the insolvent estate that is available for distribution.

Schemes of arrangement

Pursuant to Part 26 of the Companies Act 2006 the English courts have jurisdiction to sanction the compromise of a company's liabilities where such company (i) is liable to be wound-up under the IA86 and (ii) has "sufficient connection" to the English jurisdiction.

Before the court considers the sanction of a scheme of arrangement, affected creditors will vote on a detailed debt compromise. Such compromise can be proposed by the company or (theoretically) its creditors. If at least 75% by number and 50% by value of those creditors present and voting at the creditor meeting(s) vote in favour of the proposed compromise, irrespective of the terms and approval thresholds contained in the finance documents, that compromise will be binding on all affected creditors, including those affected creditors who did not participate in the vote on the scheme of arrangement and those who voted against the scheme of arrangement. In certain circumstances, a scheme of arrangement can also result in the release of guarantees in order to ensure the effectiveness of the compromise.

Antecedent Transaction Laws

There are five principal provisions of the IA86 under which transactions entered into prior to a company's insolvency are capable of being set aside. They are: (i) transactions at an undervalue (section 238); (ii) preferences (section 239); (iii) avoidance of certain floating charges (section 245); (iv) transactions defrauding creditors (section 423); and (v) extortionate credit transactions (section 244).

These provisions all apply where the company has gone into liquidation or administration, with the exception of section 423 which applies even if the company is not in insolvency proceedings.

Transactions at an undervalue

If a company goes into administration or liquidation and it has entered into a transaction at an undervalue, the court may, on the application of the insolvency officeholder, set the transaction aside.

A transaction will constitute a transaction at an undervalue if: (i) the transaction is at an undervalue (a gift or a transaction on terms that provide for the company to receive no consideration or a transaction for a consideration the value of which (in money or money's worth) is significantly less than the value (in money or money's worth) of the consideration provided by the company); (ii) the transaction took place within the relevant time (2 years before the onset of insolvency, being broadly the commencement of its liquidation or administration); and (iii) the company was at the time of the transaction, or became, as a result of the transaction, unable to pay its debts within the meaning of section 123 of the IA86 (although there is a rebuttable presumption that the company was unable to pay its debts at the time of the transaction if the transaction is made to a person connected to the company such as a shareholder or a director (a "**connected person**")).

The court will not make an order in respect of a transaction at an undervalue if it is satisfied that: (i) the company which entered into the transaction did so in good faith and for the purposes of carrying on its business; and (ii) when it did so, there were reasonable grounds for believing that the transaction would benefit the company.

Preferences

If a company goes into administration or liquidation and it has granted a preference the court may, on the application of the insolvency officeholder, set the transaction aside.

A company gives a preference to a person if: (i) that person is one of the company's creditors, a surety or a guarantor for any of the company's debts or other liabilities; (ii) the company has done something, or has suffered something to be done which (in either case) has had the effect of putting that person into a position which, in the event that the company goes into insolvent liquidation, will be better than the position he would have been in if that thing had not been done; (iii) the company was influenced in deciding to give the preference by a desire to put the creditor in a better position than he would have been in if the thing had not been done or suffered to be done (this desire is rebuttably presumed in the case of connected persons); (iv) the preference was given within the relevant time (6 months before the onset of the insolvency or 2 years from the onset of insolvency where the transaction is with a connected person); and (v) the company was at the time of the transaction, or became as a result of the transaction, unable to pay its debts within the meaning of section 123 of the IA86.

The desire to prefer requires a "positive wish to improve the creditor's position in the event of [the company's] insolvent liquidation" (Re Fairway Managaines Ltd [1993] BCLC 643. A preferential effect for a creditor may be foreseen by the company without being desired. Where a company is influenced by "proper commercial considerations" there will be no desire to prefer and therefore no voidable preference (MC Bacon [1990] BCLC 324).

Voidable floating charges

A floating charge created by a company over its property may be invalid if it was created in the relevant time. Where the transaction is with a connected person, this means within a period of 2 years before the onset of insolvency. In all other cases, this means within a period of 12 months before the onset on insolvency when the company was at the time of the transaction, or became as a result of the transaction, unable to pay its debts within the meaning of section 123 of the IA86.

This is the only requirement for setting aside the floating charge and, if met, the security is automatically invalid except to the extent of the aggregate of the value of so much of the consideration for the creation of the charge (as consists of money paid, goods or services supplied or debts discharged and interest thereon) supplied to the company at the time of, or after the creation of, the charge. No court action is required.

Section 245 of the IA86 does not apply to a floating charge that has been created under a financial collateral arrangement within the meaning of the Financial Collateral Regulations.

Transactions defrauding creditors

A transaction entered into by a company can be set aside if: (i) the transaction is at an undervalue (see above); and (ii) it was entered into for the purpose of putting assets beyond the reach of a person who may make a claim against the company or otherwise prejudicing his interests.

It is not necessary for the company to be in insolvency proceedings and unlike a transaction at an undervalue or a preference, the claim is not restricted to the officeholder. The victim of the transaction can apply to the court himself. The IA86 also does not prescribe a set time limit within which to bring the action. The fact that the transaction was not entered into with a dishonest motive is no defence to the claim. It will suffice that the company's subjective purpose was to place the assets out of the reach of creditors or a particular creditor. There is no need to show that the intention was the sole purpose and a substantial purpose is likely to suffice.

Extortionate credit transactions

If a company goes into administration or liquidation and it has entered into an extortionate credit transaction, the court may, on the application of the insolvency officeholder, set the transaction aside.

A transaction is extortionate if, having regard to the risk accepted by the person providing the credit, either: (i) its terms require grossly exorbitant payments to be made (whether unconditionally or in certain contingencies) in respect of the provision of the credit; or (ii) it otherwise grossly contravenes ordinary principles of fair dealing.

The court can make an order in relation to extortionate credit transactions entered into by the company up to three years before the day on which the company entered into administration or went into liquidation (which is slightly different to the concept of the onset of insolvency used in relation to transactions at an undervalue and preferences).

Orders

In the case of any of the above applying and where a court order is required (*i.e.,* not section 245 of the IA86), the court has very wide statutory powers to make such orders as it thinks fit to restore the position to that which existed before the transaction was entered into.

Maintenance of capital

The granting of upstream (or cross-stream) guarantees or security by an English company could be subject to challenge if it results in a reduction in that company's net assets as properly recorded in its books or, to the extent that it does, the company does not have sufficient distributable reserves to cover that reduction.

Additional considerations

Post-petition interest

Any interest accruing under or in respect of amounts due under the Notes or any English Guarantee to which an English company is a party in respect of any period after the commencement of administration or liquidation proceedings would only be recoverable by the holders of the Notes from any surplus remaining after payment of all other debts proved in the English company's insolvency proceedings and accrued and unpaid interest up to the date of the commencement of those proceedings provided that such interest may, if there are sufficient realizations from the secured assets, be discharged out of such security recoveries.

Dispositions in winding-up

Under section 127 of the IA86, any dispositions of a company's property made after a winding-up has commenced is, unless the court orders otherwise, void. The compulsory winding-up of a company by the court is deemed to start when a winding-up petition is presented by a creditor against the company, rather than the date on which the court makes the winding-up order (if any). However, this will not apply to any property or security interest subject to a disposition or otherwise arising under a financial collateral arrangement under the Financial Collateral Arrangements Regulations and will not prevent a close-out netting provision taking effect in accordance with its terms.

PLAN OF DISTRIBUTION

Subject to the terms and conditions set forth in the purchase agreement (the "**Purchase Agreement**") to be dated as of the date of this offering memorandum, the Issuer has agreed to sell to each Initial Purchaser, and each such Initial Purchaser has agreed, severally and not jointly, to purchase the Notes, from the Issuer. The Initial Purchasers are Barclays Bank PLC, HSBC Bank plc, The Royal Bank of Scotland plc (trading as NatWest Markets), Banco Santander SA, Bank of China Limited London Branch, BNP Paribas, Crédit Industriel et Commercial S.A., Credit Suisse Securities (Europe) Limited, DNB Markets, a division of DNB Bank ASA and MUFG Securities EMEA plc.

The Purchase Agreement provides that the obligations of the Initial Purchasers to pay for and accept delivery of the Notes are subject to, among other conditions, the delivery of certain legal opinions by counsel.

The Initial Purchasers propose to offer the Notes initially at the price indicated on the cover page hereof. After the initial offering, the offering price and other selling terms of the Notes may from time to time be varied by the Initial Purchasers without notice. The Initial Purchasers may offer and sell Notes through certain of their affiliates.

Persons who purchase Notes from the Initial Purchasers may be required to pay stamp duty, taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the offering price set forth on the cover page hereof.

The Purchase Agreement provides that we will indemnify and hold harmless the Initial Purchasers against certain liabilities, including liabilities under the U.S. Securities Act, and will contribute to payments that the Initial Purchasers may be required to make in respect thereof. We have agreed, subject to certain limited exceptions, not to offer, sell, contract to sell or otherwise dispose of, except as provided under the Purchase Agreement, any debt securities issued or guaranteed by the Issuer or the Guarantors that are substantially similar to the Notes and having a tenor of more than one year during the period from the date of the Purchase Agreement through and including the date that is 90 days after the date of the Purchase Agreement.

The Notes and Guarantees have not been and will not be registered under the U.S. Securities Act. The Initial Purchasers have agreed that they will only offer or sell the Notes outside the United States in offshore transactions in accordance with Regulation S. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Initial Purchaser has represented, warranted and agreed with us that:

(1) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity, within the meaning of Section 21 of the FSMA, received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to us, and

(2) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

No action has been taken in any jurisdiction, including the United Kingdom, by us or the Initial Purchasers that would permit a public offering of the Notes or the possession, circulation or distribution of this offering memorandum or any other material relating to us or the Notes in any jurisdiction where action for this purpose is required. Accordingly, the Notes and the Guarantees may not be offered or sold, directly or indirectly, and neither this offering memorandum nor any other offering material or advertisements in connection with the Notes and the Guarantees may be distributed or published, in or from any country or jurisdiction, except in compliance with any applicable rules and regulations of any such country or jurisdiction. This offering memorandum does not constitute an offer to sell or a solicitation of an offer to purchase in any jurisdiction where such offer or solicitation would be unlawful. Persons into whose possession this offering memorandum comes are advised to inform themselves about and to observe any restrictions relating to the Offering, the distribution of this offering memorandum and resale of the Notes. See "*Notice to Investors.*"

The Notes are a new issue of securities for which there currently is no market. We will apply, through our listing sponsor, to list the Notes on the Official List of the Exchange and trade them thereon. The Official List of the Exchange is an exchange regulated market and not a regulated market for the purposes of Directive 2004/39/EC. There is no assurance that the Notes will be listed and admitted to trading on the Official List of the Exchange or that any such listing or admission will be maintained.

The Initial Purchasers have advised us that they intend to make a market in the Notes as permitted by applicable law. The Initial Purchasers are not obligated, however, to make a market in the Notes, and any market-making activity may be discontinued at any time at the sole discretion of the Initial Purchasers without notice. In addition, any such market-making activity will be subject to the limits imposed by applicable law, and may be limited. Accordingly, we cannot assure you that any market for the Notes will develop, that it will be liquid if it does develop, or that you will be able to sell any Notes at a particular time or at a price that will be favourable to you. See "*Risk Factors—Risks relating to the Notes and the Guarantees—There is no established trading market for the Notes and no assurance that the holders of the Notes will be able to sell them*."

In connection with the offering of the Notes, the Stabilizing Manager or one or more of its affiliates or persons acting on its behalf may, to the extent permitted by applicable law, overallot the Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilizing Manager will undertake stabilization action. Any stabilization action, if commenced, may begin on or after the date on which adequate public disclosure of the terms of the offering of the Notes is made and may be ended at any time, but it must end no later than 30 days after the issue date, or no later than 60 days after the date of the allotment of the Notes, whichever is earlier. Any stabilization action or over-allotment must be conducted by the Stabilizing Manager (or persons acting on its behalf) in accordance with all applicable laws, regulations and rules.

Certain of the Initial Purchasers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for the Issuer, the Guarantors and their respective affiliates in the ordinary course of business. Certain of the Initial Purchasers and their affiliates may have positions, deal or make markets in the Notes, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer, the Guarantors and their respective affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities.

In addition, in the ordinary course of their business activities, the Initial Purchasers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer, the Guarantors or their respective affiliates. The Initial Purchasers or their respective affiliates may also receive allocations of the Notes. Certain of the Initial Purchasers or their affiliates that have a lending relationship with the Issuer or the Guarantors and routinely hedge their credit exposure to the Issuer or the Guarantors (as the case may be) consistent with their customary risk management policies. Typically, such Initial Purchasers and their affiliates would hedge such exposure by entering into transactions, which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes. Any such positions could adversely affect future trading prices of Notes. Certain of the Initial Purchasers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments. In particular, certain of the Initial Purchasers or their affiliates act as arrangers, lenders or other counterparties to certain of our financing arrangements, for which they have received, or may in the future receive, customary fees, commissions and payments.

NOTICE TO INVESTORS

You are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of any of the Notes offered hereby.

The Notes and the Guarantees have not been and will not be registered under the U.S. Securities Act, or the securities laws of any other jurisdiction, and, unless so registered, may not be offered, sold, pledged or otherwise transferred within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act or the securities laws of any other jurisdiction. The Notes are being offered by this offering memorandum only outside the United States in offshore transactions in reliance upon Regulation S under the U.S. Securities Act.

Each purchaser of the Notes, by its acceptance thereof, will be deemed to have acknowledged, represented to and agreed with us and the Initial Purchasers as follows:

(1) It understands and acknowledges that the Notes and the Guarantees have not been registered under the U.S. Securities Act or any other applicable securities laws, the Notes are being offered for resale in offshore transactions in compliance with Regulation S under the U.S. Securities Act, and none of the Notes may be offered, sold or otherwise transferred except in compliance with the registration requirements of the U.S. Securities Act or any other applicable securities laws, pursuant to an exemption therefrom or in a transaction not subject to such laws and in each case in compliance with the conditions for transfer set forth in paragraphs (4) and (5) below.

(2) It is purchasing the Notes in an offshore transaction in accordance with Regulation S.

(3) It acknowledges that neither we nor the Initial Purchasers, nor any person representing any of us or them, has made any representation to it with respect to us or the offer or sale of any of the Notes, other than the information contained in this offering memorandum, which offering memorandum has been delivered to it and upon which it is relying in making its investment decision with respect to the Notes. It acknowledges that neither the Initial Purchasers nor any person representing the Initial Purchasers make any representation or warranty as to the accuracy or completeness of this offering memorandum. It has had access to such financial and other information concerning us and the Notes as it has deemed necessary in connection with its decision to purchase any of the Notes, including an opportunity to ask questions of, and request information from, us and the Initial Purchasers.

(4) It is purchasing the Notes for its own account, or for one or more investor accounts for which it is acting as a fiduciary or agent, in each case for investment, and not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the U.S. Securities Act or the securities laws of any other jurisdiction, subject to any requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control and subject to its or their ability to resell such Notes pursuant to Regulation S or any other exemption from registration available under the U.S. Securities Act.

(5) It agrees on its own behalf and on behalf of any investor account for which it is purchasing the Notes, and each subsequent holder of the Notes by its acceptance thereof will be deemed to agree, to offer, sell or otherwise transfer such Notes only:

    (i) to the Issuer, any Guarantor or any subsidiary thereof;

    (ii) pursuant to a registration statement that has been declared effective under the U.S. Securities Act;

    (iii) pursuant to offers and sales in offshore transactions outside the United States in compliance with Regulation S; or

    (iv) pursuant to any other available exemption from the registration requirements of the U.S. Securities Act;

    subject, in each of the foregoing cases, to any requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control and in compliance with any applicable state securities laws, and any applicable local laws and regulations, and further subject to the Issuer's and the Trustee's rights prior to any such offer, sale or transfer (I) pursuant to clauses (iii) and (iv) to require the delivery of an opinion of counsel, certification and/or other information satisfactory to each of them and (II) in each of the foregoing cases, to require that a certificate of transfer in the form appearing on the reverse of each Note is completed and delivered by the transferor to the Transfer Agent. The foregoing restrictions on resale will not apply subsequent to the Resale Restriction Termination Date (as defined below).

(5) It acknowledges that each Note will contain a legend substantially to the following effect:

THE SECURITY EVIDENCED HEREBY WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**U.S. SECURITIES ACT**"), AND HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT. THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT IT IS ACQUIRING THIS NOTE IN AN "OFFSHORE TRANSACTION" IN COMPLIANCE WITH REGULATION S UNDER THE U.S. SECURITIES ACT AND (2) AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED THE SECURITIES, TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE WHICH IS 40 DAYS AFTER THE LATER OF THE ORIGINAL ISSUE DATE THEREOF AND THE LAST DATE ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH SECURITY (OR ANY PREDECESSOR OF SUCH SECURITY) (THE "**RESALE RESTRICTION TERMINATION DATE**") ONLY (A) TO THE ISSUER, ANY GUARANTOR OR ANY SUBSIDIARY THEREOF, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE U.S. SECURITIES ACT, (C) PURSUANT TO OFFERS AND SALES IN OFFSHORE TRANSACTIONS OUTSIDE THE UNITED STATES IN COMPLIANCE WITH REGULATION S UNDER THE U.S. SECURITIES ACT OR (D) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT, SUBJECT IN EACH OF THE FOREGOING CASES TO ANY REQUIREMENT OF LAW THAT THE DISPOSITION OF ITS PROPERTY OR THE PROPERTY OF SUCH INVESTOR ACCOUNT OR ACCOUNTS BE AT ALL TIMES WITHIN ITS OR THEIR CONTROL AND IN COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS, AND ANY APPLICABLE LOCAL LAWS AND REGULATIONS, AND FURTHER SUBJECT TO THE ISSUER'S AND THE TRUSTEE'S RIGHTS PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER (I) PURSUANT TO CLAUSES (C) AND (D) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM, (II) IN EACH OF THE FOREGOING CASES, TO REQUIRE THAT A CERTIFICATE OF TRANSFER IN THE FORM APPEARING ON THE OTHER SIDE OF THIS SECURITY IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE TRANSFER AGENT, AND (III) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

Each purchaser of the Notes will also be deemed to acknowledge that the foregoing restrictions apply to holders of beneficial interests in these Notes, as well as to holders of these Notes.

(1) It agrees that it will give to each person to whom it transfers the Notes notice of any restrictions on the transfer of such Notes.

(2) It acknowledges that until 40 days after the commencement of the Offering, any offer or sale of the Notes within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the U.S. Securities Act.

(3) It acknowledges that the Transfer Agent will not be required to accept for registration or transfer any Notes acquired by it except upon presentation of evidence satisfactory to us and the Transfer Agent that the restrictions set forth herein have been complied with.

(4) It acknowledges that we and the Initial Purchasers and others will rely upon the truth and accuracy of its acknowledgements, representations, warranties and agreements and agree that if any of the acknowledgements, representations, warranties and agreements deemed to have been made by its purchase of the Notes are no longer accurate, it shall promptly notify the Initial Purchasers. If it is

acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such investor account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such investor account.

(5) It understands that no action has been taken in any jurisdiction (including the United States) by us or the Initial Purchasers that would permit a public offering of the Notes or the possession, circulation or distribution of this offering memorandum or any other material relating to us or the Notes in any jurisdiction where action for such purpose is required. Consequently, any transfer of the Notes will be subject to the selling restrictions set forth in the section entitled "*Plan of Distribution.*"

LEGAL MATTERS

Certain legal matters in connection with the Offering will be passed upon for the Issuer and the Guarantors by Freshfields Bruckhaus Deringer LLP, with respect to U.S. federal and New York law, as well as with respect to English law.

Certain legal matters in connection with the Offering will be passed upon for the Initial Purchasers by Shearman & Sterling (London) LLP, with respect to U.S. federal and New York law.

INDEPENDENT AUDITORS

The Annual Financial Statements of the Group as at and for the years ended March 31, 2014, 2015 and 2016 included in this offering memorandum were audited by Deloitte LLP, independent auditors, as stated in their reports appearing herein. The auditor who signs on behalf of Deloitte LLP is a member of the Institute of Chartered Accountants in England and Wales.

WHERE YOU CAN FIND MORE INFORMATION

Each purchaser of the Notes from the Initial Purchasers will be furnished with a copy of this offering memorandum and, to the extent provided to the Initial Purchasers by us for such purpose, any related amendments or supplements to this offering memorandum. Each person receiving this offering memorandum and any related amendments or supplements to this offering memorandum acknowledges that:

(i) such person has been afforded an opportunity to request from us, and to review and has received, all additional information considered by it to be necessary to verify the accuracy and completeness of the information herein;

(ii) such person has not relied on the Initial Purchasers or any person affiliated with the Initial Purchasers in connection with its investigation of the accuracy of such information or its investment decision; and

(iii) except as provided pursuant to point (i) above, no person has been authorized to give any information or to make any representation concerning the Notes offered hereby other than those contained herein and, if given or made, such other information or representation should not be relied upon as having been authorized by us or the Initial Purchasers.

Copies of our organisational documents, the Indenture (which includes the form of the Notes) and our most recent consolidated financial statements may be obtained by request to the Issuer. See "*Listing and General Information.*"

LISTING AND GENERAL INFORMATION

1. The Issuer is a public limited company incorporated under the laws of England and Wales, pursuant to the Companies Act 2006. The Issuer was incorporated on December 15, 2009 and is registered under company number 07105891. Its registered office is located at 11 Evesham Street, London W11 4AR, United Kingdom.

2. TalkTalk Telecom Holdings Limited is a limited liability company incorporated under the laws of England and Wales, pursuant to the Companies Act 2006. TalkTalk Telecom Holdings Limited was incorporated on September 23, 1996 and is registered under company number 03253714. Its registered office is located at Stanford House, Garrett Field, Birchwood, Warrington, WA3 7BH, United Kingdom.

3. TalkTalk Communications Limited is a limited liability company incorporated under the laws of England and Wales, pursuant to the Companies Act 2006. TalkTalk Communications Limited was incorporated on September 28, 1999 and is registered under company number 03849133. Its registered office is located at 11 Evesham Street, London W11 4AR, United Kingdom.

4. TalkTalk Telecom Limited is a limited liability company incorporated under the laws of England and Wales, pursuant to the Companies Act 2006. TalkTalk Telecom Limited was incorporated on January 10, 2003 and is registered under company number 04633015. Its registered office is located at 11 Evesham Street, London W11 4AR, United Kingdom.

5. The issue of the Notes was authorized a resolution of the Board of Directors of the Issuer dated November 8, 2016, with approval of the final terms delegated to a committee of the Board of Directors of the Issuer. The final terms of the Notes were authorized by a resolution of such committee on .

6. Application is expected to be made to the Exchange for the listing of and permission to deal in the Notes on the Official List of the Exchange. There can be no assurance that the Notes will be listed on the Official List of the Exchange, that such permission to deal in the Notes will be granted or that such listing will be maintained.

7. The Notes have been accepted for clearance through the facilities of Euroclear and Clearstream under the common code . The international securities identification number (ISIN) for the Notes is .

8. We have appointed BNY Mellon Corporate Trustee Services Limited, as Trustee under the terms of the Indenture. The conditions under which the Trustee may be replaced are set out in the Indenture.

9. We have appointed The Bank of New York Mellon, London Branch, as Paying Agent.

10. We have appointed The Bank of New York Mellon (Luxembourg) S.A., as Registrar and Transfer Agent.

11. Except as disclosed in this offering memorandum, there has been no material adverse change in our financial condition since September 30, 2016, the end of the period to which our most recent interim condensed consolidated financial statements relate.

12. Electronic or physical copies of the following documents will be available for inspection free of charge, during normal business hours on any weekday, at our offices located at 11 Evesham Street, London W11 4AR, United Kingdom from the date of publication of this offering memorandum for the life of the Notes:

    - the offering memorandum;
    - the Memorandum of Association of the Issuer;
    - the Indenture; and
    - our Annual Financial Statements for the years ended March 31, 2014, 2015 and 2016, together with the auditors' report relating thereto, and our Interim Financial Statements for the six months ended September 30, 2016.

13. The results of the Offering will be made public by us through a press release and notice to the Regulatory Information Service promptly upon the closing of the Offering.

14. Holders of the Notes may contact the Trustee with questions relating to the transfer of Notes on the books of the Trustee, which shall be maintained at the Trustee's principal office at One Canada Square, London E14 5AL, United Kingdom.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

TalkTalk Telecom Group PLC

Interim condensed consolidated financial statements of the Group as at and for the six months ended September 30, 2016

TalkTalk Telecom Group PLC
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP AS AT AND FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2016

CONTENTS

Interim condensed consolidated income statement

		Six months ended 30 September 2016 Unaudited			Six months ended 30 September 2015 Unaudited		
	Note	Headline - before non-operating amortisation and exceptional items £m	Non-operating amortisation and exceptional items £m	Statutory - after non-operating amortisation and exceptional items £m	Headline - before non-operating amortisation and exceptional items £m	Non-operating amortisation and exceptional items £m	Statutory - after non-operating amortisation and exceptional items £m
Revenue	4	**902**	**—**	**902**	912	—	912
Cost of sales		**(433)**	**—**	**(433)**	(425)	—	(425)
Gross profit		**469**	**—**	**469**	487	—	487
Operating expenses excluding amortisation and depreciation		**(339)**	**(11)**	**(350)**	(397)	(17)	(414)
EBITDA	5	**130**	**(11)**	**119**	90	(17)	73
Depreciation	6	**(35)**	**—**	**(35)**	(36)	—	(36)
Amortisation	6	**(30)**	**(5)**	**(35)**	(23)	(5)	(28)
Share of results of joint ventures		**(5)**	**—**	**(5)**	(6)	—	(6)
Operating profit	5, 6	**60**	**(16)**	**44**	25	(22)	3
Net finance costs		**(14)**	**—**	**(14)**	(11)	—	(11)
Profit/(loss) before taxation	5	**46**	**(16)**	**30**	14	(22)	(8)
Taxation	7	**(11)**	**2**	**(9)**	(3)	4	1
Profit/(loss) for the year attributable to the owners of the Company	5	**35**	**(14)**	**21**	11	(18)	(7)
Earnings/(loss) per share							
Basic (p)	8			**2.2**			(0.7)
Diluted (p)	8			**2.2**			(0.7)

	2016	2015
Statutory operating profit	**44**	3
Adjusted for:		
Non-operating amortisation	**5**	5
Exceptional items	**11**	17
Headline operating profit	**60**	25

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

Interim condensed consolidated statement of comprehensive income

	Six months to 30 September 2016 Unaudited £m	Six months to 30 September 2015 Unaudited £m
Profit/(loss) for the year attributable to the owners of the Company	**21**	(7)
Other comprehensive (expense)/income		
Items that may be reclassified to profit or loss:		
(Loss)/gain on a hedge of a financial instrument	**(2)**	2
Currency translation differences	**1**	—
Total other comprehensive (expense)/income	**(1)**	2
Total comprehensive income/(expense) of the period	**20**	(5)

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

Interim condensed consolidated balance sheet

	Note	30 September 2016 Unaudited £m	30 September 2015 Unaudited £m	31 March 2016 Audited £m
Non-current assets				
Goodwill		**495**	498	495
Other intangible assets	10	**237**	202	227
Property, plant and equipment		**289**	302	302
Investment in joint venture		**9**	10	9
Trade and other receivables		**4**	—	3
Derivative financial instruments		**28**	10	18
Deferred tax assets		**111**	135	115
		1,173	1,157	1,169
Current assets				
Inventories	11	**32**	37	57
Trade and other receivables	12	**333**	299	294
Current income tax receivable		**—**	2	3
Cash and cash equivalents	13	**—**	23	10
		365	361	364
Total assets		**1,538**	1,518	1,533
Current liabilities				
Trade and other payables	14	**(475)**	(558)	(563)
Current income tax payable		**(5)**	—	—
Borrowings	13	**(90)**	—	(25)
Provisions	15	**(11)**	(19)	(18)
		(581)	(577)	(606)
Non-current liabilities				
Borrowings	13	**(790)**	(667)	(684)
Derivative financial instruments		**—**	—	(1)
Provisions	15	**(10)**	—	(11)
		(800)	(667)	(696)
Total liabilities		**(1,381)**	(1,244)	(1,302)
Net assets		**157**	274	231
Equity				
Share capital		**1**	1	1
Share premium		**684**	684	684
Translation reserve		**(63)**	(65)	(64)
Demerger reserve		**(513)**	(513)	(513)
Retained earnings and other reserves		**48**	167	123
Total equity		**157**	274	231

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

Interim condensed consolidated cash flow statement

	Note	Six months to 30 September 2016 Unaudited £m	Six months to 30 September 2015 Unaudited £m
Operating activities			
Operating profit		**44**	3
Share-based payments		**4**	2
Depreciation	6	**35**	36
Amortisation of other operating intangible fixed assets	6	**30**	23
Amortisation of acquisition intangibles	6	**5**	5
Share of results of joint ventures		**5**	6
Profit on disposal of subsidiaries and customer bases		**—**	1
Operating cash flows before movements in working capital		**123**	76
(Increase)/decrease in trade and other receivables		**(40)**	18
Decrease/(increase) in inventory		**25**	(6)
(Decrease)/increase in trade and other payables		**(46)**	15
Decrease in provisions	15	**(8)**	(16)
Cash generated from operations		**54**	87
Income taxes received		**3**	—
Net cash flows generated from operating activities		**57**	87
Investing activities			
Acquisition of subsidiaries and joint ventures, net of cash acquired		**(6)**	(5)
Investment in intangible assets		**(48)**	(49)
Investment in property, plant and equipment		**(51)**	(42)
Cash flows used in investing activities		**(105)**	(96)
Financing activities			
Settlement of Group ESOT shares		**2**	2
Net sale of own shares		**—**	61
Payment of contingent consideration		**(8)**	—
Drawdown of borrowings		**143**	55
Interest paid		**(14)**	(11)
Dividends paid	9	**(100)**	(85)
Cash flows generated from financing activities		**23**	22
Net (decrease)/increase in cash and cash equivalents		**(25)**	13
Cash and cash equivalents at the start of the period		**10**	10
Cash and cash equivalents at the end of the period		**(15)**	23

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

Interim condensed consolidated statement of changes in equity

	Note	Share capital £m	Share premium £m	Translation reserve £m	Demerger reserve £m	Retained earnings and other reserves £m	Total equity £m
At 1 April 2016		1	684	(64)	(513)	123	231
Profit for the period		—	—	—	—	21	21
Other comprehensive income/(expense)							
Items that may be reclassified to profit or loss:							
Loss on hedge of a financial instrument		—	—	—	—	(2)	(2)
Currency translation differences		—	—	1	—	—	1
Total other comprehensive income/ (expense)		—	—	1	—	(2)	(1)
Total comprehensive income		—	—	1	—	19	20
Transactions with the owners of the Company							
Share-based payments reserve credit		—	—	—	—	4	4
Settlement of Group ESOT		—	—	—	—	2	2
Equity dividends	9	—	—	—	—	(100)	(100)
At 30 September 2016		**1**	**684**	**(63)**	**(513)**	**48**	**157**

	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
Loss for the period		—	—	—	—	(7)	(7)
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 expense		—	—	—	—	(5)	(5)
Transactions with the owners of the Company							
Share-based payments reserve credit		—	—	—	—	2	2
Share-based payments reserve debit		—	—	—	—	(1)	(1)
Sale of own shares		—	—	—	—	61	61
Settlement of Group ESOT		—	—	—	—	2	2
Equity dividends	9	—	—	—	—	(85)	(85)
Taxation of items recognised directly in reserves		—	—	—	—	3	3
At 30 September 2015		1	684	(65)	(513)	167	274

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

Notes to the interim condensed consolidated financial statements

1. Basis of preparation

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

This half-year report has been prepared in accordance with the Disclosure and Transparency Rules of the United Kingdom Financial Conduct Authority; IAS 34 'Interim Financial Reporting' as adopted by the European Union; on the basis of the accounting policies and the recognition and measurement requirements of IFRS applied in the consolidated financial statements at 31 March 2016 and those standards that have been endorsed by the European Union and will be applied at 31 March 2017. This report should be read in conjunction with the consolidated financial statements for the year ended 31 March 2016.

The results for each half year are unaudited and do not represent the Group's statutory accounts within the meaning of section 434 of the Companies Act 2006. The interim financial information has been reviewed by Deloitte LLP, not audited. The Group's statutory accounts were approved by the Directors on 12 May 2016 and have been reported on by Deloitte LLP and delivered to the Registrar of Companies. The report of Deloitte LLP was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 of the Companies Act 2006.

Going concern

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

2. Accounting policies

The interim condensed consolidated financial statements for the 6 months ended 30 September 2016 have been prepared using accounting policies and methods of computation consistent with those set out in the consolidated financial statements for the year ended 31 March 2016. There are no new or revised standards and interpretations that have had a material impact on the Group during the period.

Income tax

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

Future accounting developments

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

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

- IFRS 9 'Financial Instruments', impacting the measurement and disclosure of financial instruments. The effective date of this standard for the Group is 1 April 2018.
- IFRS 15 'Revenue from Contracts with Customers', impacting revenue recognition, related costs and disclosures. The effective date of this standard for the Group is 1 April 2018.
- IFRS 16 'Leases', impacting lease recognition. The effective date of this standard for the Group is 1 April 2019.

Evaluation projects have commenced to review and implement these accounting developments.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been concluded.

3. Critical accounting judgements and estimates

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

In preparing these condensed interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 March 2016.

4. Segmental reporting

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

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

	Six months ended 30 September 2016 Unaudited £m	**Six months ended 30 September 2015 Unaudited £m**
On-net	**670**	697
Off-net	**24**	27
Corporate	**208**	188
	902	912

Corporate revenue is further analysed as:

	Six months ended 30 September 2016 Unaudited £m	**Six months ended 30 September 2015 Unaudited £m**
Carrier	**72**	55
Data	**75**	54
Voice	**61**	79
	208	188

5. Reconciliation of headline information to statutory information

Headline information is provided because the Directors consider that it provides assistance in understanding the Group's underlying performance.

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.

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.

The details of exceptional items and amortisation of acquisition intangibles and the related income statement accounts impacted are presented below:

Six months ended 30 September 2016 (Unaudited)	**EBITDA £m**	**Operating profit £m**	**Profit before taxation £m**	**Taxation £m**	**Profit for the year £m**
Headline results	**130**	**60**	**46**	**(11)**	**35**
Exceptional items—Operating efficiencies (a)	**(10)**	**(10)**	**(10)**	**2**	**(8)**
Exceptional items—Acquisitions and disposal (b)	**(1)**	**(1)**	**(1)**	**—**	**(1)**
Amortisation of acquisition intangibles (c)	**—**	**(5)**	**(5)**	**—**	**(5)**
Statutory results	**119**	**44**	**30**	**(9)**	**21**

Six months ended 30 September 2015 (Unaudited)	**EBITDA £m**	**Operating profit £m**	**Profit before taxation £m**	**Taxation £m**	**Profit for the year £m**
Headline results	90	25	14	(3)	11
Exceptional items—Operating efficiencies (a)	(19)	(19)	(19)	3	(16)
Exceptional items—Acquisitions and disposal (b)	2	2	2	—	2
Amortisation of acquisition intangibles (c)	—	(5)	(5)	1	(4)
Statutory results	73	3	(8)	1	(7)

a) Operating efficiencies—Making TalkTalk Simpler (MTTS)

During the period ended 30 September 2016, the Group continued its simplification and cost reduction programmes to drive a seamless and efficient customer experience and provide the business with operations and processes that are fit for purpose. This wide ranging transformation programme 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 period include work on improving systems and processes which focus on customer experience; the review of the organisational structure of the business and the sites where the Group operates.

These programmes have resulted in £10m (2015: £19m) of one-off costs being incurred, including project management, redundancy, property, consultancy, migration and call centre costs.

A total taxation credit of £2m (2015: £3m) has been recognised on these costs.

b) Acquisitions and disposals

During the period ended 30 September 2016, the Group incurred further exceptional costs of £1m in relation to the disposal of the off-net customer base in the prior period.

During the period ended 30 September 2015, the Group recognised net exceptional income of £2m in relation to the prior year acquisitions and disposals of Virgin Media (£3m exceptional income) and the off-net broadband customer base (£1m exceptional charge) respectively.

The tax impact was £nil (2015: £nil)

c) Amortisation of acquisition intangibles

An amortisation charge in respect of acquisition intangibles of £5m was incurred in the period ended 30 September 2016 (2015: £5m). A total taxation credit of £nil (2015: £1m) has been recognised on these costs.

6. Operating profit

Operating profit is stated after charging/(crediting):

	Six months to 30 September 2016 Unaudited £m	Six months to 30 September 2015 Unaudited £m
SAC and marketing costs	**94**	152
Depreciation of property, plant and equipment	**35**	36
Amortisation of other operating intangible fixed assets (note 10)	**30**	23
Amortisation of acquisition intangibles (note 10)	**5**	5
Impairment loss recognised on trade receivables	**36**	35
Staff costs	**66**	66
Cost of inventories recognised in expenses	**26**	42
Rentals under operating leases	**50**	49
Supplier rebates	**—**	(1)
Exceptional items (note 5)	**11**	17

7. Taxation

The taxation charge of £11m (2015: £3m) reflects an effective tax rate of 24% (2015: 20%) on headline profits before taxation of £46m (2015: £14m), representing the best estimate of the average annual effective tax rate expected for the full year, applied to the six month period. The effective rate of tax has increased from the prior year due to a decrease in deferred tax derived from the utilisation of tax losses and a change in tax rates to 17%.

8. Earnings/(loss) per share

Earnings/(loss) per share are shown on a headline and statutory basis to assist understanding of the performance of the Group.

	Six months ended 30 September 2016 Unaudited £m	Six months ended 30 September 2015 Unaudited £m
Headline earnings (note 5)	**35**	11
Statutory earnings/(loss) (note 5)	**21**	(7)
Weighted average number of shares (millions):		
Shares in issue	**955**	955
Less weighted average holdings by Group ESOT	**(8)**	(28)
For basic EPS	**947**	927
Dilutive effect of share options	**12**	15
For diluted EPS	**959**	942

	30 September 2016 Unaudited Pence	30 September 2015 Unaudited Pence
Basic earnings/(loss) per share		
Headline	**3.7**	1.2
Statutory	**2.2**	(0.7)

	30 September 2016 Unaudited Pence	30 September 2015 Unaudited Pence
Diluted earnings/(loss) per share		
Headline	**3.6**	1.2
Statutory	**2.2**	(0.7)

There are no share options considered anti-dilutive in the period ended 30 September 2016 (2015: £nil).

9. Equity dividends

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.

	30 September 2016 Unaudited £m	30 September 2015 Unaudited £m	31 March 2016 Audited £m
Final dividend for the year ended 31 March 2015 of 9.20p per ordinary share	—	85	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**	—	—
Total equity dividends	**100**	85	135

The proposed interim dividend for the year ended 31 March 2017 of 5.29p (year ended 31 March 2016: 5.29p) per ordinary share on 948 million (year ended 31 March 2016: 945 million) ordinary shares (£50m) was approved by the Board on 14 November 2016 and has not been included as a liability as at 30 September 2016.

10. Other intangible assets

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.

Non-operating intangibles

Non-operating 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.

Other intangible assets are analysed as follows:

	Operating intangibles £m	Acquisition intangibles £m	Total other intangibles £m
At 1 April 2016 (Audited)	193	34	227
Additions	45	—	45
Amortisation	(30)	(5)	(35)
At 30 September 2016 (Unaudited)	**208**	**29**	**237**
Cost (gross carrying amount)	503	142	645
Accumulated amortisation	(295)	(113)	(408)
At 30 September 2016 (Unaudited)	**208**	**29**	**237**

	Operating intangibles £m	Acquisition intangibles £m	Total other intangibles £m
At 1 April 2015 (Audited)	136	42	178
Additions	52	—	52
Amortisation	(23)	(5)	(28)
At 30 September 2015 (Unaudited)	165	37	202
Cost (gross carrying amount)	403	140	543
Accumulated amortisation	(238)	(103)	(341)
At 30 September 2015 (Unaudited)	165	37	202

11. Inventories

Inventories are stated at the lower of cost and net realisable value, valued on a first in, first out 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.

	30 September 2016 Unaudited £m	30 September 2015 Unaudited £m	31 March 2016 Audited £m
Goods for resale	**32**	37	57

12. Receivables

Trade and other receivables comprise:

	30 September 2016 Unaudited £m	30 September 2015 Unaudited £m	31 March 2016 Audited £m
Current—trade and other receivables			
Trade receivables	**168**	144	144
Other receivables	**84**	69	84
Prepayments	**46**	38	21
Accrued income	**35**	48	45
Trade and other receivables	**333**	299	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 35 days (2015: 28 days, March 2016: 30 days).

13. Cash and cash equivalents and borrowings

(a) Cash and cash equivalents are as follows:

	30 September 2016 Unaudited £m	30 September 2015 Unaudited £m	31 March 2016 Audited £m
Cash at bank and in hand	**—**	23	10

The effective interest rate on bank deposits and money market funds was 0.1% (September 2015: 0.3%; March 2016: 0.3%).

(b) Borrowings comprise:

	Maturity	30 September 2016 Unaudited £m	30 September 2015 Unaudited £m	31 March 2016 Audited £m
Current				
Bank overdrafts		**15**	—	—
Term loan	2017	**25**	—	25
£100m revolving credit facility	2017	**50**	—	—
Current borrowings		**90**	—	25

	Maturity	30 September 2016 Unaudited £m	30 September 2015 Unaudited £m	31 March 2016 Audited £m
Non-current				
$185m US Private Placement (USPP) Notes	2021, 2024, 2026	**142**	122	129
£560m revolving credit facility	2019	**460**	395	430
£50m bilateral agreements	2019	**50**	50	50
£100m term loan (of which £25m is current)	2018, 2019	**75**	100	75
£75m receivables purchase agreement facility	2018	**63**	—	—
Non-current borrowings before derivatives		**790**	667	684
Total borrowings before derivatives		**880**	667	709
Derivatives		**(33)**	(13)	(20)
Borrowings after derivatives		**847**	654	689

	Maturity	30 September 2016 Unaudited £m	30 September 2015 Unaudited £m	31 March 2016 Audited £m
Undrawn available committed facilities	2017, 2019	**162**	290	255

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

	30 September 2016 Unaudited £m	30 September 2015 Unaudited £m	31 March 2016 Audited £m
Less than 1 year	**90**	—	25
1 to 2 years	**88**	25	25
2 to 3 years	**560**	25	—
3 to 4 years	**—**	495	530
4 to 5 years	**82**	—	—
Greater than 5 years	**27**	109	109
Borrowings after derivatives	**847**	654	689

Borrowing facilities

The Group's committed facilities total £994m (2015: £704m, March 2016: £944m). The Group's uncommitted facilities total £111m (2015: £81m, March 2016: £81m) giving headroom on committed facilities and uncommitted facilities of £162m and £96m respectively. The financial covenants included in each facility are identical; they 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 banking arrangement. The Group was in compliance with its covenants throughout the current and prior periods.

Details of the borrowing facilities of the Group as at 30 September 2016 are set out below:

$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 30 September 2016 was £33m (2015: £13m, March 2016: £20m).

£560m revolving credit facility (RCF) and £50m bilateral agreements

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 £50m of bilateral agreements, signed in July 2014 which matures in July 2019. A second bilateral agreement of £25m signed in August 2015 has since been cancelled. The terms of the bilateral agreement are consistent with the main RCF.

£100m revolving credit facility (RCF)

In January 2016, the Group signed a £100m RCF which matures in November 2017. 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.

£100m term loan

The Group has a committed term loan of £100m (2015: £100m, March 2016: £100m), with a final maturity date of July 2019. This loan amortises over the term with repayments due of £25m in January 2017, £25m in January 2018 and the remainder in July 2019. The interest rate payable in respect of drawings under this facility is at a margin over LIBOR for the relevant currency 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.

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 in exchange for a discounted consideration. The Group continues to consolidate the relevant receivables on the grounds that substantially not all the risks and rewards of ownership have been transferred under the programme.

Uncommitted credit facility

In August 2016, the Group signed a £30m uncommitted credit facility secured against certain receivables.

Bank overdrafts

Overdraft 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.

14. Trade and other payables

	30 September 2016 Unaudited £m	30 September 2015 Unaudited £m	31 March 2016 Audited £m
Trade payables	**237**	246	304
Other taxes and social security costs	**29**	35	28
Other payables	**12**	26	19
Accruals	**137**	186	150
Deferred income	**60**	65	62
	475	558	563

The underlying average credit period taken on trade payables was 40 days (2015: 35 days, March 2016: 40 days). The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

15. Provisions

The tables below analyses the Group's provisions:

	30 September 2016 Unaudited £m	**30 September 2015 Unaudited £m**	**31 March 2016 Audited £m**
Current	**11**	19	18
Non-current	**10**	—	11
	21	19	29

The movement in provisions are as follows:

	One Company integration £m	**Property £m**	**Contract and other £m**	**Total £m**
At 1 April 2016 (Audited)	1	12	16	29
Utilised in the year	**—**	**—**	**(8)**	**(8)**
At 30 September 2016 (Unaudited)	**1**	**12**	**8**	**21**

	One Company integration £m	**Property £m**	**Contract and other £m**	**Total £m**
At 1 April 2015 (Audited)	1	2	32	35
Charged to income statement	—	1	5	6
Released to income statement	—	(1)	—	(1)
Utilised in the year	—	—	(21)	(21)
At 30 September 2015 (Unaudited)	1	2	16	19

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 in April 2017.

Contract and other

Contract and other provisions at 30 September 2016 relate mainly to SIM replacement costs as part of the mobile migration programme provided for in a prior year. The provisions utilised in the period ended 30 September

2016, mainly relate to cash outflows associated with the cyber attack during October 2015. Other provisions remaining are in respect of onerous contracts, contracts with unfavourable terms arising on the acquisition of businesses and anticipated costs of unresolved legal disputes. All such provisions are assessed by reference to the best available information at the balance sheet date.

16. Financial risk management and derivative financial instruments

The book value and fair value of the Group's financial assets, liabilities and derivative financial instruments, excluding the Group's borrowings shown in note 13, are as follows:

	30 September 2016 Unaudited £m	**30 September 2015 Unaudited £m**	**31 March 2016 Audited £m**
Current assets			
Cash and cash equivalents	**—**	23	10
Trade and other receivables[1]	**333**	299	294
Non-current assets			
Non-current investments and investment in joint venture	**9**	10	9
Trade and other receivables	**4**	—	3
Derivative financial instruments[2]	**28**	10	18
Current liabilities			
Trade and other payables	**(415)**	(493)	(501)
Non-current liabilities			
Derivative financial instruments	—	—	(1)
	(41)	(151)	(168)

1 Accrued income has been included within the other receivables so as to give a complete view of the Group's future cash inflows.

2 Derivative financial instruments of £33m (2015: £13m, March 2016: £20m) relates to the USPP notes, foreign currency hedges of (£3m) (2015: (£1m)), March 2016: (£2m) and (£2m) (2015: (£2m), March 2016: £nil) 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 RCF from floating to fixed 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. These hedges have been fully effective from inception. The fair value measurement is classified as Level 2 (2015: Level 2, March 2016: level 2), derived from other observable market data; this means that their fair value is based upon the mark to market valuation at the balance sheet date. Fair value measurement at Level 2 gives consideration to interest rates, yield curves and foreign exchange rates at commonly quoted intervals for relevant currencies. The Group has also assessed the credit risk within its financial instruments. The fair value of these instruments at 30 September 2016 is £28m (2015: £10m, March 2016: £18m). A loss of £2m (2015: gain £2m, March 2016: gain £2m) has been recognised in other comprehensive income in the period ended 30 September 2016. As the hedges were fully effective there has been no income statement impact.

(b) Embedded derivatives

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

(c) Foreign exchange risk

The Group uses spot and forward foreign exchange trading to hedge transactional exposures, which arise mainly through cost of sales and operating expenses and are primarily denominated in Euro and US Dollar. The Group also uses cross-currency swaps to hedge its US Dollar denominated borrowings (US Private Placement). At 30 September 2016, the adjustment to translate our net debt to Sterling at swap rates to reflect the impact of hedging was £33m (2015: £13m, March 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/USD 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	USD £m	Total £m
30 September 2016 (Unaudited)			
Borrowings before derivatives	**738**	**142**	**880**
Derivatives	**—**	**(33)**	**(33)**
Borrowings after derivatives	**738**	**109**	**847**

	UK Sterling £m	USD £m	Total £m
30 September 2015 (Unaudited)			
Borrowings before derivatives	545	122	667
Derivatives	—	(13)	(13)
Borrowings after derivatives	545	109	654

	UK Sterling £m	USD £m	Total £m
31 March 2016 (Audited)			
Borrowings before derivatives	580	129	709
Derivatives	—	(20)	(20)
Borrowings after derivatives	580	109	689

During the period, 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.

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

	30 September 2016 Unaudited £m	30 September 2015 Unaudited £m	31 March 2016 Audited £m
100 basis points movement in the UK Sterling interest rate			
Income statement movement	**6**	4	4

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

During November 2016, the £100m RCF due to expire in May 2017 was extended to November 2017.

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**
30 September 2016 (Unaudited)							
Borrowings	**(135)**	**(106)**	**(575)**	**(6)**	**(111)**	**(40)**	**(973)**
Derivative financial instruments—receivable	**—**	**—**	**—**	**—**	**25**	**8**	**33**
Trade and other payables	**(415)**	**—**	**—**	**—**	**—**	**—**	**(415)**
	(550)	**(106)**	**(575)**	**(6)**	**(86)**	**(32)**	**(1,355)**

	Less than 1 year £m	**1 to 2 years £m**	**2 to 3 years £m**	**3 to 4 years £m**	**4 to 5 years £m**	**More than 5 years £m**	**Total £m**
30 September 2015 (Unaudited)							
Borrowings	(20)	(42)	(42)	(508)	(5)	(131)	(748)
Derivative financial instruments—receivable	—	—	—	—	—	13	13
Trade and other payables	(493)	—	—	—	—	—	(493)
	(513)	(42)	(42)	(508)	(5)	(118)	(1,228)

	Less than 1 year £m	**1 to 2 years £m**	**2 to 3 years £m**	**3 to 4 years £m**	**4 to 5 years £m**	**More than 5 years £m**	**Total £m**
31 March 2016 (Audited)							
Borrowings	(46)	(44)	(18)	(539)	(5)	(135)	(787)
Derivative financial instruments—receivable	—	—	—	—	—	20	20
Trade and other payables	(501)	—	—	—	—	—	(501)
	(547)	(44)	(18)	(539)	(5)	(115)	(1,268)

(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 13, 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 30 September 2016 is 2.8x (2015: 2.8x, March 2016: 2.6x) and the Board expects the ratio will return to its target in the medium term.

	30 September 2016 Unaudited £m	**30 September 2015 Unaudited £m**	**31 March 2016 Audited £m**
Debt	**(880)**	(667)	(709)
Cash and cash equivalents	**—**	23	10
Derivatives	**33**	13	20
Net debt	**(847)**	(631)	(679)
Headline EBITDA	**300**	225	260
Net debt to headline EBITDA ratio (LTM)	**2.8x**	2.8x	2.6x

17. Analysis of changes in net debt

	As at 31 March 2016 Audited £m	**Net cash flow £m**	**Non-cash movements £m**	**As at 30 September 2016 Unaudited £m**
Cash and cash equivalents	10	(10)	—	**—**
Bank overdrafts	—	(15)	—	**(15)**
	10	(25)	—	**(15)**
Borrowings	(709)	(143)	(13)	**(865)**
Derivatives	20	—	13	**33**
	(689)	(143)	—	**(832)**
Total net debt	(679)	(168)	—	**(847)**

18. Commitments

The Group has in the normal course of business entered into various multi-year supply and working capital agreements for core network, IT and customer equipment. As at 30 September 2016, expenditure contracted, but not provided for in these financial statements amounted to £264m (September 2015: £362m; March 2016: £318m). Of this amount, £52m (September 2015: £67m; March 2016: £55m) related to capital commitments and £39m (September 2015: £nil; March 2016: £25m) related to the supply of customer equipment.

19. Related party transactions

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

Key management compensation and transactions with the Group's pension and post-employment schemes for the financial year ended 31 March 2016 are detailed in note 4 (page 74) of the consolidated financial statements for the year ended 31 March 2016. Brent Hoberman resigned as a Non-Executive Director on 20 July 2016 and Catherine Keers was appointed as a Non-Executive Director on 1 August 2016. There have been no changes in the composition of the Executive Committee since the year end. There have been no significant changes in the nature of related party transactions from those described in the consolidated financial statements for the year ended 31 March 2016.

20. Contingent liabilities

As at 31 March 2014, the Group had received £33m in total in relation to an Ofcom determination that BT Group PLC ("BT") had overcharged for certain wholesale Ethernet services. During the year ended 31 March 2015, BT lost its appeal against Ofcom's determination in the Competition Appeal Tribunal and appealed to the Court of Appeal. This appeal is due to be heard in the Court of Appeal in March 2017. The Group considers the appeal is unlikely to succeed based on the advice received and so no liability for repayment has been recorded at the year end, although the outcome of the appeal is not yet certain.

TalkTalk Telecom Group PLC

Consolidated financial statements of the Group as at and for the year ended March 31, 2016[1]

(1) Extracted from TalkTalk Telecom Group PLC Annual Report 2016.

TalkTalk Telecom Group PLC
CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP AS AT AND FOR THE YEAR ENDED MARCH 31, 2016[1]

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(1) Extracted from TalkTalk Telecom Group PLC Annual Report 2016.

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 2016 and of the Group's profit for the year then ended;**
- **the Group 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 Group financial statements, Article 4 of the IAS Regulation.**

The financial statements comprise the Group income statement, the Group statement of comprehensive income, the Group and Parent Company balance sheets, the Group and Parent Company cash flow statements, the Group and Parent Company statements of changes in equity and the related notes. 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.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 1 to the Group 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 Group 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 page 11 to the financial statements and the Directors' statement on the longer-term viability of the Group contained within the corporate governance statement on page 33.

We have nothing material to add or draw attention to in relation to:

- the Directors' confirmation on page 20 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 20-23 that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement on page 11 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 financial statements; and
- the Directors' explanation on page 33 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 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 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.

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.

Risk	How the scope of our audit responded to the risk
Revenue recognition Revenue represents a material balance of £1,835m 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: • the completeness of revenue recorded as a result of the reliance on output of the 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; and • the appropriateness of the allocation of the total transaction value between multiple elements in a bundled transaction. See note 1 to the financial statements for revenue recognition policy.	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 all 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 accounting for over 95% of total Group revenue. We subsequently applied a combination of substantive analytical review procedures and tests of detail to obtain assurance over the validity 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. This included agreeing a sample of items to supporting evidence to determine whether in line with Group policies as well as analytical review to understand the movement's year on year. We have assessed the appropriateness of the revenue recognition policy and also performed substantive testing to assess whether the fair value of elements delivered up front exceeds amounts billable and therefore the unbundling accounting policy has been appropriately applied.
Supplier income As disclosed in note 1 to the financial statements, the Group periodically receives commercial income, bonuses or other rebates from suppliers. As per note 3 the amount received in the current year was £13m. There is a risk that these are incorrectly accounted for or recognised in the wrong accounting period.	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 have challenged management's recognition of the accounting treatment of credits recognised from suppliers including re-calculations of amounts recognised.

Disclosure of exceptional items and the presentation of adjusted measures in the financial statements
The disclosure of exceptional items and their presentation on the face of the income statement remains to be a significant audit risk given the level of management judgement involved. The Group is part way through a number of significant projects (such as 'Making TalkTalk Simpler') which 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 underlying earnings.

The nature of these costs has been defined in note 9 to the financial statements.

In addition to understanding the composition of exceptional items and agreeing a sample of items to supporting documentation, we have 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.

Cyber attack impacts
In October 2015, the Company website was subject to a significant and sustained cyber attack. Immediately following the incident, the Group incurred additional costs, £42m of which management has presented as exceptional (see note 9). We consider there to be significant judgement in determining whether some of these costs meet the Group's definition of exceptional items. Particular areas of focus included the cost of 'goodwill gestures' given to customers, increased call centre costs, utilisation of external security consultants and the consequent impact on other internal projects.

The incident also resulted in increased customer churn, which has impacted Group results for the second half of the year and future cash flows. Key assumptions underpinning future cash flows have been reassessed in light of this to define the impact on headroom against committed facilities.

We have reviewed the incident reports prepared by external consultants and considered the implications for our audit approach, particularly around our reliance on IT controls for material billing systems.

We have challenged management's rationale for the presentation of items within the income statement as exceptional, particularly determining whether costs were incremental to the Group and as a direct result of the cyber attack. This included challenge around areas of higher judgement, including incremental call centre and consumer credit costs and the impact on system implementation delays.

As part of our impairment testing and going concern reviews, we have considered management's forecasts in the light of the cyber attack and have considered the impact of increased customer churn and related costs.

Carrying value of goodwill
As disclosed in note 11 to the financial statements the carrying value of goodwill on the Group balance sheet as at 31 March 2016 is £495m. Management is required to undertake an impairment review annually or, if more frequent, whenever there is an indication that the asset may be impaired. This review incorporates judgements based on assumptions of future cash flows,

We challenged management's assumptions used in the impairment model for goodwill and intangible assets, including the determination of cash generating units, the forecast cash flow projections for each cash generating unit and the discount rates applied. In making this assessment of the cash flow projections we assessed historical forecasting accuracy and compared forecast profit margins to historical margins and benchmarked the discount rate and growth rates employed to available market data. We critically assessed management's position as to whether or not a reasonably possible change to key operating assumptions including assumptions around revenue growth, margins and forecast cash flows, the selection of appropriate discount rates and the assessment of the Group's cash generating units. The assumptions underpinning the forecasts have all been reviewed in light of the recent cyber attack on the Company's website and the impact this could have on future cash flows.

could result in an impairment. In doing so we considered the sensitivity of the asset valuations to these assumptions, in particular changes to the long term growth rate assumed. We assessed whether the forecasts being used for these purposes had been updated for the impacts of the cyber attack. We used our specialist team to determine whether the discount rate used in the calculations was appropriate. We also considered the appropriateness of the related disclosures set out in note 11 to the financial statements.

Recoverability of deferred tax assets
As disclosed in note 7 to the financial statements the Group has significant unused tax losses of £650m 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.

As above, the recent cyber attack on the Company's website has had an impact on future cash flows and profitability which has also required consideration when assessing the recoverability of deferred tax assets against future profits.

We have used our in-house tax specialists to challenge management's approach to the deferred tax recognised in the year including the decision to continue to use a ten 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 which has been updated to include the impact of the cyber attack in the year.

We have considered ongoing correspondence with HMRC and the impact that this has on any judgements and the accounting treatment applied by management.

Last year our report included acquisition accounting as a risk which is not included in our report this year. There were material acquisitions in the prior year giving rise to cumulative goodwill of £11m and other intangibles assets of £43m. The Group has not made any material acquisitions in the current year and therefore this risk is no longer relevant for our audit report.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 35.

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.

We determined materiality for the Group to be £4.8m, which is approximately 5% of adjusted pre-tax profit. Pre-tax profit has been adjusted by removing the effect of exceptional items. This has been used as a base as it is a key performance indicator of the Group and is of particular interest to shareholders. This is a change of approach from 2015, where we used a materiality of £6m which was around 7.3% of adjusted pre-tax profit. The prior year materiality was set by blending revenue and profit metrics. This approach was taken to make allowance for the impact of subscriber acquisition costs related to TV customers which reduced prior year earnings.

We agreed with the Audit Committee that we would report all audit differences in excess of £96,000 (2015: £120,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the 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, 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 represent over 95% (2015: over 95%) of the Group's total assets and revenues. Specific focused audit work was performed over Group functions, including those covering treasury and taxation. Our audit work at each division was executed at levels of materiality which were lower than Group materiality.

At the parent entity level we also tested the consolidation process 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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and

- 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.

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.

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 on page 38, the Directors are responsible for the preparation of the 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 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 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, United Kingdom
12 May 2016

Consolidated income statement
For the year ended 31 March 2016

	Notes	2016 Headline - before amortisation of acquisition intangibles and exceptional items £m	2016 Non-operating amortisation and exceptional items £m	2016 Statutory - after amortisation of acquisition intangibles and exceptional items £m	2015 Headline - before amortisation of acquisition intangibles and exceptional items £m	2015 Non-operating amortisation and exceptional items £m	2015 Statutory - after amortisation of acquisition intangibles and exceptional items £m
Revenue	2	1,838	(3)	1,835	1,795	—	1,795
Cost of sales		(845)	—	(845)	(815)	—	(815)
Gross profit		993	(3)	990	980	—	980
Operating expenses excluding amortisation and depreciation		(733)	(80)	(813)	(735)	(46)	(781)
EBITDA	9	260	(83)	177	245	(46)	199
Depreciation	3, 12	(72)	—	(72)	(78)	(5)	(83)
Amortisation	3, 11	(49)	(10)	(59)	(42)	(12)	(54)
Share of results of joint ventures	14	(8)	—	(8)	(8)	—	(8)
Operating profit	3, 9	131	(93)	38	117	(63)	54
Net finance costs	6	(24)	—	(24)	(22)	—	(22)
Profit before taxation	9	107	(93)	14	95	(63)	32
Taxation	7	(28)	16	(12)	(19)	59	40
Profit for the year attributable to the owners of the Company	9	79	(77)	2	76	(4)	72
Earnings per share							
Basic	10			0.2p			7.8p
Diluted	10			0.2p			7.7p

	2016	2015
Statutory operating profit	38	54
Adjusted for:		
Non-operating amortisation	10	12
Exceptional items	83	51
Headline operating profit	131	117

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

Consolidated statement of comprehensive income
For the year ended 31 March 2016

	Notes	2016 £m	2015 £m
Profit for the year attributable to the owners of the Company		**2**	72
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Gains/(losses) on a hedge of a financial instrument	19	**2**	(5)
Currency translation differences		**1**	(1)
Total other comprehensive income/(expense)		**3**	(6)
Total comprehensive income		**5**	66

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

Consolidated balance sheet
As at 31 March 2016

	Notes	2016 £m	2015 £m
Non-current assets			
Goodwill	11	**495**	490
Other intangible assets	11	**227**	178
Property, plant and equipment	12	**302**	290
Investment in joint venture	14	**9**	10
Trade and other receivables	14	**3**	—
Derivative financial instruments	19	**18**	11
Deferred tax assets	7	**115**	130
		1,169	1,109
Current assets			
Inventories	15	**57**	31
Trade and other receivables	16	**294**	313
Current income tax receivable		**3**	1
Cash and cash equivalents	18	**10**	10
		364	355
Total assets		**1,533**	1,464
Current liabilities			
Trade and other payables	17	**(563)**	(516)
Borrowings	18	**(25)**	—
Provisions	20	**(18)**	(34)
		(606)	(550)
Non-current liabilities			
Borrowings	18	**(684)**	(615)
Derivative financial instruments	19	**(1)**	(1)
Provisions	20	**(11)**	(1)
		(696)	(617)
Total liabilities		**(1,302)**	(1,167)
Net assets		**231**	297
Equity			
Share capital	21	**1**	1
Share premium	22	**684**	684
Translation reserve	22	**(64)**	(65)
Demerger reserve	22	**(513)**	(513)
Retained earnings and other reserves	22	**123**	190
Total equity		**231**	297

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

These financial statements were approved by the Board on 12 May 2016. They were signed on its behalf by:

D Harding
Chief Executive Officer

I Torrens
Chief Financial Officer

Consolidated cash flow statement
For the year ended 31 March 2016

	Notes	2016 £m	2015 £m
Operating activities			
Operating profit	3	**38**	54
Share-based payments	5	**5**	4
Depreciation	3, 12	**72**	83
Amortisation of other operating intangible fixed assets	3, 11	**49**	42
Amortisation of acquisition intangibles	11	**10**	12
Share of losses of joint venture	14	**8**	8
Profit on disposal of property, plant and equipment	3	**—**	(3)
Profit on disposal of subsidiaries and customer bases	13	**—**	(5)
Operating cash flows before movements in working capital		**182**	195
Decrease/(increase) in trade and other receivables		**15**	(44)
Increase in inventory		**(26)**	(7)
Increase in trade and other payables		**17**	26
(Decrease)/increase in provisions		**(6)**	26
Cash generated from operations		**182**	196
Income taxes paid		**—**	(2)
Net cash flows generated from operating activities		**182**	194
Investing activities			
Acquisition of subsidiaries and joint ventures, net of cash acquired	13, 14	**(14)**	(38)
Disposal of subsidiaries and customer bases	13	**2**	—
Investment in intangible assets	11	**(106)**	(49)
Investment in property, plant and equipment		**(72)**	(67)
Disposal of property, plant and equipment		**12**	4
Cash flows used in investing activities		**(178)**	(150)
Financing activities			
Settlement of Group ESOT shares		**2**	2
Net sale of own shares		**61**	—
Drawdown of borrowings	23	**90**	109
Interest paid		**(22)**	(22)
Dividends paid	8	**(135)**	(116)
Cash flows used in financing activities		**(4)**	(27)
Net increase in cash and cash equivalents		**—**	17
Cash and cash equivalents at the start of the year		**10**	(7)
Cash and cash equivalents at the end of the year	18	**10**	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 2016

	Note	Share capital £m	Share premium £m	Translation reserve £m	Demerger reserve £m	Retained earnings and other reserves £m	Total equity £m
At 1 April 2014		1	684	(64)	(513)	239	347
Profit for the year		—	—	—	—	72	72
Other comprehensive income							
Items that may be reclassified to profit or loss:							
Loss on hedge of a financial instrument		—	—	—	—	(5)	(5)
Currency translation differences		—	—	(1)	—	—	(1)
Total other comprehensive expense		—	—	(1)	—	(5)	(6)
Total comprehensive income		—	—	(1)	—	67	66
Transactions with the owners of the Company							
Share-based payments reserve credit	5	—	—	—	—	4	4
Share-based payments reserve debit		—	—	—	—	(3)	(3)
Settlement of Group ESOT		—	—	—	—	2	2
Equity dividends	8	—	—	—	—	(116)	(116)
Taxation of items recognised directly in reserves		—	—	—	—	(3)	(3)
At 31 March 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)**
At 31 March 2016		**1**	**684**	**(64)**	**(513)**	**123**	**231**

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 consolidated 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 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.

Going concern

The financial statements have been prepared on the going concern basis. Details of the considerations undertaken by the Directors in reaching this conclusion are set out on page 11 within the Chief Financial Officer's Statement.

Viability statement

Details of the considerations undertaken by the Directors in reaching their conclusions are set out on page 33 within the Corporate Governance section.

Accounting policies

The Group's principal accounting policies, which relate to the 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.

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 subject to an adjustment for in-contract churn; 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. This is limited to the amounts billed for that element.

Subscriber acquisition costs

Subscriber acquisition costs include both third party costs of recruiting and retaining new customers as well as device costs. Certain subscriber acquisition costs relate to revenue share arrangements with third parties. These are expensed as incurred.

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**	
	2016	**2015**	**2016**	**2015**
Euro	**1.36**	1.29	**1.26**	1.38
United States Dollar	**1.50**	1.61	**1.44**	1.49

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.

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.

Rebates receivable from suppliers

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.

Rebates 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.

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 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 most sensitive estimates and assumptions that are significant to the financial statements are set out in more detail in the related notes:

- going concern and viability statement (pages 11 and 33 respectively);
- rebates receivable from suppliers (note 1);
- revenue recognition for bundled transactions (note 1);
- taxation (note 7);
- exceptional items (note 9);
- impairment of goodwill (note 11);
- valuation of intangibles (note 11); and
- impairment of assets (notes 11 and 12).

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

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

- IFRS 9 'Financial Instruments', impacting both the measurement and disclosure of financial instruments. The effective date of these changes for the Group is 1 April 2018.
- IFRS 15 'Revenue from Contracts with Customers', impacting revenue recognition, related costs and disclosures. The effective date of these changes for the Group is 1 April 2017. An evaluation project has commenced to review and implement this accounting development.
- IFRS 16 'Leases', impacting lease recognition. The effective date of these changes for the Group is 1 April 2019.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been concluded.

2. Segmental reporting

Accounting policy

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.

	2016 £m	**2015 £m**
Headline revenue	**1,838**	1,795
Headline EBITDA	**260**	245
Depreciation	**(72)**	(78)
Amortisation of operating intangibles	**(49)**	(42)
Share of results of joint ventures	**(8)**	(8)
Headline operating profit (note 9)	**131**	117
Amortisation of acquisition intangibles	**(10)**	(6)
Exceptional items—Revenue	**(3)**	—
Exceptional items—Operating expenses excluding amortisation and depreciation	**(80)**	(46)
Exceptional items—Impairment loss[1]	**—**	(11)
Statutory operating profit (note 9)	**38**	54

(1) Includes £6m of non-operating amortisation.

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.

	2016 £m	**2015 £m**
On-net	**1,399**	1,333
Corporate	**384**	375
Off-net	**55**	87
Headline revenue	**1,838**	1,795

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

3. Operating profit

Operating profit is stated after charging/(crediting):

	2016 £m	**2015 £m**
Depreciation of property, plant and equipment	**72**	78
Amortisation of acquisition intangibles (note 9)	**10**	6
Amortisation of other operating intangible fixed assets	**49**	42
Profit on disposal of property, plant and equipment	**—**	(3)
Impairment loss recognised on trade receivables	**71**	62
Staff costs	**139**	122
Cost of inventories recognised in expenses	**72**	115
Rentals under operating leases	**100**	95
Supplier rebates[1]	**(13)**	(33)
Auditor's remuneration[2]	**1**	1
Exceptional items (note 9)	**83**	46
Exceptional items—Impairment loss (note 9)	**—**	11

(1) Included within operating profit for the prior year is a credit of £20m to offset associated increased costs of £25m.

(2) A breakdown of auditor's remuneration is disclosed within the governance section on page 36.

4. Employee costs

The average number of employees (including Executive Directors) was:

	2016 Number	2015 Number
Administration	**1,670**	1,452
Sales and customer management	**620**	655
	2,290	2,107

The aggregate remuneration recognised in respect of these employees in the income statement comprised:

	2016 £m	2015 £m
Wages and salaries	**115**	102
Social security costs	**15**	12
Other pension costs	**4**	4
	134	118
Share-based payments (note 5)	**5**	4
	139	122

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 Directors' Remuneration Report on pages 37 to 55) and the Executive Committee.

	2016 £m	2015 £m
Salaries and fees	**3.8**	3.2
Performance bonuses	**1.8**	1.9
Benefits	**0.1**	0.2
Pension costs	**0.2**	0.2
Share-based payments	**1.4**	1.8
Compensation for loss of office	**—**	0.2
	7.3	7.5

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 £2.92 (2015: £3.00).

Summary of share schemes

Year ended 31 March 2016	**IFRS 2 charge £m**	**Dilutive effect millions**	**Options outstanding at the end of the year 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**

Year ended 31 March 2015	**IFRS 2 charge £m**	**Dilutive effect millions**	**Options outstanding at the end of the year millions**
TalkTalk Telecom Group PLC schemes			
SVP—participation shares	2	3	—
DSOP—2014 grant (FY15)	1	3	8
DSOP—2013 grant (FY14)	—	3	5
DSOP—2012 grant (FY13)	—	4	8
DSOP—2010 grant (FY11)	—	1	2
SAYE	1	1	5
Total TalkTalk Telecom Group PLC schemes	4	15	28

(i) SVP

The SVP is a growth plan and not a share option plan operating under the Value Enhancement Scheme (VES) rules previously approved by shareholders. The SVP 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. 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 to the date of announcement of the Group's FY17 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 to the date of announcement of the Group's FY18 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 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 award using the Monte Carlo method with the total fair value of the participation shares granted totalling £6m.

A summary of the scheme is shown below:

	Participation shares	
SVP—2015 grant	**2016 Number million**	**2015 Number million**
Outstanding at the beginning of the year	**17**	—
Granted during the year	**—**	17
Forfeited during the year	**—**	—
Outstanding at the end of the year	**17**	17
Exercisable at the end of the year	**—**	—

(ii) DSOP

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. The options are measured over a performance period to 31 March 2016 and will vest on the announcement of the Group's FY16 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. Awards are triggered within a range from 5% to 26% for compound annual growth of TSR and EPS. If the minimum performance requirement is met a total of 25% of the award will vest, with incremental thresholds at 40%, 70% and 100%.

The second and final tranche (40%) of the 2012 DSOP grant (in FY13) is exercisable on 12 May 2016. Options are forfeited if an employee leaves the Group before the options vest.

	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 £**
Opening balance at 1 April 2014	—	—	—	—	6	—	10	—	2	1.27
Granted during the year	—	—	8	—	—	—	—	—	—	—
Forfeited during the year	—	—	—	—	(1)	—	(2)	—	—	—
Closing balance at 31 March 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[(1)]	2	—	7	—	4	—	2	—	2	1.27
Number of share options exercisable										
As at 31 March 2015	n/a	n/a	—	—	—	—	—	—	2	—
As at 31 March 2016	—	—	—	—	—	—	—	—	2	1.27

Valuation assumptions

Valuation method	Monte Carlo	Monte Carlo	Monte Carlo	Monte Carlo	Monte Carlo
Share price (p)	309	321	228	122	132
Exercise price (p)	nil	nil	nil	nil	127
Expected volatility	25.0%	25.0%	30.0%	30.0%	37.0%
Expected exercise (60%/40%)	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)	1.67%	1.27% and 1.67%	0.50% and 0.80%	0.60%	3.40%
Expected dividend yield	5.60%	5.60%	4.45%	3.50%	3.80%
Fair value of options granted (£m)	1	4	3	3	9
Weighted average remaining contractual life	9.4 years	8.2 years	7.2 years	5.9 years	4.6 years

(1) 2012 grant exercisable from 12 May 2016.

(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:

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

	2016		2015	
	Number million	**WAEP £**	**Number million**	**WAEP £**
Outstanding at the beginning of the year	**4**	**1.89**	4	1.52
Granted during the year	**2**	**3.07**	2	2.40
Exercised during the year	**(1)**	**1.19**	(1)	1.21
Forfeited during the year	**(1)**	**2.54**	(1)	1.97
Outstanding at the end of the year	**4**	**2.32**	4	1.89
Exercisable at the end of the year	**—**	**—**	—	—

	SAYE—2015 grant
Valuation method	Black Scholes
Share price (p)	386
Exercise price (p)	307
Expected volatility	35.7%
Expected exercise (years)	3.9
Risk free rate	2.09%
Expected dividend yield	3.57%
Fair value of options granted (£m)	2.0
Weighted average remaining contractual life	1.9 years

(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 2016, the impact of the SIP on the Group's results was not material.

6. Net finance costs

Net finance costs are analysed as follows:

	2016 £m	2015 £m
Interest on bank loans and overdrafts	**21**	17
Facility fees and similar charges	**3**	5
	24	22

During the year ended 31 March 2016 and 2015 the impact of finance income was not material.

In FY16, the Group signed two new revolving credit facilities. Arrangement fees of £1m were paid and are amortised over the life of the facilities. In FY15, the Group refinanced its term loan and revolving credit facility with bank debt and US Private Placement Notes and paid £5m in respect of arrangement and legal fees. The fees are being amortised over the expected life of the loan and notes and are included within facility fees and similar charges above. The average interest rate in the year was 3.10% (2015: 3.00%).

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.

Critical judgements 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.

Tax—income statement

The tax charge/(credit) comprises:

	2016 £m	2015 £m
Current tax:		
UK corporation tax	**—**	—
Adjustments in respect of prior years:		
UK corporation tax	**(1)**	—
UK corporation tax—exceptional credit	**—**	(14)
Total current tax credit	**(1)**	(14)
Deferred tax:		
Origination and reversal of timing differences	**7**	—
Origination and reversal of timing differences—exceptional credit	**—**	(29)
Effect of change in tax rate	**6**	1
Adjustments in respect of prior years—deferred tax (credit)/charge	**(3)**	4
Adjustments in respect of prior years—exceptional charge/(credit)	**3**	(2)
Total deferred tax	**13**	(26)
Total tax charge/(credit)	**12**	(40)

The tax charge on Headline earnings for the year ended 31 March 2016 was £28m (2015: £19m), representing an effective tax rate on pre-tax profits of 26% (2015: 20%). The tax charge on statutory earnings for the year ended 31 March 2016 was £12m (2015: credit of £40m). 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% (2015: 21%) to the profit before taxation are as follows:

	2016 £m	2015 £m
Profit before taxation	**14**	32
Tax at 20% (2015: 21%)	**3**	7
Items attracting no tax relief or liability	**1**	1
Effect of change in tax rate	**6**	1
Adjustments in respect of prior years	**(3)**	4
Adjustments in respect of prior years—exceptional charge/(credit)	**3**	(16)
Movement in recognised tax losses during the year	**3**	—
Movement in unrecognised tax losses during the year	**(1)**	(8)
Movement in unrecognised tax losses during the year—exceptional credit	**—**	(29)
Total tax charge/(credit) through income statement	**12**	(40)

Tax—retained earnings and other reserves

Tax on items recognised directly in retained earnings and other reserves is as follows:

	2016 £m	2015 £m
Total tax charge/(credit) through income statement	**12**	(40)
Deferred tax charge recognised directly in retained earnings and other reserves	**3**	3
Total tax charge/(credit) through retained earnings and other reserves	**15**	(37)

The deferred tax charge recognised directly in retained earnings and other reserves for the years ended 31 March 2016 and 31 March 2015 relates to share-based payments.

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 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**

	Share-based payments £m	Timing differences on capitalised costs £m	Tax losses £m	Timing differences on acquisition intangibles £m	Other timing differences £m	Total £m
At 1 April 2014	7	61	39	(1)	1	107
Credit/(charge) to the income statement	2	(7)	30	1	—	26
Charge to reserves	(3)	—	—	—	—	(3)
At 31 March 2015	6	54	69	—	1	130

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 26 October 2015, a reduction in the UK statutory rate of taxation was substantively enacted, bringing the tax rate down from 20% to 19% with effect from 1 April 2017 and from 19% to 18% from 1 April 2020.

Accordingly, the tax assets and liabilities recognised at 31 March 2016 take account of these changes. This has resulted in a tax charge of £9m to the income statement as the value of the Group's tax assets has been reduced, of which £3m relates to the prior year exceptional items (note 9).

During the prior year, the Company reviewed the period over which it recognises assets in respect of brought forward tax losses and revised this from five years to ten years due to the increased stability of the TV proposition. The incremental movement of £29m was recognised through exceptional items.

At 31 March 2016, the Group had unused tax losses of £650m (2015: £674m) available for offset against future taxable profits. A deferred tax asset of £56m (2015: £69m) has been recognised in respect of £299m (2015: £347m) of such losses, based on expectations of recovery in the foreseeable future.

No deferred tax asset has been recognised in respect of the remaining £351m (2015: £327m) 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:

	2016 £m	**2015 £m**
Ordinary dividends		
Final dividend for the year ended 31 March 2014 of 8.00p per ordinary share	**—**	74
Interim dividend for the year ended 31 March 2015 of 4.60p per ordinary share	**—**	42
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**	—
Total ordinary dividends(1)	**135**	116

(1) Deducted from Company reserves. See Company statement of changes in equity on page 105.

The proposed final dividend for the year ended 31 March 2016 of 10.58p (2015: 9.20p) per ordinary share on approximately 946 million (2015: 922 million) ordinary shares (approximately £100m) was approved by the Board on 12 May 2016 and will be recommended to shareholders at the AGM on 20 July 2016. The dividend has not been included as a liability as at 31 March 2016.

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

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 2016	EBITDA £m	Operating profit £m	Profit before taxation £m	Taxation £m	Profit for the year £m
Headline results	**260**	**131**	**107**	**(28)**	**79**
Exceptional items—Revenue—cyber attack(a)	**(3)**	**(3)**	**(3)**	**1**	**(2)**
Exceptional items—Operating expenses—cyber attack(b)	**(39)**	**(39)**	**(39)**	**8**	**(31)**
Exceptional items—Operating efficiencies(c)	**(41)**	**(41)**	**(41)**	**8**	**(33)**
Exceptional items—Acquisitions and disposal(d)	**—**	**—**	**—**	**—**	**—**
Exceptional items—Taxation(e)	**—**	**—**	**—**	**(3)**	**(3)**
Amortisation of acquisition intangibles(f)	**—**	**(10)**	**(10)**	**2**	**(8)**
Statutory results	**177**	**38**	**14**	**(12)**	**2**

Year ended 31 March 2015	EBITDA £m	Operating profit £m	Profit before taxation £m	Taxation £m	Profit for the year £m
Headline results	245	117	95	(19)	76
Exceptional items—Revenue—other(a)	—	—	—	—	—
Exceptional items—Operating efficiencies(c)	(29)	(29)	(29)	7	(22)
Exceptional items—Acquisitions and disposal(d)	(9)	(9)	(9)	2	(7)
Exceptional items—Mobile migration	(8)	(8)	(8)	2	(6)
Exceptional items—Impairment loss[1]	—	(11)	(11)	2	(6)
Amortisation of acquisition intangibles(f)	—	(6)	(6)	1	(5)
Exceptional items—Taxation(e)	—	—	—	45	45
Statutory results	199	54	32	40	72

(1) Includes £6m of non-operating amortisation.

a) Revenue

Cyber attack

On 21 October 2015, there was a significant and sustained cyber attack on the TalkTalk website. Following this attack the Group has issued an increased number of credits to retain its customers. The costs of these credits are recognised against revenue and amount to £3m (2015: n/a).

A total taxation credit of £1m has been recognised on these costs in the year ended 31 March 2016 (2015: n/a).

Other

In the prior year statutory results were two items relating to ongoing commercial discussions; the treatment of prompt payment discounts and historical termination charge settlements with other Mobile Network Operators. The net impact of these two items was not material.

b) Cyber attack

The Group has incurred costs in the year ended 31 March 2016 of £39m (2015: n/a). These costs include 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 credit of £8m (2015: n/a) has been recognised in relation to these items in the year ended 31 March 2016.

c) Operating efficiencies—Making TalkTalk Simpler (MTTS)

During the year ended 31 March 2016, the Group continued 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; the review of the organisational structure of the business and the sites where the Group operates.

These programmes have resulted in £41m (2015: £29m) of costs including project management, redundancy, property, consultancy, migration and call centre costs.

A total taxation credit of £8m has been recognised on these costs in the year ended 31 March 2016 (2015: £7m).

d) Acquisitions and disposal

In the prior year, the Group acquired broadband and voice customer bases from both Virgin Media Limited ('Virgin Media') and Tesco Stores Limited ('Tesco'). The Group has recognised an exceptional credit of £2m in the year ended 31 March 2016 in relation to the acquisition of Virgin Media, following the reassessment of the value of contingent consideration recognised for this acquisition.

During the year ended 31 March 2015, exceptional charges of £4m were recognised in relation to the migration of Virgin Media and Tesco customers onto the Group's network and integration costs including redundancy. Further to this, the Group also provided for £10m of costs in respect of committed future programmes predominantly in respect of migration, reorganisation and related costs.

A total taxation charge of £nil (2015: £2m) has been recognised in relation to these items in the year ended 31 March 2016.

Also in the prior year, the Group disposed of its Off-net broadband customer base to Fleur Telecom Limited. Following a delay in the migration of these customers, the Group has recognised an exceptional charge of £2m (2015: exceptional credit of £5m).

e) Taxation items

The Group has 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. In the prior year, the time period over which VNL losses were recognised was increased from five to ten years which resulted in the recognition of an additional tranche of losses. This movement was treated as an exceptional item and, as such, the reduction in the tax rate relating to these losses has also been treated as exceptional in 2016.

f) Amortisation of acquisition intangibles

An amortisation charge in respect of acquisition intangibles of £10m was incurred in the year ended 31 March 2016 (2015: £6m).

A total taxation credit of £2m has been recognised in the year ended 31 March 2016 (2015: £1m).

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.

	2016 £m	**2015 £m**
Headline earnings (note 9)	**79**	76
Statutory earnings	**2**	72
Weighted average number of shares (millions):		
Shares in issue	**955**	955
Less weighted average holdings by Group ESOT	**(19)**	(33)
For basic EPS	**936**	922
Dilutive effect of share options (note 5)	**11**	15
For diluted EPS	**947**	937

	2016 Pence	2015 Pence
Basic earnings per ordinary share		
Headline	**8.4**	8.2
Statutory	**0.2**	7.8

	2016 Pence	2015 Pence
Diluted earnings per ordinary share		
Headline	**8.3**	8.1
Statutory	**0.2**	7.7

There are no share options considered anti-dilutive in the year ended 31 March 2016 (2015: 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.

Critical judgements in applying the Group's accounting policy

The Group has two cash generating units (CGU)—TalkTalk Consumer and TalkTalk Business. 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. 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.

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 Board approved five 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.

Sensitivity analysis is performed using reasonably possible changes in the key assumptions.

	2016 £m	2015 £m
Opening cost and net book value	**490**	479
Acquisitions (note 13)	**5**	11
Closing cost and net book value	**495**	490

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:

	2016 £m	**2015 £m**
TalkTalk Consumer	**347**	348
TalkTalk Business	**148**	142
	495	490

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% (2015: 2.2%).

- **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 10.2% (2015: 9.0%). 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 is based on senior management expectations of future required support of the network and current run rate of expenditure, typically at 6% 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, adjusted for the impact of the cyber attack in the year 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.

Critical judgements in applying the Group's accounting policy

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.

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	**Acquisition intangibles £m**	**Total other intangibles £m**
Opening balance at 1 April 2015	**136**	**42**	**178**
Additions	**106**	**—**	**106**
Finalisation of provisional acquisition intangible (note 13)	**—**	**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 £m	Acquisition intangibles £m	Total other intangibles £m
Opening balance at 1 April 2014	135	6	141
Additions	49	—	49
Acquisition of subsidiary business combination	—	42	42
Amortisation	(42)	(6)	(48)
Exceptional items—Impairment loss	(6)	—	(6)
Closing balance at 31 March 2015	136	42	178
Cost (gross carrying amount)	352	140	492
Accumulated amortisation	(216)	(98)	(314)
Closing balance at 31 March 2015	136	42	178

Operating intangibles

Operating intangibles includes internally generated assets with a net book value of £88m (2015: £59m), which are amortised over a period of up to eight years. This includes additions of £43m (2015: £31m) and an amortisation charge of £14m (2015: £10m) in the year ended 31 March 2016.

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 £47m (2015: £66m). 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 (2015: three years).

Acquisition intangibles

Acquisition intangibles relate largely to the broadband customer bases acquired from Virgin Media and Tesco in the prior year; these customer bases are valued from the discounted future cash flows expected from them, after a deduction for contributory assets. The remainder of acquisition intangibles relates to the website acquired as part of the blinkbox transaction also in the prior year.

At 31 March 2016, the net book value of the acquired broadband bases are material to the Group; with the Virgin Media base valued at £16m (2015: £22m) and the Tesco base valued at £15m (2015: £16m), with remaining useful economic lives of 46 months (2015: 58 months) and 47 months (2015: 59 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.

	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**

	Leasehold improvements £m	Network equipment and computer hardware £m	Fixtures and fittings £m	Total £m
Opening balance at 1 April 2014	5	300	—	305
Additions	—	67	—	67
Acquisition of subsidiary	—	—	2	2
Depreciation	(5)	(73)	—	(78)
Impairment loss	—	(5)	—	(5)
Disposals	—	(1)	—	(1)
Closing balance at 31 March 2015	—	288	2	290
Cost (gross carrying amount)	6	737	2	745
Accumulated depreciation and impairment charges	(6)	(449)	—	(455)
Closing balance at 31 March 2015	—	288	2	290

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 2016 related to a 7.3% (2015: 7.3%) interest in Shared Band Limited, a telecommunications technology provider. The cost of the investment is not material.

(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	Principal activity	Percentage of shareholding
TalkTalk Telecom Holdings Limited[(1)]	England & Wales	Holding company	100
Beheer-en Beleggingsmaatschappij Antika BV	Netherlands	Non-trading	100
Wireless Internet Portfolio BV	Netherlands	Non-trading	100
TalkTalk Brands Limited	England & Wales	Telecommunications	100
TalkTalk Group Ltd	England & Wales	Holding company	100
CPW Broadband Services (UK) Ltd	England & Wales	Telecommunications	100
Future Office Communications Limited	England & Wales	Telecommunications	100
TalkTalk Broadband Services (Ireland) Limited	Ireland	Non-trading	100
TalkTalk Business (2CCH) Limited	England & Wales	Telecommunications	100
TalkTalk Communications Limited	England & Wales	Telecommunications	100
CPW Network Services Limited	England & Wales	Telecommunications	100
TalkTalk Corporate Limited	England & Wales	Holding company	100
Core Telecommunications Limited	England & Wales	Non-trading	100
CPW UK Group Limited	England & Wales	Dormant	100
TalkTalk RB Limited (formerly Ratebuster Ltd)	England & Wales	Dormant	100
TalkTalk Technology Limited	England & Wales	Dormant	100
Telequip Limited	England & Wales	In liquidation	100
Telco Global Limited	England & Wales	Dormant	100
Vartec Telecom Europe Limited	England & Wales	Dormant	100
Video Networks Limited	England & Wales	Dormant	100
Wavetech Limited	England & Wales	In liquidation	100
World Online Telecom Limited	England & Wales	Dormant	100
GIS Telecoms Limited	England & Wales	Dormant	100
TalkTalk Direct Limited	England & Wales	Dormant	100
Opal Connect Limited	England & Wales	Dormant	100
Opal Business Solutions Limited	England & Wales	Dormant	100
UK Telco (GB) Limited	England & Wales	Dormant	100
TalkTalk UK Communications Services Limited	England & Wales	Dormant	100
Onetel Telecommunications Limited	England & Wales	Dormant	100
V Networks Limited	England & Wales	Dormant	100
Green Dot Property Management Limited	England & Wales	Non-trading	100
Executel Ltd	England & Wales	Dormant	100
Greystone Telecom Limited	England & Wales	Dormant	100
Pipex Internet Limited	England & Wales	Dormant	100
Pipex Communications Services Limited	England & Wales	Dormant	100
Pipex UK Limited	England & Wales	Dormant	100
TalkTalk Telecom Limited	England & Wales	Telecommunications	100
Telco Holdings Limited	England & Wales	Telecommunications	100
Telco Global Distribution Limited	England & Wales	Dormant	100
Tele2 Telecommunication Services Limited	Ireland	Non-trading	100
Tiscali UK Limited	England & Wales	Telecommunications	100
Toucan Residential Ireland Limited	Ireland	Non-trading	100
TalkTalk TV Entertainment Limited (formerly blinkbox)	England & Wales	Telecommunications	100
tIPicall Limited	England & Wales	Telecommunications	100

(1) Directly held subsidiary.

Joint venture undertakings	Country of incorporation or registration	Principal activity	Percentage of shareholding
YouView TV Limited	England & Wales	Telecommunications	14.3
Bolt Pro Tem Limited	England & Wales	Telecommunications	33.3
Internet Matters Limited	England & Wales	Telecommunications	25.0

(b) Acquisitions and disposals

(i) Acquisitions

Movements in goodwill on acquisitions are analysed as follows:

	2016 £m	2015 £m
Acquisitions during the year ended 31 March 2016:		
tIPicall Limited:		
Provisional goodwill	**6**	—
	6	—
Acquisitions during the year ended 31 March 2015:		
Virgin Media—broadband and voice customer base	**—**	3
Tesco—broadband and voice customer base	**(1)**	3
TalkTalk TV Entertainment Limited (formerly blinkbox)	**—**	5
	5	11

The Group has 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 provisional 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).

The total impact on the Group for the year ended 31 March 2016 in relation to revenue and profit before taxation amounted to £2m and £nil respectively.

The Group made the following acquisitions during the year ended 31 March 2015:

Virgin Media broadband customer base acquisition

On 27 October 2014, the Group acquired the Virgin Media broadband service business from Virgin Media, which comprises broadband customers (MPF, SMPF and IP Stream). The acquisition is complementary to the Group's existing business model. The legal title of asset was transferred as the customers migrated to the Group's network, which substantially took place in the period from December 2014 to March 2015. As this is an acquisition of customer base, nil voting shares were acquired. Provisional goodwill of £3m was recognised, the goodwill represents the future economic benefit arising from the aligning of customers' existing products with the Group's products and its fit with existing operations. Goodwill has been allocated to the Consumer CGU.

In 2016, the fair value of the contingent consideration payable in relation to the Virgin Media customer base acquisition in the prior year was reassessed. A reduction in contingent consideration payable of £2m was required due to post-acquisition events and circumstances and therefore recognised as exceptional income (note 9).

Tesco broadband and voice customer base acquisition

On 7 January 2015, the Group acquired the Tesco broadband service business from Tesco which comprises broadband (MPF, SMPF and IP Stream) and voice customers. The acquisition is complementary to the Group's existing business model. The legal title of asset was transferred on 1 March 2015. As this is an acquisition of customer base, nil voting shares were acquired. Provisional goodwill of £3m was recognised, the goodwill represents the future economic benefit arising from aligning the customers' existing products with the Group's products and its fit with existing operations. Goodwill has been allocated to the Consumer CGU.

In 2016, the fair value of the contingent consideration payable in relation to the Tesco customer base acquisition in the prior year was reassessed. A reduction in contingent consideration payable of £3m was required due to pre-acquisition events and circumstances. An increase in the acquisition intangible of £2m and an increase in the provision for unfavourable contracts of £4m was also required due to pre-acquisition events and circumstances. All these movements were taken to goodwill in line with IFRS 3.

TalkTalk TV Entertainment Limited (formerly blinkbox) acquisition

On 7 January 2015, the Group acquired 100% of the issued and voting share capital of TalkTalk TV Entertainment Limited (formerly blinkbox) from Tesco Holdings Limited. The acquisition is complementary to the Group's existing business model. TalkTalk TV Entertainment Limited (formerly blinkbox) provides movies and TV series online for customers to stream or download on demand.

Summary of final financial impacts of prior year acquisitions

The net assets recognised in the prior year were based on a provisional assessment of their fair values. During 2016, the fair values have been reassessed and no adjustments have been identified for the acquisition of Virgin Media and TalkTalk TV Entertainment Limited (formerly blinkbox). The reassessment of the provisional fair values in relation to the acquisition of Tesco is summarised below:

Tesco broadband and voice customer base	Provisional fair values £m	Reassessed fair values £m	Hindsight adjustment £m
Consideration	**18**	**15**	**(3)**
Total consideration—cash	14	8	(6)
Total consideration—deferred	4	7	3
Net assets acquired	**15**	**13**	**(2)**
Customer base	17	19	2
Provision for unfavourable contract	(2)	(6)	(4)
Goodwill	**3**	**2**	**(1)**

(ii) Disposals

In the prior year, the Group agreed to dispose of its existing Off-net broadband customer base to Fleur Telecom Limited (Fleur), a member of Daisy Communications Group, for a contingent consideration of £8m, generating a profit on disposal of £5m. The expected cost to sell of £3m was included within the Group's trade and other payables. The consideration is contingent on the performance of this customer base in the period of 24 months following the network migration completion date.

In the current year, due to a delay in the migration of customers to Fleur, the contingent consideration receivable and expected costs to sell were reassessed. This resulted in a net exceptional charge of £2m (note 9). As at 31 March 2016, there is contingent consideration receivable of £1m included within current assets. There are no further expected costs to sell as at 31 March 2016.

The customer base was derecognised from the balance sheet at the completion date of 31 March 2015.

(iii) Asset held for sale

In the prior year, the Group agreed to sell the acquired Off-net broadband base from Virgin Media and Tesco to Fleur.

During the year, the Group finalised the disposal of the Off-net broadband base that it had acquired from Virgin Media to Fleur. The asset held for sale was held at fair value giving rise to no profit/(loss) on disposal. In addition, the asset held for sale for the acquired Off-net broadband base from Virgin Media is not material.

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% (2015: 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 the 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 2016 was £8m (2015: £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 2016, the Group recognised a £7m share of losses (2015: £8m).

The Group has reviewed the carrying value of YouView and has concluded that there is no indication of impairment.

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. The Group has committed to contributing £5m over the three year period to 31 March 2017. During the year ended 31 March 2016, the Group contributed £1m (2015: £3m) to the joint venture and received £nil share of losses (2015: £nil).

During the 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 has therefore been reclassified on the balance sheet as a non-current trade and other receivable.

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. The Group is committed to contributing £2m over the remaining two year period to 31 March 2017.

Interest in joint ventures are analysed as follows:

	2016 £m	2015 £m
Opening balance at 1 April	**10**	7
Additions	**10**	11
Share of results	**(8)**	(8)
Reclassification to non-current assets—trade and other receivables	**(3)**	—
Closing balance at 31 March	**9**	10

The Group's share of the results, assets and liabilities of its joint ventures are as follows:

Group share of results of joint ventures	2016 £m	2015 £m
Expenses	**(8)**	(8)
Loss before taxation	**(8)**	(8)
Taxation	**—**	—
Loss after taxation	**(8)**	(8)

Group share of net assets of joint ventures	2016 £m	2015 £m
Non-current assets	**9**	10
Net assets	**9**	10

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.

	2016 £m	2015 £m
Goods for resale	**57**	31

16. Trade and other receivables

Critical judgements in applying the Group's accounting policy

Judgement is required in order to evaluate the likelihood of collection of customer debt after revenue has been recognised and hence the value of the bad and doubtful debt. These provisions are based on historical trends in the percentage of debts which are not recovered.

Trade and other receivables comprise:

	2016 £m	2015 £m
Current—trade and other receivables		
Trade receivables—gross	**174**	178
Less provision for impairment	**(30)**	(25)
Trade receivables—net	**144**	153
Other receivables	**84**	79
Prepayments	**21**	29
Accrued income	**45**	51
Assets held for sale	**—**	1
Trade and other receivables	**294**	313

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 29 days (2015: 30 days).

The Group's trade receivables are denominated in the following currencies:

	2016 £m	2015 £m
UK Sterling	**163**	166
Other	**11**	12
	174	178

The ageing of gross trade receivables is as follows:

	2016 £m	2015 £m
Not yet due	**65**	95
0 to 2 months	**28**	20
2 to 4 months	**21**	19
Over 4 months	**60**	44
	174	178

The ageing of the provision for impairment of trade receivables is as follows:

	2016 £m	2015 £m
Not yet due	**(1)**	(1)
0 to 2 months	**(1)**	(1)
2 to 4 months	**—**	—
Over 4 months	**(28)**	(23)
	(30)	(25)

Movements in the provisions for impairment of trade receivables are as follows:

	2016 £m	2015 £m
Opening balance	**(25)**	(34)
Charged to the income statement	**(71)**	(62)
Receivables written off as irrecoverable	**66**	71
	(30)	(25)

Trade receivables of £80m (2015: £59m) 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:

	2016 £m	2015 £m
0 to 2 months	**27**	19
2 to 4 months	**21**	19
Over 4 months	**32**	21
	80	59

17. Trade and other payables

	2016 £m	2015 £m
Trade payables	**304**	218
Other taxes and social security costs	**28**	35
Other payables	**19**	22
Accruals	**150**	176
Deferred income	**62**	65
	563	516

The Group has commercially agreed longer credit terms with certain suppliers. Excluding these suppliers, the underlying average credit period taken on trade payables was 40 days (2015: 33 days). Including these suppliers, the average credit period taken was 56 days (2015: 43 days). Included in trade payables are capital payables amounting to £55m (2015: £33m).

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:

	2016 £m	2015 £m
Cash at bank and in hand	**10**	10

The effective interest rate on bank deposits and money market funds was 0.3% (2015: 0.6%).

(b) Borrowings comprise:

	Maturity	2016 £m	2015 £m
Current (£100m term loan)	2017	**25**	—

	Maturity	2016 £m	2015 £m
Non-current			
$185m US Private Placement (USPP) Notes	2021, 2024, 2026	**129**	125
£560m revolving credit facility	2019	**430**	340
£100m bilateral agreements	2019	**50**	50
£100m term loan (of which £25m is current)	2018, 2019	**75**	100
£100m revolving credit facility	2017	**—**	—
Non-current borrowings before derivatives		**684**	615
Total borrowings before derivatives		**709**	615
Derivatives		**(20)**	(16)
Borrowings after derivatives		**689**	599

	Maturity	2016 £m	2015 £m
Undrawn available committed facilities	2017, 2019	**255**	220

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

	2016 £m	2015 £m
Less than 1 year	**25**	—
1 to 2 years	**25**	25
2 to 3 years	**—**	25
3 to 4 years	**530**	—
4 to 5 years	**—**	440
Greater than 5 years	**109**	109
Borrowings after derivatives	**689**	599

Borrowing facilities

The Group's committed facilities increased by £125m in the year to £944m (2015: £819m) as a result of signing two new facilities in the year.

The financial covenants included in all facilities are identical; they restrict the ratio of net debt to EBITDA and require minimum levels of interest cover.

The Group was in compliance with its covenants throughout the current and prior year.

Details of the borrowing facilities of the Group as at 31 March 2016 are set out below:

$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 interest swaps.

£560m revolving credit facility (RCF) and £100m bilateral agreements

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 Headline EBITDA calculated in respect of the most recent accounting period. In addition to the RCF, the Group also has two £50m bilateral agreements, signed in July 2014 and August 2015 and both mature in July 2019. Of the £50m bilateral agreement that was signed in August 2015, £25m has subsequently been cancelled. The terms of the bilateral agreements are consistent with the main RCF.

£100m term loan

The Group has a committed term loan of £100m (2015: £100m), with a final maturity date of July 2019. This loan amortises over the term with repayments due of £25m in January 2017, £25m in January 2018 and the remainder in July 2019. The interest rate payable in respect of drawings under this facility is at a margin over LIBOR for the relevant currency and for the appropriate period. The actual margin applicable to any drawing depends on the ratio of net debt to Headline EBITDA calculated in respect of the most recent accounting period.

£100m revolving credit facility (RCF)

In January 2016 the Group signed a £100m RCF which matures in May 2017. 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.

Bank overdrafts

Overdraft 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.

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, excluding the Group's borrowings shown in note 18, are as follows:

	2016 £m	2015 £m
Current assets		
Cash and cash equivalents	**10**	10
Trade and other receivables(1)	**294**	313
Non-current assets		
Non-current investments and investment in joint venture	**9**	10
Trade and other receivables	**3**	—
Derivative financial instruments(2)	**18**	11
Current liabilities		
Trade and other payables(3)	**(563)**	(516)
Non-current liabilities		
Derivative financial instruments	**(1)**	(1)
	(230)	(173)

(1) Accrued income has been included within the other receivables so as to give completeness over the Group's future cash inflows.

(2) Derivative financial instrument on the USPP Notes, consists of £20m (2015: £16m) foreign currency hedge and (£2m) (2015: (£5m)) in relation to interest rate hedge.

(3) Deferred income has been included within the financial liabilities so as to give completeness over the Group's contractual commitments on future cash outflows.

(a) Financial instruments

The Group's activities expose it to a variety of financial risks including market risk (such as currency risk and interest rate risk), credit risk and liquidity risk. The Group Treasury function uses certain financial instruments to mitigate potential adverse effects on the Group's financial performance from these risks. These financial instruments primarily consist of bank loans and interest rate swaps. Other products, such as currency options, can also be used depending on the risks to be covered, but have not been used in the current or preceding financial year. The Group does not trade or speculate in any financial instruments.

The Group has cash flow hedges in place to (a) swap the interest rate risk on the RCF from floating to fixed 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. These hedges have been fully effective from inception. The fair value measurement is classified as Level 2 (2015: 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 2016 was £17m (2015: £10m). A gain of £2m (2015: loss of £5m) has been recognised in other comprehensive income in the year ended 31 March 2016. As the hedges were fully effective there has been no income statement impact.

(b) Embedded derivatives

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

(c) Foreign exchange risk

The Group uses spot and forward foreign exchange trading to hedge transactional exposures, which arise mainly through cost of sales and operating expenses, and are primarily denominated in Euro and US Dollar. The Group also uses cross-currency swaps to hedge its US Dollar denominated borrowings (US Private Placement). At 31 March 2016 the adjustment to translate our net debt to Sterling at swap rates to reflect the impact of hedging was £20m (2015: £16m).

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 was no material impact of a 10% movement in the UK Sterling/Euro 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	Euro £m	USD £m	Total £m
2016				
Borrowings before derivatives	**580**	**—**	**129**	**709**
Derivatives	**—**	**—**	**(20)**	**(20)**
Borrowings after derivatives	**580**	**—**	**109**	**689**

	UK Sterling £m	Euro £m	USD £m	Total £m
2015				
Borrowings before derivatives	490	—	125	615
Derivatives	—	—	(16)	(16)
Borrowings after derivatives	490	—	109	599

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.

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.

	2016 £m	2015 £m
100 basis points movement in the UK Sterling interest rate		
Income statement movement	**4**	3

(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. Headroom is assessed based on historical experience as well as by assessing current business risks, including foreign exchange movements. Existing bank debt facilities do not expire until May 2017 and July 2019, USPP debt matures in three tranches in July 2021, 2024 and 2026; it is Group policy to refinance debt maturities significantly ahead of maturity dates.

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
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)**

	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
2015(1)							
Borrowings	(17)	(41)	(40)	(15)	(448)	(136)	(697)
Derivative financial instruments—receivable	—	—	—	—	—	16	16
Trade and other payables	(516)	—	—	—	—	—	(516)
	(533)	(41)	(40)	(15)	(448)	(120)	(1,197)

(1) The 2015 comparatives have been re-presented to include interest cash flows.

(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 Group's objective is to maintain diversified sources of funding, including committed and uncommitted bank facilities, private and public bonds and working capital solutions.

The capital structure of the Group currently consists of debt, which includes the borrowings disclosed in note 18, cash and cash equivalents, operating leases and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 21 to 22.

The Group's Board reviews the capital structure on an annual basis. As part of this review, the Board concluded that it is more appropriate to align its measures with the external metrics in the banking agreement. The Group uses the ratio of net debt to Headline EBITDA and has a medium term ratio target below 2.0x. The ratio at 31 March 2016 is 2.6x post the cyber attack. As the business returns to normal, 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:

	2016 £m	2015 £m
Debt	**(709)**	(615)
Cash and cash equivalents	**10**	10
Derivatives	**20**	16
Net debt	**(679)**	(589)
Headline EBITDA	**260**	245
Net debt to Headline EBITDA ratio	**2.6x**	2.4x

20. Provisions

The tables below analyses the Group's provisions:

	2016 £m	2015 £m
Current	**18**	34
Non-current	**11**	1
	29	35

	Operating efficiencies —MTTS £m	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)**
	—	**1**	**12**	**16**	**29**

	Operating efficiencies —MTTS £m	One Company integration £m	Property £m	Contract and other £m	Total £m
2015					
Opening balance	1	1	7	—	9
Charged to income statement	—	—	—	32	32
Released to income statement	—	—	(2)	—	(2)
Utilised in the year	(1)	—	(3)	—	(4)
Closing balance	—	1	2	32	35

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 in April 2017.

Contract and other

Contract and other provisions relate mainly to customer migration costs as a result of the customer base acquisitions in the current year and the SIM replacement costs as part of the mobile migration programme provided for in the prior year. The remaining are provisions on onerous contracts and contracts with unfavourable terms arising on the acquisition of businesses and anticipated costs of unresolved legal disputes. All such provisions are assessed by reference to the best available information at the balance sheet date.

21. Share capital

	2016 million	2015 million	2016 £m	2015 £m
Allotted, called up and fully paid				
Ordinary shares of 0.1p each	**955**	955	**1**	1

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 nine million shares at 31 March 2016 (2015: 33 million) in the Company for the benefit of employees. During the 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 £22m (2015: £112m).

23. Analysis of changes in net debt

	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)**

	Opening £m	Net cash flow £m	Non-cash movements £m	Closing £m
2015				
Cash and cash equivalents	—	10	—	10
Bank overdrafts	(7)	7	—	—
	(7)	17	—	10
Borrowings	(490)	(109)	(16)	(615)
Derivatives	—	—	16	16
	(490)	(109)	—	(599)
Total net debt	(497)	(92)	—	(589)

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.

The Group had outstanding commitments for future minimum payments due as follows:

	2016			2015		
	Property	Network equipment	Total £m	Property	Network equipment	Total £m
Less than 1 year	**11**	**33**	**44**	10	27	37
2 to 5 years	**37**	**27**	**64**	31	34	65
Greater than 5 years	**55**	**12**	**67**	40	18	58
	103	**72**	**175**	81	79	160

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 the 31 March 2016, expenditure contracted, but not provided for in these financial statements amounted to £318m (2015: £450m). Of this amount, £55m (2015: £85m) related to capital commitments and £25m (2015: £nil) 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 37 to 55. The remuneration of all key management personnel is disclosed in note 4.

27. Contingent liabilities

As at 31 March 2014, the Group had received £33m in total in relation to an Ofcom determination that BT had overcharged for certain wholesale Ethernet services. During the year ended 31 March 2015, BT lost its appeal against Ofcom's determination in the Competition Appeal Tribunal and appealed to the Court of Appeal. This appeal is due to be heard in the Court of Appeal in March 2017. The Group considers the appeal is unlikely to succeed based on the advice received and so no liability for repayment has been recorded at the year end, although the outcome of the appeal is not yet certain.

TalkTalk Telecom Group PLC

Consolidated financial statements of the Group as at and for the year ended March 31, 2015[1]

(1) Extracted from TalkTalk Telecom Group PLC Annual Report 2015.

TalkTalk Telecom Group PLC
CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP AS AT AND FOR THE YEAR ENDED MARCH 31, 2015[1]

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(1) Extracted from TalkTalk Telecom Group PLC Annual Report 2015.

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 2015 and of the Group's profit for the year then ended;
- the Group 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 United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Group income statement, the Group statement of comprehensive income, the Group and Parent Company balance sheets, the Group cash flow statement, the Group statement of changes in equity, the Parent Company reconciliation of movements in shareholders' funds and the related notes 1 to 28. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 1 to the Group 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 Group financial statements comply with IFRSs as issued by the IASB.

Going concern

As required by the Listing Rules we have reviewed the Directors' statement contained within the Chief Financial Officer's Statement that the Group is a going concern. We confirm that:

- we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

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.

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.

Risk	**How the scope of our audit responded to the risk**
Revenue recognition	
Revenue represents a material balance 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:	We tested the operating effectiveness of automated and non-automated controls over the customer billing systems. Our tests assessed the controls in place to ensure all services supplied to customers are input into and processed through the billing systems.
• the completeness of revenue recorded as a result of the reliance on output of the billing systems;	This enabled us to obtain assurance over billing systems accounting for over 95% of total Group revenue. We subsequently applied a combination of substantive analytical review procedures and tests of detail to obtain assurance over the validity and completeness of the reported output of these 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; and	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.
• the appropriateness of the allocation of the total transaction value between multiple elements in a bundled transaction. The Group's policy with respect to bundled transactions is to limit the revenue recognised for delivered elements to the amounts billed, with promotional credits deferred over the contractual term.	We have assessed the appropriateness of this policy and also performed substantive testing to confirm the fair value of elements delivered up front is in excess of the amounts billable and therefore appropriate application of their accounting policy.
See note 1 in the financial statements for revenue recognition policy.	
Supplier rebates	
As disclosed in note 1 of the financial statements, the Group periodically receives commercial income, bonuses or other rebates from suppliers. There is a risk that these are incorrectly accounted for or recognised in the wrong accounting period.	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 contracts to understand the terms and conditions associated with the transaction and associated commercial rationale. Based on our review of the contracts, we have challenged management's recognition of the accounting treatment of credits recognised from suppliers and, where the credits were significant, held discussions with the counterparty to confirm our understanding of the commercial arrangement.

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

The disclosure of exceptional items and their presentation on the face of the income statement represents an audit risk given the level of management judgement involved. Areas of particular audit focus in the current year are exceptional costs recognised in relation to amounts recognisable in respect of the historic termination charges settlement (see note 9), operating efficiencies, dual running costs, asset impairments and customer migration costs—all of which we deem to carry a higher level of judgement.

Furthermore, the Group is challenging HMRC's interpretation of the VAT Prompt Payment Discount rules. Determining the likely outcome of any such disputes, and therefore required provisions, is inherently uncertain.

The nature of these costs has been defined in note 9 to the accounts.

In addition to understanding the composition of exceptional items and agreeing a sample of items to supporting documentation, we have challenged management's rationale for the presentation of items within the income statement as exceptional, particularly around the areas of higher judgment such as ladder pricing to assess if the exceptional credit is virtually certain and regarding dual running and customer migration costs 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.

Regarding the VAT disputes, we have reviewed correspondence with HMRC and with the support of our internal VAT specialists we have critically challenged management's assessment of the likelihood of success and the completeness of their provisioning and disclosure.

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 has included consideration of credit balances within underlying results.

Acquisition accounting

There have been three significant acquisitions in the year as described in note 13 which included two customer base acquisitions and a share purchase acquisition with material fair value adjustments. The transactions give rise to cumulative goodwill of £11m and other intangibles assets of £43m. The accounting treatment for these acquisitions gives rise to significant judgement around the fair value adjustments, including the valuation of intangible assets recognised, which include determining appropriate inputs and assumptions used in the underlying valuations.

We have considered management's assessment that the acquired assets represent a business combination under IFRS3 and challenged management's inputs and assumptions used in determining the valuation and completeness of the acquired intangible assets. This challenge specifically included the consideration of the forecast cash flows expected to be generated by the acquired assets, the anticipated rate of churn within the underlying customer base and forecast revenue and cost metrics. We have also challenged the appropriateness of the useful economic life attributed to the assets.

Carrying value of goodwill and intangible assets

As disclosed in note 11 to the financial statements the carrying value of goodwill on the Group balance sheet as at 31 March 2015 is £490m. Management is required to undertake an impairment review annually or, if more frequent, whenever there is an indication that the asset may be impaired. This review incorporates judgements based on assumptions of future cash flows, including assumptions around revenue

We challenged management's assumptions used in the impairment model for goodwill and intangible assets, including the determination of cash-generating units, the forecast cash flow projections for each cash-generating unit and the discount rates applied. In making this assessment of the cash flow projections we assessed historical forecasting accuracy and compared forecast profit margins to historical margins and benchmarked the discount rate and growth rates employed to available market data. We critically assessed management's position as to whether or not a reasonably possible change to key operating assumptions could result in an impairment. In doing so we considered the sensitivity of the asset valuations to these assumptions, in particular changes to the long term growth rate assumed and the

growth, margins and forecast cash flows, the selection of appropriate discount rates and the assessment of the Group's cash-generating units.	growth of the TV and Fibre customer bases. We used our specialist team to determine whether the discount rate used in the calculations was appropriate. We also considered the appropriateness of the related disclosures set out in note 11 to the accounts.
Treatment and presentation of tax balances The accounting treatment and presentation of the measurement of deferred tax assets relating to losses acquired in Video Networks ('VNL') of £29m (which have been disclosed within note 7) is a judgemental area. Specifically, the quantum of losses to be recognised as a deferred tax asset is dependent on future profitability and the judgements within and reliance on management forecasts.	We have reviewed correspondence with HMRC supporting the availability of the VNL losses. With the use of our tax specialist team we have challenged management's forecasts of future taxable profits to determine the appropriate quantum of VNL losses to recognise as a deferred tax asset.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 27.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual 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.

We determined materiality for the Group to be £6m (2014: £6m), which is approximately 7.3% (2014: 8.2%) of profit before tax and exceptional items. Our materiality was set by blending revenue and profit metrics. This approach was taken to make allowance for the impact of subscriber acquisition costs related to TV customers which has reduced current year earnings.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £120,000 (2014: £120,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the 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, 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 represent over 95% (2014: over 95%) of the Group's total assets and revenues. Specific focused audit work was performed over Group functions, including those covering treasury and taxation. Our audit work at each division was executed at levels of materiality which were lower than Group materiality.

At the parent entity level we also tested the consolidation process 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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- 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.

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 the part of the Corporate Governance Statement relating to the Company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

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 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 financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. 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, strategically focused second partner reviews 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 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, United Kingdom
13 May 2015

Group income statement
For the year ended 31 March

		2015			2014		
	Notes	Headline - Before amortisation of acquisition intangibles and exceptional items £m	Amortisation of acquisition intangibles and exceptional items* £m	Statutory - After amortisation of acquisition intangibles and exceptional items £m	Headline - Before amortisation of acquisition intangibles and exceptional items £m	Amortisation of acquisition intangibles and exceptional items* £m	Statutory - After amortisation of acquisition intangibles and exceptional items £m
Revenue	2	**1,795**	**—**	**1,795**	1,727	(5)	1,722
Cost of sales		**(815)**	**—**	**(815)**	(769)	—	(769)
Gross profit		**980**	**—**	**980**	958	(5)	953
Operating expenses excluding amortisation and depreciation		**(735)**	**(46)**	**(781)**	(745)	(17)	(762)
EBITDA		**245**	**(46)**	**199**	213	(22)	191
Depreciation	3, 12	**(78)**	**(5)**	**(83)**	(77)	—	(77)
Amortisation	3, 11	**(42)**	**(12)**	**(54)**	(35)	(21)	(56)
Share of results of joint venture	14	**(8)**	**—**	**(8)**	(7)	—	(7)
Operating profit	3	**117**	**(63)**	**54**	94	(43)	51
Finance costs	6	**(22)**	**—**	**(22)**	(20)	—	(20)
Profit before taxation		**95**	**(63)**	**32**	74	(43)	31
Taxation	7	**(19)**	**59**	**40**	(13)	10	(3)
Profit for the year		**76**	**(4)**	**72**	61	(33)	28
Attributable to the equity holders of the Parent Company		**76**	**(4)**	**72**	61	(33)	28
EARNINGS PER SHARE							
Headline/Statutory							
Basic (p)	10	**8.2**		**7.8**	6.8		3.1
Diluted (p)	10	**8.1**		**7.7**	6.6		3.0

* A reconciliation of Headline information to Statutory information is provided in note 9 to the financial statements.

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

Group statement of comprehensive income
For the year ended 31 March

	Notes	2015 £m	2014 £m
Profit for the year*		**72**	28
Other comprehensive income for the year			
Items that may be reclassified subsequently to the income statement:			
(Losses) gains on a hedge of a financial instrument*	19	**(5)**	3
Currency translation differences**		**(1)**	—
Total comprehensive income for the year		**66**	31
Attributable to the equity holders of the Parent Company		**66**	31

* Recognised within retained earnings and other reserves.

** Recognised within translation reserves.

The accompanying notes are an integral part of this Group statement of comprehensive income.

Group statement of changes in equity
For the year ended 31 March

	Notes	Share capital £m	Share premium £m	Translation reserve £m	Demerger reserve £m	Retained earnings and other reserves £m	Total £m
At 1 April 2014		**1**	**684**	**(64)**	**(513)**	**239**	**347**
Total comprehensive income for the year		**—**	**—**	**(1)**	**—**	**67**	**66**
Taxation of items recognised directly in reserves		**—**	**—**	**—**	**—**	**(3)**	**(3)**
Share-based payments reserve credit	5	**—**	**—**	**—**	**—**	**4**	**4**
Share-based payments reserve debit		**—**	**—**	**—**	**—**	**(3)**	**(3)**
Settlement of Group ESOT		**—**	**—**	**—**	**—**	**2**	**2**
Equity dividends	8	**—**	**—**	**—**	**—**	**(116)**	**(116)**
At 31 March 2015		**1**	**684**	**(65)**	**(513)**	**190**	**297**

	Notes	Share capital £m	Share premium £m	Translation reserve £m	Demerger reserve £m	Retained earnings and other reserves £m	Total £m
At 1 April 2013		1	618	(64)	(513)	400	442
Total comprehensive income for the year		—	—	—	—	31	31
Issue of own shares*	22	—	66	—	—	(78)	(12)
Taxation of items recognised directly in reserves		—	—	—	—	2	2
Purchase of own shares		—	—	—	—	(24)	(24)
Settlement of Group ESOT		—	—	—	—	6	6
Adjustment from change in non-controlling interest		—	—	—	—	(3)	(3)
Share-based payments reserve credit	5	—	—	—	—	4	4
Equity dividends	8	—	—	—	—	(99)	(99)
At 31 March 2014		1	684	(64)	(513)	239	347

* On 16 September 2013, the Group's Remuneration Committee determined that the relevant performance conditions of the VES schemes (including the 5% TSR requirement) had been satisfied, meaning the VES participants were entitled to exercise the remaining 40% of their options. The settlement of the schemes resulted in the recognition of share premium of £66m and a £78m movement in retained earnings and other reserves.

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

Group balance sheet
As at 31 March

	Notes	2015 £m	2014 £m
Non-current assets			
Goodwill	11	**490**	479
Other intangible assets	11	**178**	141
Property, plant and equipment	12	**290**	305
Investment in joint venture	14	**10**	7
Deferred tax assets	7	**130**	107
		1,098	1,039
Current assets			
Cash and cash equivalents	18	**10**	—
Inventories	15	**31**	24
Corporation tax receivable		**1**	—
Trade and other receivables	16	**323**	260
		365	284
Total assets		**1,463**	1,323
Current Liabilities			
Bank overdraft	18	**—**	(7)
Trade and other payables	17	**(516)**	(456)
Loans and other borrowings	18	**—**	(30)
Corporation tax liabilities		**—**	(14)
Provisions	20	**(34)**	(2)
		(550)	(509)
Non-current liabilities			
Loans and other borrowings	19	**(615)**	(460)
Provisions	20	**(1)**	(7)
		(616)	(467)
Total liabilities		**(1,166)**	(976)
Net assets		**297**	347
Equity			
Share capital	21, 22	**1**	1
Share premium	22	**684**	684
Translation reserve	22	**(65)**	(64)
Demerger reserve	22	**(513)**	(513)
Retained earnings and other reserves	22	**190**	239
Total equity		**297**	347

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

These financial statements were approved by the Board on 13 May 2015. They were signed on its behalf by:

D Harding
Chief Executive Officer
13 May 2015

I Torrens
Chief Financial Officer
13 May 2015

Group cash flow statement
For the year ended 31 March

	Notes	2015 £m	2014 £m
Operating activities			
Operating profit		**54**	51
Adjustments for non-cash items:			
Share-based payments	5	**4**	4
Depreciation	3,12	**83**	77
Amortisation	3,11	**54**	56
Share of losses of joint venture	14	**8**	7
Profit on disposal of property, plant and equipment	3	**(3)**	—
Profit on disposal of subsidiaries and customer bases	3,13	**(5)**	—
Operating cash flows before movements in working capital		**195**	195
Increase in trade and other receivables		**(44)**	(36)
Increase in inventory		**(7)**	(1)
Increase in trade and other payables		**26**	7
Increase in provisions		**26**	(5)
Cash generated by operations		**196**	160
Income taxes paid		**(2)**	—
Net cash flows generated from operating activities		**194**	160
Investing activities			
Acquisition of subsidiaries and joint ventures, net of cash acquired	13,14	**(38)**	(8)
Investment in intangible assets		**(49)**	(42)
Investment in property, plant and equipment		**(67)**	(65)
Disposal of property, plant and equipment		**4**	—
Cash flows used in investing activities		**(150)**	(115)
Financing Activities			
Settlement of Group ESOT shares		**2**	6
Net purchase of own shares		**—**	(39)
Drawdown of borrowings	23	**109**	90
Interest paid		**(22)**	(17)
Dividends paid	8	**(116)**	(99)
Cash flows used in financing activities		**(27)**	(59)
Net Increase(decrease) In Cash And Cash Equivalents		**17**	(14)
Cash and cash equivalents at the start of the year		**(7)**	7
Cash and cash equivalents at the end of the year		**10**	(7)
Cash and cash equivalents for the purpose of this statement comprise:			
Cash and cash equivalents	18	**10**	—
Bank overdrafts	18	**—**	(7)
		10	(7)

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

Notes to the consolidated financial statements

1. Accounting policies and basis of preparation

Basis of preparation

TalkTalk Telecom Group PLC is incorporated in England and Wales under the Companies Act 2006.

The consolidated 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 Company has elected to prepare its Parent Company financial statements in accordance with UK GAAP.

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

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.

Going concern

The financial statements have been prepared on the going concern basis. Details of the considerations undertaken by the Directors in reaching this conclusion are set out on page 14 within the Chief Financial Officer's Statement.

Accounting policies

The Group's principal accounting policies, which relate to the 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.

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 subject to an adjustment for in-contract churn; 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. This is limited to the amounts billed for that element.

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.

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 thus 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	
	2015	**2014**	**2015**	**2014**
Euro	**1.29**	1.19	**1.38**	1.21
United States Dollar	**1.61**	1.60	**1.49**	1.67

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.

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, loans 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.

Rebates receivable from suppliers

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.

Rebates from suppliers in the year related to renegotiated contract rates and compensation received under existing contracts. Where these amounts relate to historical transactions, but negotiated in the current year, they are recognised in the current year income statement.

Cash and cash equivalents

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

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.

Loans and other borrowings

Loans and other borrowings represent committed and uncommitted bank loans, US Private Placement notes 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 most sensitive estimates and assumptions that are significant to the financial statements are set out in more detail in the related notes:

- rebates receivable from suppliers (note 1);
- revenue recognition for bundled transactions (note 1);
- taxation (note 7);
- exceptional items (note 9);
- impairment of goodwill (note 11);
- valuation of acquisition intangibles (note 11);
- capitalisation and useful economic lives of assets (notes 11 and 12);
- impairment of assets (notes 11 and 12); and
- trade receivables (note 16).

Application of significant new or amended EU endorsed accounting standards

Amendments to IFRS 2 'Share-based Payment', IFRS 3 'Business Combinations', IFRS 8 'Operating Segments', IFRS 13 'Fair Value Measurement', IAS 16 'Property, Plant and Equipment', IAS 24 'Related Party Disclosures', IAS 38 'Intangible Assets' and IAS 40 'Investment Property' became effective in the current reporting period. These new and revised standards and interpretations have no material impact on the Group.

Future accounting developments

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

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

- IFRS 9 'Financial Instruments', impacting both the measurement and disclosure of financial instruments.
- IFRS 15 'Revenue from Contracts with Customers', impacting revenue recognition, related costs and disclosures.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

2. Segmental reporting

Accounting policy

IFRS 8 'Operating Segments' requires the segmental information presented in the financial statements to be that used by the chief operating decision maker to evaluate the performance of the business and decide how to allocate resources. The Group has identified the Board as its chief operating decision maker. 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.

	2015 £m	2014 £m
Headline revenue	**1,795**	1,727
Headline EBITDA	**245**	213
Depreciation	**(78)**	(77)
Amortisation of operating intangibles	**(42)**	(35)
Share of results of joint ventures	**(8)**	(7)
Headline profit before interest and taxation (note 9)	**117**	**94**
Amortisation of acquisition intangibles	**(6)**	(21)
Exceptional items—Other	**(46)**	(22)
Exceptional items—Impairment loss	**(11)**	—
Operating profit	**54**	51

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

	2015 £m	2014 £m
On-net	**1,333**	1,259
Corporate	**375**	340
Off-net	**87**	128
	1,795	**1,727**

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

3. Operating profit before interest and taxation

Group profit before interest and taxation is stated after charging (crediting):

	2015 £m	2014 £m
Depreciation of property, plant and equipment	**78**	77
Amortisation of acquisition intangibles	**6**	21
Amortisation of other operating intangible fixed assets	**42**	35
Profit on disposal of property, plant and equipment	**(3)**	—
Impairment loss recognised on trade receivables	**62**	52
Staff costs	**122**	125
Cost of inventories recognised in expenses	**115**	123
Rentals under operating leases	**95**	91
Supplier rebates*	**(33)**	(10)
Auditor's remuneration**	**1**	1
Exceptional item—Impairment loss***	**11**	—
Exceptional item—Profit on disposal of subsidiaries and customer bases	**(5)**	—

* Includes a credit of £20m to offset associated increased costs of £25m.

** A breakdown of auditor's remuneration is disclosed within the Governance section on page 28.

*** Comprises depreciation of £5m and amortisation of £6m (note 9).

4. Employee costs

The average number of employees (including Executive Directors) was:

	2015 Number	2014 Number
Administration	**1,452**	1,516
Sales and customer management	**655**	792
	2,107	2,308

The aggregate remuneration recognised in respect of these employees in the income statement comprised:

	2015 £m	2014 £m
Wages and salaries	**102**	104
Social security costs	**12**	13
Other pension costs	**4**	4
	118	121
Share-based payments (note 5)	**4**	4
	122	125

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 and TalkTalk Group Executive Committee.

	2015 £m	2014 £m
Salaries and fees	**3.2**	3.9
Performance bonuses	**1.9**	1.8
Benefits	**0.2**	0.2
Pension costs	**0.2**	0.2
Share-based payments	**1.8**	0.7
Compensation for loss of office	**0.2**	—
	7.5	6.8

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 on grant.

Group share schemes

The Group's share schemes are the Shareholder Value Plan (SVP), Discretionary Share Option Plan (DSOP), Save-As-You-Earn scheme (SAYE) and Share Match scheme (SIP).

In order to aid the user of the accounts, the dilutive effect on EPS of each of the Group schemes has been presented. This has been calculated using an average share price for the financial year of £3.00 (2014: £2.67).

In June 2014, the Group made awards under the SVP and the DSOP schemes, under rules previously approved by shareholders. Further information is set out in sections (i) and (ii) of this note. The TTG Value Enhancement Scheme (VES) and CPW TTG VES have fully vested in the prior year; therefore, disclosures are limited to the dilutive effect on EPS and the number of outstanding options in the prior year.

Summary of share schemes

Year ended 31 March 2015	IFRS 2 charge £m	Dilutive effect millions	Options outstanding at end of the year millions
TalkTalk Telecom Group PLC schemes			
SVP	**2**	**3**	**—**
DSOP—2014 grant	**1**	**3**	**8**
DSOP—2013 grant	**—**	**3**	**5**
DSOP—2012 grant	**—**	**4**	**8**
DSOP—2010 grant	**—**	**1**	**2**
SAYE	**1**	**1**	**5**
Total TalkTalk Telecom Group PLC schemes	**4**	**15**	**28**

Year ended 31 March 2014	IFRS 2 charge £m	Dilutive effect millions	Options outstanding at end of the year millions
TalkTalk Telecom Group PLC schemes			
DSOP—2013 grant	1	3	6
DSOP—2012 grant	1	5	10
DSOP—2010 grant	—	4	2
SAYE	—	2	4
All Employee Share Option Award—2012	2	1	—
Total TalkTalk Telecom Group PLC schemes	4	15	22
Legacy Carphone Warehouse schemes			
TTG VES and CPW TTG VES	—	14	—
Other employee share option schemes	—	1	1
Total legacy Carphone Warehouse schemes	—	15	1
Total	4	30	23

TalkTalk Telecom Group PLC schemes

(i) TTG SVP

On 18 June 2014, the Company made awards in the SVP, operating under the VES rules previously approved by shareholders. Subsequent awards were made to new joiners of the Group in December 2014, February and March 2015. 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. The SVP is a growth plan and not a share option plan. These loans are subject to a commercial rate of interest set by HMRC. The SVP 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. 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 to the date of announcement of the Group's FY17 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 to the date of announcement of the Group's FY18 annual results. Participation shares are forfeited for the value of the outstanding loan plus accrued interest, if an employee leaves the Group before the scheme vests. 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.

A fair value exercise was conducted for the award using the Monte Carlo method with the total fair value of the participation shares granted totalling £6m. The resulting IFRS 2 charge for the year ended 31 March 2015 is £1.6m.

(ii) DSOP—2014 grant

In June 2014, the Group granted eight million nil-priced share option awards 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 the next three and four year periods; and

- the Group's TSR outperforms the FTSE 250.

The options are measured over a performance period from 3 June 2014 to 3 June 2017 and will vest 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. Subsequent awards were made to new joiners of the Group in December 2014 and February 2015.

	2015	
DSOP—2014 grant	**Number million**	**WAEP £**
Outstanding at the beginning of the year	—	—
Granted during the year	8	—
Outstanding at the end of the year	**8**	**—**
Exercisable at the end of the year	**—**	**—**

Valuation method	**Monte Carlo**
Share price (p)	**321**
Exercise price (p)	**nil**
Expected volatility	**25.0%**
Expected exercise (60%/40%)	**3.0/4.0 years**
Risk free rate (three years/four years)	**1.27%/1.67%**
Expected dividend yield	**5.6%**
Fair value of options granted (£m)	**4**

The weighted average remaining contractual life of the DSOP—2014 grant is 9.2 years.

(iii) DSOP—2013 grant

In FY14, the Group granted six million nil-priced share option awards subject to absolute TSR and EPS performance targets. The options are measured over a performance period to 31 March 2016 and will vest on the announcement of the Group's FY16 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. Awards are triggered within a range from 5% to 26% for compound annual growth of TSR and EPS. If the minimum performance requirement is met a total of 25% of the award will vest, rising to 40% for target, 70% for stretch and 100% for super stretch.

	2015		**2014**	
DSOP—2013 grant	**Number million**	**WAEP £**	**Number million**	**WAEP £**
Outstanding at the beginning of the year	**6**	**—**	—	—
Granted during the year	**—**	**—**	6	—
Forfeited during the year	**(1)**	**—**	—	—
Outstanding at the end of the year	**5**	**—**	6	—
Exercisable at the end of the year	**—**	**—**	—	—

The weighted average remaining contractual life of the DSOP—2013 grant is 8.2 years (2014: 9.2 years).

(iv) DSOP—2012 grant

Nil-priced share option awards made under the DSOP 2012 grant are subject to absolute TSR and EPS performance targets with a cap and collar to address volatility in the market, as detailed in the Directors' Remuneration Report. The options are measured over a performance period to 31 March 2015 and will vest on the announcement of the Group's FY15 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. Awards are triggered within a range from 10% to 19% for compound annual growth of TSR and EPS. If the minimum performance requirement is met a total of 25% of the award will vest, rising to 40% for target, 70% for stretch and 100% for super stretch.

	2015		**2014**	
DSOP—2012 grant	**Number million**	**WAEP £**	**Number million**	**WAEP £**
Outstanding at the beginning of the year	**10**	**—**	12	—
Forfeited during the year	**(2)**	**—**	(2)	—
Outstanding at the end of the year	**8**	**—**	10	—
Exercisable at the end of the year	**—**	**—**	—	—

* In accordance with the scheme rules, the final performance of the DSOP 2012 was measured on 31 March 2015. It was confirmed that performance against the EPS measure fell below the minimum threshold and was missed, but that performance against the TSR measure exceeded Super Stretch and was hit. 50% of the DSOP 2012 will therefore vest on 14 May 2015, with 60% of the vested options being available to exercise from this date and the remaining 40% available to exercise on 14 May 2016.

The weighted average remaining contractual life of the DSOP—2012 grant is 6.9 years (2014: 7.9 years).

(v) DSOP—2010 grant

Awards made under the DSOP—2010 grant were subject to TSR performance targets and were measured over a performance period to 28 March 2013. Options were forfeited if an employee left the Group before the options vested. On 28 March 2013, all options vested subject to the DSOP scheme rules but they were not exercisable until after the preliminary announcement on 16 May 2013.

	2015		2014	
DSOP—2010 grant	**Number million**	**WAEP £**	**Number million**	**WAEP £**
Outstanding at the beginning of the year	**2**	**1.27**	17	1.24
Exercised during the year	**—**	**—**	(15)	1.23
Outstanding at the end of the year	**2**	**1.27**	2	1.27
Exercisable at the end of the year	**2**	**—**	2	—

The weighted average remaining contractual life of the DSOP—2010 grant is 5.6 years (2014: 6.0 years).

(vi) 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:

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

	2015		2014	
	Number million	**WAEP £**	**Number million**	**WAEP £**
Outstanding at the beginning of the year	**4**	**1.52**	6	1.08
Granted during the year	**2**	**2.40**	2	1.92
Exercised during the year	**(1)**	**1.21**	(3)	1.03
Forfeited during the year	**(1)**	**1.97**	(1)	1.42
Outstanding at the end of the year	**4**	**1.89**	4	1.52
Exercisable at the end of the year	**—**	**—**	—	—

	SAYE—2014 grant
Valuation method	Black Scholes
Share price (p)	321
Exercise price (p)	240
Expected volatility	35.96%
Expected exercise (years)	3.9
Risk free rate	2.09%
Expected dividend yield	3.74%
Fair value of options granted (£m)	2.0

The weighted average remaining contractual life of SAYE options is 2.1 years (2014: 2.3 years).

(vii) Share Match

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 ending 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 2015, the impact of Share Match scheme on the Group's results was not material.

6. Finance income and costs

Finance costs are analysed as follows:

	2015 £m	2014 £m
Interest on bank loans and overdrafts	**17**	16
Facility fees and similar charges	**5**	4
	22	20

During the year ended 31 March 2015, the Group refinanced its term loan and revolving credit facility with bank debt and US Private Placement notes and paid £5m in respect of arrangement and legal fees. The fees are being amortised over the expected life of the loan and notes and are included within facility fees and similar charges above, along with the accelerated amortisation of the arrangement fees on the previous re-financing. The average interest rate in the year was 3.00% (2014: 3.39%).

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.

Critical judgements 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.

Tax—income statement

The tax charge comprises:

	2015 £m	2014 £m
Current tax:		
UK corporation tax	**—**	(2)
Adjustments in respect of prior years:		
UK corporation tax—exceptional credit	**(14)**	—
Total current tax (credit)	**(14)**	(2)
Deferred tax:		
Origination and reversal of timing differences	**—**	(7)
Origination and reversal of timing differences—exceptional credit	**(29)**	—
Effect of change in tax rate	**1**	16
Adjustments in respect of prior years—deferred tax recognised	**4**	(4)
Adjustments in respect of prior years—exceptional credit	**(2)**	—
Total deferred tax	**(26)**	5
Total tax (credit) charge	**(40)**	3

The tax charge on Headline earnings for the year ended 31 March 2015 is £19m (2014: £13m), representing an effective tax rate on pre-tax profits of 20% (2014: 18%). The tax credit on Statutory earnings for the year ended 31 March 2015 is £40m (2014: £3m). 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 21% (2014: 23%) to the profit before tax are as follows:

	2015 £m	2014 £m
Profit before tax	**32**	31
Tax at 21% (2014: 23%)	**7**	7
Items attracting no tax relief or liability	**1**	(1)
Effect of change in tax rate	**1**	16
Adjustments in respect of prior years	**4**	(4)
Adjustments in respect of prior years—exceptional credit	**(16)**	—
Movement in unrecognised tax losses during the year	**(8)**	(15)
Movement in unrecognised tax losses during the year—exceptional credit	**(29)**	—
Total tax (credit) charge through income statement	**(40)**	3

Tax—retained earnings and other reserves

Tax on items recognised directly in retained earnings and other reserves is as follows:

	2015 £m	2014 £m
Total tax (credit) charge through income statement	**(40)**	3
Deferred tax charge (credit) recognised directly in retained earnings and other reserves	**3**	(2)
Total tax (credit) charge through retained earnings and other reserves	**(37)**	1

The deferred tax charge recognised directly in retained earnings and other reserves for the years ended 31 March 2015 and 31 March 2014 relates to share-based payments.

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	Timing differences on acquisition intangibles £m	Other timing differences £m	Total £m
At 1 April 2014	**7**	**61**	**39**	**(1)**	**1**	**107**
Credit (charge) to the income statement	**2**	**(7)**	**30**	**1**	**—**	**26**
(Charge) to reserves	**(3)**	**—**	**—**	**—**	**—**	**(3)**
At 31 March 2015	**6**	**54**	**69**	**—**	**1**	**130**

	Share-based payments £m	Timing differences on capitalised costs £m	Tax losses £m	Timing differences on acquisition intangibles £m	Other timing differences £m	Total £m
At 1 April 2013	12	62	40	(6)	1	109
(Charge) credit to the income statement	(7)	(1)	(1)	5	—	(4)
Credit to reserves	2	—	—	—	—	2
At 31 March 2014	7	61	39	(1)	1	107

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.

During the year, the Company reviewed the period over which it recognises assets in respect of brought forward tax losses and revised this from five years to ten years due to the increased stability of the TV proposition. The incremental movement of £29m has been recognised through exceptional items.

At 31 March 2015, the Group had unused tax losses of £674m (2014: £702m) available for offset against future taxable profits. A deferred tax asset of £69m (2014: £39m) has been recognised in respect of £347m (2014: £197m) of such losses, based on expectations of recovery in the foreseeable future.

No deferred tax asset has been recognised in respect of the remaining £327m (2014: £505m) 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:

	2015 £m	2014 £m
Ordinary dividends		
Final dividend for the year ended 31 March 2013 of 6.95p per ordinary share	**—**	62
Interim dividend for the year ended 31 March 2014 of 4.00p per ordinary share	**—**	37
Final dividend for the year ended 31 March 2014 of 8.00p per ordinary share	**74**	—
Interim dividend for the year ended 31 March 2015 of 4.60p per ordinary share	**42**	—
Total ordinary dividends	**116**	99

The proposed final dividend for the year ended 31 March 2015 of 9.2p per ordinary share on approximately 922 million ordinary shares (approximately £85m) was approved by the Board on 13 May 2015 and will be recommended to shareholders at the AGM in July. The dividend has not been included as a liability as at 31 March 2015.

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

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 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 2015	**EBITDA £m**	**Profit before interest and tax £m**	**Profit before tax £m**	**Profit for the year £m**
Headline results	**245**	**117**	**95**	**76**
Exceptional items—Revenue (a)	—	—	—	—
Exceptional items—Operating efficiencies (b)	**(29)**	**(29)**	**(29)**	**(22)**
Exceptional items—Acquisitions and disposal (c)	**(9)**	**(9)**	**(9)**	**(7)**
Exceptional items—Mobile Migration (d)	**(8)**	**(8)**	**(8)**	**(6)**
Exceptional items—Impairment loss (e)	—	**(11)**	**(11)**	**(9)**
Amortisation of acquisition intangibles (f)	—	**(6)**	**(6)**	**(5)**
Exceptional items—Tax (g)	—	—	—	**45**
Statutory results	**199**	**54**	**32**	**72**

Year ended 31 March 2014	**EBITDA £m**	**Profit before interest and tax £m**	**Profit before tax £m**	**Profit for the year £m**
Headline results	213	94	74	61
Exceptional items—Operating expenses (b)	(20)	(20)	(20)	(15)
Exceptional items—Operating expenses	3	3	3	2
Exceptional items—Revenue (a)	(5)	(5)	(5)	(4)
Amortisation of acquisition intangibles (f)	—	(21)	(21)	(16)
Statutory results	191	51	31	28

a) Revenue

Within the Statutory results are two items relating to ongoing commercial discussions; the treatment of prompt payment discounts and historic termination charge settlements with the Mobile Network Operators. The net impact of these two items is not material. (2014: -£5m).

b) Operating efficiencies—Making TalkTalk Simpler (MTTS)

During the year ended 31 March 2015, the Group has continued its simplification and cost reduction programmes to drive a seamless and efficient customer experience and provide the business with operations and processes that are fit for purpose.

The costs incurred in the year included work on improving Consumer and TalkTalk Business customer operations, services and rationalising customer tariffs and exiting Group legacy products and access methods.

These programmes have resulted in £29m (2014: £20m) of costs including project management, consultancy, migration and call centre costs.

A total taxation credit of £7m has been recognised on these costs in the year ended 31 March 2015 (2014: £5m).

c) Acquisitions and disposal

During the year ended 31 March 2015, the Group acquired broadband and voice customer bases from both Virgin Media Limited (‘Virgin Media’) and Tesco Stores Limited (‘Tesco’) and acquired blinkbox Entertainment Limited (‘blinkbox’). The Group has incurred costs for the migration of customers onto the Group’s network and integration costs including redundancy. The total charge incurred in the year ended 31 March 2015 was £4m (2014: £nil).

Further to this, the Group has provided for £10m of costs in respect of committed future programmes predominantly in respect of migration, reorganisation and related costs.

In addition, on 24 December 2014, the Group disposed of its existing off-net broadband customer base to Fleur Telecom Limited, a member of Daisy Communications Group. This transaction generated £5m profit to the Group.

A total taxation credit of £2m (2014: £nil) has been recognised in relation to these items in the year ended 31 March 2015.

d) Mobile Migration

As part of the plan to build a scale quad-play business, during the year ended 31 March 2015, the Group has entered into a new multi-year commercial MVNO agreement with Telefónica UK, where by Telefónica UK will provide TalkTalk with access to 4G and national roaming services in the UK. As a result, the Group provided for £8m (2014: £nil) of costs in respect of committed future mobile migration programmes from the existing network provider to Telefónica UK predominantly in respect of SIM replacement, customer communications and related costs.

A total taxation credit of £2m (2014: £nil) has been recognised on these costs in the year ended 31 March 2015.

e) Impairment loss

As a result of the MTTS exceptional projects, an £11m impairment charge has been recognised in respect of a number of systems to be decommissioned or replaced before the end of their useful economic life. £5m (2014: £nil) of this impairment charge related to equipment and has been included within exceptional depreciation and the remaining £6m (2014: £nil) related to a billing system and has been included in exceptional amortisation on the face of the Group income statement.

A total taxation credit of £2m (2014: £nil) has been recognised on these costs in the year ended 31 March 2015.

f) Amortisation of acquisition intangibles

An amortisation charge in respect of acquisition intangibles of £6m was incurred in the year ended 31 March 2015 (2014: £21m). The Tiscali customer base was fully amortised in the year.

A total taxation credit of £1m has been recognised in the year ended 31 March 2015 (2014: £5m).

g) Tax items

The Group has recognised tax credits of £45m (2014: £nil) comprising a further £29m in respect of VNL tax losses following the increase in the time period used to recognise losses from five to ten years and £16m for the resolution of legacy demerger items (note 7).

10. Earnings per share

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

	2015 £m	2014 £m
Headline earnings (note 9)	**76**	61
Statutory earnings	**72**	28
Weighted average number of shares (millions):		
Shares in issue	**955**	938
Less weighted average holdings by Group ESOT	**(33)**	(37)
For basic EPS	**922**	901
Dilutive effect of share options	**15**	30
For diluted EPS	**937**	931

	2015 Pence	2014 Pence
Basic earnings per share		
Headline	**8.2**	6.8
Statutory	**7.8**	3.1

	2015 Pence	2014 Pence
Diluted earnings per share		
Headline	**8.1**	6.6
Statutory	**7.7**	3.0

There are no share options considered anti-dilutive in the year ended 31 March 2015 (2014: 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.

Critical judgements in applying the Group's accounting policy

The Group has two CGUs—Consumer and TalkTalk Business. 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. 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.

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 Board approved five-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.

Sensitivity analysis is performed using reasonably possible changes in the key assumptions.

	2015 £m	**2014 £m**
Opening cost and net book value	**479**	479
Acquisitions (note 13)	**11**	—
Closing cost and net book value	**490**	**479**

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:

	2015 £m	**2014 £m**
Consumer	**348**	337
TalkTalk Business	**142**	142
	490	479

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 2.2% (2014: 1.7%).

- **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 9.0% (2014: 8.4%). 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 is based on senior management expectations of future required support of the network and current run rate of expenditure, typically at 6% 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 change 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 material 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. 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.

Critical judgements in applying the Group's accounting policy

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.

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	**Acquisition intangibles £m**	**Total other intangibles £m**
Opening balance at 1 April 2014	**135**	**6**	**141**
Additions	**49**	**—**	**49**
Acquisition of subsidiary business combination	**—**	**42**	**42**
Amortisation	**(42)**	**(6)**	**(48)**
Impairment loss	**(6)**	**—**	**(6)**
Closing balance at 31 March 2015	**136**	**42**	**178**
Cost (gross carrying amount)	**352**	**140**	**492**
Accumulated amortisation	**(216)**	**(98)**	**(314)**
Closing balance at 31 March 2015	**136**	**42**	**178**

	Operating intangibles £m	**Acquisition intangibles £m**	**Total other intangibles £m**
Opening balance at 1 April 2013	127	27	154
Additions	43	—	43
Amortisation	(35)	(21)	(56)
Closing balance at 31 March 2014	135	6	141
Cost (gross carrying amount)	303	98	401
Accumulated amortisation	(168)	(92)	(260)
Closing balance at 31 March 2014	135	6	141

Operating intangibles

Operating intangibles includes internally generated assets with a net book value of £59m (2014: £39m), which are amortised over a period of up to eight years. This includes additions of £31m (2014: £15m) and an amortisation charge of £10m (2014: £7m) in the year ended 31 March 2015.

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 £66m (2014: £76m). 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 three years (2014: four years).

Acquisition intangibles

At 31 March 2015, the acquisition intangibles relate to the broadband customer bases acquired from Virgin Media and Tesco in October 2014 and January 2015 respectively (see note 13). The valuation of customer bases is derived from the discounted future cash flows expected from them, after a deduction for contributory assets.

The value of these broadband customer bases is material to the Group with net book value of £38m. The useful economic life of acquired customer bases is five years from the date of acquisition. The Tiscali customer base was fully amortised in the year.

The remaining £4m of acquisition intangibles relate to the website acquired as part of the blinkbox transaction in January 2015 (see note 13). The website is valued using replacement method and has a remaining useful economic life of three years.

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
Network equipment and computer hardware	12.5–50% per annum
Fixtures and fittings	20–25% per annum

Critical judgements in applying the Group's accounting policy

The assessment of the useful economic lives of these assets requires judgement. Depreciation 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.

Determining whether the carrying amount of these assets has any indication of impairment also requires judgement. If an indication of impairment is identified, further judgement is required to assess whether the carrying amount can be supported by the value in use of the CGU to which the asset is allocated. 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 (note 11).

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.

	Leasehold improvements £m	Network equipment and computer hardware £m	Fixtures and fittings £m	Total £m
Opening balance at 1 April 2014	**5**	**300**	**—**	**305**
Additions	**—**	**67**	**—**	**67**
Acquisition of subsidiary	**—**	**—**	**2**	**2**
Depreciation	**(5)**	**(73)**	**—**	**(78)**
Impairment loss	**—**	**(5)**	**—**	**(5)**
Disposals	**—**	**(1)**	**—**	**(1)**
Closing balance at 31 March 2015	**—**	**288**	**2**	**290**
Cost (gross carrying amount)	**6**	**737**	**2**	**745**
Accumulated depreciation and impairment charges	**(6)**	**(449)**	**—**	**(455)**
Closing balance at 31 March 2015	**—**	**288**	**2**	**290**

	Leasehold improvements £m	Network equipment and computer hardware £m	Fixtures and fittings £m	Total £m
Opening balance at 1 April 2014	5	290	—	295
Additions	—	87	—	87
Depreciation	—	(77)	—	(77)
Closing balance at 31 March 2014	5	300	—	305
Cost (gross carrying amount)	6	671	6	683
Accumulated depreciation and impairment charges	(1)	(371)	(6)	(378)
Closing balance at 31 March 2014	5	300	—	305

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 2015 related to a 7.3% (2014: 7.3%) interest in Shared Band Limited, a telecommunications technology provider. The cost of the investment is not material.

(a) Principal investments

The Parent Company has investments in the following subsidiary undertakings, which principally affected the profits or losses or net assets of the Group. To avoid a statement of excessive length, details of investments that are not significant have been omitted. All holdings are in equity share capital and give the Group an effective holding of 100% on consolidation.

Name	**Country of incorporation or registration**	**Nature of business**
TalkTalk Group Limited	England and Wales	Holding company
TalkTalk Telecom Holdings Limited*	England and Wales	Holding company
TalkTalk Communications Limited	England and Wales	Telecommunications
TalkTalk Telecom Limited	England and Wales	Telecommunications
CPW Network Services Limited	England and Wales	Telecommunications

* Directly held by the Company.

(b) Acquisitions and disposals

(i) Acquisitions

The Group has made the following acquisitions during the year ended 31 March 2015:

Virgin Media broadband customer base acquisition

On 27 October 2014, the Group acquired the Virgin Media broadband service business from Virgin Media which comprises broadband customers (MPF, SMPF and IP Stream). The acquisition is complementary to the Group's existing business model. The legal title of asset was transferred as the customers migrated to the Group's network which substantially took place in the period from December 2014 to March 2015. As this is an acquisition of customer base, nil voting shares were acquired. The provisional goodwill represents the future economic benefit arising from the aligning of customers' existing products with the Group's products and its fit with existing operations. Provisional goodwill has been allocated to the Consumer Cash Generating Unit (CGU).

Tesco broadband and voice customer base acquisition

On 7 January 2015, the Group acquired the Tesco broadband service business from Tesco which comprises broadband (MPF, SMPF and IP Stream) and voice customers. The acquisition is complementary to the Group's existing business model. The legal title of asset was transferred on 1 March 2015. As this is an acquisition of customer base, nil voting shares were acquired. The provisional goodwill relation to the future economic benefit arising from aligning the customers' existing products with the Group's products and its fit with existing operations. Provisional goodwill has been allocated to the Consumer Cash Generating Unit (CGU).

blinkbox acquisition

On 7 January 2015, the Group acquired 100% of the issued and voting share capital of blinkbox from Tesco Holdings Limited. The acquisition is complementary to the Group's existing business model. blinkbox provides movies and TV series online for customers to stream or download on demand.

The financial impacts of the acquisitions are summarised below:

	Virgin Media £m	Tesco £m	blinkbox £m
Consideration	**25**	**18**	**6**
Total provisional consideration—cash	17	14	6
Total provisional consideration—deferred	8	4	—
Net assets acquired	**22**	**15**	**1**
Customer base	22	17	—
Provision for unfavourable contract	—	(2)	—
Other net assets*	—	—	1
Goodwill	**3**	**3**	**5**
Total impact on the Group**			
FY15 revenue	5	2	2
FY15 profit before taxation	(4)	(4)	(2)
Total pro-forma impact on the Group***			
Pro-forma revenue	1,812	1,813	1,803
Pro-forma profit before taxation	31	30	14

* blinkbox net assets breakdown is included in the table overleaf.

** Impact reflected in the Group's result for the year ended 31 March 2015.

*** Pro-forma revenue and profit before taxation for the Group assuming that the acquisition had been made on 1 April 2014.

In relation to the blinkbox acquisition, the amounts recognised in respect of the identifiable assets acquired and liabilities assumed are set out in the table below.

	Book value £m	Fair value adjustments £m	Fair value to the Group £m
Fixed assets	**22**	**(15)**	**7**
Cash	10	—	10
Trade debtors	1	—	1
Other debtors and prepayments	2	—	2
Total current assets	**13**	**—**	**13**
Trade creditors	(4)	—	(4)
Other creditors and accruals	(14)	(1)	(15)
Total current liabilities	**(18)**	**(1)**	**(19)**
Total assets and liabilities	**17**	**(16)**	**1**
Provisional goodwill			**5**
Satisfied by cash			**6**

Fair value adjustments relate principally to:

- the write down of internally developed software to its fair value; and
- provisions for onerous contracts.

The book value of the current assets is expected to equal their fair value.

The provisional goodwill of £5m relates to the future opportunities arising from the nature of the business, particularly around the knowledge of creating on demand TV platforms, and fit with the Group's existing operations. The provisional goodwill has been allocated to the Consumer CGU.

All the acquisitions were carried out by in house functions therefore the impact of external adviser fees relating to the acquisition in the Group's results was £nil. Other acquisition costs are set out in note 9.

All of the goodwill generated from acquisitions is expected to be deductible for Corporation tax purposes.

In the prior year, the Group acquired the remaining 75% of the issued share capital of Future Office Communications Limited (note 22).

(ii) Disposals

On 24 December 2014, the Group agreed to dispose of its existing off-net broadband customer base to Fleur Telecom Limited (Fleur), a member of Daisy Communications Group, for a contingent consideration of £8m generating a profit on disposal of £5m. The expected cost to sell of £3m has been included within the Group's trade and other payable balance on the consolidated balance sheet. The consideration is contingent on the performance of this customer base in the period of 24 months following the network migration completion date.

The customer base was derecognised from the balance sheet at completion date, 31 March 2015.

There were no disposals in the prior year.

(iii) Asset held for sale

As at 31 March 2015, the Group agreed to sell the acquired off-net broadband base from Virgin Media and Tesco to Fleur. The transaction is expected to complete in the year ending 31 March 2016. These bases therefore met the definition of asset held for sale under IFRS 5 and has been included as part of trade and other receivables balance on the Group consolidated balance sheet (£1m). The carrying value of these assets was based on the selling price of the disposal transaction; therefore no gain or loss is recognised as a result of this classification.

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% (2014: 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 the year ended 31 March 2015, 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 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 2015 was £8m (2014: £5m).

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 2015, the Group recognised £8m share of losses (2014: £7m).

The Group has reviewed the carrying value of YouView and has concluded that there is no indication of impairment.

Bolt Pro Tem Limited

The Group holds 33% of the ordinary shares 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 FY15 to deliver fibre to the premise ('FTTP') broadband services in the City of York. The Group has committed to contribute £5m over the three-year period to 31 March 2017. In FY15, the joint venture started to build a trial network in York. During the year ended 31 March 2015, the Group contributed £3m to the joint venture and received £nil share of losses.

The Group has reviewed the carrying value of BPT and has concluded that there is no indication of impairment.

Internet Matters

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. The Group is committed to contribute £2m over the period to 31 March 2017.

The table below sets out the net additions in the year.

	2015 £m	**2014 £m**
Opening balance at 1 April	**7**	9
Additions	**11**	5
Share of results	**(8)**	(7)
Closing balance at 31 March	**10**	7

The Group's share of the results, assets and liabilities of its joint ventures are as follows:

Group share of results of joint ventures	**2015 £m**	**2014 £m**
Expenses	**(8)**	(7)
Loss before taxation	**(8)**	(7)
Taxation	**—**	—
Loss after taxation	**(8)**	(7)

Group share of net assets of joint ventures	**2015 £m**	**2014 £m**
Non-current assets	**10**	7
Net assets	**10**	7

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, handsets 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.

	2015 £m	**2014 £m**
Goods for resale	**31**	24

16. Trade and other receivables

Critical judgements in applying the Group's accounting policy

Judgement is required in order to evaluate the likelihood of collection of customer debt after revenue has been recognised and hence the value of the bad and doubtful debt. These provisions are based on historical trends in the percentage of debts which are not recovered.

Trade and other receivables comprise:

	2015 £m	2014 £m
Current—trade and other receivables		
Trade receivables—gross	**178**	169
Less provision for impairment	**(25)**	(34)
Trade receivables—net	**153**	135
Other receivables	**89**	63
Prepayments and accrued income	**80**	62
Assets held for sale	**1**	—
Trade and other receivables	**323**	260

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 30 days (2014: 30 days).

The Group's trade receivables are denominated in the following currencies:

	2015 £m	2014 £m
UK Sterling	**166**	146
Other	**12**	23
	178	169

The ageing of gross trade receivables is as follows:

	2015 £m	2014 £m
Not yet due	**95**	74
0 to 2 months	**20**	14
2 to 4 months	**19**	17
Over 4 months	**44**	64
	178	169

The ageing of the provision for impairment of trade receivables is as follows:

	2015 £m	2014 £m
Not yet due	**(1)**	(2)
0 to 2 months	**(1)**	(2)
2 to 4 months	**—**	(4)
Over 4 months	**(23)**	(26)
	(25)	(34)

Movements in the provisions for impairment of trade receivables are as follows:

	2015 £m	2014 £m
Opening balance	**(34)**	(33)
Charged to the income statement	**(62)**	(52)
Receivables written off as irrecoverable	**71**	51
	(25)	(34)

Trade receivables of £59m (2014: £63m) were past due, but not impaired. These balances primarily relate to 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:

	2015 £m	2014 £m
0 to 2 months	**19**	12
2 to 4 months	**19**	13
Over 4 months	**21**	38
	59	63

17. Trade and other payables

	2015 £m	2014 £m
Trade payables	**218**	208
Other taxes and social security costs	**35**	15
Other payables	**22**	17
Accruals and deferred income	**241**	216
	516	456

The Group has commercially agreed longer credit terms with certain suppliers. Excluding these suppliers, the underlying average credit period taken on trade payables was 33 days (2014: 32 days). Including these suppliers, the average credit period taken was 43 days (2014: 42 days).

Any supplier rebates 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, loans and other borrowings

(a) Cash and cash equivalents are as follows:

	2015 £m	2014 £m
Cash at bank and in hand	**10**	—

The effective interest rate on bank deposits and money market funds was 0.6% (2014: 0.7%).

(b) Loans and other borrowings comprise:

	2015 £m	2014 £m
Current		
Bank overdrafts	**—**	7
Term loan	**—**	30
	—	37

	Maturity	2015 £m	2014 £m
Non-current			
US Private Placement Notes	2021, 2024, 2026	**109**	—
£560m revolving credit facility	2019	**340**	385
Bilateral agreement	2019	**50**	—
Term loan	2017, 2018, 2019	**100**	75
		599	460

Details of the current and non-current borrowing facilities of the Group for the year are set out below.

Bank overdrafts

Overdraft 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.

$185m US Private Placement (USPP) Notes

In July 2014 the Group issued $185m of USPP notes maturing in 3 tranches ($139m 2021, $25m 2024, $21m 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 £109m (£82m 2021, £15m 2024, £12m 2026) and the net debt includes retranslation of the USPP funds at the rates achieved where hedged by cross currency swaps.

£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 which matures in July 2019.

£100m term loan

The Group has a committed term loan of £100m (2014: £75m), with a final maturity date of July 2019. This loan amortises over the term with repayments due of £25m in January 2017, £25m in January 2018 and the remainder in July 2019. The interest rate payable in respect of drawings under this facility is at a margin over LIBOR for the relevant currency 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.

The Group's facilities total £819m (excluding the translation impact). The financial covenants included in each facility are identical; they restrict the ratio of net debt to EBITDA and require minimum levels of interest cover.

The Group was in compliance with its covenants throughout the current and prior year.

Borrowing facilities

The Group had undrawn committed borrowing facilities at the end of the year, in respect of which all conditions precedent had been met, as follows:

	Maturity	2015 £m	2014 £m
Undrawn available committed facilities	2019	**220**	175

The book value and fair value of the Group's loans and other borrowings, all of which are in Sterling, are as follows:

	2015 £m	2014 £m
Less than 1 year	**—**	37
1 to 2 years	**25**	460
2 to 3 years	**25**	—
3 to 4 years	**—**	—
4 to 5 years	**440**	—
Greater than 5 years	**109**	—
	599	497

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, excluding the Group's loans and other borrowings shown in note 18, are as follows:

	2015 £m	2014 £m
Current assets		
Cash and cash equivalents	**10**	—
Trade and other receivables*	**312**	260
Derivative financial instruments*	**11**	—
Non-current assets		
Non-current investments and investment in joint venture	**10**	7
Current liabilities		
Bank overdrafts	**—**	(7)
Trade and other payables**	**(516)**	(456)
	(173)	(196)

* Derivative financial instruments are included with other receivables in note 16.

** Deferred income has been included within the financial liabilities above so as to give completeness over the Group's contractual commitments on future cash outflows.

(a) Financial instruments

The Group's activities expose it to a variety of financial risks including market risk (such as currency risk and interest rate risk), credit risk and liquidity risk. The Group Treasury function uses certain financial instruments to mitigate potential adverse effects on the Group's financial performance from these risks. These financial instruments primarily consist of bank loans and interest rate swaps. Other products, such as currency options, can also be used depending on the risks to be covered, but have not been used in the current or preceding financial year. The Group does not trade or speculate in any financial instruments.

The Group has cash flow hedges in place to (a) swap the interest rate risk on the RCF from floating to fixed 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. These hedges have been fully effective from inception. The fair value measurement is classified as Level 2 (FY14: 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 2015 is £11m (2014: £nil). A loss of £5m (2014: gain of £3m) has been recognised in other comprehensive income in the year ended 31 March 2015. As the hedges were fully effective there has been no income statement impact.

(b) Embedded derivatives

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

(c) Foreign exchange risk

The Group uses spot and forward foreign exchange trading to hedge transactional exposures, which arise mainly through cost of sales and operating expenses, and are primarily denominated in Euro and US Dollar. The Group also uses cross currency swaps to hedge its US Dollar denominated borrowings (US Private Placement). At 31 March 2015 the adjustment to translate our net debt to Sterling at swap rates to reflect the impact of hedging was £16m (2014: £nil).

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 was no material impact of a 10% movement in the UK Sterling/Euro 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	Euro £m	USD £m	Total £m
2015				
Borrowings before derivatives	**490**	**—**	**125**	**615**
Derivatives	**—**	**—**	**(16)**	**(16)**
	490	**—**	**109**	**599**

	UK Sterling £m	Euro £m	USD £m	Total £m
2014				
Borrowings before derivatives	497	—	—	497
Derivatives	(7)	10	(3)	—
	490	10	(3)	497

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.

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 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.

	2015 £m	2014 £m
1% movement in the UK Sterling interest rate		
Income statement movement	**3**	3

(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. Headroom is assessed based on historical experience as well as by assessing current business risks, including foreign exchange movements. Existing bank debt facilities do not expire until July 2019, USPP debt matures in three tranches July 2021, 2024 and 2026; it is Group policy to refinance debt maturities significantly ahead of maturity dates.

The table below analyses the Group's financial liabilities into relevant maturity groupings. The amounts disclosed in the table are the contractual undiscounted 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
2015							
Loans and other borrowings	**—**	**(25)**	**(25)**	**—**	**(440)**	**(125)**	**(615)**
Derivative financial instruments—payable	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Derivative financial instruments—receivable	**—**	**—**	**—**	**—**	**—**	**16**	**16**
Trade and other payables	**(516)**	**—**	**—**	**—**	**—**	**—**	**(516)**
	(516)	**(25)**	**(25)**	**—**	**(440)**	**(109)**	**(1,115)**

	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
2014							
Loans and other borrowings	(37)	(460)	—	—	—	—	(497)
Derivative financial instruments—payable	(7)	—	—	—	—	—	(7)
Derivative financial instruments—receivable	7	—	—	—	—	—	7
Trade and other payables	(456)	—	—	—	—	—	(456)
	(493)	(460)	—	—	—	—	(953)

(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 Consumer and TalkTalk Business 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 as disclosed in notes 21 to 22.

The Group's Board reviews the capital structure on an annual basis. As part of this review, the Board concluded that it is more appropriate to align its measures with the external metrics in the banking agreement. The Group uses the ratio of net debt to EBITDA and has a medium term ratio target below 2.0x. The ratio at 31 March 2015 is 2.4x driven primarily by the Company's continued investment in growth combined with an increased dividend pay-out. The Board is confident that the ratio will return to its target in the medium term.

The net debt to EBITDA ratio at the year-end is as follows:

	2015 £m	2014 £m
Debt	**(615)**	(490)
Cash and cash equivalents	**10**	—
Bank overdraft	**—**	(7)
Derivatives	**16**	—
Net debt	**(589)**	(497)
EBITDA	**245**	213
Net debt to EBITDA ratio	**2.4x**	2.3x

20. Provisions

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:

Operating efficiencies

Operating efficiencies provisions relate principally to redundancy 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.

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.

Contract and other

Contract and other provisions relate mainly to customer migration costs as a result of the customer base acquisitions in the current year and the SIM replacement costs as part of the mobile migration programme (note 9). The remaining are provisions on onerous contracts and contracts with unfavourable terms arising on the acquisition of businesses and anticipated costs of unresolved legal disputes. All such provisions are assessed by reference to the best available information at the balance sheet date.

The below tables analyse the Group's provisions:

	2015 £m	2014 £m
Current	**34**	2
Non-current	**1**	7
	35	9

	Operating efficiencies £m	One Company integration £m	Property £m	Contract and other £m	Total £m
2015					
Opening balance	**1**	**1**	**7**	**—**	**9**
Charged to income statement	**—**	**—**	**—**	**32**	**32**
Released to income statement	**—**	**—**	**(2)**	**—**	**(2)**
Utilised in the year	**(1)**	**—**	**(3)**	**—**	**(4)**
	—	**1**	**2**	**32**	**35**

	Operating efficiencies £m	One Company integration £m	Property £m	Contract and other £m	Total £m
2014					
Opening balance	2	2	9	—	13
Charged to income statement	2	—	1	—	3
Utilised in the year	(3)	(1)	(3)	—	(7)
	1	1	7	—	9

21. Share capital

	2015 million	2014 million	2015 £m	2014 £m
Allotted, called up and fully paid				
Ordinary shares of 0.1p each	**955**	955	**1**	1

22. Reserves

	Notes	Share capital £m	Share premium £m	Translation reserve £m	Demerger reserve £m	Retained earnings and other reserves £m	Total £m
At 1 April 2014		**1**	**684**	**(64)**	**(513)**	**239**	**347**
Total comprehensive income for the year		**—**	**—**	**(1)**	**—**	**67**	**66**
Taxation of items recognised directly in reserves		**—**	**—**	**—**	**—**	**(3)**	**(3)**
Share-based payments reserve credit	5	**—**	**—**	**—**	**—**	**4**	**4**
Share-based payments reserve debit		**—**	**—**	**—**	**—**	**(3)**	**(3)**
Settlement of Group ESOT		**—**	**—**	**—**	**—**	**2**	**2**
Equity dividends	8	**—**	**—**	**—**	**—**	**(116)**	**(116)**
At 31 March 2015		**1**	**684**	**(65)**	**(513)**	**190**	**297**

	Notes	Share capital £m	Share premium £m	Translation reserve £m	Demerger reserve £m	Retained earnings and other reserves £m	Total £m
At 1 April 2013		1	618	(64)	(513)	400	442
Total comprehensive income for the year		—	—	—	—	31	31
Issues of own shares*		—	66	—	—	(78)	(12)
Taxation of items recognised directly in reserves		—	—	—	—	2	2
Purchase of own shares		—	—	—	—	(24)	(24)
Settlement of Group ESOT		—	—	—	—	6	6
Adjustment arising from change in non-controlling interest**		—	—	—	—	(3)	(3)
Share-based payments reserve credit	5	—	—	—	—	4	4
Equity dividends	8	—	—	—	—	(99)	(99)
At 31 March 2014		1	684	(64)	(513)	239	347

* On 16 September 2013, the Group's Remuneration Committee determined that the relevant performance conditions of the VES schemes had been satisfied, meaning the VES participants were entitled to exercise the remaining 40% of their options as set out in note 5. The settlement of the schemes resulted in the recognition of share premium of £66m and a £78m movement in retained earnings and other reserves.

** On 14 May 2013, the Group acquired the remaining 75% of the issued share capital of FOC. The Group already held 25% of FOC and had control of the business. The cash consideration paid for the acquisition of £3m has been recognised as a transaction with a non-controlling interest.

Group ESOT

The Group ESOT held 33 million shares at 31 March 2015 (2014: 34 million) in the Company for the benefit of employees. 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 £112m (2014: £109m).

Demerger reserve

The demerger reserve primarily reflects the profits or losses arising on the transfer of investments and net assets of CPW on demerger.

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.

23. Analysis of changes in net debt

	Opening £m	Net cash flow £m	Closing £m
2015			
Cash and cash equivalents	**—**	**10**	**10**
Bank overdrafts	**(7)**	**7**	**—**
	(7)	**17**	**10**
Current loans and other borrowings	**(30)**	**30**	**—**
Non-current loans and other borrowings	**(460)**	**(155)**	**(615)**
Derivatives	**—**	**16**	**16**
	(490)	**(109)**	**(599)**
Total net debt	**(497)**	**(92)**	**(589)**

	Opening £m	Net cash flow £m	Closing £m
2014			
Cash and cash equivalents	7	(7)	—
Bank overdrafts	—	(7)	(7)
	7	(14)	(7)
Current loans and other borrowings	(25)	(5)	(30)
Non-current loans and other borrowings	(375)	(85)	(460)
	(400)	(90)	(490)
Total net debt	(393)	(104)	(497)

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.

The Group had outstanding commitments for future minimum payments due as follows:

	2015 £m	2014 £m
Less than 1 year	**37**	39
2 to 5 years	**65**	61
Greater than 5 years	**58**	55
	160	155

25. Capital commitments

The Group had entered into the following amount of contractual commitments for the acquisition of property, plant and equipment at the year end:

	2015 £m	2014 £m
Expenditure contracted but not provided for in the financial statements	**85**	23

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 29 to 46. The remuneration of all key management personnel is disclosed in note 4.

27. Contingent liabilities

As at 31 March 2014, the Group had received £33m in total in relation to an Ofcom determination that BT had overcharged for certain wholesale Ethernet services. During the year ended 31 March 2015, BT lost its appeal against Ofcom's determination in the Competition Appeal Tribunal and appealed to the Court of Appeal. The decision of that appeal has not yet been made and the Group considers the appeal is unlikely to succeed based on the advice received and so no liability for repayment has been recorded at the year end, although the outcome of the appeal is not yet certain.

28. Events after the balance sheet date

On 22 April 2015, the Group acquired 100% shares of tIPicall limited, a company providing Voice over Internet Protocol (VoIP) services for cash of £5m plus an element of deferred consideration depending on the performance of the business. The Group's investment in the company will be accounted for as a subsidiary in accordance with IFRS 3 'Business Combination'. The financial impact of the acquisition on the Group position is not material.

TalkTalk Telecom Group PLC

Consolidated financial statements of the Group as at and for the year ended March 31, 2014[1]

(1) Extracted from TalkTalk Telecom Group PLC Annual Report 2014.

TalkTalk Telecom Group PLC
CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP AS AT AND FOR THE YEAR ENDED MARCH 31, 2014[1]

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(1) Extracted from TalkTalk Telecom Group PLC Annual Report 2014.

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 2014 and of the Group's profit for the year then ended;
- the Group 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 United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Group income statement, the Group statement of comprehensive income, the Group statement of changes in equity, the Group and Parent Company balance sheets, the Group cash flow statement, the Parent Company reconciliation of movements in shareholders' funds and the related notes 1 to 28. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 1 to the Group 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 Group financial statements comply with IFRSs as issued by the IASB.

Going concern

As required by the Listing Rules we have reviewed the Directors' statement contained within the Chief Financial Officer's Statement that the Group is a going concern. We confirm that:

- we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

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.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described opposite 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.

Risk	How the scope of our audit responded to the risk
Revenue recognition Revenue recognition surrounding: • the completeness over revenue due to the high volume of low value data. The majority of the Group's revenue is generated from the output of billing systems; and	We tested the operating effectiveness of key IT and business controls over the customer billing systems. Our tests assessed the operating effectiveness of controls put in place to ensure all services supplied to customers are input into and processed through the 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.

This enabled us to obtain controls assurance over billing systems accounting for over 95% of total Group revenue. We subsequently applied a combination of substantive analytical review procedures and tests of detail to obtain assurance over the validity 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 of historical credits applied to customer accounts to the income statement.

Disclosure of exceptional items and the presentation of adjusted measures in the financial statements
The disclosure of exceptional items and their presentation on the face of the income statement represents an audit risk given the level of management judgement involved. Areas of particular audit focus in the current year are exceptional costs recognised in relation to dual running costs, internal labour costs and the "Red Routers" programme – all of which we deem to carry a higher level of judgement. The nature of these costs have been defined in note 9 to the accounts.

In addition to understanding the composition of exceptional items and agreeing a sample of items to supporting documentation, we have challenged management's rationale for the presentation of items within the income statement as exceptional, particularly around the areas of higher judgement, such as dual-running, to ensure 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 were exceptional by nature but not separately identified.

Carrying value of goodwill and intangible assets
Management is required to undertake an annual impairment review, which incorporates judgements based on assumptions of future cash flows, including assumptions around revenue growth, margins and forecast cash flows, the selection of appropriate discount rates and the assessment of the Group's cash generating units.

We challenged management's assumptions used in the impairment model for goodwill and intangible assets, including specifically the determination of cash generating units, the forecast cash flow projections for each cash generating unit and the discount rates. In making this critical assessment of the cash flow projections we assessed historical forecasting accuracy and compared forecast profit margins to historical margins and benchmarked the discount rate and growth rates employed to available market data. We critically assessed management's position as to whether or not a reasonably possible change to key operating assumptions could result in an impairment. In doing so we considered the sensitivity of the asset valuations to these assumptions, in particular changes to the long term growth rate assumed and the growth of the TV and Fibre customer bases. We also considered the appropriateness of the related disclosures set out in note 11 to the accounts.

Treatment and presentation of deferred tax assets

The accounting treatment and presentation of the measurement of deferred tax assets relating to losses of Video Networks Limited acquired with Tiscali which have been disclosed within note 7. The recognition of these deferred tax assets are judgemental as a result of their nature and reliance on management forecasts.

We have reviewed correspondence with HMRC supporting the availability of these losses and have challenged management's forecasts of future taxable profits to determine the appropriate quantum of Video Network losses to recognise as a deferred tax asset.

The Audit Committee's consideration of these risks is set out on page 23.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual 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.

We determined planning materiality for the Group to be £6m (2013: £8.2m). In determining materiality, we made allowance for the impact of the subscriber acquisition costs related to TV customers which has reduced current year profits. Our materiality was therefore set by blending revenue and profit metrics to take this matter in to account. On the basis of our risk assessment, together with our assessment of the Group's overall control environment, our judgement is that performance materiality for the Group should be 70% of planning materiality, namely £4.2m. Our objective in adopting this approach is to ensure that total detected and undetected audit differences do not exceed our planning materiality for the financial statements as whole.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £120,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the 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, 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 represent 95% of the Group's total assets and revenues. Specific focused audit work was performed over Group functions, including those covering treasury and taxation. Our audit work at each division was executed at levels of materiality which were lower than Group materiality.

At the parent entity level we also tested the consolidation process 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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and

- 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.

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 the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

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 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 financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. 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, strategically focused second partner reviews 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 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, United Kingdom
14 May 2014

Group income statement
For the year ended 31 March

		2014			2013		
	Notes	**Before amortisation of acquisition intangibles and exceptional items £m**	**Amortisation of acquisition intangibles and exceptional items* £m**	**After amortisation of acquisition intangibles and exceptional items £m**	**Before amortisation of acquisition intangibles and exceptional items £m**	**Amortisation of acquisition intangibles and exceptional items* £m**	**After amortisation of acquisition intangibles and exceptional items £m**
Revenue	2	**1,727**	**(5)**	**1,722**	1,670	—	1,670
Cost of sales		**(769)**	**—**	**(769)**	(751)	—	(751)
Gross profit		**958**	**(5)**	**953**	919	—	919
Operating expenses excluding amortisation and depreciation		**(745)**	**(17)**	**(762)**	(629)	9	(620)
Headline EBITDA		**213**	**(22)**	**191**	290	9	299
Depreciation	3, 12	**(77)**	**—**	**(77)**	(76)	—	(76)
Amortisation	3, 11	**(35)**	**(21)**	**(56)**	(26)	(52)	(78)
Share of results of joint venture	14	**(7)**	**—**	**(7)**	(4)	—	(4)
Operating profit	3	**94**	**(43)**	**51**	184	(43)	141
Finance costs	6	**(20)**	**—**	**(20)**	(19)	—	(19)
Profit before taxation		**74**	**(43)**	**31**	165	(43)	122
Taxation	7	**(13)**	**10**	**(3)**	(33)	11	(22)
Profit for the year		**61**	**(33)**	**28**	132	(32)	100
Attributable to the equity holders of the Parent Company		**61**	**(33)**	**28**	132	(32)	100
Earnings per share							
Headline/Statutory							
Basic (pence)	10	**6.8**		**3.1**	14.9		11.3
Diluted (pence)	10	**6.6**		**3.0**	14.0		10.6

* A reconciliation of Headline information to Statutory information is provided in note 9 to the financial statements.

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

Group statement of comprehensive income
For the year ended 31 March

	Notes	2014 £m	2013 £m
Profit for the year*		**28**	100
Other comprehensive income for the year			
Items that may be reclassified subsequently to the income statement:			
Derivative financial instruments*	19	**3**	(2)
Currency translation differences		**—**	1
Total comprehensive income for the year		**31**	99
Attributable to the equity holders of the Parent Company		**31**	99

* Recognised within retained earnings and other reserves.

The accompanying notes are an integral part of this Group statement of comprehensive income.

Group statement of changes in equity
For the year ended 31 March

	Notes	Share capital £m	Share premium £m	Translation reserve £m	Demerger reserve £m	Retained earnings and other reserves £m	Total £m
At 1 April 2013		**1**	**618**	**(64)**	**(513)**	**400**	**442**
Total comprehensive income for the year		**—**	**—**	**—**	**—**	**31**	**31**
Issue of own shares*	22	**—**	**66**	**—**	**—**	**(78)**	**(12)**
Taxation of items recognised directly in reserves		**—**	**—**	**—**	**—**	**2**	**2**
Purchase of own shares		**—**	**—**	**—**	**—**	**(24)**	**(24)**
Settlement of Group ESOT		**—**	**—**	**—**	**—**	**6**	**6**
Adjustment arising from change in non-controlling interest		**—**	**—**	**—**	**—**	**(3)**	**(3)**
Share-based payments reserve credit	5	**—**	**—**	**—**	**—**	**4**	**4**
Equity dividends	8	**—**	**—**	**—**	**—**	**(99)**	**(99)**
At 31 March 2014		**1**	**684**	**(64)**	**(513)**	**239**	**347**

	Notes	Share capital £m	Share premium £m	Translation reserve £m	Demerger reserve £m	Retained earnings and other reserves £m	Total £m
At 1 April 2012		1	586	(65)	(513)	435	444
Total comprehensive income for the year		—	—	1	—	98	99
Issue of own shares**	22	—	32	—	—	(63)	(31)
Taxation of items recognised directly in reserves		—	—	—	—	11	11
Share-based payments reserve credit	5	—	—	—	—	6	6
Equity dividends	8	—	—	—	—	(87)	(87)
At 31 March 2013		1	618	(64)	(513)	400	442

* On 16 September 2013, the Group's Remuneration Committee determined that the relevant performance conditions of the VES schemes (including the 5% TSR requirement) had been satisfied, meaning the VES participants were entitled to exercise the remaining 40% of their options as set out in note 5. The settlement of the schemes resulted in the recognition of share premium of £66m and a £78m movement in retained earnings and other reserves.

** On 17 September 2012, the Group's Remuneration Committee determined that the relevant performance conditions of the VES schemes (including the 5% TSR requirement) had been satisfied, meaning the VES participants were entitled to exercise 60% of their options as set out in note 5. The settlement of the schemes resulted in the recognition of share premium of £32m and a £63m movement in retained earnings and other reserves.

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

Group balance sheet
As at 31 March

	Notes	2014 £m	2013 £m
Non-current assets			
Goodwill	11	**479**	479
Other intangible assets	11	**141**	154
Property, plant and equipment	12	**305**	295
Investment in joint venture	14	**7**	9
Deferred tax assets	7	**107**	109
		1,039	1,046
Current assets			
Cash and cash equivalents	18	**–**	7
Inventories	15	**24**	23
Trade and other receivables	16	**260**	226
		284	256
Total assets		**1,323**	1,302
Current liabilities			
Bank overdraft	18	**(7)**	–
Trade and other payables	17	**(456)**	(431)
Loans and other borrowings	18	**(30)**	(25)
Corporation tax liabilities		**(14)**	(16)
Provisions	20	**(2)**	(5)
		(509)	(477)
Non-current liabilities			
Loans and other borrowings	18	**(460)**	(375)
Provisions	20	**(7)**	(8)
		(467)	(383)
Total liabilities		**(976)**	(860)
Net assets		**347**	442
Equity			
Share capital	21,22	**1**	1
Share premium	22	**684**	618
Translation reserve	22	**(64)**	(64)
Demerger reserve	22	**(513)**	(513)
Retained earnings and other reserves	22	**239**	400
Total equity		**347**	442

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

These financial statements were approved by the Board on 14 May 2014. They were signed on its behalf by:

D Harding
Chief Executive Officer
14 May 2014

S Makin
Chief Financial Officer
14 May 2014

Group cash flow statement
For the year ended 31 March

	Notes	2014 £m	2013 £m
Operating activities			
Operating profit		**51**	141
Adjustments for non-cash items:			
Share-based payments	5	**4**	6
Depreciation	3, 12	**77**	76
Amortisation	3, 11	**56**	78
Share of losses of joint venture	14	**7**	4
Profit on disposal of subsidiaries	13	**—**	(1)
Operating cash flows before movements in working capital		**195**	**304**
Increase in trade and other receivables		**(36)**	(37)
Increase in inventory		**(1)**	(20)
Increase in trade and other payables		**7**	46
Decrease in provisions		**(5)**	(6)
Cash generated by operations		**160**	287
Income taxes paid		**—**	—
Net cash flows generated from operating activities		**160**	287
Investing activities			
Acquisition of subsidiaries and joint ventures, net of cash acquired	13, 14	**(8)**	(6)
Disposal of subsidiaries and customer bases	13	**—**	2
Acquisition of intangible assets		**(42)**	(34)
Acquisition of property, plant and equipment		**(65)**	(70)
Cash flows used in investing activities		**(115)**	(108)
Financing activities			
Settlement of Group ESOT shares		**6**	—
Net purchase of own shares		**(39)**	(35)
Drawdown (repayment) of borrowings	23	**90**	(35)
Interest paid		**(17)**	(16)
Dividends paid	8	**(99)**	(87)
Cash flows used in financing activities		**(59)**	(173)
Net (decrease) increase in cash and cash equivalents		**(14)**	**6**
Cash and cash equivalents at the start of the year		**7**	1
Cash and cash equivalents at the end of the year		**(7)**	7
Cash and cash equivalents for the purpose of this statement comprise:			
Cash and cash equivalents	18	**—**	7
Bank overdrafts	18	**(7)**	—
		(7)	7

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

Notes to the consolidated financial statements

1. Accounting policies and basis of preparation

Basis of preparation

TalkTalk Telecom Group PLC is incorporated in England and Wales under the Companies Act 2006.

The consolidated 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 Company has elected to prepare its Parent Company financial statements in accordance with UK GAAP.

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

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.

Going concern

The financial statements have been prepared on the going concern basis. Details of the considerations undertaken by the Directors in reaching this conclusion are set out on page 14 within the Chief Financial Officer's statement.

Accounting policies

The Group's principal accounting policies, which relate to the 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.

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 are amortised on a straight line basis over the minimum contract period subject to an adjustment for in-contract churn; 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. The amount of revenue the Group recognises for delivered elements is limited to the cash received.

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.

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 thus 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	
	2014	**2013**	**2014**	**2013**
Euro	**1.19**	1.23	**1.21**	1.19
United States Dollar	**1.60**	1.58	**1.67**	1.52

Where a foreign operation is sold, the gain or loss on disposal recognised in the income statement is determined after taking into account the cumulative currency translation differences that are attributable to the operation.

Leases

Rental payments under operating leases are charged to the income statement on a straight line basis over the period of the lease. Lease incentives and rent free periods are amortised through the income statement over the period of the lease.

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.

Financial instruments

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

Trade and other receivables

Trade receivables, loans 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.

Cash and cash equivalents

Cash and cash equivalents and bank deposits consists of cash in hand.

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.

Loans and other borrowings

Loans and other borrowings represent committed and uncommitted bank loans, bank overdrafts and loans from related parties. These are initially measured at fair value (which is equal to cost at inception) 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, 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's 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 most sensitive estimates and assumptions that are significant to the financial statements are set out in more detail in the related notes:

- tax (note 7);
- exceptional items (note 9);
- impairment of goodwill (note 11);
- capitalisation and useful economic lives of assets (notes 11 and 12);
- impairment of assets (notes 11 and 12); and
- trade receivables (note 16).

Application of significant new or amended EU endorsed accounting standards

Amendments to IAS 1 'Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income' and IFRS 13 'Fair Value Measurement' became effective in the current reporting period. These new and revised standards and interpretations have no material impact on the Group.

In addition, the Group has elected to early adopt IAS 36 (revised) 'Impairment of Assets' (IAS 36), which is endorsed by the EU, but not effective until periods beginning on or after 1 January 2014. The amendments to IAS 36 enhance the disclosure requirements arising when recoverable amounts have been determined on the basis of fair value less costs of disposal. They also limit the requirement to disclose the recoverable amount of an asset or CGU to periods in which an impairment loss has been recognised or reverses.

We have chosen to adopt the amendments early, as allowed by the standard, with effect from 1 April 2013.

Future accounting developments

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

• IFRS 9	'Financial Instruments'
• IFRS 10, IFRS 12 and IAS 27 (amended)	'Investment Entities'
• IAS 32 (amended)	'Offsetting Financial Assets and Financial Liabilities'
• IAS 39 (amended)	'Novation of Derivatives and Continuation of Hedge Accounting'
• IFRIC 21	'Levies'

The Directors do not expect that the adoption of these standards will have a material impact on the financial statements of the Group in future periods, except as follows:

- IFRS 9 will impact the:
  - measurement and disclosure of financial instruments; and
  - disclosure of interest the Group has in other entities.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

2. Segmental reporting

Accounting policy

IFRS 8 'Operating Segments' requires the segmental information presented in the financial statements to be that used by the chief operating decision maker to evaluate the performance of the business and decide how to allocate resources. The Group has identified the Board as its chief operating decision maker. 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.

	2014 £m	**2013 £m**
Headline revenue	**1,727**	1,670
Headline EBITDA	**213**	290
Depreciation	**(77)**	(76)
Amortisation of operating intangibles	**(35)**	(26)
Share of results of joint ventures	**(7)**	(4)
Headline profit before interest and taxation (note 9)	**94**	184
Amortisation of acquisition intangibles	**(21)**	(52)
Exceptional items	**(22)**	9
Operating profit	**51**	141

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

	2014 £m	**2013 £m**
On-net	**1,259**	1,170
Off-net	**128**	178
Corporate	**340**	322
	1,727	1,670

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

3. Operating profit before interest and taxation

Group profit before interest and taxation is stated after charging (crediting):

	2014 £m	**2013 £m**
Depreciation of property, plant and equipment	**77**	76
Amortisation of acquisition intangibles	**21**	52
Amortisation of other operating intangible fixed assets	**35**	26
Profit on disposal of subsidiaries and customer bases	**—**	(1)
Impairment of Shared Band Limited	**—**	1
Impairment loss recognised on trade receivables	**52**	33
Staff costs	**125**	133
Cost of inventories recognised in expenses	**123**	67
Rentals under operating leases	**91**	79
Auditor's remuneration*	**1**	1

* A breakdown of auditor's remuneration is disclosed within the Governance section on page 24.

4. Employee costs

The average number of employees (including Executive Directors) was:

	2014 Number	2013 Number
Administration	**1,516**	1,517
Sales and customer management	**792**	998
	2,308	2,515

The aggregate remuneration recognised in respect of these employees in the income statement comprised:

	2014 £m	2013 £m
Wages and salaries	**104**	110
Social security costs	**13**	14
Other pension costs	**4**	3
	121	127
Share-based payments (note 5)	**4**	6
	125	133

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 TalkTalk Group Executive Board and Board of Directors.

	2014 £m	Restated 2013 £m
Salaries and fees	**3.9**	4.0
Performance bonuses	**1.8**	1.9
Benefits	**0.2**	0.1
Pension costs	**0.2**	0.2
Share-based payments*	**0.7**	0.9
	6.8	7.1

* The prior year share-based payments charge has been restated from £2.2m to £0.9m. This is to reflect the fact that the charge disclosed in the 2013 Annual Report showed the total charge across the life of the scheme for these employees rather than just the FY13 charge.

5. Share-based payments

Accounting policy

The Group issues equity-settled share-based payments to certain employees. 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, 'market' 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 on grant.

In accordance with IFRS 2 ‘Share-based Payment’ no cost has been recognised in respect of the options granted before November 2002.

Group share schemes

The Group’s share schemes are the Discretionary Share Option Plan (DSOP) and Save-As-You-Earn scheme (SAYE).

In addition, the Group has a number of legacy CPW schemes.

In order to aid the user of the accounts, the dilutive effect on EPS of each of the Group schemes and legacy CPW schemes has been presented. This has been calculated using an average share price for the financial year of £2.67 (2013: £1.98).

For the CPW legacy schemes, there is no IFRS 2 charge in the current year (2013: £1m). the disclosures are limited to the dilutive effect on EPS and the number of options outstanding at the end of the year.

In September 2013, the remaining 40% of the TTG VES and the CPW TTG VES vested. Further information is set out in section (vi) of this note.

Summary of share schemes

Year ended 31 March 2014	**IFRS 2 charge £m**	**Dilutive effect millions**	**Options outstanding at end of the year millions**
TalkTalk Telecom Group PLC schemes			
All Employee Share Option Award—2012	**2**	**1**	**—**
DSOP—2013 grant	**1**	**3**	**6**
DSOP—2012 grant	**1**	**5**	**10**
DSOP—2010 grant	**—**	**4**	**2**
SAYE	**—**	**2**	**4**
Total TalkTalk Telecom Group PLC schemes	**4**	**15**	**22**
Legacy Carphone Warehouse schemes			
TTG VES and CPW TTG VES	**—**	**14**	**—**
Other employee share option schemes	**—**	**1**	**1**
Total legacy Carphone Warehouse schemes	**—**	**15**	**1**
Total	**4**	**30**	**23**

Year ended 31 March 2013	IFRS 2 charge £m	Dilutive effect millions	Options outstanding at end of the year millions
TalkTalk Telecom Group PLC schemes			
All Employee Share Option Award—2012	2	1	2
DSOP—2012 grant	1	5	12
DSOP—2010 grant	1	7	17
SAYE	1	3	6
Total TalkTalk Telecom Group PLC schemes	5	16	37
Legacy Carphone Warehouse schemes			
TTG VES and CPW TTG VES	1	38	—
Other employee share option schemes	—	2	1
Total legacy Carphone Warehouse schemes	1	40	1
Total	6	56	38

TalkTalk Telecom Group PLC schemes

(i) All Employee Share Option Award—2012

The All Employee Share Option Award—2012 was granted in September 2012, under the DSOP rules, approved by shareholders in 2010. The award of 1,000 nil priced share options per qualifying employee was designed to reward all employees who were not part of another share option plan and to foster all-employee share ownership. The exercise of options was subject to continuing employment at the vesting date in September 2013 and there are no performance conditions in relation to this award. These options lapse on resignation of an employee. On 12 September 2013, two million options vested and were exercised by qualifying employees.

(ii) DSOP—2013 grant

In June 2013, the Group granted six million nil priced share option awards subject to absolute TSR and EPS performance targets. During December 2013 and January 2014, the Group granted a further 141,000 options under the DSOP—2013 grant to a number of new senior employees. The options are measured over a performance period to 31 March 2016 and will vest on the publication of the Group's 2016 Annual Report. 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. Awards are triggered within a range from 5% to 26% for compound annual growth of TSR and EPS. If the minimum performance requirement is met a total of 25% of the award will vest, rising to 40% for target, 70% for stretch and 100% for super stretch.

	2014	
DSOP—2013 grant	**Number million**	**WAEP £**
Outstanding at the beginning of the year	**—**	**—**
Granted during the year	**6**	**—**
Forfeited during the year	**—**	**—**
Outstanding at the end of the year	**6**	**—**
Exercisable at the end of the year	**—**	**—**

Valuation method	**Monte Carlo**
Share price (pence)	**228**
Exercise price (pence)	**nil**
Expected volatility	**30.00%**
Expected exercise (60%/40%)	**3.0/4.0 years**
Risk free rate (three years/four years)	**0.50%/0.80%**
Expected dividend yield	**4.45%**
Fair value of options granted (£m)	**3.0**

The weighted average remaining contractual life of the DSOP—2013 grant is 9.2 years. The TalkTalk DSOP is designed to provide a long term incentive plan for senior employees of the Group.

(iii) DSOP—2012 grant

Nil priced share option awards made under the DSOP 2012 grant are subject to absolute TSR and EPS performance targets with a cap and collar to address volatility in the market, as detailed in the Directors' Remuneration Report. The options are measured over a performance period to 31 March 2015 and will vest on the publication of the Group's 2015 Annual Report. 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. Awards are triggered within a range from 10% to 19% for compound annual growth of TSR and EPS. If the minimum performance requirement is met a total of 25% of the award will vest, rising to 40% for target, 70% for stretch and 100% for super stretch.

	2014		2013	
DSOP—2012 grant	**Number million**	**WAEP £**	**Number million**	**WAEP £**
Outstanding at the beginning of the year	**12**	**—**	11	—
Granted during the year	**—**	**—**	1	—
Forfeited during the year	**(2)**	**—**	—	—
Outstanding at the end of the year	**10**	**—**	**12**	**—**
Exercisable at the end of the year	**—**	**—**	**—**	**—**

The weighted average remaining contractual life of the DSOP – 2012 grant is 7.9 years (2013: 8.9 years).

(iv) DSOP—2010 grant

Awards made under the DSOP—2010 grant are subject to TSR performance targets and were measured over a performance period to 28 March 2013. Options were forfeited if an employee left the Group before the options vested. On 28 March 2013, all options vested but they were not exercisable until after the preliminary announcement on 16 May 2013. The original date of vesting of 29 March 2013 was brought forward to 28 March 2013 due to a bank holiday. During the year ended 31 March 2014, 15 million options were exercised.

	2014		2013	
DSOP—2010 grant	**Number million**	**WAEP £**	**Number million**	**WAEP £**
Outstanding at the beginning of the year	**17**	**1.24**	20	1.24
Exercised during the year	**(15)**	**1.23**	—	—
Forfeited during the year	**—**	**—**	(3)	1.27
Outstanding at the end of the year	**2**	**1.27**	17	1.24
Exercisable at the end of the year	**2**	**—**	—	—

The weighted average remaining contractual life of the DSOP—2010 grant is 6.0 years (2013: 7.0 years). Of the DSOP—2010 grant, 472,000 options were nil priced, of which 236,000 vested on 1 September 2012 and a further 236,000 vested on 1 September 2013. All 472,000 of these options were exercised in the year ended 31 March 2014.

(v) 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. 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:

2013 grant	192p per share
2012 grant	123p per share
2011 grant	119p per share
2010 grant	102p per share

	2014		2013	
	Number million	**WAEP £**	**Number million**	**WAEP £**
Outstanding at the beginning of the year	**6**	**1.08**	6	1.05
Granted during the year	**2**	**1.92**	1	1.23
Exercised during the year	**(3)**	**1.03**	—	—
Forfeited during the year	**(1)**	**1.42**	(1)	1.11
Outstanding at the end of the year	**4**	**1.52**	6	1.08
Exercisable at the end of the year	**—**	**—**	—	—

	SAYE—2013 grant
Valuation method	Black Scholes
Share price (pence)	223
Exercise price (pence)	192
Expected volatility	26.56%
Expected exercise (years)	3.8
Risk free rate	1.18%
Expected dividend yield	4.66%
Fair value of options granted (£m)	0.8

The weighted average remaining contractual life of SAYE options is 2.3 years (2013: 1.6 years).

(vi) TTG VES and CPW TTG VES

The TTG VES enables participants to share in up to 7% of any increase in the value of the Group over an opening valuation representing invested capital at 1 April 2009, adjusted as relevant for changes in invested capital since that date. The incremental value is measured after a minimum annual rate of return of 7% on this invested capital. The Group advanced loans to participants to enable them to purchase A shares in TalkTalk Group Limited, the holding company of the Group's operating business. The CPW TTG VES enables participants to share in 2.24% of any increase in the value of the Group over an opening valuation representing invested capital at 1 April 2009, adjusted for the change in the Group's opening share price since 1 April 2009. In line with the TTG VES, the invested capital is adjusted for changes in invested capital since 1 April 2009 and the incremental value is measured after a minimum annual rate of return of 7%. For the vesting in September 2013, this is capped at the September 2012 amount. The rules of both schemes have been approved by shareholders.

The Group's opening share price for this purpose represents an allocation of the share price of CPW at that rate, based on the market capitalisation of the Group and Carphone Warehouse Group PLC in the five days following demerger. CPW advanced loans to participants to enable them to purchase C shares in TalkTalk Group Limited, the holding company of the Group's operating businesses. The Group has an obligation to acquire the A and C shares if performance conditions are met, to provide to participants the share of value described above.

The fair value of the schemes, which has performance targets based on the growth of the market capitalisation of the Group, was estimated at the date of grant using a Monte Carlo model to initially value the A shares and then a Black Scholes model to calculate the option value. The model combines the valuation price of a share at the date of grant with the probability of meeting performance criteria, based on the expected value of the Group at the date of grant discounted for the lack of marketability of the shares.

On 16 September 2013, the Group's Remuneration Committee determined that the relevant performance conditions of these VES schemes (including the 5% TSR requirement) had been satisfied meaning the VES participants were entitled to exercise the remaining 40% of their VES options. On 19 November 2013, the participants' options were acquired by the Company for new ordinary shares in the Company and cash, resulting in a cash outflow of £15m. The net issue of 23.7 million shares in the Company was at a price of £2.78 per share, being the average closing price of the Company's shares over the five working days from 12 to 18 November 2013. The settlement of the schemes resulted in a net movement in reserves of £12m being the recognition of share premium of £66m and a £78m debit in retained earnings and other reserves. The £78m debit to reserves represents a total cash outflow of £15m and the value of new PLC shares issued of £66m net of the repayment of the associated VES loans, interest and a reduction in the Group's liability to settle the schemes.

6. Finance costs and investment revenue

Finance costs are analysed as follows:

	2014 £m	2013 £m
Interest on bank loans and overdrafts	**16**	14
Facility fees and similar charges	**4**	4
Unwinding of discount on provisions	**—**	1
	20	**19**

During the year ended 31 March 2012, the Group refinanced its revolving credit facility and paid £7m in respect of facility fees. This is being amortised over the expected life of the loan and is included within facility fees and similar charges above.

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.

Critical judgements 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.

Tax—income statement

The tax charge comprises:

	2014 £m	2013 £m
Current tax:		
UK corporation tax	**(2)**	—
Adjustments in respect of prior years:		
UK corporation tax	**—**	—
Total current tax credit	**(2)**	—
Deferred tax:		
Origination and reversal of timing differences	**(7)**	18
Effect of change in tax rate	**16**	5
Adjustments in respect of prior years—deferred tax recognised	**(4)**	(1)
Total deferred tax	**5**	22
Total tax charge	**3**	**22**

The tax charge on Headline earnings for the year ended 31 March 2014 is £13m (2013: £33m), representing an effective tax rate on pre-tax profits of 18% (2013: 20%). The tax charge on Statutory earnings for the year ended 31 March 2014 is £3m (2013: £22m). 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 23% (2013: 24%) to the profit before tax are as follows:

	2014 £m	2013 £m
Profit before tax	**31**	122
Tax at 23% (2013: 24%)	**7**	29
Items attracting no tax relief or liability	**(1)**	1
Effect of change in tax rate	**16**	5
Adjustments in respect of prior years	**(4)**	(1)
Movement in unrecognised tax losses during the year	**(15)**	(12)
Total tax charge through income statement	**3**	22

Tax—retained earnings and other reserves

Tax on items recognised directly in retained earnings and other reserves are as follows:

	2014 £m	2013 £m
Total tax charge through income statement	**3**	22
Deferred tax credit recognised directly in retained earnings and other reserves	**(2)**	(11)
Total tax charge through retained earnings and other reserves	**1**	11

The deferred tax credit recognised directly in retained earnings and other reserves for the years ended 31 March 2014 and 31 March 2013 relates to share-based payments.

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	Timing differences on acquisition intangibles £m	Other timing differences £m	Total £m
At 1 April 2013	**12**	**62**	**40**	**(6)**	**1**	**109**
(Charge) credit to the income statement	**(7)**	**(1)**	**(1)**	**5**	**—**	**(4)**
Credit to reserves	**2**	**—**	**—**	**—**	**—**	**2**
At 31 March 2014	**7**	**61**	**39**	**(1)**	**1**	**107**

	Share-based payments £m	Timing differences on capitalised costs £m	Tax losses £m	Timing differences on acquisition intangibles £m	Other timing differences £m	Total £m
At 1 April 2012	1	71	56	(11)	3	120
(Charge) credit to the income statement	—	(9)	(16)	5	(2)	(22)
Credit to reserves	11	—	—	—	—	11
At 31 March 2013	12	62	40	(6)	1	109

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 2 July 2013, a reduction in the UK statutory rate of corporation tax was substantively enacted, bringing the tax rate down from 23% to 21% with effect from 1 April 2014 and from 21% to 20% with effect from 1 April 2015. Accordingly, the tax assets and liabilities recognised at 31 March 2014 take account of these changes. This has resulted in a tax charge to the income statement as the value of the Group's tax assets has been reduced.

The asset also reflects the annual recognition of a further tranche of the tax losses acquired with Tiscali UK Limited, including Video Networks Limited, based on the Group's rolling forecast. This is in line with the Group's agreement with HMRC in 2012.

At 31 March 2014, the Group had unused tax losses of £702m (2013: £759m) available for offset against future taxable profits. A deferred tax asset of £39m (2013: £40m) has been recognised in respect of £197m (2013: £172m) of such losses, based on expectations of recovery in the foreseeable future.

No deferred tax asset has been recognised in respect of the remaining £505m (2013: £587m) 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:

	2014 £m	2013 £m
Ordinary dividends		
Final dividend for the year ended 31 March 2012 of 6.40p per ordinary share	**—**	56
Interim dividend for the year ended 31 March 2013 of 3.45p per ordinary share	**—**	31
Final dividend for the year ended 31 March 2013 of 6.95p per ordinary share	**62**	—
Interim dividend for the year ended 31 March 2014 of 4.00p per ordinary share	**37**	—
Total ordinary dividends	**99**	87

The proposed final dividend for the year ended 31 March 2014 of 8.00p per ordinary share on approximately 921 million ordinary shares (£74m) was approved by the Board on 14 May 2014 and has not been included as a liability as at 31 March 2014.

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

9. Reconciliation of Headline information to Statutory information

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, 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.

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 surrounds estimation.

Year ended 31 March 2014	**EBITDA £m**	**Profit before interest and tax £m**	**Profit before tax £m**	**Profit for the year £m**
Headline results	**213**	**94**	**74**	**61**
Exceptional items—Operating expenses (a)	**(20)**	**(20)**	**(20)**	**(15)**
Exceptional items—Operating expenses (c)	**3**	**3**	**3**	**2**
Exceptional items—Revenue (d)	**(5)**	**(5)**	**(5)**	**(4)**
Amortisation of acquisition intangibles (e)	**—**	**(21)**	**(21)**	**(16)**
Statutory results	**191**	**51**	**31**	**28**

Year ended 31 March 2013	**EBITDA £m**	**Profit before interest and tax £m**	**Profit before tax £m**	**Profit for the year £m**
Headline results	290	184	165	132
Exceptional items—Operating expenses (a)	(7)	(7)	(7)	(5)
Exceptional items—Operating expenses (b)	(11)	(11)	(11)	(8)
Exceptional items—Operating expenses (c)	27	27	27	21
Amortisation of acquisition intangibles (e)	—	(52)	(52)	(40)
Statutory results	299	141	122	100

Headline information is provided because the Directors consider that it provides assistance in understanding the Group's underlying performance.

a) Operating efficiencies—Phase III (Making TalkTalk Simpler)

During the year ended 31 March 2014, the Group has continued a review of its operating structure to look for further opportunities to drive process and efficiency improvements over the medium term.

The initiatives that form part of the Group's Making TalkTalk Simpler programme, which were implemented in the year ended 31 March 2014, were continued restructuring of the systems and processes in TalkTalk Business to remove duplication and better align the sales and service model for future growth; a review and consolidation of the outsourcing partners and rebalancing of the Group's on-shore footprint; and a proactive initiative to replace routers to align the estate across the Group. This has resulted in redundancy, dual running, property, system, project management and router replacement costs. The total charge incurred in the year ended 31 March 2014 was £20m (2013: £7m).

A total taxation credit of £5m has been recognised in the year ended 31 March 2014 (2013: £2m).

b) Operating efficiencies—Phase II (Consumer contact centre rationalisation)

On 24 April 2012, the Group announced the second stage of its contact centre rationalisation. This resulted in consolidating and outsourcing operations in Preston and Northampton. Costs were incurred in respect of redundancy, dual running and consultancy. The total charge incurred in the year ended 31 March 2014 was £nil (2013: £11m).

A total taxation credit of £nil has been recognised in the year ended 31 March 2014 (2013: £3m).

c) Wholesale Ethernet services overcharges

In December 2012, Ofcom determined that BT had overcharged the Group for certain wholesale Ethernet services. Accordingly, BT was required to make repayments to the Group for these overcharges. A total of £3m has been recognised in the year ended 31 March 2014 (2013: £27m).

A total taxation charge of £1m has been recognised in the year ended 31 March 2014 (2013: £6m).

d) Revenue—HMRC VAT ruling

In September 2013, a change to a previously agreed VAT treatment in relation to prompt payment discounts was enforced by HMRC with immediate effect. The incremental VAT relating to this change in treatment has been paid by the Group; however, the Group has sought external legal advice on the HMRC decision and has subsequently appealed the decision to the VAT Tribunal. Due to both the unexpected nature, pending appeal and short timeframe given to comply, a total of £5m has been recognised in exceptional items in the year ended 31 March 2014 (2013: £nil).

The tax credit was £1m in the year ended 31 March 2014 (2013: £nil).

e) Amortisation of acquisition intangibles

An amortisation charge in respect of acquisition intangibles of £21m was incurred in the year ended 31 March 2014 (2013: £52m).

The tax credit was £5m in the year ended 31 March 2014 (2013: £12m).

10. Earnings per share

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

	2014 £m	2013 £m
Headline earnings (note 9)	**61**	132
Statutory earnings	**28**	100
Weighted average number of shares (millions):		
Shares in issue	**938**	924
Less weighted average holdings by Group ESOT	**(37)**	(40)
For basic EPS	**901**	884
Dilutive effect of share options	**30**	56
For diluted EPS	**931**	940

	2014 Pence	2013 Pence
Basic earnings per share		
Headline	**6.8**	14.9
Statutory	**3.1**	11.3

	2014 Pence	2013 Pence
Diluted earnings per share		
Headline	**6.6**	14.0
Statutory	**3.0**	10.6

There are no share options considered anti-dilutive in the year ended 31 March 2014 (2013: 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.

Critical judgements in applying the Group's accounting policy

The Group has two CGUs—Consumer and TalkTalk Business. 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. 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.

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 Board approved five 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.

Sensitivity analysis is performed using reasonably possible changes in the key assumptions.

	2014 £m	**2013 £m**
Opening cost and net book value	**479**	480
Disposal (note 13)	**—**	(1)
Closing cost and net book value	**479**	479

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:

	2014 £m	**2013 £m**
Consumer	**337**	337
TalkTalk Business	**142**	142
	479	479

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 1.7% (2013: 1.1%).

- *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 8.4% (2013: 8.1%). 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 is based on senior management expectations of future required support of the network and current run rate of expenditure.

- *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 change 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 material 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. 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.

Critical judgements in applying the Group's accounting policy

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 amount 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 amount 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.

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	Acquisition intangibles £m	Total other intangibles £m
Opening balance at 1 April 2013	**127**	**27**	**154**
Additions	**43**	**—**	**43**
Amortisation	**(35)**	**(21)**	**(56)**
Closing balance at 31 March 2014	**135**	**6**	**141**
Cost (gross carrying amount)	**303**	**98**	**401**
Accumulated amortisation	**(168)**	**(92)**	**(260)**
Closing balance at 31 March 2014	**135**	**6**	**141**

	Operating intangibles £m	Acquisition intangibles £m	Total other intangibles £m
Opening balance at 1 April 2012	123	79	202
Additions	30	—	30
Amortisation	(26)	(52)	(78)
Closing balance at 31 March 2013	127	27	154
Cost (gross carrying amount)	260	326	586
Accumulated amortisation	(133)	(299)	(432)
Closing balance at 31 March 2013	127	27	154

Operating intangibles

Operating intangibles includes internally generated assets of net book value £39m (2013: £31m), which are amortised over a period of up to eight years. This includes additions of £15m (2013: £10m) and an amortisation charge of £7m (2013: £5m) in the year ended 31 March 2014.

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 £76m (2013: £86m). 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 four years (2013: five years).

Acquisition intangibles

Acquisition intangibles are removed from cost in the analysis in the year after they are fully amortised.

All acquisition intangibles relate to customer bases.

The customer bases relate primarily to the Tiscali UK internet access business, which was acquired in July 2009. The valuation of customer bases is derived from the discounted future cash flows expected from them, after a deduction for contributory assets.

At 31 March 2014, the Tiscali customer base is material to the Group with a net book value of £5m (2013: £23m) and a remaining useful economic life of three months (2013: 15 months).

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 costs	10% or the lease term if less than ten years
Network equipment and computer hardware	12.5–50% per annum
Fixtures and fittings	20–25% per annum

Critical judgements in applying the Group's accounting policy

The assessment of the useful economic lives of these assets requires judgement. Depreciation 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.

Determining whether the carrying amount of these assets has any indication of impairment also requires judgement. If an indication of impairment is identified, further judgement is required to assess whether the carrying amount 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 calculate present values (note 11).

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.

	Leasehold improvements £m	**Network equipment and computer hardware £m**	**Fixtures and fittings £m**	**Total £m**
Opening balance at 1 April 2013	**5**	**290**	**—**	**295**
Additions	**—**	**87**	**—**	**87**
Depreciation	**—**	**(77)**	**—**	**(77)**
Closing balance at 31 March 2014	**5**	**300**	**—**	**305**
Cost (gross carrying amount)	**6**	**671**	**6**	**683**
Accumulated depreciation and impairment charges	**(1)**	**(371)**	**(6)**	**(378)**
Closing balance at 31 March 2014	**5**	**300**	**—**	**305**

	Leasehold improvements £m	**Network equipment and computer hardware £m**	**Fixtures and fittings £m**	**Total £m**
Opening balance at 1 April 2012	6	286	—	292
Additions	—	79	—	79
Depreciation	(1)	(75)	—	(76)
Closing balance at 31 March 2013	5	290	—	295
Cost (gross carrying amount)	6	584	6	596
Accumulated depreciation and impairment charges	(1)	(294)	(6)	(301)
Closing balance at 31 March 2013	5	290	—	295

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 2014 related to a 7.3% (2013: 8.4%) interest in Shared Band Limited, a telecommunications technology provider. During the prior year the Group impaired its investment to £nil.

(a) Principal investments

The Parent Company has investments in the following subsidiary undertakings, which principally affected the profits or losses or net assets of the Group. To avoid a statement of excessive length, details of investments that are not significant have been omitted. All holdings are in equity share capital and give the Group an effective holding of 100% on consolidation.

Name	Country of incorporation or registration	Nature of business
TalkTalk Group Limited	England and Wales	Holding company
TalkTalk Telecom Holdings Limited*	England and Wales	Holding company
TalkTalk Communications Limited	England and Wales	Telecommunications
TalkTalk Telecom Limited	England and Wales	Telecommunications
CPW Network Services Limited	England and Wales	Telecommunications

* Directly held by the Company.

(b) Acquisitions and disposals

(i) Acquisitions

On 14 May 2013, the Group acquired the remaining 75% of the issued share capital of Future Office Communications Limited (FOC) (note 22).

There were no acquisitions in the prior year.

(ii) Disposals

There were no disposals in the year.

In the prior year, the Group disposed of its investment in Southern Communications Networks Limited for cash consideration of £2m. Associated goodwill of £1m was written off, resulting in a £1m profit on disposal. There was no associated acquisition intangible in respect of this business.

14. Interest in joint venture

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 are 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).

The Group 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. The joint venture was set up in order to develop a free-to-air internet-connected TV service to UK homes. The table below sets out the net additions in the year.

	2014 £m	**2013 £m**
Opening balance at 1 April	**9**	7
Additions	**5**	6
Share of results	**(7)**	(4)
Closing balance at 31 March	**7**	9

The Group has reviewed the carrying value of YouView and has concluded that there is no indication of impairment.

The Group's share of the results, assets and liabilities of its joint ventures are as follows:

Group share of results of joint ventures	**2014 £m**	**2013 £m**
Expenses	**(7)**	(4)
Loss before taxation	**(7)**	(4)
Taxation	**—**	—
Loss after taxation	**(7)**	(4)

Group share of net assets of joint ventures	**2014 £m**	**2013 £m**
Non-current assets	**7**	9
Net assets	**7**	9

During the year, the Group paid the remaining commitment outstanding of £5m on the initial agreement with YouView TV Limited. During March 2014, the Group signed heads of terms with the other existing shareholders of YouView TV Limited committing the Group to pay approximately £2m up to 30 June 2014. It is anticipated that a long term agreement for a further five year term to 31 March 2019 will be signed by 30 June 2014.

During the year ended 31 March 2014, the Group, alongside British Sky Broadcasting Limited, British Telecom PLC and Virgin Media Limited established an equal membership joint venture, Internet Matters Limited. It is a not-for-profit company, incorporated as a company limited by guarantee. It has been set up as an industry-led body to promote and educate parents about internet safety for children. The Group is committed to pay £2m over the period to 31 March 2017.

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, handsets 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.

	2014 £m	**2013 £m**
Goods for resale	**24**	23

16. Trade and other receivables

Critical judgements in applying the Group's accounting policy

Judgement is required in order to evaluate the likelihood of collection of customer debt after revenue has been recognised and hence the value of the bad and doubtful debt. These provisions are based on historical trends in the percentage of debts which are not recovered.

Trade and other receivables comprise:

	2014 £m	2013 £m
Current—trade and other receivables		
Trade receivables—gross	**169**	156
Less provision for impairment	**(34)**	(33)
Trade receivables—net	**135**	123
Other receivables	**63**	41
Prepayments and accrued income	**62**	62
Trade and other receivables	**260**	226

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 30 days (2013: 28 days).

The Group's trade receivables are denominated in the following currencies:

	2014 £m	2013 £m
UK Sterling	**146**	123
Other	**23**	33
	169	156

The ageing of gross trade receivables is as follows:

	2014 £m	Restated 2013* £m
Not yet due	**74**	71
0 to 2 months	**14**	20
2 to 4 months	**17**	15
Over 4 months	**64**	50
	169	156

* The prior year amounts have been restated to correct ageing profile.

The ageing of the provision for impairment of trade receivables is as follows:

	2014 £m	2013 £m
Not yet due	**(2)**	(3)
0 to 2 months	**(2)**	(3)
2 to 4 months	**(4)**	(7)
Over 4 months	**(26)**	(20)
	(34)	(33)

Movements in the provisions for impairment of trade receivables are as follows:

	2014 £m	2013 £m
Opening balance	**(33)**	(29)
Charged to the income statement	**(52)**	(33)
Receivables written off as irrecoverable	**51**	29
	(34)	**(33)**

Trade receivables of £63m (2013: £55m) were past due, but not impaired. These balances primarily relate to Consumer and Corporate 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:

	2014 £m	Restated 2013* £m
0 to 2 months	**12**	17
2 to 4 months	**13**	8
Over 4 months	**38**	30
	63	55

* The prior year amounts have been restated to correct ageing profile.

17. Trade and other payables

	2014 £m	2013 £m
Trade payables	**208**	210
Other taxes and social security costs	**15**	10
Other payables	**17**	21
Accruals and deferred income	**216**	190
	456	431

The Group has commercially agreed longer credit terms with certain suppliers. Excluding these suppliers, the underlying average credit period taken on trade payables was 32 days (2013: 39 days). Including these suppliers, the average credit period taken was 42 days (2013: 48 days).

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

18. Cash and cash equivalents, loans and other borrowings

(a) Cash and cash equivalents are as follows:

	2014 £m	2013 £m
Cash at bank and in hand	**—**	7

The effective interest rate on bank deposits and money market funds was 0.7% (2013: 0.7%).

(b) Loans and other borrowings comprise:

	2014 £m	2013 £m
Current		
Bank overdrafts	**7**	—
Term loan	**30**	25
	37	25

	Maturity	2014 £m	2013 £m
Non-current			
Term loan	2015	**75**	50
Bilateral loan	2015	**—**	30
£560m revolving credit facility	2015	**385**	295
		460	375

Details of the current and non-current borrowing facilities of the Group for the year are set out below.

Bank overdrafts

Overdraft 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.

£75m term loan

The Group has a committed term loan of £75m (2013: £75m), which matures in November 2015. The interest rate payable in respect of drawings under this facility is at a margin over LIBOR for the relevant currency 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. Covenants included in this facility restrict the ratio of net debt to EBITDA and require minimum levels of interest cover and fixed charges (interest and operating lease expenditure) cover.

£560m revolving credit facility (RCF) and £30m bilateral agreement

The Group has a £560m RCF, which matures in November 2015. 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. Covenants included in this facility restrict the ratio of net debt to EBITDA and require minimum levels of interest cover and fixed charges (interest and operating lease expenditure) cover. In addition to the RCF, the Group also has £30m of bilateral agreements which mature in March 2015.

The Group's facilities total £665m. The Group was in compliance with its covenants throughout the current and prior year.

Borrowing facilities

The Group had undrawn committed borrowing facilities at the end of the year, in respect of which all conditions precedent had been met, as follows:

	Maturity	**2014 £m**	**2013 £m**
Undrawn available committed facilities	2015	**175**	265

The book value and fair value of the Group's loans and other borrowings, all of which are in Sterling, are as follows:

	2014 £m	**2013 £m**
Less than 1 year	**37**	25
1 to 2 years	**460**	80
2 to 3 years	**—**	295
	497	400

Securities and guarantees

Committed borrowings are guaranteed by Group companies, which make up 75% EBITDA and 75% of gross assets, excluding internal transactions.

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, excluding the Group's loans and other borrowings shown in note 18, are as follows:

	2014 £m	2013 £m
Current assets		
Cash and cash equivalents	**—**	7
Trade and other receivables	**260**	226
Non-current assets		
Non-current investments and investment in joint venture	**7**	9
Current liabilities		
Bank overdrafts	**(7)**	—
Trade and other payables*	**(456)**	(428)
Derivative financial instruments**	**—**	(3)
	(196)	(189)

* Deferred income has been included within the financial liabilities above so as to give completeness over the Group's contractual commitments on future cash outflows.

** Derivative financial instruments are included with other payables in note 17.

(a) Financial instruments

The Group's activities exposed 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 used certain financial instruments to mitigate potential adverse effects on the Group's financial performance from these risks. These financial instruments primarily consisted of bank loans and interest rate swaps. Other products, such as currency options, can also be used depending on the risks to be covered, but have not been used in the current or preceding financial year. The Group does not trade or speculate in any financial instruments.

The Group has cash flow hedges in place that swap the interest rate risk on the revolving credit facility (RCF) from floating to fixed. These hedges have been fully effective from inception. The fair value measurement is classified as 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 2014 is £nil (2013: £3m). A gain of £3m (2013: loss of £2m) has been recognised in other comprehensive income in the year ended 31 March 2014. As the hedges were fully effective there has been no income statement impact.

(b) Embedded derivatives

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

(c) Foreign exchange risk

The Group uses spot and forward foreign exchange trading to hedge transactional exposures, which arise mainly through cost of sales and operating expenses, and are primarily denominated in Euro and US Dollar. At 31 March 2014, the fair value of outstanding currency contracts was £7m (2013: £17m).

Borrowings and foreign exchange contracts are sensitive to movements in foreign exchange rates; this sensitivity can be analysed in comparison to year end rates (adjusted for funding to related parties and assuming all other variables remain constant). There was no material impact of a 10% movement in the UK Sterling/Euro 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	Euro £m	Other £m	Total £m
2014				
Borrowings before derivatives	**497**	**—**	**—**	**497**
Derivatives	**(7)**	**10**	**(3)**	**—**
	490	**10**	**(3)**	**497**

	UK Sterling £m	Euro £m	Other £m	Total £m
2013				
Borrowings before derivatives	400	—	—	400
Derivatives	(17)	19	(2)	—
	383	19	(2)	400

During the year, the Group used derivatives for management of foreign currency cash balances held by overseas subsidiaries, which were inherited from CPW on demerger 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.

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 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.

	2014 £m	2013 £m
1% movement in the UK Sterling interest rate		
Income statement movement	**3**	2
Other equity movement	**—**	—

(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. Headroom is assessed based on historical experience as well as by assessing current business risks, including foreign exchange movements. Existing facilities do not expire until March 2015 and November 2015; it is Group policy to refinance debt maturities significantly ahead of maturity dates.

The table below analyses the Group's financial liabilities into relevant maturity Groupings. The amounts disclosed in the table are the contractual undiscounted 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**
2014							
Loans and other borrowings	**(37)**	**(460)**	**—**	**—**	**—**	**—**	**(497)**
Derivative financial instruments—payable	**(7)**	**—**	**—**	**—**	**—**	**—**	**(7)**
Derivative financial instruments—receivable	**7**	**—**	**—**	**—**	**—**	**—**	**7**
Trade and other payables	**(456)**	**—**	**—**	**—**	**—**	**—**	**(456)**
	(493)	**(460)**	**—**	**—**	**—**	**—**	**(953)**

	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**
2013							
Loans and other borrowings	(25)	(80)	(295)	—	—	—	(400)
Derivative financial instruments—payable	(17)	—	—	—	—	—	(17)
Derivative financial instruments— receivable	17	—	—	—	—	—	17
Trade and other payables	(431)	—	—	—	—	—	(431)
	(456)	(80)	(295)	—	—	—	(831)

(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 Consumer and TalkTalk Business 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 through the optimisation of the debt and equity balance. Further detail is provided in the Chief Financial Officer's statement on page 14.

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 as disclosed in notes 21 to 22.

The Group's Board reviews the capital structure on an annual basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. The Group has a medium term target gearing ratio of 75% to 100% determined as a proportion of net debt to equity. The gearing ratio at 31 March 2014 is 143% (2013: 89%) driven primarily by the Company's continued investment in TV combined with an increased dividend pay-out. The Board is confident that the gearing ratio will return to its target gearing ratio of 75% to 100% in the medium term.

The gearing ratio at the year end is as follows:

	2014 £m	2013 £m
Debt	**(490)**	(400)
Cash and cash equivalents	**—**	7
Bank overdraft	**(7)**	—
Net debt	**(497)**	(393)
Equity	**347**	442
Net debt to equity ratio	**143%**	89%

20. Provisions

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:

Operating efficiencies

Operating efficiencies provisions relate principally to redundancy 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.

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.

Contract and other

Contract and other provisions relate to onerous contracts and contracts with unfavourable terms arising on the acquisition of businesses and anticipated costs of unresolved legal disputes. All such provisions are assessed by reference to the best available information at the balance sheet date.

The below tables analyse the Group's provisions:

	2014 £m	2013 £m
Current	**2**	5
Non-current	**7**	8
	9	13

	Operating efficiencies £m	One Company integration £m	Property £m	Contract and other £m	Total £m
2014					
Opening balance	**2**	**2**	**9**	**—**	**13**
Charged to income statement	**2**	**—**	**1**	**—**	**3**
Utilised in the year	**(3)**	**(1)**	**(3)**	**—**	**(7)**
	1	**1**	**7**	**—**	**9**

	Operating efficiencies £m	One Company integration £m	Property £m	Contract and other £m	Total £m
2013					
Opening balance	1	2	9	6	18
Charged to income statement	2	—	1	—	3
Utilised in the year	(1)	(1)	(1)	(6)	(9)
Unwinding of discount	—	1	—	—	1
	2	2	9	—	13

21. Share capital

	2014 million	2013 million	2014 £m	2013 £m
Allotted, called-up and fully paid				
Ordinary shares of 0.1p each	**955**	931	**1**	1

On 20 November 2013, the Company issued a further 23,722,791 ordinary shares of 0.1 pence each to settle the VES schemes (note 5).

22. Reserves

	Notes	Share capital £m	Share premium £m	Translation reserve £m	Demerger reserve £m	Retained earnings and other reserves £m	Total £m
At 1 April 2013		**1**	**618**	**(64)**	**(513)**	**400**	**442**
Total comprehensive income for the year		**—**	**—**	**—**	**—**	**31**	**31**
Issues of own shares*		**—**	**66**	**—**	**—**	**(78)**	**(12)**
Taxation of items recognised directly in reserves		**—**	**—**	**—**	**—**	**2**	**2**
Purchase of own shares		**—**	**—**	**—**	**—**	**(24)**	**(24)**
Settlement of Group ESOT		**—**	**—**	**—**	**—**	**6**	**6**
Adjustment arising from change in non-controlling interest***		**—**	**—**	**—**	**—**	**(3)**	**(3)**
Share-based payments reserve credit	5	**—**	**—**	**—**	**—**	**4**	**4**
Equity dividends	8	**—**	**—**	**—**	**—**	**(99)**	**(99)**
At 31 March 2014		**1**	**684**	**(64)**	**(513)**	**239**	**347**

	Notes	Share capital £m	Share premium £m	Translation reserve £m	Demerger reserve £m	Retained earnings and other reserves £m	Total £m
At 1 April 2012		1	586	(65)	(513)	435	444
Total comprehensive income for the year		—	—	1	—	98	99
Issues of own shares**		—	32	—	—	(63)	(31)
Taxation of items recognised directly in reserves		—	—	—	—	11	11
Share-based payments reserve credit	5	—	—	—	—	6	6
Equity dividends	8	—	—	—	—	(87)	(87)
At 31 March 2013		1	618	(64)	(513)	400	442

* On 16 September 2013, the Group's Remuneration Committee determined that the relevant performance conditions of the VES schemes (including the 5% TSR requirement) had been satisfied, meaning the VES participants were entitled to exercise the remaining 40% of their options as set out in note 5. The settlement of the schemes resulted in the recognition of share premium of £66m and a £78m movement in retained earnings and other reserves.

** On 17 September 2012, the Group's Remuneration Committee determined that the relevant performance conditions of the VES schemes (including the 5% TSR requirement) had been satisfied, meaning the VES participants were entitled to exercise 60% of their options as set out in note 5. The settlement of the schemes resulted in the recognition of share premium of £32m and a £63m movement in retained earnings and other reserves.

*** On 14 May 2013, the Group acquired the remaining 75% of the issued share capital of FOC. The Group already held 25% of FOC and had control of the business. The cash consideration paid for the acquisition of £3m has been recognised as a transaction with non-controlling interest.

Group ESOT

The Group ESOT held 34 million shares at 31 March 2014 (2013: 39 million) in the Company for the benefit of employees and former CPW employees. 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 £109m (2013: £107m).

Demerger reserve

The demerger reserve primarily reflects the profits or losses arising on the transfer of investments and net assets of CPW on demerger.

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.

23. Analysis of changes in net debt

	Opening £m	Net cash flow £m	Closing £m
2014			
Cash and cash equivalents	**7**	**(7)**	**—**
Bank overdrafts	**—**	**(7)**	**(7)**
	7	**(14)**	**(7)**
Current loans and other borrowings	**(25)**	**(5)**	**(30)**
Non-current loans and other borrowings	**(375)**	**(85)**	**(460)**
	(400)	**(90)**	**(490)**
Total net debt	**(393)**	**(104)**	**(497)**

	Opening £m	Net cash flow £m	Closing £m
2013			
Cash and cash equivalents	2	5	7
Bank overdrafts	(1)	1	—
	1	6	7
Current loans and other borrowings	(25)	—	(25)
Non-current loans and other borrowings	(410)	35	(375)
	(435)	35	(400)
Total net debt	(434)	41	(393)
Loans to related parties	2	(2)	—
Total net debt including loans to related parties	(432)	39	(393)

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.

The Group had outstanding commitments for future minimum payments due as follows:

	2014 £m	2013 £m
Less than 1 year	**39**	37
2 to 5 years	**61**	69
Greater than 5 years	**55**	68
	155	174

25. Capital commitments

The Group had entered into the following amount of contractual commitments for the acquisition of property, plant and equipment at the year end:

	2014 £m	2013 £m
Expenditure contracted but not provided for in the financial statements	**23**	21

26. Related party transactions

The Group's related party transactions are made on terms equivalent to those that prevail in arm's length transactions.

During the current and prior year, the Group did not have any disclosable related party transactions.

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 26 to 39. The remuneration of all key management personnel is disclosed in note 4.

27. Contingent liabilities

In the year ended 31 March 2014, the Group received £4m (2013: £29m) relating to an Ofcom determination that BT had overcharged for certain wholesale Ethernet services. The full amount of £33m has been paid to the Group at 31 March 2014. BT has appealed Ofcom's determination in the Competition Appeal Tribunal (CAT). However, the Group and other parties have also appealed the decision arguing that the original Ofcom determination was too low.

In September 2013, a change to a previously agreed VAT treatment in relation to prompt payment discounts was enforced by HMRC with immediate effect. In December 2013, following discussions with HMRC, the Group amended the arrangements and has accounted for the associated VAT benefit in the Group's VAT return for the three month period ended 31 March 2014. As at 14 May 2014, no decision has been reached by HMRC on the appropriateness of the new arrangements. In the March 2014 UK Government Budget, a change in the VAT legislation with respect to prompt payment discounts was announced. The change took effect on 1 May 2014.

28. Events after the balance sheet date

On 15 April 2014, the Group together with Sky announced they have joined forces with CityFibre to create a new company that will deliver ultra-fast broadband services in the city of York. The Group's investment in the company will be accounted for as a joint arrangement in accordance with IFRS 11 'Joint Arrangements'.

As part of the agreement, the Group has committed to spend £5m over three years and will recognise through the income statement, on an annual basis, its share of profit or loss generated by the joint arrangement.

GLOSSARY OF TECHNICAL TERMS

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.
CRM	Customer Relationship Management
EAD	Ethernet Access Direct
EFM	Ethernet in the First Mile
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
FTTC	Fibre to the Cabinet
FTTP	Fibre to the Premise
GB	Gigabyte
Gbps	Gigabits per second
GEA	BTOR's fibre-to-cabinet product
IPTV	Internet Protocol television
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
ISDN	Integrated Services Digital Network
ISP	Internet Service Provider
LLU	Local Loop Unbundling
MB	Megabyte
Mbps	Unit of data transfer rate equal to 1,000,000 bits per second
MNO	Mobile Network Operator
MPF	Metallic Path Facility provides both broadband and telephony services to customers from TalkTalk Group exchange infrastructure
MPLS	Multi-Protocol Label Switching
MVNO	Mobile Virtual Network Operator
NGA	Next Generation Access
NGE	Next Generation Edge
ODPS	On-Demand Programme Services
On-net	The Group's unbundled network
OTT	Over the Top
PSB	Public Services Broadcasting
PSTN	Public Switched Telephone Network
SIM	Subscriber Identification Module
SIP	Session Initiation Protocol

SMPF or partial unbundling	Shared Metallic Path Facility provides broadband services to customers from the Group's exchange infrastructure
TLCS	Television licensable content service
Unbundling	Process by which BT makes available its local network to third-party broadband service providers
USO	Universal Service Obligation
VDSL	Very-high-bit-rate Digital Subscriber Line (*e.g.,* FTTC)
VoIP	Voice over Internet Protocol
WMO	Wholesale Must Offer

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