IMPORTANT NOTICE

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

IMPORTANT: You must read the following before continuing. The following applies to the offering memorandum following this page (the "**offering memorandum**"), and you are therefore advised to read this carefully before reading, accessing or making any other use of the offering memorandum. In accessing the 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.

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 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 U.S. SECURITIES ACT), UNLESS REGISTERED UNDER THE U.S. 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 OFFERING MEMORANDUM, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON OR REPRODUCE THE OFFERING MEMORANDUM IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE OFFERING MEMORANDUM IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE U.S. SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your Representation: You have accessed the attached document on the basis that you have confirmed your representation to (a) the issuer of the Securities (the "**Issuer**") and (b) Barclays Bank PLC, HSBC Bank Plc and NatWest Markets Plc that: (i) to the extent you purchase the Securities, 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 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), (iii) you consent to delivery of the offering memorandum by electronic transmission; and (iv) to the extent you are resident in a Member State of the European Economic Area ("**EEA**") or in the United Kingdom, you are not a "retail investor." For the purposes of the immediately preceding sentence, "retail investor" means a person who is one (or more) of the following: (a) "retail client" as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or (b) a customer within the meaning of Directive (EU) 2016/97, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

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 offering memorandum) or the Issuer that would or is intended to, permit a public offering of the Securities, or possession or distribution of any offering memorandum related to such Securities (in preliminary, proof or final form) or any other offering or publicity material relating to such Securities, in any country or jurisdiction where action for that purpose is required. If a jurisdiction requires that the offering of the Securities 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 offering memorandum is for distribution only to persons who: (i) are outside the United Kingdom; (ii) 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, as amended (the "**Financial Promotion Order**"); (iii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Financial Promotion Order; or (iv) are 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 (as amended, 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"). The 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 offering memorandum relates is available only to relevant persons and will be engaged in only with relevant persons.

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led the manufacturers to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "distributor") should take into consideration the manufacturers' target market assessment; however and without prejudice to the obligations of the Issuer in accordance with MiFID II, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor (as defined above) in the EEA or in the United Kingdom. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA or in the United Kingdom has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or in the United Kingdom may be unlawful under the PRIIPs Regulation.

The Notes are not intended to be, and should not be, advertised, offered, sold or resold, transferred, delivered or otherwise made available to any individual in Belgium qualifying as a consumer within the meaning of Article I.1 of the Belgian Code of Economic Law (*Wetboek economisch recht/Code de droit economique*) dated February 28, 2013, as amended from time to time.

The 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 Guarantors, the Initial Purchasers, their respective affiliates, directors, officers, employees, representatives and agents or any other person controlling the Issuer, the Guarantors, the Initial Purchasers or any of their respective affiliates accepts any liability or responsibility whatsoever in respect of any difference between the 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 offering memorandum has been delivered to you on the basis that you are a person into whose possession the 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 the offering memorandum, 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.

OFFERING MEMORANDUM
CONFIDENTIAL

NOT FOR DISTRIBUTION
IN THE UNITED STATES

TalkTalk
For Everyone

TalkTalk Telecom Group PLC

£575,000,000 3.875% Senior Notes due 2025

TalkTalk Telecom Group PLC (the "**Issuer**"), a public limited company incorporated under the laws of England and Wales, is offering (the "**Offering**") £575,000,000 aggregate principal amount of its 3.875% Senior Notes due 2025 (the "**Notes**"). The Issuer will pay interest on the Notes semi-annually in arrears on each February 20 and August 20, commencing on August 20, 2020. The Notes will mature on February 20, 2025.

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 (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. However, a change in control will not be deemed to have occurred if a specified consolidated net leverage ratio is not exceeded immediately after such change of control. 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 indebtedness 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 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 indebtedness to the extent of the value of the assets securing such indebtedness. 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. The Guarantees will be subject to certain limitations under applicable law.

There is currently no public market for the Notes. Application will be made to The International Stock Exchange Authority Limited (the "**Authority**") for the listing of, and permission to deal in, the Notes on the Official List of The International Stock Exchange (the "**Listing Exchange**"). There can be no assurance that the Notes will be listed on the Official List of the Listing 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 23.

Issue Price of the Notes: 3.875% 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 the accounts of Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream**"). We expect the Notes to be delivered to the Initial Purchasers (as defined below) on or about February 20, 2020. See "*Book-Entry; Delivery and Form.*"

Global Coordinators and Joint Bookrunners

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

Joint Lead Managers

CIC Market Solutions **DNB Markets** **ING**

MUFG **Santander Corporate & Investment Banking**

The date of this offering memorandum is February 13, 2020

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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, NatWest Markets Plc, Banco Santander, S.A., Crédit Industriel et Commercial S.A., DNB Markets, a division of DNB Bank ASA, ING Bank N.V., London Branch and MUFG Securities EMEA plc (collectively, the "Initial Purchasers") 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 at any date other than the date on the front page 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 consolidated 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 Listing 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, HSBC BANK PLC (THE "**STABILIZING MANAGER**") OR ONE OR MORE OF ITS AFFILIATES OR PERSONS ACTING ON ITS BEHALF MAY OVER-ALLOT THE NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES DURING THE STABILIZATION PERIOD AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILIZATION ACTION MAY NOT NECESSARILY OCCUR. ANY STABILIZATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFERING OF THE NOTES IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN 30 CALENDAR DAYS AFTER THE DATE ON WHICH THE ISSUER RECEIVED THE PROCEEDS OF THE ISSUE, OR NO LATER THAN 60 CALENDAR 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 STATES

THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SEC, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY

AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF THE NOTES OR THE ACCURACY OR ADEQUACY OF THIS OFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The Notes and the Guarantees thereof have not been and will not be registered under the U.S. Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States and may not be offered or sold in the United States. The Notes may be offered and sold outside the United States in reliance on Regulation S under the U.S. Securities Act. For a description of certain restrictions on transfers of the Notes, see "*Notice to Investors*."

NOTICE TO INVESTORS IN THE UNITED KINGDOM

This offering memorandum is for distribution only to persons who: (i) are outside the United Kingdom; (ii) 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 (as amended, the "**Financial Promotion Order**"); (iii) are persons falling within Articles 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Order; or (iv) are 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) 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 AND THE UNITED KINGDOM

This offering memorandum has been prepared on the basis that any offer of the Notes in any Member State of the European Economic Area (the "**EEA**") or in the United Kingdom will be made pursuant to an exemption under the Prospectus Regulation from the requirement to publish a prospectus for offers of the Notes. The expression "**Prospectus Regulation**" means Regulation (EU) 2017/1129 (as amended or superseded).

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA or in the United Kingdom. For these purposes, a "retail investor" means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or (ii) a customer within the meaning of (EU) 2016/97 (as amended, the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA or in the United Kingdom has been prepared. Offering or selling the Notes or otherwise making them available to any retail investor in the EEA or in the United Kingdom may be unlawful under the PRIIPs Regulation.

Professional Investors and ECPs only target market. Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led the manufacturers to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

NOTICE TO INVESTORS IN BELGIUM

The Notes are not intended to be, and should not be, advertised, offered, sold or resold, transferred, delivered or otherwise made available to any individual in Belgium qualifying as a consumer within the meaning of Article I.1 of the Belgian Code of Economic Law (Wetboek economisch recht/Code de droit economique) dated February 28, 2013, as amended from time to time (the "**Belgian Code of Economic Law**").

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 departure from 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 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 dependence on access to FTTP infrastructure in order to deliver Full Fibre to customers;
- our ability to attract and retain key personnel without whom we may not be able to manage our business effectively;

- our inability to achieve the expected benefits of our relocation to Salford;
- undertaking future acquisitions on an opportunistic basis;
- our joint-ventures;
- 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;
- our exposure to liabilities under the FibreNation SPA;
- the costs associated with the separation of the Fibre Assets from the Group;
- changes to the Fibre Assets prior to the FibreNation Disposal;
- our inability to deliver the anticipated financial benefits of the FibreNation Disposal;
- our inability to receive the anticipated operational benefits from the CityFibre Wholesale Agreement;
- volatility in our share price as a result of the FibreNation Disposal;
- our inability to achieve the expected benefits of the FibreNation Disposal and our liability to pay a break fee if the FibreNation Disposal is not completed;
- significant regulation at UK and EU level;
- regulatory decisions by Ofcom and the CMA;
- legal proceedings and regulatory investigations relating to the data security breaches;
- 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

"**2015 Cyber Attack**" means the cyber attack we experienced on October 21, 2015;

"**2017 Revolving Credit Facility**" means the up to £640 million revolving credit facility available under the Revolving Credit Facility Agreement dated May 8, 2017 between, among others, the Issuer, as borrower, the Guarantors, as guarantors, and the lenders as described therein;

"**2022 Notes**" means the Issuer's £400 million 5.375% Senior Notes due 2022;

"**2022 Notes Indenture**" means the indenture, between, among others, the Issuer, the Guarantors, BNY Mellon Corporate Trustee Services Limited, as trustee, The Bank of New York Mellon, London Branch, as paying agent, and The Bank of New York Mellon SA/NV, Luxembourg Branch (f/k/a The Bank of New York Mellon (Luxembourg) S.A.), as transfer agent and registrar, governing the 2022 Notes;

"**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;

"**Bolt Pro Shares**" means 200 shares in the share capital of Bolt Pro Tem Limited, a limited liability company incorporated under the laws of England and Wales, registered under company number 08975479, representing 66.7% of its issued and outstanding shares;

"**Brexit**" means the departure of the UK from the EU on January 31, 2020;

"**BT**" means British Telecom;

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

"**CityFibre**" means CityFibre Infrastructure Holdings Limited and CityFibre Holdings Limited;

"**CityFibre Wholesale Agreement**" means our wholesale agreement with CityFibre, to be entered into on or about the FibreNation Disposal Completion Date in respect of our access to its FTTP network;

"**CLV**" means customer lifetime value;

"**Conditional Notice of Redemption**" means the conditional notice of full redemption in relation to the 2022 Notes to be sent to the holders thereof on or around February 10, 2020, in accordance with the terms of which such redemption is conditional upon the completion of one or more financing transactions by the Group for the purpose of redeeming the 2022 Notes that are satisfactory to the Issuer in its sole and absolute discretion and result in aggregate net proceeds to the Issuer in a sufficient quantity to pay the redemption price for the 2022 Notes in full and pay all related expenses on or prior to the redemption date (which, subject to the possibility of postponement as set out in such notice, is presently expected to be February 20, 2020);

"**Copper broadband customer**" means a broadband customer on our legacy copper network;

"**Consumer channel**" or "**Consumer business**" means our business through which we offer services directly to end household consumers;

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

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

"**Direct channel**" means TTB's business through which we offer B2B services directly to end user businesses;

"**EU**" means the European Union;

"**Exchange**" means an Openreach-owned telephone exchange site that acts as a hub for phone connections from customer premises;

"**Fibre Assets**" means, together, FibreNation Limited and Bolt Pro Tem Limited;

"**Fibre customer**" means a customer of our FTTC or FTTP products;

"**Fibre First**" means our strategy to prioritise fibre broadband products over legacy copper broadband;

"**FibreNation Disposal**" means the contemplated disposal of the FibreNation Share and the Bolt Pro Shares in accordance with the FibreNation SPA, the completion of which is subject to certain customary conditions. See "*Summary—The Transactions—The FibreNation Disposal*" and "*Risk Factors—Risks Relating to the FibreNation Disposal*";

"**FibreNation Disposal Completion Date**" means the date on which the FibreNation Disposal is completed, currently expected to occur in March 2020;

"**FibreNation Share**" means 1 share in the share capital of FibreNation Limited, a limited liability company incorporated under the laws of England and Wales, registered under company number 11441177, representing 100.0% of its issued and outstanding shares;

"**FibreNation SPA**" means the conditional sale and purchase agreement dated January 21, 2020 between the TalkTalk Sellers, as sellers, and CityFibre, as purchaser, for the sale of the FibreNation Share and the Bolt Pro Shares for an aggregate consideration of £200 million;

"**FLPPs**" means our fixed low price plans;

"**Full Fibre**" means FTTP;

"**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;

"**Half Year Results Announcement**" means the announcement dated November 15, 2019 in relation to our results for the six months ended September 30, 2019;

"**IFRS**" means the International Financial Reporting Standards issued by the International Accounting Standards Board, as adopted by the EU;

"**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;

"**Indirect 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 Partner customer of TTB;

"**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 Agent**" means Carey Olsen Corporate Finance Limited;

"**Listing Exchange**" means the International Stock Exchange;

"**MTTS**" means Making TalkTalk Simpler, our cost reduction and operational efficiency initiative that ran from 2013 to 2017;

"**Net Promoter Score**" means a score calculated on an index ranging from negative 100 to 100 that measures the willingness of individuals to recommend a company or its products to others, which is used as a proxy for gauging overall satisfaction levels and loyalty to a product, company or workplace;

"**Notes**" means the £575 million 3.875% Senior Notes due 2025 offered hereby;

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

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

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

"**Partner**" means a TTB customer;

"**Partner channel**" means TTB's business through which we offer managed and wholesale solutions through our Partners;

"**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 NatWest Markets Plc (as representatives of the Initial Purchasers) and the other Initial Purchasers;

"**Receivables Purchase Facility**" means the £80 million receivables purchase facility, of which £75 million is committed and £5 million is uncommitted, available under the Receivables Purchase Facility Agreement dated September 25, 2019 between the Issuer and Nottingdale Receivables Limited, which currently matures on September 26, 2021;

"**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 the 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;

"**TalkTalk Sellers**" means the Issuer, TalkTalk Communications Limited, TalkTalk Group Limited, and TalkTalk Corporate Limited;

"**Transactions**" means the Refinancing and the FibreNation Disposal;

"**Transfer Agent**" and "**Registrar**" means The Bank of New York Mellon SA/NV, Luxembourg Branch;

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

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

"**TTCL**" means TalkTalk Communications Limited, a subsidiary of the Issuer;

"**United States**" means United States of America, as defined in Regulation S; and

"**UK**" means the United Kingdom of Great Britain and Northern Ireland.

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 of the Group:

- audited consolidated financial statements as at and for the year ended March 31, 2017 (prepared in accordance with the IFRS and together with the related notes thereto) (the "**2017 Annual Financial Statements**");
- audited consolidated financial statements as at and for the year ended March 31, 2018 (prepared in accordance with the IFRS and together with the related notes thereto) (the "**2018 Annual Financial Statements**");
- audited consolidated financial statements as at and for the year ended March 31, 2019 (prepared in accordance with the IFRS and together with the related notes thereto) (the "**2019 Annual Financial Statements**" and, together with the 2017 Annual Financial Statements and the 2018 Annual Financial Statements, the "**Annual Financial Statements**"); and
- interim condensed consolidated financial statements as at and for the six months ended September 30, 2019, with comparative figures for the six months ended September 30, 2018 (prepared in accordance with IAS 34 "Interim Financial Reporting" and together with the related notes thereto) (the "**Interim Financial Statements**" and, together with the Annual Financial Statements, the "**Financial Statements**").

See section entitled "*Index to Consolidated 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 certain non-headline items to statutory income statement line items. A reconciliation of our headline income statement line items to our statutory income statement line items is presented in "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Basis of Financial Presentation—Reconciliation of Headline and Statutory Income Statement Items*."

Certain financial information in this offering memorandum has been presented for the twelve months ended September 30, 2019. Unless noted otherwise, such financial information has been computed by adding the number for the six months ended September 30, 2019 to the number for the year ended March 31, 2019 and subtracting from the resulting total the number for the six months ended September 30, 2018, in each case, in the relevant line item. For certain line items in our consolidated income statement presented in this offering memorandum for the twelve months ended September 30, 2019, computations described above reflect the impact of the adoption of IFRS 16 on the underlying numbers reported for the six months ended September 30, 2019 (but not the underlying numbers reported for the year ended March 31, 2019 or the six months ended September 30, 2018, for which periods IFRS 16 was not applicable). See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Trends and Other Key Factors Impacting Our Results of Operations—Adoption of IFRS 16*" and "*Summary Financial and Other Information—Summary Consolidated Headline Income Statement Information*." The financial information for the twelve months ended September 30, 2019 is unaudited.

Under IFRS 16 "Leases", we were required to change the way we accounted for leases previously classified as operating leases under IAS 17 "Leases", which were off-balance sheet. We adopted IFRS 16 retrospectively from April 1, 2019, but have not restated numbers previously reported as at and for the year ended March 31, 2019, as permitted under the specific transitional provisions in the standard. The reclassifications and adjustments arising from the new leasing rules were therefore recognized in the opening balance sheet on April 1, 2019. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Trends and Other Key Factors Impacting Our Results of Operations—Adoption of IFRS 16*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Accounting Policies Requiring Management Judgment and Discretion—IFRS 16*".

Adoption of IFRS 16 has resulted in certain numbers presented in this offering memorandum as at and for the six months ended September 30, 2019 not being directly comparable with numbers reported in similar line items as at prior reporting dates or for prior reporting periods and the addition of certain new line items. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Trends and Other Key Factors Impacting Our Results of Operations—Adoption of IFRS 16*".

Restatements of previously reported financial information

For the purposes of preparing our 2019 Annual Financial Statements and our Interim Financial Statements, we restated certain financial information as at and for the year ended March 31, 2018 and the six months ended September 30, 2018, respectively, to reflect: (i) retrospective application of IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers"; and (ii) changes to assets and liabilities held for sale in relation to the FibreNation Disposal. For details of such restatements, see Note 1 of the 2019 Annual Financial Statements and Notes 2 of the Interim Financial Statements.

In this offering memorandum, we present restated information as at and for the year ended March 31, 2018 and the six months ended September 30, 2018. However, we did not make any restatements to the previously reported financial information as at and for the year ended March 31, 2017.

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 EBITDA, headline EBITDA, pre-IFRS16 EBITDA, pre-IFRS16 headline EBITDA, Run rate pre-IFRS 16 headline EBITDA total debt and total net debt (each, as defined below). Because these measures are not standardised, companies can define and calculate these, or similarly titled, 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 "EBITDA" by adding back to our statutory operating profit or loss charges for statutory depreciation and amortisation and statutory share of results of associates and joint ventures. We calculate our "headline EBITDA" by adding back to our EBITDA the effects of certain non-headline items. Our "pre-IFRS 16 EBITDA" is EBITDA excluding the effects of the adoption of IFRS 16. Our "pre-IFRS 16 headline EBITDA" is headline EBITDA excluding the effects of the adoption of IFRS 16.

Our "total debt" includes current and non-current borrowings, excluding lease liabilities. Our "total net debt" is total debt net of cash and cash equivalents.

EBITDA, headline EBITDA, total debt and total net debt under our definitions may not be comparable to similar measures presented by other companies and labelled "EBITDA", "headline EBITDA," "pre-IFRS16 EBITDA," "pre-IFRS 16 headline EBITDA," "Run rate pre-IFRS 16 headline EBITDA", "total debt" or "total net debt," respectively. In addition, "EBITDA," "headline EBITDA," "pre-IFRS16 EBITDA", pre-IFRS 16 headline EBITDA" "total debt" or "total net debt", as presented in this offering memorandum, may be different from, or otherwise not comparable with, similar, or similarly titled, measures, which we will be required to use in calculations under the Indenture, including for the purposes of compliance with certain covenants thereunder. See "*Description of the Notes*."

We believe that EBITDA-based measures provide useful supplementary information that assists investors in understanding the financial performance, position and trends of the Group. EBITDA-based measures and are widely used by investors, securities analysts and other interested parties as supplemental measures of performance and liquidity. However, EBITDA-based measures have limitations as analytical tools and should not be considered in isolation or as a substitute for an analysis of our operating results as reported under IFRS. 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. You should not consider EBITDA, headline EBITDA pre-IFRS 16 headline EBITDA or pre-IFRS 16 headline EBITDA as substitutes for operating profit or cash flows from our operating activities as reported under IFRS.

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, Connected Nations, the UK government 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 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 at February 7, 2020, the Bloomberg Composite Rate of pounds sterling was $1.2944 per £1.00.

	U.S. dollars per £1.00			
Year	**High**	**Low**	**Average[(1)]**	**Period End**
2015	1.5883	1.4632	1.5285	1.4736
2016	1.4810	1.2158	1.3558	1.2345
2017	1.3582	1.2068	1.2886	1.3524
2018	1.4325	1.2516	1.3351	1.2746
2019	1.3326	1.2060	1.2767	1.3263

Month	**High**	**Low**	**Average[(2)]**	**Period End**
September 2019	1.2503	1.2077	1.2353	1.2290
October 2019	1.2976	1.2203	1.2655	1.2937
November 2019	1.2967	1.2772	1.2882	1.2932
December 2019	1.3326	1.2934	1.3100	1.3263
January 2020	1.3257	1.3088	1.3160	1.3160
February 2020 (until February 7, 2020)	1.3032	1.2934	1.2944	1.2944

(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 summary information should be read as an introduction to the more detailed information appearing elsewhere in this offering memorandum, including the Financial Statements 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 connectivity services for residential and business customers. Since entering the market in the early 2000s, we have consistently saved our customers money by offering high-quality data and voice services for lower prices than our direct competitors. We provide landline telephony, broadband and TV to over four million customers, supplying services to consumers through the TalkTalk brand, to businesses through TalkTalk Business ("**TTB**") and by wholesaling to resellers. Our business model is underpinned by a low-cost position driven primarily by our scalable and extensive network, which covers approximately 96% of UK premises through over 3,000 Exchanges. This network acts as a barrier to entry and has historically enabled us to introduce disruptive products at market-leading prices. As we look forward, we are well-positioned to benefit from the roll-out of FTTP (Fibre to the Premises, or "**Full Fibre**") across the UK as network builders seek immediate access to high volumes of customers to support their investment. We can therefore negotiate wholesale terms which enable us to cost-effectively migrate our new and existing customers at pace to higher bandwidth and more reliable connectivity products.

Since 2017, we have significantly simplified the business, reduced cost and have in place clear plans to aggressively drive Full Fibre uptake in both residential and business segments, improve customer service, further simplify our operations and reduce cost across the organisation. Each of these actions saves us money, which further improves our cost position and supports our low-price offering. It is a simple and repeatable strategy. However, it is one that is difficult for our higher-priced and higher-cost competitors to replicate.

Our Consumer business provides affordable and reliable fixed-line connectivity to residential consumers. Broadband is at the core of our proposition and is offered at varying bandwidths, with over 50% of our customers now taking the faster FTTC products due to the ever-increasing demand for data. We offer these services on the basis of Fixed Low Price Plans ("**FLPPs**"). As well as ensuring that customers save money over the life of their contract, FLPPs guarantee no mid-contract broadband price rises, which resonates well with consumers as it provides price certainty over the contract length of 12, 18 or 24 months. In addition to the core broadband product, we offer sensibly priced and ARPU-enhancing TV and fixed-line telephony add-ons. In particular, our TalkTalk TV add-ons provide flexible access to varied free and pay-to-view third-party content through the YouView platform. We also offer residential customers an option to subscribe to O2's mobile services through our reseller agreement with them.

Our B2B business is one of the largest B2B telecommunication services providers in the UK. It offers a wide range of data connectivity and next generation voice products to businesses throughout the country, including fixed-line telephony, broadband internet (including high-speed Ethernet), data networking and other connectivity solutions. These services are offered to private companies and public sector organizations, both directly and on a wholesale basis through approximately 900 Partners. Through these Partners, we are the UK's largest provider of wholesale broadband to small businesses and consumers, with over 50% market share as at September 30, 2019.

In the periods under review, we generated strong revenues. We had £1,605 million and £1,609 million of headline revenue for the years ended March 31, 2018 and 2019, respectively, and £1,587 million of headline revenue for the twelve months ended September 30, 2019. Our headline pre-IFRS 16 EBITDA and headline pre-IFRS 16 EBITDA margin increased from £203 million and 12.6%, respectively, for the year ended March 31, 2018 and £237 million and 14.7%, respectively, for the year ended March 31, 2019 to £251 million and 15.8% for the twelve months ended September 30, 2019. Our capital expenditure cash outflows were £128 million, £113 million and £104 million for the years ended March 31, 2018 and 2019 and the twelve months ended September 30, 2019, respectively. This represented 8.0%, 7.0% and 6.6% of our headline revenue for the respective periods. Our leverage ratio was 3.7x, 3.1x and 3.3x for the years ended March 31, 2018 and 2019 and the twelve months ended September 30, 2019, respectively, on a pre-IFRS 16 basis.

Strengths

Our strengths include the following:

- **Operating in the structurally attractive UK fixed-line market.** The UK's fixed-line market is structurally attractive for an existing value-for-money provider of a national scale, such as the Group, for four primary reasons: exponential increase in demand for connectivity from both consumers and businesses, the capital-intensive nature of the business, lack of adequate substitutes and pro-competition regulation. Firstly, demand for fixed-line data products continues to grow rapidly, with average fixed internet traffic per household expected to increase at a CAGR of 20% between 2017 and 2022 (*Source: Cisco*). In the residential market, growth is primarily driven by increased demand for over-the-top ("**OTT**") video. In the B2B market, growth is the result of the rapid rise of cloud services and Voice over Internet Protocol ("**VoIP**"). Second, the capital-intensive nature of fixed-line connectivity limits the competitive threat posed by potential new entrants. The roll-out of a nationwide unbundled fixed-line architecture comparable to ours would require a substantial investment of time and money. Any such development would be highly technologically challenging given, among other things, physical constraints in Exchanges operated by Openreach Limited ("**Openreach**"), where our network equipment is housed, and Openreach's capacity to deliver connections in those Exchanges. Thirdly, 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 lacks the scale of coverage of a fixed connectivity network. In addition, mobile data transmission is significantly more expensive, radio spectrum availability is constrained and finite and there is limited reason to believe that such technological and economic impediments could easily be overcome. Further, device proliferation and video streaming are rapidly driving the growth in data usage. UK mobile users are expected to increase their average data traffic from 2.3GB/month in 2017 to 11.4GB/month in 2022, while average fixed consumer internet traffic per household is expected to increase from 165.8GB/month in 2017 to 415.5GB/month in 2022 (*Source: Cisco*). This growing demand for faster broadband is reflected in a change in connection types, as fibre connections (FTTP and FTTC) accounted for 44% of all connections in 2018, an increase from 10% in 2013 (*Source: The Ofcom Communications Market Report 2019 (July 2019)*). Fourth, there is a history of pro-competition regulation in the fixed-line industry over the last decade. Such regulation has been targeted at restraining the market power of BT, the incumbent provider, by controlling wholesale access charges and promoting development of retail competitors on a national scale. Ofcom has also required the legal separation of BT and Openreach. The emergence of competitive alternative network providers to Openreach, will, we believe, lead to Ofcom continuing its policy of constraining Openreach's significant market power through regulation and ensuring access to its core infrastructure, such as its ducts and poles, on fair terms. Additionally, Ofcom has devoted significant focus on increasing price transparency for fixed broadband consumers following its review of pricing practices in the industry. In particular, from February 15, 2020, it will require providers to notify customers of the end of their minimum contract period and of the best available offers from their provider. Compared to our competitors, this development is favourable to us given our small relative price difference between existing and new customers.

- **Structural cost advantage driven by advanced and scalable fixed-line network.** We have a simple business model and an efficient cost structure. We do not incur expensive TV content costs, have limited pension obligations and our younger workforce means we do not face the high long-term labour costs driven by an ageing unionised workforce. Our wholesale costs are mostly regulated by Ofcom, and our unbundled network gives us a cost advantage relative to our competitors. Our fixed-line network currently covers approximately 96% of UK's homes. The only comparable fixed-line unbundled network is operated by Sky and covers 90%+ of the UK's population. At the heart of our network is the unbundling equipment (such as digital subscriber line access multiplexers, multi-service access nodes and Ethernet switches) that we have installed in over 3,000 Exchanges, which is the largest such deployment in the UK. Our unbundling equipment allows us to take control of the copper line from the Exchange back to our network. The Exchanges are connected via collector nodes and 10Gbps collector rings to more than 4,500 miles of leased 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 capacity and all-IP nature of our network also allows us to scale it very efficiently for growing usage, while driving down unit costs.

- **Market leading value provider.** We have always competed as the challenger in the UK fixed-line telecommunication market, consistently offering UK consumers and businesses a price advantage compared with our competitors, such as BT, Sky, Vodafone and Virgin Media. Our competitive positioning as a value provider has enabled us to grow to be the fourth-largest residential fixed-line phone and broadband provider with an 11% market share, based on connections, for 2018 (*Source: Ofcom*). As a result, our business operates on lower ARPU than many of our competitors, which makes us less vulnerable to the continued price erosion that our higher-priced competitors face. Many customers of our competitors would save money if they switched to TalkTalk, giving us a market advantage in being able to acquire new customers without materially diluting our existing ARPU.

  As consumer demand shifts towards OTT video streaming services, we have evolved our TV proposition to reflect this trend. Our capital-light pay TV offer is focused on value-conscious households who have historically preferred to watch free-to-air TV channels and did not participate in the premium subscription-based pay TV market. We focus on providing customers with flexible access to a wide range of third-party owned content through TalkTalk TV and our involvement in YouView, our joint venture with BBC, ITV, Channel 4, Channel 5, BT and Arqiva. TalkTalk TV allows customers to choose packages with up to 85 free-to-air channels, as well as flexible access to an extensive range of premium content from Sky and BT Sport and OTT streaming services Netflix and Amazon Video. YouView set top boxes enable customers to pause, rewind and record live TV. Our TV offerings continue to be an ARPU enhancement opportunity, offered as competitively priced add-ons that provide our customers with more optionality and flexibility to tailor their packages to their TV viewing appetite without long-term, expensive contractual commitments. Our flexible and value-based TV pricing is increasingly attractive to a wide group of consumers and businesses.

- **Large scale B2B business and number one provider of wholesale broadband.** Our B2B arm, TTB is one of the largest B2B telecommunication providers in the UK and our large-scale Exchange footprint gives us the reach to deploy nationwide connectivity at great value. Through the Partner channel, we work with approximately 900 Partners, which places us as the UK's largest provider of wholesale broadband to small business and consumers, with over 50% market share as at September 30, 2019. Our full suite of Ethernet products allows us to serve businesses from SMEs to enterprise, as well as the public sector. Through the Direct channel, our wide range of data connectivity solutions serves the needs of approximately 80,000 B2B customers nationwide, from SoHo and SME customers to mid-market companies and large retailers.

  The consolidated nature of the B2B wholesale broadband industry enables TTB to generate higher margins than our consumer business. As a scale player with wide network coverage, we can compete on price whilst guaranteeing the service levels that businesses require. Further, since we do not own access products, unlike Openreach or Virgin Media, we have the flexibility to aggregate supply from multiple providers and to select the best-priced product in each geography. The ongoing industry-wide move to FTTP will also benefit the B2B market as FTTP will become a direct substitute for high-priced Ethernet services, which will position us to gain market share through both Partner and Direct channels.

  The strength of our B2B business also mitigates the challenges of the highly competitive Consumer business. For example, if there is a particularly competitive period in the Consumer business, we can focus our efforts on acquiring customers in the B2B Partner channel. Whilst these indirect customers come with lower ARPU, their cost-to-acquire and cost-to-serve is also lower, so indirect B2B customers are broadly similar, in terms of profitability, to Consumer customers. Having both businesses also allows us to make maximum use of our network during the course of the day, with the Consumer business predominantly online in the evening and B2B customers online during working hours ensuring the network is being used efficiently through the day and night without exceeding capacity.

- **Ideally positioned for the nationwide shift to Full Fibre.** The UK market is at an inflection point as the underlying fixed-line access product moves from legacy copper wires, which were originally installed to serve analogue voice calls, to Full Fibre, whereby a fibre-optic cable connection runs all the way to the residential or business premises. FTTP has multiple advantages over copper wires, including increased bandwidth, which enables customers to simultaneously carry out multiple activities in parallel (e.g., streaming high-definition video in more than one location within the home), and improved reliability with fewer faults. This combination of advantages is beneficial for ISPs, such as the Group, since the marked improvement in customer experience and reliability reduces our operational costs and eliminates some of the key drivers of churn. These benefits are particularly important for us, as our churn is driven primarily by operational concerns rather than price competition. The shift to FTTP therefore enables us to provide an enhanced customer experience and reliability, while still offering a value-for-money proposition relative to our competitors.

The construction of new fibre networks is highly capital intensive. The infrastructure incumbent, Openreach, has lagged in building new fibre networks since new fibre revenue is directly substitutional for their existing revenue from their copper networks. This has enabled well-funded new infrastructure builders, or altnets, to emerge as pioneers in laying fibre networks. These include Hyperoptic, CityFibre, G.Network, Gigaclear and Communityfibre. Critical to the success of these altnets is the rapid adoption of their fibre networks by a high volume of end users. By partnering with us, these altnets gain access to our large-scale end user customer base, across consumers and businesses, and a reliable revenue stream.

Our scale and customer base has enabled us to negotiate a long term wholesale agreement with CityFibre (the "**CityFibre Wholesale Agreement**") for consumer and business customers, which we will enter into on or about the FibreNation Disposal Completion Date, currently expected to occur in March 2020. Under this arrangement, we will receive competitive wholesale price and service commitments in return for our commitment to connect and migrate our customers to CityFibre's FTTP network on an exclusive basis, subject to certain exclusions and with variable volume commitments. Separately, we are in talks with Openreach in regards to a proposed national FTTP agreement. We will also seek to enter into other wholesale agreements for FTTP with other altnets where we are able to do so. Moving to FTTP will provide us with access to a superior product that will reduce our cost-to-serve, enabling us to deliver competitive prices and retain customers for longer.

- **Highly focused and simple business.** Over the past several years, we have been on a journey to simplify our business. Following the acquisition of AOL in 2006 and Tiscali in 2009, and the Demerger from Carphone Warehouse in 2010, there was a need to integrate multiple systems and simplify the back office. Much of this was achieved through our Making TalkTalk Simpler ("**MTTS**") programme that ran from 2013 to 2017. After 2017, we simplified our business further by exiting our MVNO operations, rationalizing our TV offering, consolidating all of our offices in our new Soapworks campus in Salford and divesting our capital-intensive FTTP infrastructure operations.

  In October 2016, we launched our Fixed Low Price Plans ("**FLPP**"), which guaranteed fixed low prices for the duration of customers' contracts and allowed legacy customers to re-contract onto the new plans. The FLPPs provide simple, low-priced fixed connectivity, along with optional add-on boosts such as TV, mobile and fixed-line voice. Our FLPPs were developed in response to customer feedback that customers did not want to be locked into costly bundled packages and would prefer to pick and choose their add-ons with greater flexibility. We therefore moved away from the MVNO business and shifted to a capital-light reseller agreement with O2, which offers access to unique O2 deals only available to our customers. Further, with the rising popularity of OTT streaming services, such as Netflix and Amazon Video, we have become a content aggregator in TV, enabling customers to access the content they want in a more flexible way.

  Over the last 18 months, we have adopted a Fibre First strategy, narrowing our focus away from ADSL onto faster and more profitable FTTC and FTTP products, driven by customers' demand for higher bandwidth services. Our fibre customers receive an enhanced customer experience and improved reliability relative to ADSL customers. As at December 31, 2019, we had a total of approximately 2.2 million fibre customers, representing over 50% of our customer base.

  In January 2020, we completed a three-year consolidation of all of our offices in our new Soapworks campus in Salford, apart from a small satellite office in London. This consolidation enables us to maximise productivity and reduce running costs and improves connectivity and collaboration between teams. We estimate that this move will generate annualised cash savings of approximately £25-30 million. We have also seen a marked improvement in employee satisfaction, with a 26-point improvement in employee Net Promoter Scores. Further simplification and cost-saving efficiencies include outsourcing part of our workforce, automating business processes, making use of our data and new technologies and focusing customer acquisition and retention activities on those who deliver the highest returns. Our recent investments in improved connectivity and customer service deliver a better customer experience and further reduce both our costs and churn.

- **Proven track record of operational improvement and cost reduction.** Since the Demerger from The Carphone Warehouse Group ("**CPW**") in 2010, we have had a strong proven track record of operational improvement. We have consistently been able to deliver significant levels of cost savings through systems integration and back-office simplification programmes. Over the last three years, we have streamlined our business by focusing primarily on the fixed-line telecommunication market and simplifying our organisational structure. We therefore approach additional services, such as TV and mobile, in a more capital-light way, whilst still providing our customers with the services they want at the best possible price. Our cost improvements over this period were driven by reductions in central costs, cost-to-serve efficiencies and our move to a lower cost customer acquisition and digital marketing model, which has enabled us to target customers through micro segmentation.

  Our headline pre-IFRS 16 EBITDA and headline pre-IFRS 16 EBITDA margin increased from £203 million and 12.6%, respectively, for the year ended March 31, 2018 to £237 million and 14.7%, respectively, for the year ended March 31, 2019 and £251 million and 15.8%, respectively, for the twelve months ended September 30, 2019.

  Since our shift towards fibre, our customer experience has been both demonstrably better and more efficient than in the past. Over 50% of our customer base is now on a fibre product. Our fibre products have faster and more reliable connectivity, with fewer faults, fewer calls to our customer service centre and fewer engineer visits. This results in significant efficiencies in our cost-to-serve fibre customers, compared with copper broadband customers. Our customer service approach has also shifted to an increasingly self-service model, driven by the launch of our pioneering My Service Centre dashboard, which enables customers to check the status of their line to diagnose and fix their own faults. Our My Service Centre dashboard has been rolled out at scale and is leading to a material improvement in cost-to-serve metrics and customer experience. We have also markedly improved our in-home connectivity experience with our award-winning router, the Wi-Fi Hub, which provides our fastest, strongest and most reliable Wi-Fi signal ever. The Wi-Fi Hub has driven lower outsourcing partner costs, with fewer call centre agents and fewer engineer visits required.

  Overall, our operational improvement initiatives have delivered a markedly improved customer experience that is reflected in our customer satisfaction metrics: as at September 2019, we were the highest-ranked UK telecommunication provider on Trustpilot, we saw a 10% year-on-year improvement in CSAT scores and we recorded our lowest ever total and share of Ofcom complaints.

  Our operational improvement, our FLPPs and our shift to fibre have also delivered significant reductions in customer churn, with year-on-year reductions for four straight years, with churn of 1.60%, 1.45%, 1.22% and 1.20% in the years ended March 31, 2016, 2017, 2018 and 2019. We experienced a slight increase in churn to 1.27% in the six months ended September 30, 2019, due to higher legacy copper customer churn.

  Our FLPP propositions have led to a degree of ARPU dilution, in the year ended March 31, 2019, with a slight decline of £0.08, compared with the year ended March 31, 2018. Higher-ARPU fibre customers are offsetting the ARPU dilution of copper broadband customers. We expect to maintain broadly stable ARPU in our Consumer business in the coming years. Further dilution due to the re-contracting of legacy out-of-contract copper broadband customers and the ongoing industry-wide decline in fixed-line voice revenue will be largely offset by our higher-ARPU fibre offerings and our sensibly priced add-on boosts, such as TV, mobile and our enhanced security packages. In our B2B business, the Ethernet base, which provides high-speed data connections, continued to grow with approximately 5,300 net-adds in the year ended March 31, 2019. Notably, our new B2B customers are skewing towards 1Gb circuits, which come with materially higher ARPU and lower churn.

  In addition, we continue to invest in an ongoing programme for the enhancement of our cyber security. Our security strategy is underpinned by the NIST Cyber Security Framework and is positioned to continuously improve the security maturity of our organisation. Over the last three years, we have made significant investments in building out a more robust security function and capability, including successfully establishing an in-house Security Operations Centre, which launched in late 2017.

- **Highly experienced management team.** Our senior management team has multiple decades of combined expertise in the telecommunication industry. The Chairman of our Board of Directors, Sir Charles Dunstone, founded the Group in 2003. Our Chief Executive Officer, Tristia Harrison, has been with us since we started operating in 2003, and was previously the Managing Director of our Consumer business. Our Chief Financial Officer, Kate Ferry, has been with us since 2017, having previously worked for Dixons Carphone, CPW, Merrill Lynch and PriceWaterhouseCoopers. Our General Counsel and Company Secretary, Tim Morris, has been with the Group since the Demerger in 2010 and prior to that he was General Counsel and Company Secretary at CPW from 2000. Also, on our executive committee we have Gary Steen, Managing Director, Technology, Change and Security, who has over 30 years' experience working in telecommunications in fixed broadband, wireless and air-to-ground broadband for the Group, Vodafone, BT, O2, Sprint, Telstra, France Telecom, GoGo and Sony. We have also recently appointed new Managing Directors for our Consumer and TTB businesses. Sian Doyle, our Managing Director for Consumer, joins with extensive experience in the telecommunications industry, having previously worked for BT/EE, Orange and in the United States and Canada for Comcast and Rogers. Jonathan Kini, our Managing Director of TTB, has held senior roles in Virgin Media and Vodafone across both B2C and B2B. 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 strategy is to strengthen our position as the number one value provider of fixed connectivity for consumers and businesses in the UK. Our strategy is underpinned by the sharp growth in demand for data consumption from both consumers and businesses. We believe that our low cost base, our next-generation network and our sustainable regulatory cost advantage with access to key parts of Openreach's network infrastructure enable us to pass along our cost reductions to customers and maintain our low-priced market position. Increasingly, the industry-wide adoption of Full Fibre across the UK is expected to provide us with more opportunities to become a leader in Full Fibre connectivity and further improve our value position by reducing churn and operating costs. Our success in becoming a leader in Full Fibre connectivity is expected to lead to sustainable, profitable growth as further reductions in costs are expected to help us lower our prices and drive volume increases. We aim to achieve this by focusing on six key areas:

- **Investing in the UK's fibre future.** We are determined to meet the increasing demand of consumers and businesses for reliable, fast connectivity. This underpins every limb of our strategy. We are currently driving scale adoption of our FTTC products, following a reduction in wholesale prices as a result of Ofcom's Wholesale Local Access Market Review 2018 and a commercial agreement with Openreach. Our shift toward fibre products is mutually beneficial for our customers and our business. Customers on fibre products have higher satisfaction levels, as they enjoy faster, more reliable connectivity. These customers also generate higher ARPU, come with a lower cost-to-serve and lead to materially lower churn.

  Since 2014, we have been a pioneer in developing Full Fibre, driven by our belief that it is critical for the UK's digital future. We are determined to remain at the forefront of this drive. The UK government highlighted the importance of greater FTTP availability and greater altnet investment in Fibre infrastructure it its 2018 Future Telecoms Infrastructure Review. Such infrastructure development requires access to high volumes of customers who can quickly be migrated onto newly developed FTTP networks.

  With the extensive experience we have gained since 2014, from the roll-out of our FTTP and customer migration in York, we are well-placed to migrate our customer base quickly and cheaply onto new FTTP networks. With over 4 million customers, our scale and customer base has enabled us to negotiate the CityFibre Wholesale Agreement for consumer and business customers, which we will enter into on the Fibre Nation Disposal Completion Date. Under this arrangement, we will receive competitive wholesale price and service commitments in return for our commitment to connect and migrate our customers to CityFibre's FTTP network on an exclusive basis, subject to certain exceptions and with variable volume commitments. Separately, we are in talks with Openreach with respect to a proposed national FTTP agreement. We will also seek to enter into wholesale agreements for FTTP with other altnets where we are able to do so. We expect that moving to FTTP will provide us with access to a superior product that will reduce our cost-to-serve, enabling us to deliver competitive prices and retain customers for longer.

- **Creating the Fibre First challenger for consumers.** Our Consumer business serves residential customers directly through the TalkTalk brand. We have always been the value provider in this competitive market segment and plan to focus even more intently on sustaining our price advantage, improving connectivity and customer service, and acquiring customers more efficiently. We are pursuing four interlinked priorities to achieve this:

  - We intend to further increase our fibre volumes by migrating existing customers and driving new customers towards higher bandwidth and more reliable fibre products, as well as promoting adoption of our Wi-Fi Hub. We expect this to substantially improve the customer experience and to drive higher ARPU, higher gross margin, lower cost-to-serve and reduced churn. Our fibre products and Wi-Fi Hub also provide a more reliable fixed-line connection to support our position as a TV aggregator. We believe that our longer-term success is predicated on making the most of the opportunity presented by the roll-out of FTTP and we are developing the capability to grow our FTTP base to over 1 million customers over the next five years.
  - We aim to save our customers more money through transparent and fair pricing, as our fixed-price, fixed-term FLPPs continue to resonate with customers. We intend to fully benefit from our relatively small price differential between new and existing customers and to take advantage of the regulatory requirement for competitors to notify their customers of the best available offer. We intend to complete TalkTalk TV's transition to become a marketplace and aggregator. We also aim to continue offering our customers a fairly priced mobile add-on through a reseller agreement with O2.
  - We plan to continue to transform the customer experience and customer support architecture. Our key focus is to enable customers to interact with us on their terms at a low cost to us. We expect that increasing our product mix to 100% fibre by 2025 will help us achieve 60% of our planned total cost reduction, given the improved performance of fibre products. We expect to achieve the remaining 40% of our planned cost reduction goals by enhancing our digital-first support model, automating key customer journeys and simplifying the customer service experience with a combination of UK-based and offshore contact centres.
  - We are taking an increasingly data-led and digital approach to marketing. We are using micro segmentation to target and convert customers who we believe hold the highest customer lifecycle value. We aim to develop a more loyal customer base and build customer advocacy, moving away from less effective traditional marketing channels. We believe that this approach will deliver lower cost per acquisition and a higher IRR on every £1 spent.

- **Strengthening position as business data provider of choice.** TTB sells both directly to end customers, from the smallest home office user to the large multi-site enterprise customers, and indirectly through wholesale agreements to a network of approximately 900 Partners that use its connectivity and voice offerings to provide services to over one million businesses and residential customers. The Partner channel accounts for approximately 80% of TTB's revenue.

  The Partner channel allows us to retain a simple, cost effective business model, which can address the needs of businesses, as well as reaching a larger consumer base through Partners, such as the Post Office and Telecom Plus. Our network of Partners takes responsibility for providing the complex range of additional products B2B customers may need, as well as managing service, billing and customer acquisition.

  We intend to continue to grow our Ethernet base both directly and through wholesale partners, offering fast, highly reliable data products to B2B customers, who require enhanced connectivity and resilience.

  We see further opportunity to continue to grow our market share and profitability. We intend to cement our leading position in wholesale data as B2B customers move to faster, higher ARPU products, including G.Fast, FTTP and 10Gb Ethernet. As the business market becomes more complex and competitive, we intend to leverage our scale and experience to provide a simple way for our Partners to access the services they need. This includes investing further in portals, monitoring and insight to provide a simpler, lower cost, more frictionless customer experience. Crucially, we are aiming to do this whilst investing in greater automation and robotics to further reduce our costs and to enable us to offer competitive pricing.

- **Leveraging our scale and network to further enhance customer experience.** We are investing in new technologies to improve customer experience, increase capacity and build capability. We are building new tools to allow the network to 'self-drive' through incidents and outages to minimise customer disruption. We are using real-time network telemetry data to improve the quality of our products and customer experience and rolling-out advanced diagnostics that allows customers to identify and resolve problems more efficiently, without having to take the time to call us.

The ever-increasing need for data transmission capacity compels us to find more ways to reduce cost per user, a key factor that enables us to be the lowest cost network in the UK. Over the last three years, data usage on our network has increased by almost 40% year-on-year, driven by customers upgrading to faster products and consuming significantly more data, especially video content. To manage this, we have made a number of investments to improve video performance with increased caching at the edge of our network. This improves the quality of video experience whilst significantly reducing bandwidth pressure on the network. We now serve close to 90% of Netflix video content this way. We are also adopting additional high-capacity optical products and deploying our next generation access switching capability that uses lower-cost, scalable backhaul options to further reduce cost.

- **Continuing to deliver cost efficiencies.** We intend to continue to simplify our business and deliver cost efficiencies, such as through the customer service and network initiatives described above. Our decision to concentrate on fixed connectivity has allowed us to focus our people and capital on a limited set of priorities, as we switched to delivering non-core services, such as TV and mobile, in a more capital-light manner. We intend to continue to reduce our external spend to ensure it aligns with our simpler model and is consistent with our position as a value brand.

  Over the past year, we have completed a fundamental restructuring of our organisation and created a leaner, more efficient business. In a milestone move for the Group, we relocated our headquarters from London to Salford, reducing our headcount to better reflect our simpler set of priorities. In addition to delivering material financial savings, it also supports our drive to create a more agile, collaborative culture better able to deliver the services our customers need at a price they can afford.

  Our ongoing cost efficiency initiatives include the shift away from traditional marketing towards a more targeted, micro segmentation approach that will reduce our marketing and customer acquisition costs. We also aim to drive further cost efficiencies by increasing the proportion of our customers on fibre products, as our higher ARPU fibre products have a lower cost-to-serve and higher rates of customer satisfaction.

- **Operating as one TalkTalk team.** We intend to take advantage of our headquarters relocation to the new Soapworks campus in Salford to improve collaboration between teams, support a more flexible working environment and enable us to attract and retain the best talent. Since our relocation, we have seen a 26 point increase in employee Net Promoter Scores, highlighting our improved employee engagement and satisfaction.

  Further, while we have always had a base in the North-West of England, we intend to build on that heritage to be closer to our customers in the North-West and further enhance customer engagement. Over the next several years, we see significant opportunities to leverage our new campus to further improve customer and employee engagement, innovation, and cross-team collaboration.

THE TRANSACTIONS

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 to: (a) redeem the entire aggregate principal amount of £400 million 2022 Notes outstanding and pay £7 million of redemption premium and accrued, but unpaid, interest to holders thereof; (b) repay (without cancelling commitments) £161 million of principal amounts drawn under the 2017 Revolving Credit 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 of the Offering see "*Use of Proceeds*." For a description of our current and anticipated indebtedness following the Refinancing, see "*Description of Other Indebtedness*" and "*Capitalization*."

The FibreNation Disposal

On January 21, 2020, the Issuer and the Issuer's subsidiaries, TalkTalk Group Limited, TalkTalk Corporate Limited and TalkTalk Communications Limited (the "**TalkTalk Sellers**") entered into a sale and purchase agreement (the "**FibreNation SPA**") with CityFibre Infrastructure Holdings Limited and CityFibre Holdings Limited (together, "**CityFibre**") for the sale of the FibreNation Share and Bolt Pro Shares for an aggregate consideration of £200 million.

FibreNation Limited and Bolt Pro Tem Limited are the Group's entities that were used to build our FTTP networks in Yorkshire. The FibreNation Disposal is part of our ongoing effort to simplify our business and focus on our core fixed connectivity offering. If CityFibre are only able to pay £150 million, we can elect to still complete, meaning the balance of the aggregate consideration due under the FibreNation SPA will be deferred and set off against any future payments due from us under the CityFibre Wholesale Agreement. The amount outstanding will accrue interest at 15% per annum on a compound basis. See "*Summary—Recent developments*" and "*Risk Factors—If the FibreNation Disposal is not completed, we may not achieve the expected benefits of the disposal, including the CityFibre Wholesale Agreement, and may be liable to pay a break fee*". The CityFibre Wholesale Agreement will allow us to utilise CityFibre's fibre networks to deliver our services to customers, including those networks that are currently operated by FibreNation Limited and Bolt Pro Tem Limited.

The completion of the FibreNation Disposal is conditional on the approval by a simple majority of the Issuer's shareholders and the satisfaction of certain other customary conditions. As at the date hereof, we have received commitments from shareholders holding, in aggregate, 57.5% of the entire issued share capital of the Issuer to vote in favour of the FibreNation Disposal. By the end of February 2020, we expect to distribute a Class 1 Circular to the Issuer's shareholders setting out the details of the proposed FibreNation Disposal. Assuming the FibreNation Disposal's approval by the requisite number of the Issuer's shareholders, we currently expect it to be completed in March 2020. However, there is no assurance that it will in fact be approved by the Issuer's shareholders or that other conditions to the closing of the FibreNation Disposal will be satisfied or waived on time or at all. See "*Risk Factors—Risks Relating to the FibreNation Disposal*."

On or about the closing date of the FibreNation Disposal, we expect to use the net proceeds thereof to repay (without cancelling commitments) £188 million of principal amounts drawn under the 2017 Revolving Credit Facility, thereby further de-levering our business.

RECENT DEVELOPMENTS

Trading update

On January 31, 2020, we released our trading update for the three months ended December 31, 2019. We set out below the key developments during that period.

Continued focus on fibre in our retail and B2B businesses

- strong momentum in fibre net-adds continued with approximately 148,000 net-adds during the three months ended December 31, 2019 (three months ended December 31, 2018: approximately 146,000), accounting for a 32% share of all new Openreach FTTC lines in the three months ended December 31, 2019 (three months ended December 31, 2018: 23%);
- 81% of our new direct retail customers subscribed to our fibre products (three months ended December 31, 2018: 63%) with 42% of these taking the higher ARPU Faster Fibre Broadband product (three months ended December 31, 2018: 31%);
- 52% of our new indirect customers in the B2B business subscribed to our fibre products (three months ended December 31, 2018: 44%); and
- churn reduced from 1.26% in the three months ended September 30, 2019 to 1.20% in the three months ended December 31, 2019, reflecting our increased fibre mix.

Fibre customers benefit from faster, more reliable connectivity and are accretive to customer lifetime value ("**CLV**") with lower churn and cost to serve, as well as higher ARPU compared to copper broadband customers.

Consistent growth in Data business

- in our B2B segment, the Ethernet customer base grew by approximately 1,700 (three months ended December 31, 2018: approximately 1,100), with 36% of orders for higher ARPU 1Gb lines (three months ended December 31, 2018: 29%); Ethernet circuits are high margin products and the 1Gb product has materially higher ARPU and lower churn.

Stable headline revenue and ARPU trends

- headline revenue (excluding carrier corporate revenue and off-net revenue) decreased from £386 million for the three months ended December 31, 2018 to £383 million for the three months ended December 31, 2019, or by 0.8%; this was primarily due to the industry-wide decline in voice revenue, a modest decrease in the copper broadband customer base and accelerated re-contracting of some higher ARPU legacy customers (which transferred to lower ARPU products), which was partially off-set by the effects of increased take-up of our fibre products and growth in our Data business; and
- on-net ARPU decreased from £24.70 for the three months ended December 31, 2018 to £24.43 for the three months ended December 31, 2019, or by 1.1%, due to accelerated recontracting of higher ARPU legacy customers (which transferred to lower ARPU products).

Headline EBITDA outlook remains unchanged

- headline EBITDA outlook for the year ending March 31, 2020 remains unchanged, driven by accelerated take-up of fibre products and cost reduction;
- cost savings remain on track, with the relocation of our headquarters to Salford now complete, £7 million of which was realised as at September 30, 2019; and
- expected leverage ratio (on a pre-IFRS 16 basis) for the year ending March 31, 2020 (without giving effect to the Refinancing, but giving effect to the FibreNation Disposal) is expected to be towards 2.5x.

Additional drawings under the 2017 Revolving Credit Facility

Our business is subject to regular fluctuations in working capital requirements, which we address primarily through drawings under the 2017 Revolving Credit Facility. As at September 30, 2019, we had £380 million drawn thereunder. Since then we have drawn certain additional amounts to finance day-to-day working capital requirements, as well as certain non-headline and non-recurring items. We estimate that our leverage ratio for the year ending March 31, 2020, taking into account those additional drawings and expected repayments thereof in the ordinary course of business, adjusted to give effect to the Transactions, would still be towards 2.5x. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Trends and Other Key Factors Impacting Our Results of Operations—Working capital requirements.*"

Interim dividend for the year ending March 31, 2020

On December 16, 2019, the Issuer paid an interim dividend for the year ended March 31, 2020 in the amount of 1.00 p per share, or approximately £11 million in aggregate. See "*Business—Dividend policy*."

Regulatory developments

On January 8, 2020, Ofcom published its Wholesale Fixed Telecoms Market Review (the "**Ofcom Access Review**") consultation outlining its plan to promote competition and investment in Full Fibre networks and protect consumer interests. Its proposal aims to address Openreach's market power to protect consumers in a way that supports investment, by applying different approaches to regulating Openreach's broadband products in different parts of the UK.

In the Ofcom Review, Ofcom has also proposed steps to support the future retirement of BT's copper networks. This is planned to be achieved through disapplying regulation on copper products on an Exchange area by Exchange area basis. See "*Risk Factors—Regulatory decisions made by Ofcom and the CMA could adversely impact our business*."

Political developments

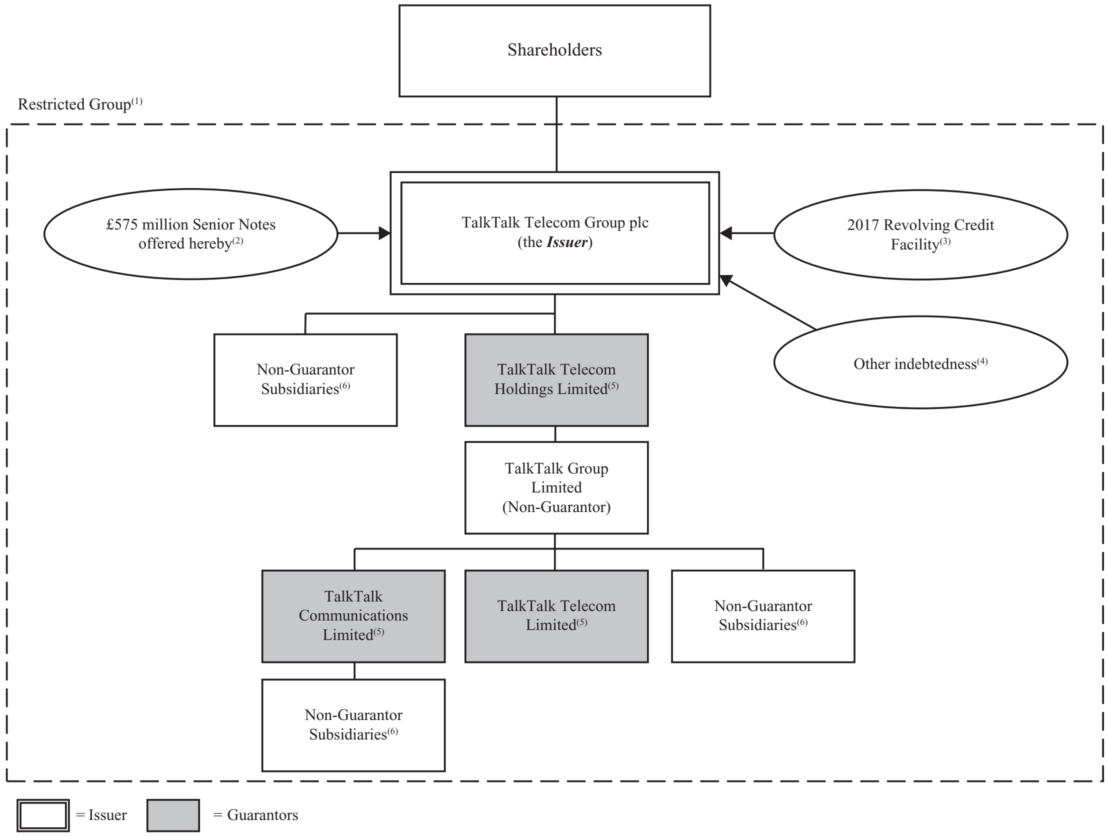
On December 12, 2019, the UK held a general election won by the Conservative party, which stated that the roll-out of Full Fibre broadband across the UK remains among their priorities, which ties into our Fibre First strategy and future Full Fibre plans. The UK government has committed to deliver full-fibre broadband to all UK premises by 2025, with approximately £5 billion of public funding to be targeted at the most rural areas.

On January 31, 2020, the UK withdrew from the EU with a transition period running up to December 31, 2020. See "*Risk Factors—Brexit may have a negative effect on global economic conditions, financial markets and our business.*"

SUMMARY CORPORATE AND FINANCING STRUCTURE

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

There is no assurance that the FibreNation Disposal will in fact be approved by the Issuer's shareholders or that other conditions to the closing of the FibreNation Disposal will be satisfied or waived on time or at all. See "*Risk Factors—Risks Relating to the FibreNation Disposal*."



(1) The entities in the Restricted Group will be 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 indebtedness 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 indebtedness to the extent of the value of the assets securing such indebtedness. 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. 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 commitments available under the 2017 Revolving Credit Facility amount to £640 million. As at September 30, 2019, we had £380 million drawn thereunder. Since then we have drawn certain additional amounts to finance day-to-day working capital requirements, as well as certain non-headline and non-recurring items, which we expect to repay in the ordinary course of business. See "*Recent Developments—Additional drawings under the 2017 Revolving Credit Facility.*"

(4) As at September 30, 2019, our other financial indebtedness included: (a) £63 million outstanding under the Receivables Purchase Facility; (b) £5 million of outstanding balances under our short-term uncommitted facilities, less £6 million of capitalized facility fees and (c) £211 million of lease liabilities (on a post-IFRS 16 basis).

(5) The Notes will be guaranteed by the Guarantors. The Guarantors represented (in each case, on a standalone but combined basis) 95% of our headline revenue, 83% of our headline EBITDA and 97% of our total assets as at and for the year ended March 31, 2019; and 97% of our headline revenue, 73% of our headline EBITDA and 96% of our total assets as at and for the six months ended September 30, 2019.

(6) As at the date of this offering memorandum, the direct and indirect non-guarantor subsidiaries of the Issuer did not have any material financial indebtedness outstanding.

Within the diagram above, 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 section entitled "*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	£575,000,000 aggregate principal amount of 3.875% Senior Notes due 2025 (the "**Notes**").
Issue Date	On or about February 20, 2020 (the "**Issue Date**").
Issue Price	3.875% plus accrued interest from the Issue Date.
Maturity Date	February 20, 2025.
Interest Rate	3.875% per annum.
Interest Payment Dates	Interest will be payable semi-annually in arrears on and of each year, commencing on August 20, 2020. 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 of the common depositary for the accounts of Euroclear and Clearstream. 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 subordinated in right of payment to such Guarantees;
- 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; and
- will be structurally subordinated to all existing and future obligations of subsidiaries of the relevant Guarantors that do not guarantee the Notes; and
- will be subject to certain limitations under applicable law as set forth below.

The Guarantees will be subject to release under certain circumstances. See "*Description of the Notes—Guarantees—Release of the Guarantees*."

Use of Proceeds of the Offering . . . . . . We intend to use the proceeds of the Offering to (a) redeem the entire aggregate principal amount of £400 million 2022 Notes outstanding and pay £7 million of redemption premium and accrued, but unpaid, interest to holders thereof; (b) repay (without cancelling commitments) £161 million of principal amounts drawn under the 2017 Revolving Credit 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 February 20, 2022 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 103.875% 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 February 20, 2022 upon Equity Offering*." At any time prior to February 20, 2022 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 February 20, 2022*." At any time on or after February 20, 2022 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 February 20, 2022*."
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. However, a change in control will not be deemed to have occurred if a specified consolidated net leverage ratio is not exceeded immediately after such change of control. 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—Optional Redemption—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 International Stock Exchange Authority Limited (the **"Authority"**) for the listing of and permission to deal in the Notes on the Official List of The International Stock Exchange (the **"Listing Exchange"**). There can be no assurance that the Notes will be listed on the Official List of the Listing 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 SA/NY, Luxembourg Branch.
Listing Agent	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, 2017, 2018 and 2019, as at and for the six months ended September 30, 2018 and 2019 and as at and for the twelve months ended September 30, 2019. The financial information as at and for the years ended March 31, 2017, 2018 and 2019 has been extracted from the Annual Financial Statements. The financial information as at and for the six months ended September 30, 2018 and 2019 has been extracted from the Interim Financial Statements. The financial information as at and for the twelve months ended September 30, 2019 has been derived from the Annual Financial Statements as at and for the year ended March 31, 2019 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, 2018 and 2019 and the Half Year Results Announcement. The information below should be read in conjunction with the Financial Statements included elsewhere in the offering memorandum and the discussion in the 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,
	2017	**2018**[(1)]	**2019**	**2018**[(1)]	**2019**[(2)]	**2019**
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)	(unaudited)
				(£ millions)		
Revenue						
On-net revenue	1,279	1,216	1,263	629	627	1,261
Off-net revenue	44	22	13	7	5	11
Corporate revenue	397	367	333	172	154	315
Total revenue	**1,720**	**1,605**	**1,609**	**808**	**786**	**1,587**
Cost of sales	(767)	(774)	(759)	(383)	(384)	(760)
Gross Profit	**953**	**831**	**850**	**425**	**402**	**827**
Operating expenses excluding amortisation and depreciation	(592)	(628)	(613)	(324)	(262)	(551)
EBITDA[(3)]	**361**	**203**	**237**	**101**	**140**	**276**
Depreciation and amortisation	(126)	(131)	(138)	(67)	(92)	(163)
Share of results of associates and joint ventures	(11)	(11)	(10)	(5)	(5)	(10)
Operating profit	**224**	**61**	**89**	**29**	**43**	**103**
Net finance costs	(25)	(46)	(52)	(23)	(28)	(57)
Profit before taxation	**199**	**15**	**37**	**6**	**15**	**46**
Taxation	(45)	(22)	32	(1)	(3)	30
Profit for the period attributable to the owners of the Company	**154**	**(7)**	**69**	**5**	**12**	**76**

(1) Restated to reflect the retrospective application of IFRS 9 and IFRS 15. See "*Presentation of Financial and Other Data—Restatements of previously reported financial information*."

(2) Reflects the impact of the adoption of IFRS 16. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Trends and Other Key Factors Impacting Our Results of Operations—Adoption of IFRS 16*."

(3) For calculation of our headline EBITDA, see *"Presentation of Financial and Other Data—Non-IFRS Financial Measures."*

Reconciliation of Headline Revenue to Statutory Revenue, Headline EBITDA to EBITDA and EBITDA to Statutory Operating Profit/(Loss)

	For the year ended March 31,			For the six months ended September 30,		For the twelve months ended September 30,
	2017	2018[(1)]	2019	2018[(1)]	2019[(2)]	2019
	(audited)	(audited)	(audited)	(unaudited) (£ millions)	(unaudited)	(unaudited)
Headline revenue	**1,720**	**1,605**	**1,609**	**808**	**786**	**1,587**
Exceptional items	63	48	23	14	6	15
Statutory revenue	**1,783**	**1,653**	**1,632**	**822**	**792**	**1,602**
Headline EBITDA[(3)]	**361**	**203**	**237**	**101**	**140**	**276**
Network transformation[(4)]	(8)	(17)	(15)	(7)	(5)	(13)
OneTeam operating model[(5)]	—	—	(22)	—	(7)	(29)
MVNO operating (loss)/profit[(6)]	(28)	(9)	3	1	2	4
Operating efficiencies (MTTS)[(7)]	(24)	(3)	—	—	—	—
Operating efficiencies (fundamental property rationalization)[(8)]	(8)	(12)	—	—	—	—
Acquisitions and disposal[(9)]	1	—	—	—	—	—
Mobile proposition[(10)]	(49)	(33)	—	—	—	—
Operating expenses from cyber attack[(11)]	2	—	—	—	—	—
Business reorganization[(12)]	—	(19)	—	—	—	—
EBITDA[(13)]	**247**	**110**	**203**	**95**	**130**	**238**
Depreciation and amortisation	(141)	(143)	(146)	(71)	(96)	(171)
Share of results of associates and joint ventures	(11)	(11)	(10)	(5)	(5)	(10)
Statutory operating profit/(loss)	**95**	**(44)**	**47**	**19**	**29**	**57**

(1) Restated to reflect the retrospective application of IFRS 9 and IFRS 15. See "*Presentation of Financial and Other Data—Restatements of previously reported financial information*."

(2) Reflects the impact of the adoption of IFRS 16. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Trends and Other Key Factors Impacting Our Results of Operations—Adoption of IFRS 16*."

(3) Headline EBITDA is EBITDA adjusted for the effects of certain non-headline items.

(4) Represents costs relating to our Network Transformation Program launched in 2017. See *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Trends and Other Key Factors Impacting Our Results of Operations—Headline EBITDA and impact of adjusting items.*"

(5) Represents costs relating to our OneTeam Operating Model Initiative launched in 2019. See *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Trends and Other Key Factors Impacting Our Results of Operations—Headline EBITDA and impact of adjusting items.*"

(6) Represents profits (or losses) generated by our legacy MVNO operations. See *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Trends and Other Key Factors Impacting Our Results of Operations—Headline EBITDA and impact of adjusting items.*"

(7) Represents costs relating to the implementation of our MTTS program. See *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Trends and Other Key Factors Impacting Our Results of Operations—Headline EBITDA and impact of adjusting items.*"

(8) Relates to the relocation of our headquarters to the Soapworks site in Salford and rationalization of our property footprint. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Trends and Other Key Factors Impacting Our Results of Operations—Headline EBITDA and impact of adjusting items.*"

(9) Relates to customer base acquisitions. See *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Trends and Other Key Factors Impacting Our Results of Operations—Headline EBITDA and impact of adjusting items.*

(10) Represents exceptional costs related to our decision to reassess our mobile strategy. See *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Trends and Other Key Factors Impacting Our Results of Operations—Headline EBITDA and impact of adjusting items.*"

(11) Represents costs relating 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—Headline EBITDA and impact of adjusting items.*"

(12) Represents costs relating to the Group's reorganization under the new leadership team. See *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Trends and Other Key Factors Impacting Our Results of Operations—Headline EBITDA and impact of adjusting items.*"

(13) EBITDA is statutory operating profit/loss before charges for statutory depreciation and amortisation and statutory share of results of associates and joint ventures.

Summary Consolidated Balance Sheet Information

	As at March 31,			As at September 30,
	2017	2018[1]	2019	2019[2]
	(audited)	(audited)	(audited)	(unaudited)
		(£ millions)		
Assets				
Non-current assets				
Goodwill	495	495	495	495
Other intangible assets	243	251	235	223
Property, plant and equipment	235	234	199	325
Investment in joint ventures	8	3	2	2
Trade and other receivables	6	2	2	4
Derivative financial instruments	31	—	—	—
Contract costs	—	228	308	348
Deferred tax assets	108	81	118	119
Total non-current assets	**1,126**	**1,294**	**1,359**	**1,516**
Current assets				
Inventories	18	29	34	28
Trade and other receivables	369	246	160	148
Contract assets	—	20	39	43
Current income tax receivables	—	—	—	—
Cash and cash equivalents	50	43	67	12
Total current assets	437	338	300	231
Assets classified as held for sale	**—**	**34**	**47**	**58**
Total assets	**1,563**	**1,666**	**1,706**	**1,805**
Current liabilities				
Trade and other payables	(511)	(480)	(491)	(426)
Current income tax payable	(5)	—	—	—
Contract liabilities	—	(16)	(20)	(23)
Lease liabilities	—	—	—	(60)
Borrowings	—	(96)	(10)	(5)
Provisions	(22)	(31)	(35)	(29)
Total current liabilities	**(538)**	**(623)**	**(556)**	**(543)**
Liabilities classified as held for sale	**—**	**(6)**	**(7)**	**(7)**
Non-current liabilities				
Borrowings	(871)	(723)	(838)	(837)
Trade and other payables.	—	(6)	(5)	—
Derivative financial instruments	—	—	—	—
Lease liabilities	—	—	—	(151)
Provisions	(14)	(28)	(12)	(4)
Total non-current liabilities	**(885)**	**(757)**	**(855)**	**(992)**
Total liabilities	**(1,423)**	**(1,386)**	**(1,418)**	**(1,542)**
Net assets	**140**	**280**	**288**	**263**
Equity				
Share capital	1	1	1	1
Share premium	684	684	684	684
Translation reserve	(64)	(64)	(64)	(64)
Demerger reserve	(513)	(513)	(513)	(513)
Retained earnings and other reserves	32	172	180	155
Total equity	**140**	**280**	**288**	**263**

(1) Restated to reflect the (i) retrospective application of IFRS 9 and IFRS 15; and (ii) changes to assets and liabilities held for sale in relation to the FibreNation Disposal. See "*Presentation of Financial and Other Data—Restatements of previously reported financial information*."

(2) Reflects the impact of the adoption of IFRS 16. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Trends and Other Key Factors Impacting Our Results of Operations—Adoption of IFRS 16*."

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,
	2017	**2018[1]**	**2019**	**2018[1]**	**2019[2]**	**2019**
	(audited)	**(audited)**	**(audited)**	**(unaudited)**	**(unaudited)**	**(unaudited)**
				(£ millions)		
Operating activities						
Operating profit	**95**	**(44)**	**47**	**19**	**29**	**57**
Share-based payments	5	8	3	3	2	2
Depreciation	72	72	71	35	58	94
Amortisation of other operating intangible fixed assets	59	62	67	32	34	69
Amortisation of acquisition intangibles	10	9	8	4	4	8
Share of losses of joint ventures	11	11	10	5	5	10
Impairment of stock inventory	18	—	—	—	—	—
Impairment of other operating intangible assets	—	2	—	—	—	—
Impairment of property, plant and equipment	22	—	—	—	—	—
Reversal of cost of inventories previously written down	—	(1)	(2)	—	—	(2)
Gain on disposal of joint venture	—	(1)	—	—	—	—
Profit on disposal of property, plant and equipment	(2)	—	—	—	—	—
Increase/(decrease) in provisions	8	23	(12)	(11)	(5)	(6)
Profit on disposal of subsidiaries and customer bases	—	—	(2)	—	—	(2)
Operating cash flows before movements in working capital	**298**	**141**	**190**	**87**	**127**	**230**
Decrease/(increase) in trade and other receivables	(63)	39	76	(15)	7	98
Decrease/(increase) in contract assets	—	(8)	(99)	(32)	(44)	(111)
Decrease/(increase) in inventory	21	1	(3)	(3)	6	6
Increase/(decrease) in trade and other payables	(26)	(38)	25	51	(61)	(87)
Increase/(decrease) in contract liabilities	—	1	4	(1)	3	8
Cash generated from operations	**230**	**136**	**193**	**87**	**38**	**144**
Income taxes paid	2	—	(1)	—	—	(1)
Net cash flows generated from operating activities	**232**	**136**	**192**	**87**	**38**	**143**
Investing activities						
Acquisition of subsidiaries and joint ventures, net of cash acquired	(10)	(8)	(9)	(6)	(6)	(9)
Disposal of subsidiaries and customer bases	—	—	2	—	—	2
Investment in intangible assets	(82)	(87)	(67)	(39)	(36)	(64)
Investment in property, plant and equipment	(71)	(38)	(37)	(16)	(14)	(35)
Disposal of property, plant and equipment	20	—	—	—	—	—
Cash flows used in investing activities	**(143)**	**(133)**	**(111)**	**(61)**	**(56)**	**(106)**
Financing activities						
Settlement of Group ESOT shares	1	1	1	1	—	—
Issue of Shares	—	201	—	—	—	—
Repayments of obligations under finance leases	—	(4)	(9)	(4)	(26)	(31)
Payment of contingent consideration	(8)	—	—	—	—	—
Repayments of borrowings	(315)	(391)	(27)	(21)	—	(6)
Drawdown of borrowings	458	309	55	30	33	58
Interest paid	(30)	(42)	(43)	(21)	(25)	(47)
Other finance costs	(5)	(13)	(6)	—	(2)	(8)
Equity dividends paid	(150)	(71)	(28)	(17)	(17)	(28)
Cash flows generated from/(used in) financing activities	**(49)**	**(10)**	**(57)**	**(32)**	**(37)**	**(62)**
Net (decrease)/increase in cash and cash equivalents	**40**	**(7)**	**24**	**(6)**	**(55)**	**(25)**
Cash and cash equivalents at the start of the year	10	50	43	43	67	37
Cash and cash equivalents at the end of the year	**50**	**43**	**67**	**37**	**12**	**12**

(1) Restated to reflect the retrospective application of IFRS 9 and IFRS 15. See "*Presentation of Financial and Other Data—Restatements of previously reported financial information.*"

(2) Reflects the impact of the adoption of IFRS 16. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Trends and Other Key Factors Impacting Our Results of Operations—Adoption of IFRS 16.*"

Other Financial Data and Ratios

The following table presents certain financial data and ratios, in each case, on a pre-IFRS 16 basis, as at and for the periods indicated:

	As at and for the year ended March 31,			As at and for the twelve months ended September 30,
	2017	2018	2019	2019
	(audited)	(audited)	(audited)	(unaudited)
	(£ millions, unless otherwise stated)			
Headline revenue	1,720	1,605	1,609	1,587
Headline gross profit	953	831	850	827
Headline gross profit margin(1) (%)	**55%**	**52%**	**53%**	**52%**
Total debt(2)	**832**	**788**	**809**	**842**
Cash and cash equivalents	(50)	(43)	(67)	(12)
Total net debt(3)	**782**	**745**	**742**	**830**
Pre-IFRS 16 headline EBITDA	361	203	237	251(4)
Pre-IFRS 16 leverage ratio(5)	2.2x	3.7x(6)	3.1x	3.3x
Net interest expense(7)	20	36	43	43
Pre-IFRS 16 interest coverage ratio(8)	18.1x	5.6x	5.5x	5.8x

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

(2) Includes current and non-current borrowings, but excludes lease liabilities, which as at September 30, 2019 amounted to £36 million on a pre-IFRS 16 basis and to £211 million on a post-IFRS 16 basis. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Trends and Other Key Factors Impacting Our Results of Operations—Adoption of IFRS 16*."

(3) Represents total debt less cash and cash equivalents.

(4) Excludes the £25 million impact resulting from the adoption of IFRS 16. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Trends and Other Key Factors Impacting Our Results of Operations—Adoption of IFRS 16*."

(5) Represents the ratio between total net debt and pre-IFRS 16 headline EBITDA.

(6) Reflects the impact of the adoption of IFRS 15. See "*Presentation of Financial and Other Data—Restatements of previously reported financial information.*"

(7) Represents, in relation to the years ended March 31, 2017, 2018 and 2019, interest expense on bank loans and overdrafts as extracted from our Financial Statements, less interest income related to cash and cash equivalents held, and for the twelve months ended September 30, 2019, computed on the basis for the last twelve months financial information computations discussed in "*Presentation of Financial and Other Data*."

(8) Represents the ratio between pre-IFRS 16 headline EBITDA and net interest expense.

As Adjusted **Financial Data and Ratios**

The following table presents certain financial data and ratios as at and for the twelve months ended September 30, 2019, in each case, on a pre-IFRS 16 basis, as adjusted to give effect to the Transactions:

	As at and for the twelve months ended September 30, 2019
	(unaudited) (£ millions, unless otherwise stated)
As *adjusted* total debt(1)	**668**
As *adjusted* cash and cash equivalents(2)	(12)
As *adjusted* total net debt(3)	**656**
Pre-IFRS 16 headline EBITDA(4)	251
Run-rate pre-IFRS 16 headline EBITDA(5)	269
As *adjusted* pre-IFRS 16 leverage ratio(6)	2.6x
Run-rate as *adjusted* pre-IFRS 16 leverage ratio(7)	2.4x
As *adjusted* net interest expense(8)	32
As *adjusted* interest coverage ratio(9)	8.5x

(1) *As adjusted* total debt is total debt after giving effect to the Transactions as if they had occurred on September 30, 2019. Excludes certain additional amounts we have drawn since September 30, 2019 under the 2017 Revolving Credit Facility to finance day-to-day working capital requirements, as well as certain non-headline and non-recurring items, which we expect to repay in the ordinary course of business. See "*Capitalization*" and "*Summary—Recent developments*."

(2) *As adjusted* cash and cash equivalents is cash and cash equivalents after giving effect to Transactions as if they had occurred on September 30, 2019. See "*Capitalization.*"

(3) *As adjusted* total net debt is *as adjusted* total debt less *as adjusted* cash and cash equivalents.

(4) Excludes the £25 million impact resulting from the adoption of IFRS 16. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Trends and Other Key Factors Impacting Our Results of Operations—Adoption of IFRS 16*."

(5) Represents pre-IFRS 16 headline EBITDA, adjusted for (i) £4 million of pre-IFRS 16 operating costs incurred by FibreNation in the twelve months ended September 30, 2019 and (ii) £14 million of £21 million of annualized cost savings anticipated to be generated in the year ending March 31, 2021 by the relocation of our headquarters from London to Salford, of which £7 million were realized in the six months ended September 30, 2019.

(6) Represents the ratio between *as adjusted* total net debt and pre-IFRS 16 headline EBITDA.

(7) Represents the ratio between *as adjusted* total net debt and Run-rate pre-IFRS 16 headline EBITDA.

(8) *As adjusted* net interest expense represents net interest expense after giving effect to the Transactions as if they had occurred on October 1, 2018. We calculated our as adjusted net interest (i) using interest rates modified to give effect to the Transactions 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.

(9) Represents the ratio between Run-rate pre-IFRS 16 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,**	
	2017	**2018**	**2019**	**2018**	**2019**
	(thousands)				
Net-adds(1) **by product**					
Fibre	223	348	490	192	292
Ethernet(2)	5.7	8.1	5.3	3.2	2.9
Churn(3) **(on-net) (%)**	**1.45%**	**1.22%**	**1.20%**	**1.20%**	**1.27%**

(1) 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.

(2) Ethernet products are part of the Data products line.

(3) Churn is an average percentage of total on-net customers leaving our network per month during the period. See "*Summary—Recent Developments—Trading update*."

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.

We operate in the highly competitive UK consumer broadband internet (including FTTP and FTTC), TV and fixed-line telephony markets and the business fixed-line and data markets. 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, and new entrants to this market, such as Vodafone, who have aggressive pricing strategies. Further, as FTTP is rolled out across the UK, we expect there will be new entrants to the market who will make it more competitive. Despite more than 10 years of pro-competition regulation, BT continues to lead the market by capitalizing on its customer recognition potential and infrastructure ownership, with Openreach being, as of the date of this offering memorandum, the sole supplier of the national backbone optical network. FTTP, which we expect to be the future of broadband, is yet to be fully rolled out and the commercial and regulatory landscape surrounding FTTP is not yet clear. Sky dominates the pay TV market with its exclusive content proposition. All of our competitors offer bundled solutions, combining fixed-line and mobile offerings, whereas we have shifted toward a broadband-focused offering with optional TV and other add-on opportunities. We also expect price competition to increase in the markets in which we operate, which may make it more difficult to maintain our value credentials. In addition, continued consolidation within the industry, such as the recent acquisition of Sky by Comcast, may enable our competitors to be better capitalized and to compete with us on price and by offering triple play (broadband, fixed-line telephony and pay TV) or quad play (broadband, fixed-line telephony, pay TV and mobile) packages, which we may not be able to compete with since we no longer provide mobile services to new customers and since we may not be able to offer certain pay TV packages.

In the B2B market for fixed-line telecommunication and data services, we face significant competition from BT, Vodafone, Virgin Media and Sky, following its acquisition by Comcast.

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, we 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 and WhatsApp.

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 or computer systems 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 providing services, billing and collecting revenue, require unanticipated capital expenditures, or result in regulatory penalties or reduced revenue flows. 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. We utilize a number of third parties to store and process data on our behalf, including but not limited to Microsoft, Salesforce and Oracle. These risks and uncertainties are applicable to both hardware, software and services provided both internally and through these third-party providers.

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 in recent years presents a significant challenge in terms of securing data and systems against attack. We (or our third-party providers) 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 or 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 relating to loss of business, investigations, remediation activity and investment in customer retention. See "*—Our business could be adversely affected by legal proceedings and regulatory investigations relating to severe customer data security* *breaches*." Since the 2015 Cyber Attack, we have taken significant steps to build our in-house security profile. We have invested heavily to increase the size and capability of our security teams and we work closely with third party experts, as well as law enforcement agencies, to prioritize risks and protect against them. We will continue to enhance our security capabilities in the future. Although we believe that 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 cyber attack will not occur or that the monitoring and mitigating measures that we have put in place will be effective in guarding against losses arising therefrom.

The EU Regulation 2016/679 on data protection (the "**GDPR**") and the Data Protection Act 2018 (the "**DPA**"), which incorporates the GDPR, became effective on May 25, 2018, introducing enhanced data protection requirements and substantial fines for a breach thereof. Although we have already made, and continue making, adjustments to our policies and procedures to ensure full compliance with the GDPR and the DPA, as at the date of this offering memorandum its formal implementation in the UK is still ongoing as the general regulatory framework requires interpretation and adaptation. Therefore, there can be no assurance that the adjustments we have already made, as well as those that we are planning to make in the future, will fully satisfy the GDPR's and the DPA's requirements. Also, on January 11, 2017, the European Commission published a proposal for its new e-Privacy regulation, which is expected to replace the currently effective e-Privacy Directive 2002/58/EC. The new e-Privacy regulation is expected to be adopted in the near future and we are currently evaluating whether our practices need to be adjusted to ensure compliance therewith. There can be no assurance that such compliance can be achieved within the regulatory timeframes, when set, or at all.

Should we be found to be in breach of any applicable data protection laws, this may result in significant 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 or 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 have seen continued improvement of our churn levels since the launch of our FLPPs and other factors, such levels remain high compared to 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 or increased costs to retain customers, which could have a material adverse effect on our business, prospects, results of operations and financial condition.

The roll-out of FTTP products and services is a key driver in reducing churn and cost to serve; however, if these are not rolled out successfully, or as quickly as anticipated, the associated reduction in churn and cost to serve may not be realised and this may have an 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 Full Fibre and simplified customer offerings such as FLPP.

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;
- strengthening and maintenance of our systems; and
- investment in our capability to connect to FTTP networks.

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 capital expenditure relative to revenue 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's withdrawal from the European Union on 31 January 2020 pursuant to Article 50 of the Treaty on European Union ("**Brexit**") 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 "*—Brexit may have a negative effect on global economic conditions, financial markets and our business*."

In addition, ongoing issues related to sovereign debt in Europe in recent years, 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, 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.

Brexit may have a negative effect on global economic conditions, financial markets and our business.

Brexit has created significant uncertainty about the future relationship between the UK, our sole market, the European Union and its remaining member states and may constitute an additional risk for the financial markets, the European economy, our supply chain and regulation. Negotiations are ongoing to determine the future terms of the UK's relationship with the European Union, as well as whether the UK will be able to continue to benefit from the European Union's free trade and similar agreements. The potential impact of Brexit on our market share, sales, profitability and results of operations is unclear. The effects of Brexit will depend on any agreements the UK makes to retain access to European Union markets and suppliers.

Brexit could, among other outcomes, significantly disrupt trade between the UK and the European Union, cause political and economic instability, contribute to instability in global financial and foreign exchange markets, and 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, CCI, CSG, CGI, Sagemcom and, recently, CityFibre, under the CityFibre Wholesale Agreement). 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, Tech Mahindra, HGS, 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, that may affect the price we pay or the access we have to BT's network, 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 "*—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 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 broadband data traffic, 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 YouView and our various Boost packages. 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, BT Sports, Amazon 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, ViacomCBS (including Five), Disney, NBC Universal (a division of Comcast, which also owns Sky), Turner (a division of AT&T), BT, UKTV, AETN and Fox. 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, such as 5G wireless mobile network technology, could trigger the emergence of new competitors, strengthen the position of existing competitors or reduce the demand for our products and services. 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.

As the UK telecommunication industry shifts towards Full Fibre, we may not be able to gain wholesale access to various parts of the network

The UK telecommunication market is undergoing a technological transformation as it shifts away from legacy copper broadband toward more advanced Fibre broadband technology. After our disposal of FibreNation, we will not own the underlying FTTP infrastructure necessary to deliver Full Fibre connections to end users. We will rely on wholesale agreements with FTTP infrastructure networks, such as CityFibre, in order to access their FTTP networks to deliver a Full Fibre broadband connection to end users.

Given that the regulatory and commercial landscape for FTTP is still largely undeveloped, we may not be able to gain access to Fibre network infrastructure or may not be able to gain access at prices similar to those we currently incur for broadband connections, including backhaul, for the last mile of FTTP networks. An inability to access FTTP infrastructure could render us unable to provide our existing customer base with a broadband connection and prevent us from acquiring new FTTP customers in particular areas. Additionally, if our FTTP infrastructure partners are unable to provide the reliable and fast connectivity that Fibre customers expect, that could negatively impact our customer satisfaction, churn, and our expected cost-to-serve efficiencies from Full Fibre. This could have an adverse effect on our 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. As part of the move of our headquarters to the Soapworks campus in Salford, we have relocated approximately 400 personnel roles from London to Salford. These recent hires may lead to an increased turnover of staff. The loss of any 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.

The expected benefits of the move of our headquarters in Salford may not be delivered in full.

Since 2017, we have consolidated all of our offices and staff, save for a small satellite office in London, to our new Soapworks campus in Salford. We expect this move to generate annualized operating cost savings and to enhance collaboration and engagement among our employees. Although we have seen certain improvements in employee satisfaction and collaboration, we have not yet delivered the full annualised expected financial benefits of the relocation. Failure to successfully deliver the remainder of the financial benefits could have a negative impact on our future financial performance. In addition, any market perception of lower-than-expected operational efficiency and financial performance resulting from our relocation could result in adverse publicity and a negative impact on our reputation, brand or share price. This could have an adverse effect on our business, prospects, 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 costs.

Historically, our growth has been partly due to acquisitions (such as Onetel in 2005, AOL UK in 2006, 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.

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

We are party to a joint venture in relation to YouView (a joint venture with BT, BBC, ITV, Channel 4, Channel 5 and Arqiva) that forms the basis of our TV platform. We also own 67% of Bolt Pro Tem Limited, which carried out a trial to roll-out of FTTP in certain parts of York, and which we have agreed to sell as part of the Fibre Assets in the FibreNation Disposal. 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 insurance policies for a range of risks including property damage, business interruption, stock loss, professional indemnity claims, cyber-attacks, public/product/employers liability claims and directors' and officers' claims. 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. 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 may not be fully compensated and 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.

RISKS RELATING TO THE FIBRENATION DISPOSAL

We are exposed to certain liabilities under the FibreNation SPA.

The FibreNation SPA contains certain warranties and indemnities that the Issuer and the Guarantors have provided to CityFibre. These warranties and indemnities are subject to certain financial caps and time limitations. The FibreNation SPA contains customary warranties (subject to customary limitations) along with a smaller number of specific indemnities. If the Issuer or the Guarantors should incur liabilities under any of these warranties or indemnities, the costs of such liabilities could have an adverse effect on our business, prospects, financial condition, and results of operations.

The separation of the Fibre Assets from the Group may be complex and could cause us to incur unexpected costs.

The process of separating the Fibre Assets from the Group may be more complex than expected, involving the separation of a number of business systems and support services. On the FibreNation Disposal Completion Date, we expect that TalkTalk Communications Limited ("**TTCL**") will enter into a transitional services agreement with CityFibre, pursuant to which TTCL will provide, or procure, certain transitional services to FibreNation and FibreNation will provide, or procure, certain transitional services to TTCL for a minimum period of eighteen months following the FibreNation Disposal Completion Date. We could incur unexpected additional costs or adverse impacts on the functions of our business as a result of the separation process or fulfilment of TTCL's obligations under the transitional services agreement, which could adversely affect our financial conditions and results of operations. Our management may be required to allocate time and resources to the separation and to ensuring that TTCL's obligations under the transitional services agreement are fulfilled. This may limit the management and financial recourses available to us, and could have a material adverse effect on our business, prospects, results of operations and financial condition.

Changes to the Fibre Assets prior to the FibreNation Disposal Completion Date could render the terms of the FibreNation Disposal less attractive to us.

During the period from the signing of the FibreNation SPA to the FibreNation Disposal Completion Date, events or developments may occur, including changes in the trading, operations or outlook of the Group or the Fibre Assets, or external market factors, which could make the terms of the FibreNation SPA less attractive for us. We would be obliged to complete the FibreNation Disposal notwithstanding such events or developments. This may have a material adverse effect on our business, prospects, financial condition and results of operations.

We may be unable to deliver the anticipated financial benefits from the FibreNation Disposal.

As part of the FibreNation Disposal, we have agreed to sell the FibreNation Share and Bolt Pro Shares to CityFibre for aggregate consideration of £200 million. If CityFibre is able to pay £150 million or more, we will be entitled to proceed with the closing and the difference between the agreed purchase price and the purchase price that CityFibre are in fact able to pay will remain outstanding and accrue interest at the rate of 15%. The outstanding amount will then be set off against any payments due from us to CityFibre under the CityFibre

Wholesale Agreement, which we expect to enter into on or about the completion date of the FibreNation Disposal. As such, we would not receive the full expected aggregate consideration on completion, we will not be able to realise immediately, or at all, the full anticipated financial benefits of the FibreNation Disposal, it may take a number of years for all of such deferred amount and accrued interest thereon to be set-off against the charges under the CityFibre Wholesale Agreement and it may never be set off in total, if the charges under the CityFibre Wholesale Agreement never equal the amount of such deferred amount and accrued interest thereon. Any of such events could have a material adverse effect on our business, prospects, results of operations and financial condition.

We may not receive all the anticipated operational benefits under the CityFibre Wholesale Agreement.

Following the FibreNation Disposal, we expect to gain access to CityFibre's FTTP infrastructure through our CityFibre Wholesale Agreement. We may not realise the anticipated benefits under the CityFibre Wholesale Agreement if CityFibre do not roll-out their FTTP network in accordance with their plans or if CityFibre do not deliver their obligations under the CityFibre Wholesale Agreement. Certain of our obligations under the CityFibre Wholesale Agreement would cease to apply if CityFibre fail to meet their obligations; however, if we are unable to find a substitute FTTP infrastructure supplier, or if no other FTTP networks are available, we may be unable to provide FTTP connectivity in certain areas and may have to substitute with other broadband services of inferior quality, higher prices, or both. We are also required to deliver certain obligations to CityFibre under the CityFibre Wholesale Agreement and may be subject to certain liabilities over the period of the CityFibre Wholesale Agreement if we were to fail to satisfy these obligations.

After completion of the FibreNation Disposal, we will be a smaller and more concentrated business than the current Group. Any deterioration in our performance, particularly in our core fixed connectivity offerings, would therefore have a more pronounced negative effect on our business. Our resulting loss of diversification following the FibreNation Disposal could have a material adverse effect on our business, prospects, financial condition, and results of operations and prospects.

The FibreNation Disposal may cause volatility in our share price.

The value of an investment in the Issuer may decrease and can be highly volatile. The price at which our shares may be quoted and the price at which investors may realise their shares can be influenced by a large number of factors, some of which are specific to the Group and our operations and some which may be related to our industry, our competitors, other comparable companies or publicly traded companies as a whole. The sentiments of equity investors regarding the FibreNation Disposal will be one such factor and, together with other factors, including the actual or anticipated fluctuations in our financial performance and that of our competitors, market fluctuations, and legislative or regulatory changes in the industries in which we operate, could lead to the negative changes in the market price of our shares.

If the FibreNation Disposal is not completed, we may not achieve the expected benefits of the disposal, including the CityFibre Wholesale Agreement, and may be liable to pay a break fee.

We expect to benefit from the FibreNation Disposal through the receipt of the FibreNation Disposal consideration, which we intend to use to reduce our indebtedness. If the FibreNation Disposal is not completed, we would not receive the cash proceeds from the FibreNation Disposal, and we may be unable to deleverage as anticipated. Further, certain of our costs related to the FibreNation Disposal would be payable even if the FibreNation Disposal is not completed. Non-completion of the FibreNation Disposal would also result in our forgoing the other anticipated benefits of the FibreNation Disposal, such as our shift to focusing on our core fixed connectivity business.

In addition, in the event the FibreNation Disposal is not completed, we may be required to pay a break fee to the Purchasers. Completion of the FibreNation Disposal is conditional upon shareholder approval through the passing of a shareholder resolution by April 30, 2020. If the shareholder resolution is approved prior to April 30, 2020 (or such later time as we and CityFibre may agree), we will be contractually obliged to complete the FibreNation Disposal unless the FibreNation SPA is otherwise terminated in accordance with its terms.

If the shareholder resolution is not approved by April 30, 2020 (or such later time as we and CityFibre may agree), the FibreNation SPA will automatically terminate. If the shareholder resolution is not approved on or before April 30, 2020 and the FibreNation SPA terminates, we have agreed to pay CityFibre a break fee of:

- £30 million in cash if the break fee resolution is approved by our shareholders; or
- £13.1 million in cash, being one per cent of the market capitalisation of the Issuer as at January 20, 2020, if the break fee resolution is not approved by shareholders.

Completion will not occur if the shareholder resolution is not approved by shareholders. If completion of the FibreNation Disposal does not occur, there can be no assurance that we will be able to dispose of all or part of, or secure an investment in, the Fibre Assets at a later date, in favourable or equivalent market circumstances, or be able to dispose of, or secure an investment in, the Fibre Assets at all. In particular, there is no guarantee that the price of any future disposal of the Fibre Assets would be comparable to the consideration agreed to by CityFibre in the FibreNation SPA. In addition, the market's perception of a failed disposal could result in adverse publicity and a negative impact on our reputation, brand, share price, and our ability to take part in future transactions of a similar nature.

If the FibreNation Disposal is not completed, this may lead to management, employee, customer and supplier distraction and concern due to perceived uncertainty with regards to the future ownership of the Fibre Assets. This may have an adverse effect on the performance of the Fibre Assets and their value to the Group. Our management may be required to allocate additional time and cost to the ongoing supervision and development of the Fibre Assets, which may have an adverse impact on the rest of the Group.

Further, we may not be able to enter the CityFibre Wholesale Agreement and the anticipated benefits therefrom if the FibreNation Disposal is not completed. The CityFibre Wholesale Agreement is conditional on completion of the FibreNation Disposal; if the FibreNation Disposal is not completed, CityFibre Wholesale Agreement will not come into effect and we may not receive the expected benefits under the CityFibre Wholesale Agreement, including access to FTTP networks in certain areas at competitive prices. If the aforementioned risks were to materialise, they could have a material adverse effect on our business, prospects, results of operations and financial condition.

RISKS RELATING TO LEGAL AND REGULATORY MATTERS AND LITIGATION

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

Our principal business activities and those of some of our suppliers 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.

Additionally, it remains to be seen what impact Brexit will have on the regulatory environment in the EU and the UK and on the applicability of EU laws and regulations in the UK. The terms on which the UK end its transition period that commenced on January 31, 2020 are not certain and therefore it is not possible to know what impact Brexit will have on the application of EU laws and regulations to which the Issuer or any of the Guarantors may be subject. During the transition period that commenced on January 31, 2020, any applicable EU law will continue to apply in and to the UK until the end of such transition and, if agreed, may form part of retained law thereafter. Therefore, at least for a period of time, the status quo in respect of EU recognition of UK proceedings will be maintained. However, if a 'no deal' Brexit scenario (i.e., a situation in which the transition period ends with no trade agreement in place) follows at the end of the transition period, from the date that the transition period ends, recognition of EU laws and regulations in the UK will not be automatic. The resulting regulatory uncertainty could have a material impact on our results of operations.

Regulatory decisions made by Ofcom and the CMA could adversely impact our business.

The Ofcom Access Review proposed steps to support the future retirement of Openreach's copper networks, including a proposal to disapply Ofcom's regulation on copper products on an Exchange area basis once Openreach deploys ultrafast broadband to 75% of the premises in a particular Exchange area. Such deregulation, in combination with wholesale pricing decisions made by Openreach, could result in our paying higher prices for wholesale access to Openreach's copper network in these areas for our remaining copper broadband customers.

Ofcom and the CMA have focused on customer fairness and have implemented a number of initiatives to address the alleged loyalty penalty paid by existing customers of UK telecommunications companies, who are allegedly charged higher prices than new customers. Although we have a smaller proportion of out-of-contract customers and a smaller delta between front and back book prices compared to our competitors, if Ofcom and the CMA were to compel telecommunications companies to equalise their front and back book pricing, we could face ARPU dilution and decreased profitability, which could have a material adverse effect on our business, prospects, results of operations and financial condition.

Our business could be adversely affected by legal proceedings and regulatory investigations relating to severe customer data security breaches.

We may become subject to legal actions brought by existing and past subscribers as a result of, among other things, the 2015 Cyber Attack, the breach of the Data Protection Act 1998 related to Wipro's actions noted below 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 before any discount for early payment. The matter before the ICO is closed.

We were also subject to an investigation by the ICO in 2017 in respect of a portal that was accessed by rogue employees of one of our ex-contact centre suppliers, Wipro, based in India. As a result, the ICO found that there had been a breach of the Data Protection Act 1998 and, on August 7, 2017, imposed a monetary penalty in the sum of £100,000 before any discount for early payment. The matter before the ICO is 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, 2019, after giving effect to the Transactions, our total debt (excluding lease liabilities) would have been £667 million and our leverage ratio would have been 2.4x. 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 (a) redeem the entire aggregate principal amount of £400 million 2022 Notes outstanding and pay £7 million of redemption premium and accrued, but unpaid, interest to holders thereof; (b) repay (without cancelling commitments) £161 million of principal amounts drawn under the 2017 Revolving Credit 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", "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, the Notes and the 2017 Revolving Credit Facility 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 Notes and the 2017 Revolving Credit Facility 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 2017 Revolving Credit Facility 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 2017 Revolving Credit Facility 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 2017 Revolving Credit Facility 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 2017 Revolving Credit Facility, 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 2017 Revolving Credit Facility 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 2017 Revolving Credit Facility) 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 interest rate risks as we have certain interest determined on a variable basis, through unhedged variable rate debt. 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 periodically 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 95% of our headline revenue, 83% of our headline EBITDA and 97% of our total assets for the year ended March 31, 2019; and 97% of our headline revenue, 73% of our headline EBITDA and 96% of our total assets for the six months ended September 30, 2019. As at September 30, 2019, 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 defences that may limit 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 2022 Notes, and the 2017 Revolving Credit Facility. The inability to purchase the Notes, the 2022 Notes, or repay loans under the 2017 Revolving Credit Facility upon the occurrence of a change of control would constitute an event of default under the terms and conditions governing the Notes the 2022 Notes, and the 2017 Revolving Credit Facility, 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 (EU) 2015/848 of the European Parliament and of the Council dated May 20, 2015 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. Pursuant to Article 3(1) of the 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. The EUIR specifically states in the Recitals (Recital 30) that the presumption should be rebuttable 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. 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.

It remains to be seen what impact Brexit will have on the regulatory environment in the EU and the UK and on the applicability of EU law in the UK. The terms on which the UK end its transition period that commenced on January 31, 2020 are not certain and therefore it is not possible to know what impact Brexit 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. During the transition period that commenced on January 31, 2020, any applicable EU law will continue to apply in and to the UK until the end of such transition and, if agreed, may form part of retained law thereafter. Therefore, at least for a period of time, the status quo in respect of EU recognition of UK proceedings will be maintained. However, if a 'no deal' Brexit scenario (i.e., a situation in which the transition period ends with no trade agreement in place) follows at the end of the transition period, from the date that the transition period ends, recognition of UK insolvency proceedings in EU member states will not be automatic. The loss of reciprocity will make it harder for UK office holders, and UK restructuring and insolvency proceedings and UK judgments to be recognised in EU member states. This will also make it more difficult to deal with assets located in EU member states.

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 Listing 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 Listing Exchange.

Although the Issuer intends to have the Notes listed on the Official List of the Listing 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 Listing 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 Listing 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 Listing 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 Listing 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 of the Offering to be £575 million.

We intend to use the proceeds of the Offering to: (a) redeem the entire aggregate principal amount of £400 million 2022 Notes outstanding and pay £7 million of redemption premium and accrued, but unpaid, interest to holders thereof; (b) repay (without cancelling commitments) £161 million of principal amounts drawn under the 2017 Revolving Credit 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**(1)	**(£ millions)**
Notes offered hereby	575	Repayment of 2022 Notes(2)	400
		Redemption premium and accrued, but unpaid, interest(2)(3)	7
		Repayment of drawings under 2017 Revolving Credit Facility(4)	161
		Payment of costs, expenses and fees(5)	7
Total sources	**575**	**Total uses**	**575**

(1) These amounts represent the Group's good faith estimates as at the date of this offering memorandum. However, actual amounts paid may be different and the Group assumes no obligation to notify investors in the Notes of any amounts so paid.

(2) On the Issue Date, we intend to deposit the corresponding amounts with the 2022 Notes trustee, thus causing the 2022 Notes Indenture to be satisfied and discharged. We intend to redeem the entire aggregate principal amount of £400 million 2022 Notes outstanding, and pay redemption premium and accrued, but unpaid, interest thereon to holders thereof in accordance with, and as set out in, the Conditional Notice of Redemption.

(3) Represents (i) redemption premium and (ii) accrued, but unpaid, interest that is expected to be payable to the holders of the 2022 Notes to be redeemed.

(4) Excludes interest accrued, but unpaid, on the relevant principal amounts, which is expected to be paid from cash on balance sheet. No commitments under the 2017 Revolving Credit Facility will be cancelled.

(5) 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 presents our consolidated total debt and total net debt, along with our cash and cash equivalents, as at September 30, 2019:

- on a historical basis, which is derived (without material adjustments) from our Interim Financial Statements included elsewhere in this offering memorandum; and
- as adjusted to give effect to the Transactions, as if they had occurred on September 30, 2019.

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 included in this offering memorandum.

	As at September 30, 2019	Adjustments for the Refinancing	Adjustments for the FibreNation Disposal	As at September 30, 2019 (adjusted)
		(unaudited) (£ millions)		
Cash and Cash Equivalents	**12**	**—**	**—**	**12**
Debt:				
Notes offered hereby	—	575	—	575
2022 Notes[(1)]	400	(400)	—	—
2017 Revolving Credit Facility	380[(2)]	(161)	(188)[(3)]	31
Receivables Purchase Facility	63[(4)]	—	—	63
Other financial indebtedness	5[(5)]	—	—	5
Capitalized facility fees	(6)	—	—	(6)
Total debt[(6)]	**842**	**14**	**(188)**	**668**
Total net debt[(7)]	**830**	**14**	**(188)**	**656**

(1) Represents the aggregate outstanding principal amount of the 2022 Notes.

(2) Represents the total aggregate principal amount outstanding under the 2017 Revolving Credit Facility as at September 30, 2019. The 2017 Revolving Credit Facility has a total capacity of £640 million. See "*Description of Other Indebtedness—2017 Revolving Credit Facility.*" Since September 30, 2019, we have drawn certain additional amounts to finance day-to-day working capital requirements, as well as certain non-headline and non-recurring items, which we expect to repay in the ordinary course of business. See "*Summary—Recent developments.*"

(3) Represents the net proceeds from the FibreNation Disposal, which we expect to use to pay down outstanding drawings under the 2017 Revolving Credit Facility. There can be no guarantee that the FibreNation Disposal will occur, or, if it does occur, that the proceeds will be received upfront. If CityFibre is only able to pay £150 million, we can elect to still complete, meaning the balance of the aggregate consideration due under the FibreNation SPA is deferred and set off against any future payment due from us under the CityFibre Wholesale Agreement. The amount outstanding will accrue interest at 15% per annum on a compound basis. See "*Summary—Recent developments*" and "*Risk Factors—If the FibreNation Disposal is not completed, we may not achieve the expected benefits of the disposal, including the CityFibre Wholesale Agreement, and may be liable to pay a break fee.*"

(4) Represents the total aggregate principal amount outstanding under the Receivables Purchase Facility. See "*Description of Other Indebtedness—Receivables Purchase Facility.*"

(5) Represents outstanding balances under our short-term uncommitted facilities.

(6) Does not include lease liabilities, which as at September 30, 2019 amounted to £36 million on a pre-IFRS 16 basis and to £211 million on a post-IFRS 16 basis. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Trends and Other Key Factors Impacting Our Results of Operations—Adoption of IFRS 16.*"

(7) Represents our total debt less cash and cash equivalents.

Other than as disclosed above and the section "*Recent developments*", there has been no material change in our total capitalization since September 30, 2019.

SELECTED FINANCIAL INFORMATION

The tables below present selected consolidated financial information for the Group as at and for the years ended March 31, 2017, 2018 and 2019, as at and for the six months ended September 30, 2018 and 2019 and as at and for the twelve months ended September 30, 2019. The financial information as at and for the years ended March 31, 2017, 2018 and 2019 has been extracted from the Annual Financial Statements. The financial information as at and for the six months ended September 30, 2018 and 2019 has been extracted from the Interim Financial Statements. The financial information as at and for the twelve months ended September 30, 2019 has been derived from the Annual Financial Statements as at and for the year ended March 31, 2019 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 the 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,
	2017	**2018[1]**	**2019**	**2018[1]**	**2019[2]**	**2019**
	(audited)	**(audited)**	**(audited)**	**(unaudited)**	**(unaudited)**	**(unaudited)**
				(£ millions)		
Revenue						
On-net revenue	1,279	1,216	1,263	629	627	1,261
Off-net revenue	44	22	13	7	5	11
Corporate revenue	397	367	333	172	154	315
Total revenue	**1,720**	**1,605**	**1,609**	**808**	**786**	**1,587**
Cost of sales	(767)	(774)	(759)	(383)	(384)	(760)
Gross Profit	**953**	**831**	**850**	**425**	**402**	**827**
Operating expenses excluding amortisation and depreciation	(592)	(628)	(613)	(324)	(262)	(551)
EBITDA[3]	**361**	**203**	**237**	**101**	**140**	**276**
Depreciation and amortisation	(126)	(131)	(138)	(67)	(92)	(163)
Share of results of associates and joint ventures	(11)	(11)	(10)	(5)	(5)	(10)
Operating profit	**224**	**61**	**89**	**29**	**43**	**103**
Net finance costs	(25)	(46)	(52)	(23)	(28)	(57)
Profit before taxation	**199**	**15**	**37**	**6**	**15**	**46**
Taxation	(45)	(22)	32	(1)	(3)	30
Profit for the period attributable to the owners of the Company	**154**	**(7)**	**69**	**5**	**12**	**76**

(1) Restated to reflect the retrospective application of IFRS 9 and IFRS 15. See "*Presentation of Financial and Other Data—Restatements of previously reported financial information*."

(2) Reflects the impact of the adoption of IFRS 16. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Trends and Other Key Factors Impacting Our Results of Operations—Adoption of IFRS 16*."

(3) For calculation of our headline EBITDA, see "*Presentation of Financial and Other Data—Non-IFRS Financial Measures.*"

Selected Consolidated Balance Sheet Information

	As at March 31,			As at September 30,
	2017	2018[(1)]	2019	2019[(2)]
	(audited)	(audited)	(audited)	(unaudited)
		(£ millions)		
Assets				
Non-current assets				
Goodwill	495	495	495	495
Other intangible assets	243	251	235	223
Property, plant and equipment	235	234	199	325
Investment in joint ventures	8	3	2	2
Trade and other receivables	6	2	2	4
Derivative financial instruments	31	—	—	—
Contract costs	—	228	308	348
Deferred tax assets	108	81	118	119
Total non-current assets	**1,126**	**1,294**	**1,359**	**1,516**
Current assets				
Inventories	18	29	34	28
Trade and other receivables	369	246	160	148
Contract assets	—	20	39	43
Current income tax receivables	—	—	—	—
Cash and cash equivalents	50	43	67	12
Total current assets	437	338	300	231
Assets classified as held for sale	—	34	47	58
Total assets	**1,563**	**1,666**	**1,706**	**1,805**
Current liabilities				
Trade and other payables	(511)	(480)	(491)	(426)
Current income tax payable	(5)	—	—	—
Contract liabilities	—	(16)	(20)	(23)
Lease liabilities	—	—	—	(60)
Borrowings	—	(96)	(10)	(5)
Provisions	(22)	(31)	(35)	(29)
Total current liabilities	**(538)**	**(623)**	**(556)**	**(543)**
Liabilities classified as held for sale	**—**	**(6)**	**(7)**	**(7)**
Non-current liabilities				
Borrowings	(871)	(723)	(838)	(837)
Trade and other payables.	—	(6)	(5)	—
Derivative financial instruments	—	—	—	—
Lease liabilities	—	—	—	(151)
Provisions	(14)	(28)	(12)	(4)
Total non-current liabilities	**(885)**	**(757)**	**(855)**	**(992)**
Total liabilities	**(1,423)**	**(1,386)**	**(1,418)**	**(1,542)**
Net assets	**140**	**280**	**288**	**263**
Equity				
Share capital	1	1	1	1
Share premium	684	684	684	684
Translation reserve	(64)	(64)	(64)	(64)
Demerger reserve	(513)	(513)	(513)	(513)
Retained earnings and other reserves	32	172	180	155
Total equity	**140**	**280**	**288**	**263**

(1) Restated to reflect the (i) retrospective application of IFRS 9 and IFRS 15; and (ii) changes to assets and liabilities held for sale in relation to the FibreNation Disposal. See "*Presentation of Financial and Other Data—Restatements of previously reported financial information.*"

(2) Reflects the impact of the adoption of IFRS 16. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Trends and Other Key Factors Impacting Our Results of Operations—Adoption of IFRS 16.*"

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,
	2017	2018(1)	2019	2018(1)	2019(2)	2019
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)	(unaudited)
				(£ millions)		
Operating activities						
Operating profit	**95**	**(44)**	**47**	**19**	**29**	**57**
Share-based payments	5	8	3	3	2	2
Depreciation	72	72	71	35	58	94
Amortisation of other operating intangible fixed assets	59	62	67	32	34	69
Amortisation of acquisition intangibles	10	9	8	4	4	8
Share of losses of joint ventures	11	11	10	5	5	10
Impairment of stock inventory	18	—	—	—	—	—
Impairment of other operating intangible assets	—	2	—	—	—	—
Impairment of property, plant and equipment	22	—	—	—	—	—
Reversal of cost of inventories previously written down	—	(1)	(2)	—	—	(2)
Gain on disposal of joint venture	—	(1)	—	—	—	—
Profit on disposal of property, plant and equipment	(2)	—	—	—	—	—
Increase/(decrease) in provisions	8	23	(12)	(11)	(5)	(6)
Profit on disposal of subsidiaries and customer bases	—	—	(2)	—	—	(2)
Operating cash flows before movements in working capital	**298**	**141**	**190**	**87**	**127**	**230**
Decrease/(increase) in trade and other receivables	(63)	39	76	(15)	7	98
Decrease/(increase) in contract assets	—	(8)	(99)	(32)	(44)	(111)
Decrease/(increase) in inventory	21	1	(3)	(3)	6	6
Increase/(decrease) in trade and other payables	(26)	(38)	25	51	(61)	(87)
Increase/(decrease) in contract liabilities	—	1	4	(1)	3	8
Cash generated from operations	**230**	**136**	**193**	**87**	**38**	**144**
Income taxes paid	2	—	(1)	—	—	(1)
Net cash flows generated from operating activities	**232**	**136**	**192**	**87**	**38**	**143**
Investing activities						
Acquisition of subsidiaries and joint ventures, net of cash acquired	(10)	(8)	(9)	(6)	(6)	(9)
Disposal of subsidiaries and customer bases	—	—	2	—	—	2
Investment in intangible assets	(82)	(87)	(67)	(39)	(36)	(64)
Investment in property, plant and equipment	(71)	(38)	(37)	(16)	(14)	(35)
Disposal of property, plant and equipment	20	—	—	—	—	—
Cash flows used in investing activities	**(143)**	**(133)**	**(111)**	**(61)**	**(56)**	**(106)**
Financing activities						
Settlement of Group ESOT shares	1	1	1	1	—	—
Issue of Shares	—	201	—	—	—	—
Repayments of obligations under finance leases	—	(4)	(9)	(4)	(26)	(31)
Payment of contingent consideration	(8)	—	—	—	—	—
Repayments of borrowings	(315)	(391)	(27)	(21)	—	(6)
Drawdown of borrowings	458	309	55	30	33	58
Interest paid	(30)	(42)	(43)	(21)	(25)	(47)
Other finance costs	(5)	(13)	(6)	—	(2)	(8)
Equity dividends paid	(150)	(71)	(28)	(17)	(17)	(28)
Cash flows generated from/(used in) financing activities	**(49)**	**(10)**	**(57)**	**(32)**	**(37)**	**(62)**
Net (decrease)/increase in cash and cash equivalents	**40**	**(7)**	**24**	**(6)**	**(55)**	**(25)**
Cash and cash equivalents at the start of the year	10	50	43	43	67	37
Cash and cash equivalents at the end of the year	**50**	**43**	**67**	**37**	**12**	**12**

(1) Restated to reflect the retrospective application of IFRS 9 and IFRS 15. See "*Presentation of Financial and Other Data—Restatements of previously reported financial information*."

(2) Reflects the impact of the adoption of IFRS 16. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Trends and Other Key Factors Impacting Our Results of Operations—Adoption of IFRS 16*."

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 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 connectivity services for residential and business customers. Since entering the market in the early 2000s, we have consistently saved our customers money by offering high-quality data and voice services for lower prices than our direct competitors. We provide landline telephony, broadband and TV to over four million customers, supplying services to consumers through the TalkTalk brand, to businesses through TalkTalk Business and by wholesaling to resellers. Our business model is underpinned by a low-cost position driven primarily by our scalable and extensive network, which covers approximately 96% of UK premises through over 3,000 Exchanges. This network acts as a barrier-to-entry and has historically enabled us to introduce disruptive products at market-leading prices. As we look forward, we are well-positioned to benefit from the roll-out of Full Fibre across the UK as network builders seek immediate access to high volumes of customers to support their investment. We can therefore negotiate wholesale terms which enable us to cost-effectively migrate our new and existing customers at pace to higher bandwidth and more reliable connectivity products.

Since 2017, we have significantly simplified the business, reduced cost and have in place clear plans to aggressively drive Full Fibre uptake in both residential and business segments, improve customer service, further simplify our operations and reduce cost across the organisation. Each of these actions saves us money, which further improves our cost position and supports our low-price offering. It is a simple and repeatable strategy. However, it is one that is difficult for our higher-priced and higher-cost competitors to replicate.

Our Consumer business provides affordable and reliable fixed-line connectivity to residential consumers. Broadband is at the core of our proposition and is offered at varying bandwidths with over 50% of our customers now taking the faster FTTC products due to the ever-increasing demand for data. We offer these services on the basis of FLPPs. As well as ensuring that customers save money over the life of their contract, FLPPs guarantee no mid-contract broadband price rises, which resonates well with consumers as it provides price certainty over the contract length of 12, 18 or 24 months. In addition to the core broadband product, we offer sensibly priced and ARPU-enhancing TV and fixed-line telephony add-ons. In particular, our TalkTalk TV add-ons provide flexible access to varied free and pay-to-view third-party content through the YouView platform. We also offer residential customers an option to subscribe to O2's mobile services through our reseller agreement with them.

Our B2B business is one of the largest B2B telecommunication services providers in the UK. It offers a wide range of data connectivity and next generation voice products to businesses throughout the country, including fixed-line telephony, broadband internet (including high-speed Ethernet), data networking and other connectivity solutions. These services are offered to private companies and public sector organizations, both directly and on a wholesale basis through approximately 900 Partners. Through these Partners, we are the UK's largest provider of wholesale broadband to small businesses and consumers, with over 50% market share as at September 30, 2019.

In the periods under review, we generated strong revenues. We had £1,605 million and £1,609 million of headline revenue for the years ended March 31, 2018 and 2019, respectively, and £1,587 million of headline revenue for the twelve months ended September 30, 2019. Our headline pre-IFRS 16 EBITDA and headline pre-IFRS 16 EBITDA margin increased from £203 million and 12.6%, respectively, for the year ended March 31, 2018 and £237 million and 14.7%, respectively, for the year ended March 31, 2019 to £251 million and 15.8% for the twelve months ended September 30, 2019. Our capital expenditure cash outflows were

£128 million, £113 million and £104 million for the years ended March 31, 2018 and 2019 and the twelve months ended September 30, 2019, respectively. This represented 8.0%, 7.0% and 6.6% of our headline revenue for the respective periods. Our leverage ratio was 3.7x, 3.1x and 3.3x for the years ended March 31, 2018 and 2019 and the twelve months ended September 30, 2019, respectively, on a pre-IFRS 16 basis.

RECENT DEVELOPMENTS

Trading update

On January 31, 2020, we released our trading update for the three months ended December 31, 2019. We set out below the key developments during that period.

Continued focus on fibre in our retail and B2B businesses

- strong momentum in fibre net-adds continued with approximately 148,000 net-adds during the three months ended December 31, 2019 (three months ended December 31, 2018: approximately 146,000), accounting for a 32% share of all new Openreach FTTC lines in the three months ended December 31, 2019 (three months ended December 31, 2018: 23%);
- 81% of our new direct retail customers subscribed to our fibre products (three months ended December 31, 2018: 63%) with 42% of these taking the higher ARPU Faster Fibre Broadband product (three months ended December 31, 2018: 31%);
- 52% of our new indirect customers in the B2B business subscribed to our fibre products (three months ended December 31, 2018: 44%); and
- churn reduced from 1.26% in the three months ended September 30, 2019, to 1.20% in the three months ended December 31, 2019, reflecting our increased fibre mix.

Fibre customers benefit from faster, more reliable connectivity and are accretive to CLV with lower churn and cost to serve, as well as higher ARPU compared to copper broadband customers.

Consistent growth in Data business

- in our B2B segment, the Ethernet customer base grew by approximately 1,700 (three months ended December 31, 2018: approximately 1,100), with 36% of orders for higher ARPU 1Gb lines (three months ended December 31, 2018: 29%); Ethernet circuits are high margin products and the 1Gb product has materially higher ARPU and lower churn.

Stable headline revenue and ARPU trends

- headline revenue (excluding carrier corporate revenue and off-net revenue) decreased from £386 million for the three months ended December 31, 2018 to £383 million for the three months ended December 31, 2019, or by 0.8%; this was primarily due to the industry-wide decline in voice revenue, a modest decrease in the copper broadband customer base and accelerated re-contracting of some higher ARPU legacy customers (which transferred to lower ARPU products), which was partially off-set by the effects of increased take-up of our fibre products and growth in our Data business; and
- on-net ARPU decreased from £24.70 for the three months ended December 31, 2018 to £24.43 for the three months ended December 31, 2019, or by 1.1%, due to accelerated recontracting of higher ARPU legacy customers (which transferred to lower ARPU products).

Headline EBITDA outlook remains unchanged

- headline EBITDA outlook for the year ending March 31, 2020 remains unchanged, driven by accelerated take-up of fibre products and cost reduction;
- cost savings remain on track, with the relocation of our headquarters to Salford now complete, £7 million of which was realised as at September 30, 2019; and
- expected leverage ratio (on a pre-IFRS 16 basis) for the year ending March 31, 2020 (without giving effect to the Refinancing, but giving effect to the FibreNation Disposal) is expected to be towards 2.5x.

Additional drawings under the 2017 Revolving Credit Facility

Our business is subject to regular fluctuations in working capital requirements, which we address primarily through drawings under the 2017 Revolving Credit Facility. As at September 30, 2019, we had £380 million drawn thereunder. Since then we have drawn certain additional amounts to finance day-to-day working capital requirements, as well as certain non-headline and non-recurring items. We estimate that our leverage ratio for the year ending March 31, 2020, taking into account those additional drawings and expected repayments thereof in the ordinary course of business, adjusted to give effect to the Transactions, would still be towards 2.5x. See "*—Trends and Other Key Factors Impacting Our Results of Operations—Working Capital Requirements*."

Interim dividend for the year ending March 31, 2020

On December 16, 2019, the Issuer paid an interim dividend for the year ended March 31, 2020 in the amount of 1.00 p per share, or approximately £11 million in aggregate. See "*Business—Dividends*."

The FibreNation Disposal

On January 21, 2020, the TalkTalk Sellers entered into the FibreNation SPA with CityFibre for the sale of the FibreNation Share and Bolt Pro Shares for an aggregate cash consideration of £200 million.

FibreNation Limited and Bolt Pro Tem Limited are the Group's entities that were used to build our FTTP networks in Yorkshire. The FibreNation Disposal is part of our ongoing effort to simplify our business and focus on our core fixed connectivity offering. If CityFibre are only able to pay £150 million, we can elect to still complete, meaning the balance of the aggregate consideration due under the FibreNation SPA will be deferred and set off against any future payments due from us under the CityFibre Wholesale Agreement. The amount outstanding will accrue interest at 15% per annum on a compound basis. See "*Summary—Recent developments*" and "*Risk Factors—If the FibreNation Disposal is not completed, we may not achieve the expected benefits of the disposal, including the CityFibre Wholesale Agreement, and may be liable to pay a break fee*". The CityFibre Wholesale Agreement will allow us to utilise CityFibre's fibre networks to deliver our services to customers, including those networks that are currently operated by FibreNation Limited and Bolt Pro Tem Limited.

The completion of the FibreNation Disposal is conditional on the approval by a simple majority of the Issuer's shareholders and the satisfaction of certain other customary conditions. As at the date hereof, we have received commitments from shareholders holding, in aggregate, 57.5% of the entire issued share capital of the Issuer to vote in favour of the FibreNation Disposal. By the end of February 2020, we expect to distribute a Class 1 Circular to the Issuer's shareholders setting out the details of the proposed FibreNation Disposal. Assuming the FibreNation Disposal's approval by the requisite number of the Issuer's shareholders, we currently expect it to be completed in March 2020. However, there is no assurance that it will in fact be approved by the Issuer's shareholders or that other conditions to the closing of the FibreNation Disposal will be satisfied or waived on time or at all. See "*Risk Factors—Risks Relating to the FibreNation Disposal*."

On or about the closing date of the FibreNation Disposal, we expect to use the net proceeds thereof to repay (without cancelling commitments) £188 million of principal amounts drawn under the 2017 Revolving Credit Facility, thereby further de-levering our business.

Regulatory developments

On January 8, 2020, Ofcom published its Ofcom Access Review consultation outlining its plan to promote competition and investment in Full Fibre networks and protect consumer interests. Its proposal aims to address Openreach's market power to protect consumers in a way that supports investment, by applying different approaches to regulating Openreach's broadband products in different parts of the UK.

In the Ofcom Review, Ofcom has also proposed steps to support the future retirement of BT's copper networks. This is planned to be achieved through disapplying regulation on copper products on an Exchange area by Exchange area basis. See "*Risk Factors—Regulatory decisions made by Ofcom and the CMA could adversely impact our business*."

Political developments

On December 12, 2019, the UK held a general election won by the Conservative party, which stated that the roll-out of Full Fibre broadband across the UK remains among their priorities, which ties into our Fibre First strategy and future Full Fibre plans. The UK government has committed to deliver full-fibre broadband to all UK premises by 2025, with approximately £5 billion of public funding to be targeted at the most rural areas.

On January 31, 2020, the UK withdrew from the EU with a transition period running up to December 31, 2020. See "*Risk Factors—Brexit may have a negative effect on global economic conditions, financial markets and our business.*"

BASIS OF FINANCIAL PRESENTATION

General

We prepared our Annual Financial Statements for the years ended March 31, 2017, 2018 and 2019 in accordance with IFRS and our Interim Financial Statements in accordance with IAS 34 "Interim Financial Reporting." Our financial year ends on March 31 of each calendar year.

For the purposes of preparing our 2019 Annual Financial Statements and our Interim Financial Statements, we restated certain financial information as at and for the year ended March 31, 2018 and the six months ended September 30, 2018, respectively, to reflect: (i) retrospective application of IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers;" and (ii) changes to assets and liabilities held for sale in relation to the FibreNation Disposal. We did not restate any financial information as at and for the year ended March 31, 2017. See "*Presentation of Financial and Other Data—Restatements of previously reported financial information*." On April 1, 2019, we adopted IFRS 16 "Leases," but have not restated numbers previously reported as at and for the year ended March 31, 2019 or the six months ended September 30, 2018, as permitted under the specific transitional provisions in the standard. Thus, in the following analysis of financial results, we have only applied IFRS 16 to our results for the six months ended September 30, 2019, and other periods reported instead apply previous lease guidance under IAS 17 "Leases." See "*—Trends and Key Factors Affecting Our Results of Operations—Adoption of IFRS 16*."

In this offering memorandum, we present our income statement items on a headline basis only. Headline income statement information is provided as we believe that it is most useful to assists the user in understanding the financial performance of the Group. Headline income statement line items are calculated by adding, or subtracting, as relevant, to or from the statutory income statement line items non-operating amortisation and certain adjusting items. A reconciliation of our headline income statement line items to our statutory income statement line items is presented in "*—Reconciliation of Headline and Statutory Income Statement Items*" below. A reconciliation of our headline EBITDA to EBITDA and our statutory operating profit is presented in "*—Trends and Key Factors Affecting Our Results of Operations—Headline EBITDA and impact of adjusting 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 revenue 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, 2017, 2018 and 2019 and six months ended September 30, 2018 and 2019.

	For the year ended March 31,			For the six months ended September 30,	
	2017	2018(1)	2019	2018(1)	2019
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
			(£ millions)		
Headline revenue					
On-net	1,279	1,216	1,263	629	627
Off-net	44	22	13	7	5
Corporate	397	367	333	172	154
Total headline revenue	**1,720**	**1,605**	**1,609**	**808**	**786**

(1) Restated to reflect the retrospective application of IFRS 9 and IFRS 15. See "*Presentation of Financial and Other Data—Restatements of previously reported financial information*."

Headline on-net revenue

Headline on-net revenue is generated from fixed-line connectivity services provided to our Consumer and B2B customers. On-net customers generated £1,279 million; £1,216 million; £1,263 million and £627 million of our headline revenue, or 74.4%; 75.8%; 78.5% and 79.8% of our total headline revenue, for the years ended March 31, 2017, 2018 and 2019 and six months ended September 30, 2019, 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. Off-net customers generated £44 million; £22 million; £13 million and £5 million of our headline revenue, or 2.6%; 1.4%; 0.8% and 0.6% of our total headline revenue, for the years ended March 31, 2017, 2018 and 2019 and six months ended September 30, 2019, respectively.

Headline corporate revenue

Headline corporate revenue is generated by B2B customers, to whom we offer services under the "TalkTalk Business" 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 B2B customers with the speed and connectivity to support enterprise focused products, such as Ethernet and Data Solutions. Customers generating headline corporate revenue accounted for £397 million; £367 million; £333 million and £154 million of our headline revenue, or 23.1%; 22.9%; 20.7% and 19.6% of our total headline revenue, for the years ended March 31, 2017, 2018 and 2019 and six months ended September 30, 2019, respectively.

The table below presents our headline corporate revenue broken down into (i) carrier revenue, (ii) data revenue and (iii) voice revenue for the years ended March 31, 2017, 2018 and 2019 and six months ended September 30, 2018 and 2019:

	For the year ended March 31,			For the six months ended September 30,	
	2017	2018(1)	2019	2018(1)	2019
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
			(£ millions)		
Headline corporate revenue					
Carrier	121	72	52	30	17
Data	157	162	173	86	90
Voice	119	133	108	56	47
Total headline corporate revenue	**397**	**367**	**333**	**172**	**154**

(1) Restated to reflect the retrospective application of IFRS 9 and IFRS 15. See "*Presentation of Financial and Other Data—Restatements of previously reported financial information*."

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 £121 million; £72 million; £52 million and £17 million of headline revenue, or 30.5%; 19.6%; 15.6% and 11.0% of our total headline corporate revenue for the years ended March 31, 2017, 2018 and 2019 and six months ended September 30, 2019, respectively.

Data revenue

Data revenue is generated by our large B2B customers that subscribe to our Ethernet, EFM and Data solutions (collectively, "**Data B2B Customers**"). As at September 30, 2019, we had approximately 39,000 Ethernet lines. Our Data B2B Customers generated £157 million; £162 million; £173 million and £90 million of headline revenue, or 39.5%; 44.1%; 52.0% and 58.4% of our total headline corporate revenue for the years ended March 31, 2017, 2018 and 2019 and six months ended September 30, 2019, 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. These voice revenue customers generated £119 million; £133 million; £108 million and £47 million of headline revenue, or 30.0%; 36.2%; 32.4% and 30.5% of our total headline corporate revenue for the years ended March 31, 2017, 2018 and 2019 and six months ended September 30, 2019, 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, or subtracting, as relevant, to or from the statutory income statement line items non-operating amortisation and certain adjusting 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, 2017 and 2018:

	For the year ended March 31,					
	2017			2018(1)		
	Headline	Non-headline items	Statutory	Headline	Non-headline items	Statutory
	(audited)	(audited)	(audited)	(audited)	(audited)	(audited)
	(£ millions)					
Revenue	**1,720**	**63**	**1,783**	**1,605**	**48**	**1,653**
Cost of sales	(767)	(46)	(813)	(774)	(38)	(812)
Gross profit	**953**	**17**	**970**	**831**	**10**	**841**
Operating expenses , including SAC and marketing, excluding amortisation and depreciation	(592)	(131)	(723)	(628)	(103)	(731)
EBITDA	**361**	**(114)**	**247**	**203**	**(93)**	**110**
Depreciation and amortisation	(126)	(15)	(141)	(131)	(12)	(143)
Share of results of associates and joint ventures	(11)	—	(11)	(11)	—	(11)
Operating profit	**224**	**(129)**	**95**	**61**	**(105)**	**(44)**
Net finance costs	(25)	—	(25)	(46)	(10)	(56)
Profit before taxation	**199**	**(129)**	**70**	**15**	**(115)**	**(100)**
Taxation	(45)	33	(12)	(22)	22	—
Profit for the year attributable to the owners of the Company	**154**	**(96)**	**58**	**(7)**	**(93)**	**(100)**

(1) Restated to reflect the retrospective application of IFRS 9 and IFRS 15. See "*Presentation of Financial and Other Data—Restatements of previously reported financial information.*"

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, 2018 and 2019:

	For the year ended March 31,					
	2018[(1)]			2019		
	Headline	Non-headline items	Statutory	Headline	Non-headline items	Statutory
	(audited)	(audited)	(audited)	(audited)	(audited)	(audited)
	(£ millions)					
Revenue	**1,605**	**48**	**1,653**	**1,609**	**23**	**1,632**
Cost of sales	(774)	(38)	(812)	(759)	(11)	(770)
Gross profit	**831**	**10**	**841**	**850**	**12**	**862**
Operating expenses excluding amortisation and depreciation	(628)	(103)	(731)	(613)	(46)	(659)
EBITDA	**203**	**(93)**	**110**	**237**	**(34)**	**203**
Depreciation and amortisation	(131)	(12)	(143)	(138)	(8)	(146)
Share of results of associates and joint ventures	(11)	—	(11)	(10)	—	(10)
Operating profit	**61**	**(105)**	**(44)**	**89**	**(42)**	**47**
Net Finance costs	(46)	(10)	(56)	(52)	—	(52)
Profit before taxation	**15**	**(115)**	**(100)**	**37**	**(42)**	**(5)**
Taxation	(22)	22	—	32	5	37
Profit for the year attributable to the owners of the Company	**(7)**	**(93)**	**(100)**	**69**	**(37)**	**32**

(1) Restated to reflect the retrospective application of IFRS 9 and IFRS 15. See "*Presentation of Financial and Other Data—Restatements of previously reported financial information.*"

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, 2018 and 2019:

	For the six months ended September 30,					
	2018[(1)]			2019[(2)]		
	Headline	Non-headline items	Statutory	Headline	Non-headline items	Statutory
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	(£ millions)					
Revenue	**808**	**14**	**822**	**786**	**6**	**792**
Cost of sales	(383)	(8)	(391)	(384)	(2)	(386)
Gross profit	**425**	**6**	**431**	**402**	**4**	**406**
Operating expenses excluding amortisation and depreciation	(324)	(12)	(336)	(262)	(14)	(276)
EBITDA	**101**	**(6)**	**95**	**140**	**(10)**	**130**
Depreciation and amortisation	(67)	(4)	(71)	(92)	(4)	(96)
Share of results of associates and joint ventures	(5)	—	(5)	(5)	—	(5)
Operating profit	**29**	**(10)**	**19**	**43**	**(14)**	**29**
Net Finance costs	(23)	—	(23)	(28)	—	(28)
Profit before taxation	**6**	**(10)**	**(4)**	**15**	**(14)**	**1**
Taxation	(1)	2	1	(3)	3	—
Profit for the period attributable to the owners of the Company	**5**	**(8)**	**(3)**	**12**	**(11)**	**1**

(1) Restated to reflect the retrospective application of IFRS 9 and IFRS 15. See "*Presentation of Financial and Other Data—Restatements of previously reported financial information.*"

(2) Reflects the impact of the adoption of IFRS 16. See "*—Trends and Other Key Factors Impacting Our Results of Operations—Adoption of IFRS 16.*"

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.

UK's transition to Full Fibre

We believe that the UK telecommunications industry is at a pivotal moment in its development. From the origins of fixed connectivity including broadband and voice services over ageing copper wires (ADSL and VDSL), the industry is beginning the transition to Full Fibre, or FTTP. FTTP replaces all elements of the copper network with fibre, which delivers both higher bandwidth (typically up to 1Gbps compared with a maximum of 18Mbps for ADSL, or 80Mbps for VDSL), and, importantly, higher levels of reliability. This results in fewer faults and higher levels of customer satisfaction, therefore leading to reduced operating costs and churn.

Openreach and alternative fibre providers such as CityFibre, FibreNation, Hyperoptic and Gigaclear (altnets), have started rolling out FTTP across the UK and have all stated ambitious plans to accelerate this rollout. The competition among fibre providers to provide these services to consumer-facing telecommunication services providers, such as us, is driving down the wholesale price of these products to a point where it is economically sensible to move customers from legacy copper-based products to FTTP. See also "*Industry Regulation*."

Our large-scale residential and B2B customer base enables us to be in a strong position to negotiate favourable terms with these providers (including Openreach). Given the higher levels of customer satisfaction for customers on fibre products (resulting from faster speeds and more reliable service), we are well placed to retain and grow our market share.

Competition

The results of our operations are affected by competition. We operate in competitive industries and compete with a number of companies that provide a broad range of communications products directly comparable to our own. Our principal competitors across our products and services are BT, Sky, Virgin Media and Vodafone.

The UK telecommunication market is experiencing structural changes, as both Ofcom and the UK Government have acknowledged a need to promote competition and drive investment. For example, Ofcom identified a number of competition concerns in its 2017 Strategic Review of Digital Communications. Ofcom is committed to continuing to improve competition among broadband providers by opening up access to telecommunication infrastructure and its role in ensuring a fair basis of competition in the nation's move to FTTP remains critical. In order to address Ofcom's concerns, BT completed the legal separation of Openreach, our largest supplier, in October 2018. Ofcom is also committed to help prevent new, and eliminate existing, "loyalty penalties" that occur when customers who have been with a given provider for a longer period pay more than those that have been recently acquired. We are well-positioned to take advantage of Ofcom's regulatory efforts given our FLPPs that prevent mid-contract price hikes and, we believe, ensure a much greater level of fair pricing than that of our competitors.

We have three primary sources of competitive advantage that sustain our ability to compete as the value-for-money operator, charging its customers lower and fairer prices for a comparable service. First, our technologically advanced fixed-line network reaches 96% of UK's homes. This enables us to grow our customer base with minimal additional costs and provide greater reach at a lower cost for both residential and B2B customers. Second, we have low operating costs. We exited costly businesses, such as mobile and FTTP construction (closing of the FibreNation Disposal is currently expected in March 2020, see "*—Recent developments—The FibreNation Disposal*"), and currently have a very focused proposition, which allows us to avoid paying for additional services (such as TV content). We are therefore able to maintain a highly competitive cost per subscriber. Following termination or disposal of those costly businesses, our overall business model is currently much simpler, less capital-intensive, cost efficient and focused on providing affordable connectivity to consumers and businesses across the UK. Third, we believe that we are structurally well-placed to benefit from the UK's ongoing transition to FTTP (see "*—UK's transition to Full Fibre*" above). We have negotiated the competitive wholesale CityFibre Wholesale Agreement and are negotiating a similar arrangement with Openreach. We believe that the combination of our affordable pricing with much higher levels of bandwidth and reliability will put us at a distinct advantage compared with higher-cost competitors.

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, and the relocation of subscribers. However, the key drivers of churn for our business are predominantly customer service and connectivity-related issues, rather than price. Increases in churn may lead to increased subscriber acquisition costs and reduced revenue. Our management is therefore focused on improving service and customer experience measures.

As the majority of our customers are on-net customers, management focuses on the churn in this revenue generation group. For the years ended March 31, 2017, 2018 and 2019 and the six months ended September 30, 2019, our average monthly on-net churn was 1.45%, 1.22%, 1.20% and 1.27%, 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:

- Improved connectivity: We have invested significantly in improving the quality of the internet connection that our customers experience. In particular, we have made significant efforts to eliminate network congestion, invested in network management software (such as the Direct Line Management and Domain Name Systems) and currently provide customers with higher-quality wi-fi routers that significantly improve their in-home user experience. Additionally, an increasing majority of our customers now subscribe to Faster Fibre Broadband products, which further improve connectivity. We continue to invest in these areas and are currently implementing improved in-home monitoring. We believe our ongoing transition to FTTP will further enhance connectivity.
- Improved customer service: In the past, our customers used to leave our network because of service issues. We therefore believe that the most effective means of reducing churn is to improve the service we provide and have delivered material improvements in this area over recent years. These improvements include the introduction of case management, a data driven "Service Centre", where customers and customer service agents can view their service status in real time. We further plan to bring certain contact centre agents back to the UK to improve our technical support function. In general, we have made significant improvements to customer experience when joining our network or receiving support and have set up dedicated cross functional teams to ensure further continuous development in this area.
- Consistently low and affordable pricing: We have introduced innovative FLPPs that fix customers' prices for the duration of their contract and are designed to ensure that customers save money, while using our services.

Working capital requirements

Our business is subject to fluctuations in working capital due to factors associated with the timing of payments to suppliers, receipts from customers, receipt of discounts from suppliers, and certain costs associated with acquiring and fulfilling customer contracts being deferred over time. In addition, as part of our simplification programs we have incurred certain non-headline and non-recurring items which have driven variability in working capital during the periods under review.

We address those working capital requirements primarily through drawings under the 2017 Revolving Credit Facility. See "*Description of Other Indebtedness—2017 Revolving Credit Facility" and "Summary—Recent developments—Additional drawings under the 2017 Revolving Credit Facility*."

Adoption of IFRS 16

We adopted IFRS 16 on April 1, 2019. Under IFRS 16, we were required to change the way we account for leases previously classified as operating leases, which were off-balance sheet obligations under IAS 17. IFRS 16 requires operating leases to be recognised on the balance sheet, creating a right of use asset and a lease liability. See "*—Accounting Policies Requiring Management Judgment and Discretion—IFRS 16.*"

Adoption of IFRS 16 has resulted in certain figures presented in this offering memorandum as at and for the six months ended September 30, 2019 not being directly comparable with figures reported in similar line items as at prior reporting dates or for prior reporting periods and the addition of certain new line items.

The table below presents the financial impacts of adopting IFRS 16 on our headline consolidated income statement for the six months ended September 30, 2019:

	For the six months ended September 30, 2019		
	Pre-IFRS 16	**IFRS 16 impact**	**As reported**
	(unaudited)	**(unaudited) (£ millions)**	**(unaudited)**
Revenue	**786**	**—**	**786**
Cost of sales	(384)	—	(384)
Gross profit	**402**	**—**	**402**
Operating expenses excluding amortisation and depreciation	(287)	25	(262)
EBITDA	**115**	**25**	**140**
Depreciation and amortisation	(68)	(24)	(92)
Share of results of associates and associates and joint ventures	(5)	—	(5)
Operating profit	**42**	**1**	**43**
Net finance costs	(24)	(4)	(28)
Profit before taxation	**18**	**(3)**	**15**
Taxation	(3)	—	(3)
Profit for the period attributable to the owners of the Company	**15**	**(3)**	**12**

Headline EBITDA and impact of adjusting items

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

We calculate our "EBITDA" by adding back to our statutory operating profit or loss charges for statutory depreciation, statutory amortisation and statutory share of results of associates and joint ventures. We calculate our "headline EBITDA" by adding back to our EBITDA the effects of certain non-headline items. For a reconciliation of our headline EBITDA to our EBITDA and our EBITDA to our statutory operating profit for the years ended March 31, 2017, 2018 and 2019 and six months ended September 30, 2018 and 2019, see "*Summary Financial and Other Information—Reconciliation of Headline Revenue to Statutory Revenue, Headline EBITDA to EBITDA and EBITDA to Statutory Operating Profit*."

In the periods under review, the following non-headline items were added back to our EBITDA to calculate our headline EBITDA:

- Costs of our Network Transformation Program, which was launched in 2017 and is a significant transformation programme, which fundamentally restructured our network, IT infrastructure and technology organisation. The change we are undertaking is expected to ensure that our network is fit for the future and underpins the wider Group strategy in providing a great service to our customers as a value provider in the industry. This is a discrete project expected to be completed in 2021.
- Costs related to our OneTeam Operating Model Initiative launched in 2019, which are associated with simplifying the Group's organisational structure and relocating employees to one primary location at the Soapworks in Salford. The relocation was completed in January 2020.
- Profits (or losses) generated by our legacy MVNO operations. We decided to exit these operations in 2017 and since then have significantly reduced our MVNO customer base by a combination of various measures to incentivise customers to discontinue that service. A small number of customers, however, still remain subscribed thereto.

- Costs related to the implementation of our MTTS program, which we launched in 2013 and completed in 2017. MTTS was aimed to improve our customers' experience and reduce our costs, through driving process and efficiency improvements.
- Costs related to the implementation of operating efficiencies (fundamental property rationalization), primarily representing the relocation of our headquarters to the Soapworks site in Salford and rationalization of our London property footprint. This project was completed in 2018.
- Acquisitions and disposal, which related to the finalisation of contingent consideration due on the disposals of customer bases in prior years.
- Exceptional costs related to our decision to reassess our mobile strategy, which included asset writedowns and provisions for onerous contracts. No further such costs have been incurred since 2018.
- Operating expenses related to the 2015 Cyber Attack.
- Costs relating to the Group's reorganization under the new leadership team, which was completed in 2018.

Net-adds

Our strategy is built upon additional net-adds and stabilising ARPU via net-adds in higher ARPU-generative business lines, such as fibre. 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 discontinuing their subscriptions with us, within a certain period. We also closely monitor ARPU and focus on increasing net-adds in higher ARPU-generative business lines

The table below presents our net-adds, by key product, for the years ended March 31, 2017, 2018 and 2019 and six months ended September 30, 2018 and 2019:

	For the year ended March 31,			For the six months ended September 30,	
	2017	2018	2019	2018	2019
	(thousands)				
Net-adds by product					
Fibre	223	348	490	192	292
Ethernet[1]	5.7	8.1	5.3	3.2	2.9

(1) Ethernet products are part of the Data products line.

Operational efficiencies

Our profitability is also driven by our constant focus on operating efficiency and reducing operating costs. We are increasing operating efficiency and reducing costs throughout our business, including through the move of our headquarters to Salford. We also we anticipate lower costs to serve our customers as they shift from lower bandwidth products to higher bandwidth products.

During the year ended March 31, 2017, we began a wide-ranging strategic reset to exit non-core businesses and focus on our core fixed-line connectivity offerings. Our objective was to reduce the complexity of our business and reduce our fixed and variable operational costs, including subscriber acquisition costs, churn and costs per add. As part of this effort, in May 2017 we decided to exit our MVNO operations, which we have wound down as we transition our mobile customers to O2. In June 2018, we shut down the TalkTalk TV Store and transferred TalkTalk TV Store customers to Rakuten TV. To further reduce costs, we restructured TalkTalk Business in the year ended March 31, 2019 and embarked on a property rationalisation programme to relocate and consolidate the sites, at which we operate to the Soapworks site in Salford. Our strategic reset followed the completion of the MTTS programme, which was launched during the year ended March 31, 2013 with the objective of improving our customers' experience and reducing our costs through process and efficiency improvements. MTTS comprised 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.

HISTORICAL HEADLINE RESULTS OF OPERATIONS

Headline results of operations for the six months ended September 30, 2018 and 2019

The table below presents our consolidated headline results for the six months ended September 30, 2018 and 2019:

	For the six months ended September 30,		
	2018[1]	2019[2]	% change
	(unaudited)	(unaudited) (£ millions)	(unaudited)
Revenue			
On-net revenue	629	627	(0.3)%
Off-net revenue	7	5	(28.6)%
Corporate revenue	172	154	(10.5)%
Total revenue	**808**	**786**	**(2.7)%**
Cost of sales	(383)	(384)	0.3%
Gross Profit	**425**	**402**	**(5.4)%**
Operating expenses excluding amortisation and depreciation	(324)	(262)	(19.1)%
EBITDA[3]	**101**	**140**	**38.6%**
Depreciation and amortisation	(67)	(92)	37.3%
Share of results of associates and joint ventures	(5)	(5)	—
Operating profit	**29**	**43**	**48.3%**
Net finance costs	(23)	(28)	21.7%
Profit before taxation	**6**	**15**	**150.0%**
Taxation	(1)	(3)	200.0%
Profit for the period attributable to the owners of the Company	**5**	**12**	**140.0%**

(1) Restated to reflect the retrospective application of IFRS 9 and IFRS 15. See "*Presentation of Financial and Other Data—Restatements of previously reported financial information*."

(2) Reflects the impact of the adoption of IFRS 16. See "*—Trends and Other Key Factors Impacting Our Results of Operations—Adoption of IFRS 16*" and "*—Accounting Policies Requiring Management Judgment and Discretion—IFRS 16.*" In the six months ended September 30, 2019, the adoption of IFRS 16 reduced operating costs by £25 million, increased depreciation by £24 million, and increased finance costs by £4 million.

(3) For calculation of our Headline EBITDA, see "*Presentation of Financial and Other Data—Non-IFRS Financial Measures.*"

Headline revenue

Our headline revenue for the six months ended September 30, 2019 was £786 million, compared with £808 million for the six months ended September 30, 2018, a decrease of 2.7%.

Headline on-net revenue

Headline on-net revenue for the six months ended September 30, 2019 was £627 million, compared with £629 million for the six months ended September 30, 2018, a decrease of 0.3%. This decrease reflected ongoing voice usage decline and lower call boost take-up in the Consumer Division, as well as our decision to target our legacy higher ARPU copper broadband customers to recontract onto FLPPs, which led to a decrease in ARPU. These decreases were partially offset by increased penetration of fibre.

Headline off-net revenue

Headline off-net revenue for the six months ended September 30, 2019 was £5 million, compared with £7 million for the six months ended September 30, 2018, a decrease of 28.6%. This decrease reflects natural churn in this business.

Headline corporate revenue

The table below presents our headline corporate revenue for the six months ended September 30, 2018 and 2019:

	For the six months ended September 30,		
	2018	**2019**	**% change**
	(unaudited)	**(unaudited)** **(£ millions)**	**(unaudited)**
Headline corporate revenue			
Carrier	30	17	(43.3)%
Data	86	90	4.7%
Voice	56	47	(16.1)%
Total	**172**	**154**	**(10.5)%**

Headline corporate revenue for the six months ended September 30, 2019 was £154 million, compared with £172 million for the six months ended September 30, 2018, a decrease of 10.5%. This decrease was primarily due to the decrease of carrier headline revenue by 43.3%, to £17 million for the six months ended September 30, 2019 from £30 million for the six months ended September 30, 2018, and voice headline revenue by 16.1% to £47 million for the six months ended September 30, 2019 from £56 million for the six months ended September 30, 2018. The decrease in carrier headline revenue reflected our decision to reduce activity in this lower-margin business. The decrease in voice headline revenue was principally attributable to the ongoing decline in B2B voice revenues throughout the industry. These decreases were partially offset by the increase in data revenue by 4.7%, to £90 million for the six months ended September 30, 2019 from £86 million for the six months ended September 30, 2018, which was attributable to the continued shift in the Ethernet customer base to higher bandwidth products.

Headline cost of sales

Headline cost of sales for the six months ended September 30, 2019 was £384 million, compared with £383 million for the six months ended September 30, 2018, a slight increase of 0.3%. This increase was primarily due to customers moving to fibre products, as we had 292,000 fibre net-adds in the six months ended September 30, 2019, compared with 192,000 fibre net-adds in the six months ended September 30, 2018 largely offset by a reduction in costs of the smaller Carrier business and lower TV costs.

Headline gross profit

For the reasons set forth above, our headline gross profit for the six months ended September 30, 2019 was £402 million, compared with £425 million for the six months ended September 30, 2018, a decrease of 5.4%. The decrease in our gross profit margin to 51.1% for the six months ended September 30, 2019 from 52.6% for the six months ended September 30, 2018 reflected the increasing proportion of customers on fibre products, which have a lower gross profit margin.

Headline operating expenses excluding amortisation and depreciation

Our headline operating expenses excluding amortisation and depreciation for the six months ended September 30, 2019 were £262 million, compared with £324 million for the six months ended September 30, 2018, a decrease of 19.1%. Approximately £25 million of this decrease was attributable to the adoption of IFRS 16 (see "*—Trends and Other Key Factors Impacting Our Results of Operations—Adoption of IFRS 16*"), whereby lease expenses are incurred through depreciation and amortisation rather than operating expenses. The remaining cost savings reflected £37 million savings from the move of our headquarters to Salford from London, the lower customer service costs of customers on fibre products and continued focus on right-sizing our cost base. We also transitioned to an alternative customer acquisition and marketing model with different partners, which delivered additional savings.

Headline EBITDA

For the reasons set forth above, our headline EBITDA for the six months ended September 30, 2019 was £140 million, compared with headline EBITDA of £101 million for the six months ended September 30, 2018, an increase of 38.6%.

Headline depreciation and amortisation

Our headline depreciation and amortisation charges for the six months ended September 30, 2019 were £92 million, compared with £67 million for the six months ended September 30, 2018, an increase of 37.3%. This increase was primarily due to the £24 million impact of the adoption of IFRS 16. See "*—Trends and Other Key Factors Impacting Our Results of Operations—Adoption of IFRS 16.*"

The table below presents the breakdown of headline depreciation and amortisation charges for the six months ended September 30, 2018 and 2019:

	For the six months ended September 30,		
	2018	**2019**(1)	**% change**
		(unaudited) (£ millions)	
Headline depreciation and amortisation charges			
Depreciation of property, plant and equipment	35	58	65.7%
Amortisation of other operating intangible fixed assets	32	34	6.3%
Total	**67**	**92**	**37.3%**

(1) Reflects the impact of the adoption of IFRS 16. See "*—Trends and Other Key Factors Impacting Our Results of Operations—Adoption of IFRS 16*" and "*—Accounting Policies Requiring Management Judgment and Discretion—IFRS 16.*"

Headline depreciation of property, plant and equipment

Headline depreciation of property, plant and equipment for the six months ended September 30, 2019 was £58 million, compared with £35 million for the six months ended September 30, 2018, an increase of 65.7%. This increase was primarily due to the impact of the adoption of IFRS 16.

Headline amortisation of other operating intangible fixed assets

Headline amortisation for the six months ended September 30, 2019 was £34 million, compared with £32 million for the six months ended September 30, 2018, an increase of 6.3%. This increase was primarily due to an increase in the underlying level of intangible fixed assets.

Headline share of results of associates and joint ventures

Headline share of results of associates and joint ventures for the six months ended September 30, 2019 was a loss of £5 million, same as for the six months ended September 30, 2018. This represented losses from our investment in the YouView platform.

Headline operating profit

For the reasons set forth above, our headline operating profit for the six months ended September 30, 2019 was £43 million, compared with £29 million for the six months ended September 30, 2018, an increase of 48.3%.

Headline net finance costs

Headline net finance costs for the six months ended September 30, 2019 were £28 million, compared with £23 million for the six months ended September 30, 2018, an increase of 21.7%. This increase was primarily due to the impact of the adoption of IFRS 16.

Headline profit before taxation

For the reasons set forth above, our headline profit before taxation for the six months ended September 30, 2019 was £15 million, compared with a £6 million for the six months ended September 30, 2018, an increase of 150.0%.

Headline taxation

For the six months ended September 30, 2019 we recognised a tax charge of £3 million, compared with £1 million for the six months ended September 30, 2018, an increase of 200.0%.

The effective headline tax rate in the six months ended September 30, 2019 was 20.0% on headline profit before taxation of £15 million, compared with an effective headline tax rate of 16.7% on headline profit before taxation of £6 million for the six months ended September 30, 2018. This reduction was due to additional tax losses that were recognised in the six months ended September 30, 2018.

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, 2019 was £12 million, compared with £5 million for the six months ended September 30, 2018, an increase of 140.0%.

Headline results of operations for the years ended March 31, 2017, 2018 and 2019

The table below presents our consolidated headline results for the years ended March 31, 2017, 2018 and 2019:

	For the year ended March 31,				
	2017	2018[1]	2019	% change 2017 v 2018	% change 2018 v 2019
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
		(£ millions)			
Revenue					
On-net revenue	1,279	1,216	1,263	(4.9)%	3.9%
Off-net revenue	44	22	13	(50.0)%	(40.9)%
Corporate revenue	397	367	333	(7.6)%	(9.3)%
Total revenue	**1,720**	**1,605**	**1,609**	**(6.7)%**	**0.2%**
Cost of sales	(767)	(774)	(759)	0.9%	(1.9)%
Gross Profit	**953**	**831**	**850**	**(12.8)%**	**2.3%**
Operating expenses excluding amortisation and depreciation	(592)	(628)	(613)	(6.1)%	2.4%
EBITDA[2]	**361**	**203**	**237**	**(43.8)%**	**16.7%**
Depreciation and amortisation	(126)	(131)	(138)	4.0%	5.3%
Share of results of associates and joint ventures	(11)	(11)	(10)	—	(9.1)%
Operating profit	**224**	**61**	**89**	**(72.8)%**	**45.9%**
Net finance costs	(25)	(46)	(52)	84.0%	13.0%
Profit before taxation	**199**	**15**	**37**	**(92.5)%**	**146.7%**
Taxation	(45)	(22)	32	(51.1)%	(245.5)%
Profit for the period attributable to the owners of the Company	**154**	**(7)**	**69**	**(104.5)%**	**1,085.7%**

(1) Restated to reflect the retrospective application of IFRS 9 and IFRS 15. See "*Presentation of Financial and Other Data—Restatements of previously reported financial information*."

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

Headline revenue

Our headline revenue for the year ended March 31, 2019 was £1,609 million, compared with £1,605 million for the year ended March 31, 2018, an increase of 0.2%, which in turn was a decrease of 6.7% from £1,720 million for the year ended March 31, 2017.

Headline on-net revenue

Headline on-net revenue for the year ended March 31, 2019 was £1,263 million, compared with £1,216 million for the year ended March 31, 2018, an increase of 3.9%. This increase was primarily driven by the larger customer base compared to the year ended March 31, 2018 together with the increased penetration of fibre, which generated higher ARPU. These increases were partially offset by decreases in ARPU resulting from the introduction of the FLPPs and the ongoing decline in consumer voice revenue, which decreased by 20.3%.

Headline on-net revenue for the year ended March 31, 2018 was £1,216 million, compared with £1,279 million for the year ended March 31, 2017, a decrease of 4.9%. This decrease was primarily driven by the application of IFRS 9 and IFRS 15, which accounted for £53 million of the decrease, with the remainder due to the smaller consumer base and decreases in ARPU resulting from the migration of customers to the FLPPs. The decrease was partially offset by increased fibre penetration (with higher ARPU), repricing of legacy propositions following the launch of FLPPs and an increased uptake of add-on boosts with the FLPPs.

Headline off-net revenue

Headline off-net revenue for the year ended March 31, 2019 was £13 million, compared with £22 million for the year ended March 31, 2018, a decrease of 40.9%. This decrease was principally due to the continued decline in our voice-only and off-net broadband customer bases, as we focused on growing our on-net customer base.

Headline off-net revenue for the year ended March 31, 2018 was £22 million, compared with £44 million for the year ended March 31, 2017, a decrease of 50.0%. This decrease was principally due to the continued decline in our voice-only and off-net broadband customer bases, as we focused on growing our on-net customer base.

Headline corporate revenue

The table below presents our headline corporate revenue for the years ended March 31, 2017, 2018 and 2019:

	For the year ended March 31,			% change	
	2017	2018[(1)]	2019	2017 v 2018	2018 v 2019
	(audited)	(audited) (£ millions)	(audited)	(unaudited)	(unaudited)
Headline corporate revenue					
Carrier	121	72	52	(40.5)%	(27.8)%
Data	157	162	173	3.2%	6.8%
Voice	119	133	108	11.8%	(18.8)%
Total headline corporate revenue	**397**	**367**	**333**	**(7.6)%**	**(9.3)%**

(1) Restated to reflect the retrospective application of IFRS 9 and IFRS 15. See "*Presentation of Financial and Other Data—Restatements of previously reported financial information*."

Headline corporate revenue for the year ended March 31, 2019 was £333 million, compared with £367 million for the year ended March 31, 2018, a decrease of 9.3%. This decrease was driven by the 27.8% decline in carrier revenues to £52 million for the year ended March 31, 2019 from £72 million for the year ended March 31, 2018, as well as the 18.8% decline in voice revenues to £108 million for the year ended March 31, 2019 from £133 million for the year ended March 31, 2018. The decrease in carrier headline revenue reflected our decision to reduce activity in the low-margin business, with an 18.8% decline in headline Voice revenues reflecting the industry-wide trend. These decreases were partially offset by the 6.8% increase in data revenue to £173 million for the year ended March 31, 2019 from £162 million for the year ended March 31, 2018, which was due to the continued shift in the Ethernet base to higher bandwidth products.

Headline corporate revenue for the year ended March 31, 2018 was £367 million, compared with £397 million for the year ended March 31, 2017, a decrease of 7.6%. This decrease was driven by the 40.5% decline in carrier revenue to £72 million for the year ended March 31, 2018 from £121 million for the year ended March 31, 2017. That was partially offset by the 3.2% increase in data revenue to £162 million for the year ended March 31, 2018 (which included a £6 million decrease due to the adoption of IFRS 15) from £157 million for the year ended March 31, 2017 and the 11.8% increase in voice revenue to £133 million for the year ended March 31, 2018 from £119 million for the year ended March 31, 2017. The decrease in carrier headline revenue reflected our decision to reduce activity in the low margin business. The increase in data headline revenue was principally attributable to approximately 8,100 new Ethernet connections in the year. The increase in voice headline revenue was principally attributable to strong growth of next-generation voice products, while our legacy voice products declined at a slower rate compared to the overall market.

Headline cost of sales

Headline cost of sales for the year ended March 31, 2019 was £759 million, compared with £774 million for the year ended March 31, 2018, a decrease of 1.9%. This decrease was driven by lower costs of sales resulting from Ofcom's Wholesale Local Access ("**WLA**") review and Openreach volume discounts on FTTC products.

Headline cost of sales for the year ended March 31, 2018 was £774 million, compared with £767 million for the year ended March 31, 2017, an increase of 0.9% driven by the increasing mix of fibre customers. This increase was driven by the extension of a distribution agreement with Dixons Carphone to outsource the management of fixed-line customer acquisitions (which was terminated in 2019).

Headline gross profit

For the reasons set out above, our headline gross profit for the year ended March 31, 2019 was £850 million, compared with £831 million for the year ended March 31, 2018, an increase of 2.3%. The gross profit margin increased to 52.8% for the year ended March 31, 2019 from 51.8% for the year ended March 31, 2018, which was primarily driven by the increased penetration of fibre (with higher ARPU) and the uptake by customers to higher speed and higher ARPU services, as well as lower costs of sales. The increase in gross profit was partially offset by a decrease in ARPU resulting from the migration of customers to the FLPPs and a decrease in voice revenue.

For the reasons set out above, our headline gross profit for the year ended March 31, 2018 was £831 million, compared with £953 million for the year ended March 31, 2017, a decrease of 12.8%. The gross profit margin decreased to 51.8% for the year ended March 31, 2018 from 55.4% for the year ended March 31, 2017, which was primarily driven by the £53 million reduction in revenue due to application of IFRS 9 and IFRS 15, as well as decreases in ARPU resulting from the migration of customers to the FLPPs. This was partially offset by a reduction in service level related disputes following the industry-wide Deemed Consent compensation scheme required by Ofcom. The decrease in gross profit was partially offset by the impact of price increases and growth in the higher-margin B2B data segment, as well as a decline in the lower-margin B2B carrier segment.

Headline operating expenses excluding amortisation and depreciation

Our headline operating expenses excluding amortisation and depreciation for the year ended March 31, 2019 were £613 million, compared with £628 million for the year ended March 31, 2018, a decrease of 2.4%. This decrease was driven by reduced headcount across the business, disposal of small customer bases, lower outsource partner costs and the benefits of transitioning to a more self-sufficient model, which resulted in significant savings in our costs to serve customers. These effects were partially offset by FibreNation costs, higher commissions incurred under a distribution agreement with a major distribution partner and increased investment in targeted channels.

Our headline operating expenses excluding amortisation and depreciation for the year ended March 31, 2018 were £628 million, compared with £592 million for the year ended March 31, 2017, an increase of 6.1%. This increase was driven by investments in the reduction of costs to serve our customers, as we sought to improve first time fix rates, as well as operating costs from investment in our network capabilities and reduction due to the sale of a data centre recorded in the year ended March 31, 2017, partially offset by a reduction of £23 million from the application of IFRS 9 and IFRS 15.

Headline EBITDA

For the reasons set forth above, our headline EBITDA for the year ended March 31, 2019 was £237 million, compared with of £203 million for the year ended March 31, 2018, an increase of 16.7%, which in turn was a decrease of 43.8% from £361 million for the year ended March 31, 2017.

Headline depreciation and amortisation

Our headline depreciation and amortisation charges for the year ended March 31, 2019 were £138 million, compared with £131 million for the year ended March 31, 2018, an increase of 5.3%, which in turn was an increase of 4.0% from £126 million for the year ended March 31, 2017.

The table below presents the breakdown of our headline depreciation and amortisation charges for the years ended March 31, 2019, 2018 and 2017:

	For the year ended March 31,			% change	
	2017	2018	2019	2017 v 2018	2018 v 2019
	(audited)	(audited) (£ millions)	(audited)	(unaudited)	(unaudited)
Headline depreciation and amortisation charges					
Depreciation	67	69	71	3.0%	2.9%
Amortisation	59	62	67	5.1%	8.1%
Total	**126**	**131**	**138**	**4.0%**	**5.3%**

Headline depreciation

Headline depreciation for the year ended March 31, 2019 was £71 million, compared with £69 million for the year ended March 31, 2018, an increase of 2.9%. This increase was primarily due to the timing of capital expenditure in prior years.

Headline depreciation for the year ended March 31, 2018 was £69 million, compared with £67 million for the year ended March 31, 2017, an increase of 3.0%. This increase was primarily due to the timing of capital expenditure in prior years.

Headline amortisation

Headline amortisation for the year ended March 31, 2019 was £67 million, compared with £62 million for the year ended March 31, 2018, an increase of 8.1%. This increase was primarily due to accelerated amortisation on certain assets following the continued reassessment of useful economic lives.

Headline amortisation for the year ended March 31, 2018 was £62 million, compared with £59 million for the year ended March 31, 2017, an increase of 5.1%. This increase was primarily due to the timing of capital expenditure in prior years.

Headline share of results of associates and joint ventures

Headline share of results of associates and joint ventures for the year ended March 31, 2019 was a loss of £10 million, compared with a loss of £11 million for the year ended March 31, 2018, a decrease of 9.1%. This decrease was primarily due to a lower share of losses allocated to us from the YouView joint venture.

Headline share of results of associates and joint ventures for the year ended March 31, 2018 was a loss of £11 million, which stayed constant from a loss of £11 million for the year ended March 31, 2017, and represented our share of losses from the YouView platform.

Headline operating profit

For the reasons set forth above, our headline operating profit for the year ended March 31, 2019 was £89 million, compared with £61 million for the year ended March 31, 2018, an increase of 45.9%, which in turn was a decrease of 72.8% from £224 million for the year ended March 31, 2017.

Headline net finance costs

Headline net finance costs for the year ended March 31, 2019 were £52 million, compared with £46 million for the year ended March 31, 2018, an increase of 13.0%. This increase was primarily due to interest payments on the 2017 Revolving Credit Facility, as well as associated fees including £5 million in arrangement fees amortised over the lifetime of the facility.

Headline net finance costs for the year ended March 31, 2018 were £46 million, compared with £25 million for the year ended March 31, 2017, an increase of 84.0%. This increase was primarily due to the higher rate of interest on the 2022 Notes, higher average net debt year on year, the amortisation of additional facility fees offset by interest income recognised in the prior year on agreed service level related disputes. In the year ended March 31, 2018, we also refinanced our 2015 Revolving Credit Facility, which resulted in arrangement fees of £5 million amortised over the life of the facility, as well as the accelerated amortisation of arrangement fees from previous facilities in the amount of £2 million.

Headline profit before taxation

For the reasons set forth above, our headline profit before taxation for the year ended March 31, 2019 was £37 million, compared with £15 million for the year ended March 31, 2018, an increase of 146.7%, which in turn was a decrease of 92.5% from £199 million for the year ended March 31, 2017.

Headline taxation

For the year ended March 31, 2019, we recognised a headline tax credit of £32 million, compared with a tax charge of £22 million for the year ended March 31, 2018. Our tax credit in the year ended March 31, 2019 was primarily due to the recognition of £40 million in deferred tax losses following agreement on a loss streaming methodology used by HMRC. The effective headline tax rate for the year ended March 31, 2019 was (86.5)%, compared with an effective headline tax rate of 146.7% for the year ended March 31, 2018.

For the year ended March 31, 2018 we recognised a headline tax charge of £22 million, compared with £45 million for the year ended March 31, 2017, a decrease of 51.1%. The effective headline tax rate for the year ended March 31, 2018 was 146.7%, compared with an effective headline tax rate of 22.6% for the year ended March 31, 2017. The increased tax rate was primarily due to the derecognition of certain deferred tax assets.

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, 2019 was £69 million, compared with a loss of £7 million for the year ended March 31, 2018, an increase of 1,085.7%, which in turn was a decrease of 104.5% from a profit of £154 million for the year ended March 31, 2017.

LIQUIDITY AND CAPITAL RESOURCES

Historically, our principal sources of liquidity have been our operating cash flows, as well as a combination of bank facilities, 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, 2019, we had £278 million of undrawn committed borrowing facilities under the 2017 Revolving Credit Facility and the Receivables Purchase Facility, respectively. We believe that, following the completion of the Transactions, our operating cash flows and borrowing capacity under existing credit facilities (including the 2017 Revolving Credit Facility) will be sufficient to meet our reasonably foreseeable liquidity requirements and commitments. However, similar to other businesses of our size and scale, we plan to continue assessing our capital structure from time to time and may consider further refinancing our outstanding debt, including the 2017 Revolving Credit Facility. 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 table below presents, for the years ended March 31, 2017, 2018 and 2019 and six months ended September 30, 2018 and 2019, 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,	
	2017	2018	2019	2018	2019
	(audited)	(audited)	(audited) (£ millions)	(unaudited)	(unaudited)
Operating cash flows before movements in working capital	**298**	**141**	**190**	**87**	**127**
Movements in working capital	(68)	(5)	3	—	(89)
Cash generated from operations	**230**	**136**	**193**	**87**	**38**
Income taxes paid	2	—	(1)	—	—
Net cash flows generated from operating activities	**232**	**136**	**192**	**87**	**38**
Cash flows used in investing activities	**(143)**	**(133)**	**(111)**	**(61)**	**(56)**
Cash flows generated from/(used in) financing activities	**(49)**	**(10)**	**(57)**	**(32)**	**(37)**
Net (decrease)/increase in cash and cash equivalents	**40**	**(7)**	**24**	**(6)**	**(55)**
Cash and cash equivalents at the start of the year	10	50	43	43	67
Cash and cash equivalents at the end of the period	**50**	**43**	**67**	**37**	**12**

Operating cash flows before movements in working capital

Our operating cash flows before movements in working capital were £127 million in the six months ended September 30, 2019 and £87 million in the six months ended September 30, 2018 for the reasons discussed in the section entitled "*—Historical Headline Results of Operations—Headline Results of Operations for the six months ended September 30, 2018 and 2019*."

Our operating cash flows before movements in working capital were £190 million in the year ended March 31, 2019, £141 million in the year ended March 31, 2018 and £298 million in the year ended March 31, 2017 for the reasons discussed in "*—Historical Headline Results of Operations—Headline Results of Operations for the years ended March 31, 2017, 2018 and 2019*."

Movements in working capital

The table below presents the movements in our working capital in the years ended March 31, 2017, 2018 and 2019 and six months ended September 30, 2018 and 2019:

	For the year ended March 31,			For the six months ended September 30,	
	2017 (audited)	2018 (audited)	2019 (audited) (£ millions)	2018 (unaudited)	2019 (unaudited)
Decrease/(increase) in trade and other receivables	(63)	39	76	(15)	7
Decrease/(increase) in contract assets	—	(8)	(99)	(32)	(44)
Decrease/(increase) in inventory	21	1	(3)	(3)	6
Increase/(decrease) in trade and other payables	(26)	(38)	25	51	(61)
Increase/(decrease) in contract liabilities	—	1	4	(1)	3
Total	**(68)**	**(5)**	**3**	**—**	**(89)**

We had a working capital requirement of £89 million in the six months ended September 30, 2019. This was due to a decrease in trade and other payables of £61 million, an increase in contract assets of £44 million, a decrease in trade and other receivables of £7 million, a decrease in inventory of £6 million, and an increase in contract liabilities of £3 million. The decrease in trade and other payables and increase in contract assets were mainly due to one-off effect of the unwinding of supplier payments in the year ended March 31, 2019, payments relating to a change in third party distribution agreements and accelerated investment in fibre.

We had a balanced working capital budget in the six months ended September 30, 2018. This was due to an increase in trade and other payables of £51 million, which was offset by an increase in contract assets of £32 million, an increase in trade and other receivables of £15 million, an increase in inventory of £3 million, and a decrease in contract liabilities of £1 million.

We had a working capital inflow of £3 million in the year ended March 31, 2019. This was due a decrease in trade and other receivables of £76 million, an increase in trade and other payables of £25 million and an increase in contract liabilities of £4 million, which were partially offset by an increase in contract assets of £99 million and an increase in inventory of £3 million. The increase in contract assets was primarily due to the launch of our Wi-Fi Hub, which has a higher stand-alone selling price compared to hardware provided to customers in the prior year. The decrease in trade and other receivables was primarily due to the receipt of supplier compensation relating to prior years.

We had a working capital requirement of £5 million in the year ended March 31, 2018. This was due to a decrease in trade and other payables of £38 million and a decrease in contract assets of £8 million, which were partially offset by a decrease in trade and other receivables of £39 million, a decrease in inventory of £1 million and an increase in contract liabilities of £1 million. The decrease in trade and other payables was primarily due to the start of our cost saving programmes. The decrease in trade and other receivables was primarily due to our reduced mobile base.

We had a working capital requirement of £68 million in the year ended March 31, 2017. This was due to an increase in trade and other receivables of £63 million and a decrease in trade and other payables of £26 million. These effects were partially offset by a decrease in inventory of £21 million. The increase in trade and other receivables was primarily due to a combination of amounts due in respect of supplier claims and a higher level of prepayments in respect of financing, fees network and IT costs and property related expenses linked to our move to the Soapworks.

Net cash flows generated from operating activities

Net cash flows generated from operating activities were £38 million in the six months ended September 30, 2019 and £87 million in the six months ended September 30, 2018. The decrease in net cash flows generated from operating activities in the six months ended September 30, 2019 was primarily due to changes in working capital discussed above.

Net cash flows generated from operating activities were £192 million in the year ended March 31, 2019 and £136 million in the year ended March 31, 2018. The increase in net cash flows generated from operating activities in the year ended March 31, 2019 was primarily due to changes in working capital discussed above.

Net cash flows generated from operating activities were £136 million in the year ended March 31, 2018 and £232 million in the year ended March 31, 2017. The decrease in net cash flows generated from operating activities in the six months ended March 31, 2018 was primarily due to changes in working capital discussed above.

Cash flows used in investing activities

Cash flows used in investing activities were £56 million in the six months ended September 30, 2019, £61 million in the six months ended September 30, 2018, £111 million in the year ended March 31, 2019, £133 million in the year ended March 31, 2018 and £143 million in the year ended March 31, 2017.

The table below presents our cash flows used in investing activities for the six months ended September 30, 2018 and 2019 and the years ended March 31, 2017, 2018 and 2019:

	For the year ended March 31,			For the six months ended September 30,	
	2017 (audited)	**2018 (audited)**	**2019 (audited)**	**2018 (unaudited)**	**2019 (unaudited)**
			(£ millions)		
Acquisition of subsidiaries and joint ventures, net of cash acquired	(10)	(8)	(9)	(6)	(6)
Disposal of subsidiaries and customer bases	—	—	2	—	—
Investment in intangible assets	(82)	(87)	(67)	(39)	(36)
Investment in property, plant and equipment	(71)	(38)	(37)	(16)	(14)
Disposal of property, plant and equipment	20	—	—	—	—
Cash flows used in investing activities	**(143)**	**(133)**	**(111)**	**(61)**	**(56)**

During the six months ended September 30, 2019, we invested £6 million in subsidiaries and joint ventures, which represents our investment in YouView and the acquisition of a 20% stake in Makehappen Group Limited. Investments in property, plant and equipment and intangible assets were £50 million, which was primarily comprised of investment in our network and fibre capabilities, as well as in our systems. Other capital expenditure during the period related to compliance and FibreNation.

During the six months ended September 30, 2018, we invested £6 million in subsidiaries and joint ventures, which represents our investment in YouView. Investments in intangible assets and property, plant and equipment were £55 million, of which £54 million related to improvements in our network and fibre capabilities.

During the year ended March 31, 2019, we invested £9 million in subsidiaries and joint ventures, which represented our investment in the joint venture YouView. Investments in intangible assets and property, plant and equipment were £67 million and £37 million, respectively, which primarily comprised of customer premise equipment, network equipment and network improvements.

During the year ended March 31, 2018, we invested £8 million in subsidiaries and joint ventures, of which £6 million represented investment in YouView and the remainder represented the acquisition of an additional 33.3% of our joint venture Bolt Pro Tem Limited. Investments in intangible assets and property, plant and equipment were £87 million and £38 million, respectively, which primarily comprised network equipment and network improvements.

During the year ended March 31, 2017, we invested £10 million in subsidiaries and joint ventures, which represented investment in YouView. Investments in intangible assets and property, plant and equipment were £82 million and £71 million, respectively, which primarily comprised network equipment and network improvements. We also received £20 million from the disposal of property, plant and equipment mainly relating to the sale and leaseback of our Milton Keynes data centre.

Cash flows used in financing activities

Cash flows used in financing activities were £37 million outflow for the six months ended September 30, 2019, £32 million outflow for the six months ended September 30, 2018, £57 million outflow in the year ended March 31, 2019, £10 million outflow in the year ended March 31, 2018 and £49 million outflow in the year ended March 31, 2017.

The table below presents our cash flows used in financing activities for the six months ended September 30, 2018 and 2019 and the years ended March 31, 2017, 2018 and 2019:

	For the year ended March 31,			For the six months ended September 30,	
	2017 (audited)	2018 (audited)	2019 (audited)	2018 (unaudited)	2019 (unaudited)
			(£ millions)		
Financing activities					
Settlement of Group ESOT shares	1	1	1	1	—
Issue of Shares	—	201	—	—	—
Repayments of obligations under finance leases	—	(4)	(9)	(4)	(26)
Contingent consideration	(8)	—	—	—	—
Repayments of borrowings	(315)	(391)	(27)	(21)	—
Drawdown of borrowings	458	309	55	30	33
Interest paid	(30)	(42)	(43)	(21)	(25)
Other finance costs	(5)	(13)	(6)	—	(2)
Equity dividends paid	(150)	(71)	(28)	(17)	(17)
Cash flows (used in)/generated from financing activities	**(49)**	**(10)**	**(57)**	**(32)**	**(37)**

In the six months ended September 30, 2019, we had an outflow of £37 million related to financing activities. We drew down £33 million under various facilities, repaid financial lease obligations of £26 million, incurred interest payments of £25 million, paid £17 million in dividends to our shareholders and incurred £2 million in other finance costs.

In the six months ended September 30, 2018, we had an outflow of £32 million related to financing activities. We drew down £30 million under various facilities, repaid borrowings of £21 million and repaid financial lease obligations of £4 million, incurred interest payments of £21 million, and paid £17 million in dividends to our shareholders. We also had an inflow of £1 million due to the settlement of Group Employee Share Ownership Trust ("**ESOT**") shares.

In the year ended March 31, 2019, we had an outflow of £57 million related to financing activities. We drew down £55 million under various facilities, repaid borrowings of £27 million and finance lease obligations of £9 million, incurred interest payments of £43 million and other finance costs of £6 million. The remaining outflow of £28 million was comprised the payment of dividends to our shareholders. We received an inflow of £1 million due to the settlement of Group ESOT shares.

In the year ended March 31, 2018, we had an outflow of £10 million related to financing activities. We drew down £309 million under our 2017 Revolving Credit Facility and repaid £391 million of borrowings under various facilities and incurred interest payments of £42 million. We also repaid £4 million of obligations under finance leases and incurred other finance costs of £13 million. The remaining outflow of £71 million was comprised the payment of dividends to our shareholders. We received an inflow of £1 million due to the settlement of Group ESOT shares and an inflow of £201 million due to the issue of shares.

In the year ended March 31, 2017, we had an outflow of £49 million related to financing activities. We drew down £458 million under various facilities including our 2020 Notes and repaid borrowings of £315 million. We incurred interest payments of £30 million, contingent considerations of £8 million and other finance costs of £5 million. Our remaining outflow of £150 million was comprised the payment of dividends to our shareholders. We received an inflow of £1 million due to the settlement of Group ESOT shares.

Planned Cash Requirements and Capital Expenditure Plan

We anticipate that our cash requirements in the near to medium term will consist principally of investments to upgrade and expand our network, build FTTP connectivity capabilities, improve our systems and customer experience and service our debt.

Beyond our contractually committed capital expenditures (see "*—Contractual obligations—Commitments*"), our investment plan for the near to medium term is largely discretionary. These expenditures could include:

- continued investment in our network to meet increasing customer demand for data usage;
- FTTP capability;
- continued system development to improve customer experience and to drive structural cost savings by deploying next generation switches and dark fibre; and
- continued efforts to drive operating efficiencies.

Contractual obligations

Our principal contractual obligations consist of obligations in respect of financial indebtedness that is owed under the Notes, outstanding credit facilities and finance leases.

The table below presents the maturities of our financial liabilities, as at September 30, 2019, 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, 2019	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	934	36	99	799	—	—	—
Finance leases	40	13	11	12	4	—	—
Trade and other payables	426	426	—	—	—	—	—
Total	**1,400**	**475**	**110**	**811**	**4**	**—**	**—**

Financial obligations

As at September 30, 2019, we had total committed facilities of £1,115 million and uncommitted facilities of £70 million, with headroom of £273 million and £65 million of committed and uncommitted facilities, respectively.

2017 Revolving Credit Facility

On May 8, 2017, the Issuer, as borrower, the Guarantors, as guarantors, and the lenders as described therein entered into the 2017 Revolving Credit Facility Agreement providing for the 2017 Revolving Credit Facility. The 2017 Revolving Credit Facility has a total capacity of £640 million. The final maturity date of the drawings under the 2017 Revolving Credit Facility is May 8, 2022.

As at September 30, 2019, we had £380 million outstanding under the 2017 Revolving Credit Facility. See "*—Recent Developments—Additional drawings under the 2017 Revolving Credit Facility*."

On the Issue Date, we intend to use the proceeds of the Offering to to refinance the 2022 Notes and repay (without cancelling commitments) £161 million of principal amounts drawn under the 2017 Revolving Credit Facility. See "*Use of Proceeds*."

On or about the closing date of the FibreNation Disposal, we expect to use the gross proceeds thereof to repay (without cancelling commitments) £188 million of principal amounts drawn under the 2017 Revolving Credit Facility thereby further de-levering our business. See "*Capitalization*."

Following the completion of the Transactions, the aggregate principal amount outstanding under the 2017 Revolving Credit Facility is expected to be £105 million.

Receivables Purchase Facility

On September 16, 2016, the Issuer entered into the Receivables Purchase Facility Agreement, which contained a £75 million Receivables Purchase Facility. The Receivables Purchase Facility Agreement was amended and extended on March 27, 2019 and September 25, 2019, and expires on September 26, 2021. As at September 30, 2019, we had £63 million outstanding under the Receivables Purchase Facility.

Financial leasing agreements

As at September 30, 2019, we had £211 million of lease liabilities. See "*—Accounting Policies Requiring Management Judgment and Discretion—IFRS 16.*"

Pension obligations

We provide various defined contribution pension schemes for the benefit of a significant number of our employees. For the year ended March 31, 2019, we incurred pension costs of £5 million for our employees (including our Board of Directors and Executive Committee). These are charged to the income statement as they become payable.

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 £167 million, £134 million, £203 million and £231 million for the six months ended September 30, 2019 and the year ended March 31, 2019, 2018 and 2017, respectively. Of this amount: (i) £68 million, £52 million, £82 million and £65 million, for the six months ended September 30, 2019 and the year ended March 31, 2019, 2018 and 2017, respectively, related to capital commitments; (ii) £99 million, £82 million, £100 million and £127 million, for the six months ended September 30, 2019 and the year ended March 31, 2019, 2018 and 2017, respectively, related to the supply of core network, IT and customer equipment, and (iii) £nil, £nil, £21 million, and £39 million, for the six months ended September 30, 2019 and the year ended March 31, 2019, 2018 and 2017, 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.

OFF-BALANCE SHEET ARRANGEMENTS

We lease network infrastructure and offices under non-cancellable operating leases. Prior to the adoption of IFRS 16, such operating leases were not recognised on the balance sheet. The table below presents our outstanding commitments for future minimum payments under such operating leases as at March 31, 2017, 2018 and 2019:

	As at March 31,		
	2017 (audited)	**2018 (audited) (£ millions)**	**2019 (audited)**
Operating leases			
Less than 1 year	36	23	25
2 to 5 years	74	45	37
Greater than 5 years	75	68	54
Total	**185**	**136**	**116**

Other than the operating leases discussed above, 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, contract costs, investments in associates and joint ventures, contract assets, 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 under IFRS 9 for any receivables that are considered to be irrecoverable.

Our exposure to credit risk as at March 31, 2017, 2018 and 2019 as well as September 30, 2019 was concentrated as follows:

	As at March 31,			As at September 30,
	2017 (audited)	2018 (audited)	2019 (audited)	2019 (unaudited)
			(£ millions)	
Cash and cash equivalents	50	43	67	12
Contract costs	—	228	308	348
Trade and other receivables[1]	369	246	160	148
Non-current investments and investments in joint ventures	8	3	2	2
Non-current trade and other receivables	6	2	2	4
Contract assets	—	20	39	43
Derivative financial instruments	31	—	—	—
Total	**464**	**542**	**578**	**557**

(1) Net of expected credit impairment losses.

Impairment losses

The aging of trade receivables and other receivables as at March 31, 2017, 2018 and 2019 as well as September 30, 2019 was:

	Gross	Expected credit losses	Gross	Expected credit losses	Gross	Expected credit losses	Gross	Expected credit losses
	As at Mar 31, 2017	As at Mar 31, 2017	As at Mar 31, 2018[2]	As at Mar 31, 2018[2]	As at Mar 31, 2019	As at Mar 31, 2019	As at Sept 30, 2019	As at Sept 30, 2019
			(audited)				(unaudited)	
				(£ millions)				
Not Yet Due	85	—	68	—	56	(2)	41	(1)
0 to 2 months	15	(2)	16	—	16	(3)	19	(4)
2 to 4 months	17	(2)	12	—	9	(2)	5	(3)
Over 4 months	75	(41)	47	(32)	24	(15)	15	(10)
Total	**192**	**(45)**	**143**	**(32)**	**105**	**(22)**	**80**	**(18)**

(1) Restated to reflect the retrospective application of IFRS 9 and IFRS 15. See "Presentation of Financial and Other Data—Restatements of previously reported financial information."

Expected credit losses are cumulative, including all prior years. The movements in the provisions for expected credit losses in respect of trade receivables during the years ended March 31, 2017, 2018 and 2019, as well as the six months ended September 30, 2019 were as follows:

	For the year ended March 31			For the six months ended September 30
	2017 (audited)	2018 (audited)	2019 (audited)	2019 (unaudited)
		(£ millions)		
Opening balance	(30)	(41)	(32)	(22)
Charged to the income statement	(60)	(20)	(11)	(5)
Receivables written off as irrecoverable	45	29	21	9
Balance at period end	**(45)**	**(32)**	**(22)**	**(18)**

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 2017 Revolving Credit Facility does not expire until May 2022 and the Notes mature in February 2025.

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. As at September 30, 2019, the adjustment to translate our net debt to sterling at swap rates to reflect the impact of hedging was £nil, compared with £nil, £nil and £(39) million as at March 31, 2019, 2018 and 2017, respectively.

Our exposure to foreign currency risk on borrowings as at March 31, 2017, 2018 and 2019, as well as at September 30, 2019 was as follows:

	As at March 31,						As at September 30,	
	2017		2018		2019		2019	
	GBP (audited)	USD (audited)	GBP (audited)	USD (audited)	GBP (audited)	USD (audited)	GBP (unaudited)	USD
				(£ millions)				
Borrowings before derivatives and finance leases	723	148	788	—	809	—	842	—
Finance leases	—	—	31	—	39	—	—(1)	—
Derivatives	—	(39)	—	—	—	—	—	—
Borrowings after derivatives and finance leases	**723**	**109**	**819**	**—**	**848**	**—**	**842**	**—**

(1) Following the adoption of IFRS 16, we recognised £211 million of lease liabilities comprising £36 million of finance leases and £175 million of operating leases as at September 30, 2019.

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, 2017, 2018 and 2019 and September 30, 2019, the interest rate profile of our interest-bearing financial instruments was:

Variable rate instruments	Carrying amounts			
	March 31,			September 30,
	2017 (audited)	2018 (audited)	2019 (audited)	2019 (unaudited)
	(£ millions)			
Borrowings	832	788	809	842
Total	**832**	**788**	**809**	**842**

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, 2017 (audited)		
Variable rate instruments	2	2

	Profit or loss (£ millions)	
	100 basis points increase	100 basis points decrease
March 31, 2018 (audited)		
Variable rate instruments	3	3

	Profit or loss (£ millions)	
	100 basis points increase	100 basis points decrease
March 31, 2019 (audited)		
Variable rate instruments	4	4

	Profit or loss (£ millions)	
	100 basis points increase	100 basis points decrease
September 30, 2019 (unaudited)		
Variable rate instruments	4	4

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 consists of debt, which includes bank facilities, 2022 Notes, receivables purchase facility, invoice discounting, retained profits and equity.

We continue to review our funding and capital structure with the objectives of diversifying sources and managing both the average tenor and interest cost.

We use the external ratio of net debt to headline EBITDA to monitor our capital structure and has a medium-term ratio target (on a pre-IFRS 16 basis) towards 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, 2019, we had no derivative financial liabilities or derivative financial assets.

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:

IFRS 16

On April 1, 2019, we adopted IFRS 16 "Leases". IFRS 16 introduces new or amended requirements for lease accounting. Under IFRS 16 both lessor accounting and our accounting for existing finance leases will remain unchanged unless where in the future a finance lease includes a residual guarantee which will now be measured as an expected amount payable opposed to the maximum amount payable as required under IAS 17. However, IFRS 16 introduces significant changes to accounting where the Group is a lessee and the lease was previously classified as an operating lease under IAS 17. It removes the requirements under IAS 17 to initially define a lease as either an operating lease (which are off balance sheet) or a finance lease and instead requires all leases to be recognised on the balance sheet creating a right of use asset and a lease liability (unless an exemption is taken for leases that are either short term leases or leases of low value assets). The lease liability recognised at the inception of a lease will represent the present value of the consideration the Group will pay over the lease term with the right of use asset being set to an equivalent value plus any initial directly attributable costs. The lease liability will be discounted at the interest rate implicit in the lease or in absence of this, the Group will use a calculated incremental borrowing rate based on the underlying asset. The right of use assets are depreciated over the shorter period of the lease term or the useful economic life of the underlying asset and are then tested for impairment in accordance with IAS 36 "Impairment of Assets" rather than the previous requirement under IAS 37 to recognise a provision for any onerous lease contracts.

In concluding whether a contract contains a lease, management considers whether there is an identified asset, whether the Group has the right to obtain substantially all the economic benefits of this asset, whether the Group has the right to direct how and for what purpose the asset is used, whether the Group has the right to operate the asset without the supplier having the right to change the operating instructions and whether the Group has designed the asset in a way that predetermines how and for what purpose the asset will be used. Following the above assessment management has concluded the below items that were formerly classed as operating leases under IAS 17, contain a lease and have therefore been recognised in accordance with IFRS 16:

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

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

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

The impact of adopting IFRS 16 has been to reduce the Group's operating expenses as lease rentals are no longerrecognised straight line under operating expenses and to increase the Group's depreciation and finance costs as the Group depreciates the right of use assets and unwinds the time effect of the related lease liabilities.

The overall profile of the expense recognised in the income statement has changed as a higher level of finance costs are recognised earlier in the lease term. The recognition of the lease liabilities has increased the Group's net debt, however the cash position of the Group remains unchanged. The cash flows in the consolidated cash flow statement are split between a principal portion and a finance portion, which are both presented under financing activities, previously under IAS 17 the operating lease payments were presented as operating cash flows.

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

Revenue is presented net of VAT and other sales related taxes. Revenue is measured based on the consideration specified in a contract with a customer. We recognise revenue when it transfers control over a good or service to a customer. Our revenues are earned from the provision of fixed connectivity services. The typical length of a contract for bundled packages is 12–36 months. Contracts often include multiple goods and services, which are generally capable of being separately identifiable or distinct and accounted for as separate performance obligations.

For bundled packages, including monthly service fees and activation fees from contract subscribers, we account for revenue from individual goods and services separately if they are distinct – i.e. if a good or service can be distinguished from other components of the bundled package and if a customer can benefit from it separately. The consideration for the bundled packages comprises cash flows from customers, expected to be received in relation to goods and services delivered over the contract term. The consideration (transaction price) is net of any discounts and credits and is allocated between separate performance obligations in a bundle based on their relative stand-alone selling prices.

We identify the following primary performance obligations: supply of connectivity services (such as broadband, Fibre, ethernet and TV) and the supply of hardware (such as routers and set top boxes). As a practical expedient different connectivity services are typically applied concurrently; as a result, they are accounted for as a single performance obligation.

Stand-alone selling prices for connectivity services and hardware are based on individual pricing where such observable prices exist. Otherwise such prices are defined in reference to their assessed market value or a cost plus a margin approach.

The timing of satisfaction of performance obligations is summarised below:

- Hardware – at a point in time, typically at contract inception when control of the hardware is transferred to the customer. This usually occurs when the customer signs a new contract, the connectivity service is due to commence and the hardware is sent to the customer.
- Services/subscriptions – over time as the services are provided, reflecting the customer simultaneously receiving and consuming the connectivity service. Revenue is recognised on a straight line basis over the contract term based on the nature of the connectivity services. The services are billed and paid for on a monthly basis.

Additional services, such as usage (including TV content), result in revenue recognition only once the customer utilises the service.

The probability of collectability is assessed across the Group and where collectability is identified not to be probable, revenue is recognised only when the cash is received from the customer.

Contract assets and liabilities

The recognition of revenue as described above results in the recognition of contract assets (e.g., where more revenue has been recognised upfront in relation to hardware compared to actual cash consideration received for the hardware) and contract liabilities (e.g., where connection revenues received from the customer upfront are deferred over the contract term). Each contract asset and liability will unwind over the related contract term. Both contract assets and liabilities are shown separately in the consolidated financial statements. Contract assets include some accrued income which is assessed for impairment based on lifetime expected credit losses (ECL), in accordance with IFRS 9.

Contract costs

Contract costs eligible for capitalisation as incremental costs of obtaining a contract comprise commission costs directly attributable to obtaining contracts or pools of contracts. Contract costs are capitalised in the month of service activation if we expect to recover those costs. Contract costs comprise sales commissions paid to retail partners and to sales agents which can be directly attributed to an acquired or retained contract. In all other cases subscriber acquisition and retention costs are expensed when incurred.

Costs directly incurred in fulfilling a contract with a customer, which largely comprise the cost of connecting a customer to our network so that the connectivity services can be provided are recognised as an asset.

Capitalised commission and connection costs are amortised on a systematic basis that is consistent with the transfer to the customer of the services when the related revenues are recognised. We have determined that average customer tenure (50–60 months for broadband and 120 months for Ethernet) is an appropriate period to amortise cost to obtain and fulfil a contract. This reflects the fact that incremental commissions are typically not paid on customer renewals or extensions. Likewise, connection costs support a customer over their tenure and are not required again because a customer renews or goes beyond their minimum contract term. These costs are accounted for on a portfolio basis, and are reviewed for impairment, taking into account our customer life-time value analysis.

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.

APMs

The consolidated financial statements include alternative performance measures ("**APMs**") as well as statutory measures. These APMs used by the Group are not defined terms under IFRS and may therefore not be comparable with similarly titled measures reported by other companies. They are not intended to be a substitute for, or superior to, GAAP measures. All APMs relate to the current year results and comparative periods where provided. This presentation is also consistent with the way that financial performance is measured by management, reported to the board of directors, the basis of financial measures for senior management's compensation schemes and provides supplementary information that assists the user in understanding the financial performance, position and trends of the Group.

Performance is measured based on Headline EBITDA, defined as operating profit or loss before non-Headline items, as presented to the CODM. EBITDA is defined as the operating profit or loss before depreciation, amortisation, share of results of associates and joint ventures, net finance costs and taxation.

Non-Headline items

The non-Headline items excluded from operating profit in arriving at Headline operating profit were certain adjusting items, the operating results of a business to be exited (MVNO operating profit/(loss)) and amortisation of acquisition intangibles.

Examples of charges or credits meeting the definition of adjusting items include where material, discontinued operations, gains or losses associated with the acquisition/disposal/exit of businesses, business restructuring and fundamental transformation programmes. Certain transformation and rationalisation programmes are so fundamental they may impact a number of years. In the event that other items meet the criteria, which are applied consistently from year to year, they are also treated as adjusting items.

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 financial assets measured at amortised cost.

Under the IFRS 9 expected credit loss model, a credit event (or impairment trigger) no longer needs to occur before credit losses are recognised. We analysed the risk profile of trade receivables based on past experience and an analysis of the receivable's current financial position, potential for a default event to occur, adjusted for specific factors, general economic conditions of the industry in which the receivables operate and assessment of both the current and the forecast direction of conditions at the reporting date. A default event is considered to occur when information is obtained that indicates that a receivable is unlikely to pay the Group.

Credit risk is regularly reviewed by management to ensure the expected credit loss model is being appropriately applied.

Interest income is recognised by applying the effective interest rate, except for short term receivables when the recognition of interest would be immaterial.

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 reviewed our cash generating units ("**CGUs**") and consider that we have five CGUs, of which four have allocated goodwill. These CGUs represent the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Cash inflows for the CGUs are generated as follows:

CGU	Services provided
TalkTalk Consumer telecommunication	services to retail customers
TalkTalk Business telecommunication	services to B2B customers through partner or wholesale channels
TalkTalk Business Direct telecommunication	services to B2B customers through direct channels
FibreNation FTTP services	Historical MVNO operations services as a mobile virtual network operator

The bulk of our shared costs and assets relating mainly to infrastructure and central overheads are allocated across the CGUs based on the relative future cash flows generated by each and their reliance on the shared service functions and infrastructure.

Determining whether goodwill is impaired requires estimation of the value in use of the CGUs to which the goodwill has been allocated. In assessing value in use, the estimated cash flows of each CGU are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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 our three-year plan and extrapolated out to twenty 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 of intangible assets

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 all 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.

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.

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.

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

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
Fixtures and fittings and short leasehold improvements.	10%-20% per annum or the lease term if shorter
Network and customer premise equipment and computer hardware	12.5-40% per annum

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

Impairment of tangible assets

We review 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. We use the same methodology as set out for operating and acquisition intangibles.

INDUSTRY OVERVIEW

The UK telecommunication market comprises fixed-line connectivity, mobile and pay TV services. In 2018, the UK market generated £33.8 billion in operator reported revenue, reflecting an average household spend of £83.56 per month on telecommunication services – equivalent to 3.3% of average household spend (*Source: Ofcom; The Communications Market Report 2019 (July 2019)*). There were 26.6 million fixed broadband connections in the UK at December 31, 2018, a 2.1% increase over December 31, 2017, driven primarily by an increase in superfast broadband lines (*Source: Ofcom; The Communications Market Report 2019 (July 2019)*). The number of mobile subscriptions increased by 0.1% year-on-year to 92.1 million in 2018, driven by a 3% increase in post-pay subscriptions to 66.1 million, which was partially offset by a 6% decline in pre-pay subscriptions to 25.9 million (*Source: Ofcom; The Communications Market Report 2019 (July 2019)*). The UK TV market grew by 2.5% in 2018, generating revenues of approximately £13.7 billion (excluding publicly funded channels), spurred by growth in platform operator revenue and online viewing (*Source: Ofcom; Media Nations: UK 2019; The Communications Market Report 2019 (July 2019)*).

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 are offered predominantly through either (FTTC), which relies upon copper lines for the last mile of delivery, or Full Fibre (FTTP), whereby a fibre line is provided all the way to the premises. Full Fibre coverage has risen to approximately 10% of premises as of September 2019, representing a year-on-year increase of 1.5 million covered premises (*Source: Ofcom; Connected Nations 2019*). Fibre services for business applications are offered via Ethernet connectivity. Ultrafast broadband (over 300 Mbps) is available across 57% of the UK, through technologies including G.Fast, DOCSIS and Full Fibre, although not in uniformly contiguous geographies, reflecting historically diverse build patterns (*Source: Ofcom; Connected Nations 2019*).

The UK fixed-line market is a competitive, but structurally attractive market. Key attributes of the market include a rapid and sustained rise in data usage for both residential and B2B customers; absence of adequate substitutes for fixed connectivity; proactive and pro-competition regulation; and the emergence of better quality products supported by both the UK government and Ofcom.

Growing demand for bandwidth

The industry has been experiencing strong and sustained demand for connectivity from households and businesses, which is expected to continue. Whilst the total number of households in the UK has remained relatively flat, growing at a CAGR of 0.7% from 2015 to 2018, fixed broadband connections have grown by a CAGR of 2.5%, whereas mobile subscriptions have grown by only 0.04% in the same period. During this time, average fixed broadband data use per month has grown by a CAGR of 35.3% to 240GB/month and average monthly data use by mobile user has grown by a CAGR of 30.5% to 2.9GB/month (*Source: Ofcom; The Communications Market Report 2019 (July 2019); ONS*). This exponential growth in data usage has been driven by device proliferation and video demand such that mobile users are expected to increase their average data traffic from 2.3GB/month in 2017 to 11.4GB/month in 2022, while fixed consumer internet traffic per household is expected to increase from 165.8GB/month in 2017 to 415.5GB/month in 2022 (*Source: Cisco*). Similarly, the emergence of cloud services and VoIP has driven rapid data growth in the B2B market. 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 or, less frequently, satellite networks. However, despite the speeds offered by 5G connectivity, data transmission via a mobile network is significantly more expensive, radio spectrum availability is constrained and finite and there is limited reason to believe that such technological and economic disadvantages could easily be overcome. 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 BT's acquisition of EE in 2016). In 2018, average monthly mobile data volumes represented only 1.2% of total average monthly data traffic (Source: *Ofcom; The Communications Market Report 2019 (July 2019)*).

Significant investment required to develop a scaled network

Substantial investment is required to build and maintain nationwide fixed-line networks. Fixed-line networks have large physical build requirements, such as ducts and cables, which require significant capital expenditure. Building a new network can be expensive and cost-prohibitive. Further, obtaining access to the fixed-line networks of broadband infrastructure providers requires a substantial and sustainable revenue stream and hence a high volume of residential customers.

Of the four principal fixed-line operators in the UK, Sky and the Group have built their networks over the last decade, through an unbundled architecture which relies on Openreach's access lines rather than building separate ducts. Rendering these access lines capable of safely providing a reliable data connection to end consumers requires material investment in additional network assets including backhaul circuits, optical equipment, switches and various software platforms. For these reasons, the high level of investment needed to become an at-scale network provider may be cost-prohibitive for some prospective new entrants.

Strong pro-competition regulation

There is a clear history of pro-competition regulation in the UK telecommunication industry over the last decade, which has been primarily focused on addressing the market power of BT, which is the incumbent provider and owns the majority of the UK's fixed-line infrastructure. For example, in 2017, Ofcom required that Openreach become a legally separate entity within BT Group, and Ofcom has promoted development of retail competitors on a national scale. In 2018 and 2019, Ofcom for the first time set a price cap on FTTC 40/10 services and required Openreach to provide wholesale dark fibre services to parts of the UK. Ofcom has indicated that it plans to continue regulating BT's dominant market position and will ensure access to Openreach's core infrastructure on fair terms by setting wholesale price caps and minimum quality levels. In keeping with this remit, Ofcom established the Openreach Monitoring Unit to oversee the legal separation and published its first annual monitoring report in July 2019, which will underpin pro-competition regulation for the benefit of non-incumbent operators.

Whilst the market for fixed-line telecommunication services in the UK is promotionally intense, it is underpinned by fundamentally rational economics. This rational customer approach, in conjunction with the premium positioning of the three largest operators (BT, Sky and Virgin Media) and the structural features of the market noted above underpins the large opportunity in the market for a value-for-money challenger, such as the Group.

Governmental and regulatory support for Full Fibre (FTTP)

As of September 2019, 10% of UK premises had access to Full Fibre connections, marking an increase of 1.5 million premises with access compared with the previous year (*Source: Ofcom; Connected Nations 2019*). Full Fibre connections covered 12% of commercial properties, as operators have likely focused on selecting areas for deployment that contain a critical mass of businesses to maximise take-up, according to Ofcom (*Source: Ofcom; Connected Nations 2019*). The shift to Full Fibre is underpinned by its superior service, offering increased reliability and speed to consumers compared with copper broadband networks. Full Fibre likewise has technological advantages over FTTC connections, under which the quality and distance of the copper lines connecting to the premises can negatively affect the reliability and speed of the service provided (*Source: Ofcom; Connected Nations 2019*).

As UK FTTP availability lags that in many European countries, the UK government has increased its focus on delivering ultrafast and Full Fibre broadband throughout the UK. Building Digital UK, part of the Department for Digital, Culture, Media and Sport, is currently spearheading a number of incentive programmes, including the Local Full Fibre Networks Programme ("**LFFN**"), which are designed to stimulate commercial investment in Full Fibre networks in both rural and urban locations across the UK. Initial funding for these investments is drawn from a total of £740 million from the National Productivity Investment Fund, which has been allocated to LFFN and the 5G Testbeds and Trials programmes, aiming to improve the UK's digital infrastructure over the next four years. The LFFN programme includes voucher schemes to catalyse fibre adoption, such as the Gigabit Broadband Voucher Schemes, whereby small businesses and local communities can use Gigabit broadband vouchers to contribute to the installation cost of faster connections using Gigabit-capable infrastructure. Small and medium-sized businesses can claim a voucher worth up to £2,500 and residents can claim a voucher worth £500 as part of a group project, with voucher values rising to £3,500 and £1,500 in rural premises with broadband speeds of less than 30Mbps (*Source: UK Government*).

The emergence of new FTTP infrastructure builders, known as altnets, such as Hyperoptic, CityFibre, G.Network, Gigaclear and Communityfibre, has added further momentum to the industry-wide shift to Full Fibre, with the support of government and third-party investment.

FIXED-LINE TELECOMMUNICATION SERVICES

Fixed Broadband

The UK generated fixed data revenues of an estimated £6.5 billion in 2018 (calculated using Ofcom's estimated total UK market size of £14.1 billion and subtracting Ofcom's estimated fixed-line access and call revenues of £7.6 billion) (*Source: Ofcom; The Communications Market Report 2019 (July 2019); Telecommunications Market Data Update (Q4 2018)*). It is estimated that 87% of UK's adult population had access to fixed line connectivity at their homes in 2018 (*Source: Ofcom; The Communications Market Report 2019 (July 2019*).

The four largest internet services providers in the UK include BT, Sky, Virgin Media and the Group. BT is the country's largest provider of fixed broadband connections. In 2018, BT's market share was 35% (including EE and Plusnet), followed by Sky with 23%, Virgin Media with 20%, and the Group with 11%. Other providers made up 12% of the market (*Source: Ofcom; The Communications Market Report 2019 (July 2019)*).

The UK fixed broadband market has shown steady growth historically, increasing from 22.8 million lines in 2013 to 26.6 million lines in 2018 at a CAGR of 3.2% (*Source: Ofcom; The Communications Market Report 2019 (July 2019)*). Of the 26.6 million fixed broadband lines at the end of 2018, 11.3 million, or 42%, were FTTC; 9.6 million, or 36%, were ADSL; 5.2 million, or 20% were cable; and 0.5 million, or 2%, were FTTP (*Source: Ofcom; The Communications Market Report 2019 (July 2019)*). 2018 marked the first year in which the number of FTTC connections overtook the number of ADSL standard broadband connections.

In 2018, the number of Fibre-based lines, including FTTC and FTTP, grew by 2.4 million, or 25%, whereas the number of copper cable-based lines grew at 1% (*Source: Ofcom; The Communications Market Report 2019 (July 2019)*). Fibre (FTTP and FTTC) connections accounted for 44% of total connections in 2018, up from 10% in 2018 (*Source: Ofcom; The Communications Market Report 2019 (July 2019)*). Demand for greater bandwidth, driven by growth in video streaming and online gaming, saw the number of superfast broadband connections – those that provide actual speeds of at least 30 Mbps – increase by 2.2 million, or 27%, during 2018 (*Source: Ofcom; The Communications Market Report 2019 (July 2019)*). The average fixed broadband speed is expected to grow at a CAGR of 10.1% from 33.7 Mbps in 2017 to 54.6 Mbps in 2022 *(Source: Cisco)*.

The UK's pro-Fibre and pro-competition regulatory environment has underpinned ongoing FTTP infrastructure roll-out over the past few years. In addition to Openreach, which is conducting FTTP deployment, new altnet FTTP network providers include Hyperoptic, CityFibre, G.Network, Gigaclear and Communityfibre. These new FTTP entrants are generally well-funded and have adopted ambitious roll-out plans, although their strategy and geographical focus varies. They provide the FTTP infrastructure that enables broadband providers such as the Group to provide FTTP to consumers.

Fixed-line Telephony

In 2018, fixed-line access and call revenues in the UK were estimated to total £7.6 billion (Ofcom estimate not intended to include subscription revenues for internet access, although some element thereof may remain), which was generated across 32.0 million fixed lines (*Source: Ofcom; Telecommunications Market Data Update (Q4 2018)*). The majority of these revenues came from line rental and bundled calls (*Source: Ofcom; Telecommunications Market Data Update (Q4 2018)); The Communications Market Report 2019 (July 2019)*). The four main residential landline providers in the UK are BT, Sky, Virgin Media and the Group. Residential lines accounted for 82% of all fixed telephony connections compared to 18% for businesses at the end of 2018 (*Source: Ofcom; The Communications Market Report 2019 (July 2019)*).

Fixed-line telephony volumes continue to be impacted by substitution towards text-based forms of communication and mobile calls. During the period from 2013 to 2018, fixed voice volumes decreased by 49 billion minutes, or 52% (*Source: Ofcom; The Communications Market Report 2019 (July 2019)*). Despite this decline in fixed-line telephony volumes, the number of fixed lines has remained relatively stable over the same period, with a decrease of 1.4 million lines, or 4.2%, as consumers have retained these lines for their internet connections (*Source: Ofcom; The Communications Market Report 2019 (July 2019)*).

In 2018, total fixed-line voice call volumes in the UK fell by 9.2 billion minutes, or 17%, to 44 billion minutes (*Source: Ofcom; The Communications Market Report 2019 (July 2019)*). This year-on-year decline was slightly above the five-year decline from 2013 to 2018, during which total fixed-line voice call volumes decreased at a CAGR of 14% (*Source: Ofcom; The Communications Market Report 2019 (July 2019)*).

The number of fixed lines 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. Residential lines grew by 1.1 million in the five years from 2013 to 2018. This growth was driven by increased broadband internet penetration, for which most homes require a fixed voice line, and an increase in the number of households (*Source: Ofcom; The Communications Market Report 2019 (July 2019)*).

PAY TV

In 2018, total TV revenues in the UK (including publicly funded channels) were £16.2 billion, representing a 1.5% increase from the previous year (*Source: Ofcom; The Communications Market Report 2019 (July 2019)*). The UK TV industry is characterised by a significant Public Service Broadcasting sector that provides free-to-air channels without content licence fees. This includes the BBC, which provides content predominantly through a government-funded model, as well as private sector companies, such as ITV, Channel 4 and Channel 5, which operate under an advertising-driven model. These companies and their portfolio channels accounted for 71% of all TV viewing in the UK in 2018 (*Source: Ofcom; The Communications Market Report 2019 (July 2019)*).

In recent years, demand for OTT video – transmitted via broadband – has become increasingly popular in the UK, in terms of both free and paid-for content. As of September 2019, 13.7 million households subscribed to an OTT video service, compared to 10.2 million households at the end of 2017. The most popular OTT video platform is Netflix, which comprises 11.8 million UK household subscribers, marking a shift away from traditional TV subscriptions for OTT substitutes (*Source: Broadcasters' Audience Research Board*). Subscriptions for OTT video providers, such as Netflix, Amazon Prime Video and NOW TV, grew 24.4% from the previous year in 2018, to £1.3 billion, growing at a CAGR of 51.2% from 2013 (*Source: Ofcom; Media Nations: UK 2019*). Connectivity and smart devices have significantly aided this trend, as more than half of TV households have a television connected to the internet and Ofcom's research into children's media literacy in 2017 found that YouTube and Netflix had higher brand recognition than BBC or ITV among 12-15 year olds (*Source: Ofcom; The Communications Market Report 2018*).

TRENDS IN BUNDLING

In the UK, there has been a trend towards bundling over the last decade, and in 2018, 80% of households subscribed to bundled services from a single provider (*Source: Ofcom; Pricing trends for communications services in the UK (2018)*). The largest portion of these were fixed voice and broadband bundles, which included 31% of households, and fixed voice, broadband and TV triple-play bundles, which included 31% of households. (*Source: Ofcom; Pricing trends for communications services in the UK (2018)*). The proportion of households subscribing to bundled services increased significantly from 2013 to 2018, driven by the growth in dual and triple play (and increasingly quad play) bundled services, which offer a cheaper alternative to out-of-bundle usage – often through promotional pricing (*Source: Ofcom; Pricing trends for communications services in the UK (2018)*).

BUSINESS

OVERVIEW

We are the UK's leading value-for-money provider of fixed-line connectivity services for residential and business customers. Since entering the market in the early 2000s, we have consistently saved our customers money by offering high-quality data and voice services for lower prices than our direct competitors. We provide landline telephony, broadband and TV services to over four million customers, supplying services to consumers through the TalkTalk brand, to businesses through TalkTalk Business, and by wholesaling to resellers. Our business model is underpinned by a low-cost position driven primarily by our scalable and extensive network, which covers approximately 96% of UK premises through over 3,000 Exchanges. This network acts as a barrier-to-entry and has historically enabled us to introduce disruptive products at market-leading prices. As we look forward, we are well-positioned to benefit from the roll-out of Full Fibre across the UK as network builders seek immediate access to high volumes of customers to support their investment. We can therefore negotiate wholesale terms which enable us to cost-effectively migrate our new and existing customers at pace to higher bandwidth and more reliable connectivity products.

Since 2017, we have significantly simplified the business, reduced cost and have in place clear plans to aggressively drive Full Fibre uptake in both residential and business segments, improve customer service, further simplify our operations and reduce cost across the organisation. Each of these actions saves us money, which further improves our cost position and supports our low-price offering. It is a simple and repeatable strategy. However, it is one that is difficult for our higher-priced and higher-cost competitors to replicate.

Our Consumer business provides affordable and reliable fixed-line connectivity to residential consumers. Broadband is at the core of our proposition and is offered at varying bandwidths, with over 50% of our customers now taking the faster FTTC products due to the ever-increasing demand for data. We offer these services on the basis of FLPPs. As well as ensuring that customers save money over the life of their contract, FLPPs guarantee no mid-contract broadband price rises, which resonates well with consumers as it provides price certainty over the contract length of 12, 18 or 24 months. In addition to the core broadband product, we offer sensibly priced and ARPU-enhancing TV and fixed-line telephony add-ons. In particular, our TalkTalk TV add-ons provide flexible access to varied free and pay-to-view third-party content through the YouView platform. We also offer residential customers an option to subscribe to O2's mobile services through our reseller agreement with them.

Our B2B business is one of the largest B2B telecommunication services providers in the UK. It offers a wide range of data connectivity and next generation voice products to businesses throughout the country, including fixed-line telephony, broadband internet (including high-speed Ethernet), data networking and other connectivity solutions. These services are offered to private companies and public sector organizations, both directly and on a wholesale basis through approximately 900 Partners. Through these Partners, we are the UK's largest provider of wholesale broadband to small businesses and consumers, with over 50% market share as at September 30, 2019.

In the periods under review, we generated strong revenues. We had £1,605 million and £1,609 million of headline revenue for the years ended March 31, 2018 and 2019, respectively, and £1,587 million of headline revenue for the twelve months ended September 30, 2019. Our headline pre-IFRS 16 EBITDA and headline pre-IFRS 16 EBITDA margin increased from £203 million and 12.6%, respectively, for the year ended March 31, 2018 and £237 million and 14.7%, respectively, for the year ended March 31, 2019 to £251 million and 15.8% for the twelve months ended September 30, 2019. Our capital expenditure cash outflows were £128 million, £113 million and £104 million for the years ended March 31, 2018 and 2019 and the twelve months ended September 30, 2019, respectively. This represented 8.0%, 7.0% and 6.6% of our headline revenue for the respective periods. Our leverage ratio was 3.7x, 3.1x and 3.3x for the years ended March 31, 2018 and 2019 and the twelve months ended September 30, 2019, respectively, on a pre-IFRS 16 basis.

Strengths

Our strengths include the following:

- **Operating in the structurally attractive UK fixed-line market.** The UK's fixed-line market is structurally attractive for an existing value-for-money provider of a national scale, such as the Group, for four primary reasons: exponential increase in demand for connectivity from both consumers and businesses, the capital-intensive nature of the business, lack of adequate substitutes and pro-competition regulation. Firstly, demand for fixed-line data products continues to grow rapidly, with average fixed internet traffic per household expected to increase at a CAGR of 20% between 2017 and 2022 (*Source:*

Cisco). In the residential market, growth is primarily driven by increased demand for OTT video. In the B2B market, growth is the result of the rapid rise of cloud services and VoIP. Second, the capital-intensive nature of fixed-line connectivity limits the competitive threat posed by potential new entrants. The roll-out of a nationwide unbundled fixed-line architecture comparable to ours would require a substantial investment of time and money. Any such development would be highly technologically challenging given, among other things, physical constraints in Exchanges operated by Openreach, where our network equipment is housed, and Openreach's capacity to deliver connections in those Exchanges. Thirdly, 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 lacks the scale of coverage of a fixed connectivity network. In addition, mobile data transmission is significantly more expensive, radio spectrum availability is constrained and finite and there is limited reason to believe that such technological and economic impediments could easily be overcome. Further, device proliferation and video streaming are rapidly driving the growth in data usage. UK mobile users are expected to increase their average data traffic from 2.3GB/month in 2017 to 11.4GB/month in 2022, while average fixed consumer internet traffic per household is expected to increase from 165.8GB/month in 2017 to 415.5GB/month in 2022 (*Source: Cisco*). This growing demand for faster broadband is reflected in a change in broadband connection types, as fibre connections (FTTP and FTTC) accounted for 44% of all connections in 2018, an increase from 10% in 2013 (*Source: Ofcom Communications Market Report 2019 (July 2019)*). Fourth, there is a history of pro-competition regulation in the fixed-line industry over the last decade. Such regulation has been targeted at restraining the market power of BT, the incumbent provider, by controlling wholesale access charges and promoting development of retail competitors on a national scale. Ofcom has also required the legal separation of BT and Openreach. The emergence of competitive alternative network providers to Openreach, will, we believe, lead to Ofcom continuing its policy of constraining Openreach's significant market power through regulation and ensuring access to its core infrastructure, such as its ducts and poles, on fair terms. Additionally, Ofcom has devoted significant focus on increasing price transparency for fixed broadband consumers following its review of pricing practices in the industry. In particular, from February 15, 2020, it will require providers to notify customers of the end of their minimum contract period and of the best available offers from their provider. Compared to our competitors, this development is favourable to us given our small relative price difference between existing and new customers.

- **Structural cost advantage driven by advanced and scalable fixed-line network.** We have a simple business model and an efficient cost structure. We do not incur expensive TV content costs, have limited pension obligations, and our younger workforce means we do not face the high long-term labour costs driven by an ageing unionised workforce. Our wholesale costs are mostly regulated by Ofcom, and our unbundled network gives us a cost advantage relative to our competitors. Our fixed-line network currently covers approximately 96% of UK's homes. The only comparable fixed-line unbundled network is operated by Sky and covers 90%+ of the UK's population. At the heart of our network is the unbundling equipment (such as digital subscriber line access multiplexers, multi-service access nodes and Ethernet switches) that we have installed in over 3,000 Exchanges, which is the largest such deployment in the UK. Our unbundling equipment allows us to take control of the copper line from the Exchange back to our network. The Exchanges are connected via collector nodes and 10Gbps collector rings to more than 4,500 miles of leased 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 capacity and all-IP nature of our network also allows us to scale it very efficiently for growing usage, while driving down unit costs.

- **Market leading value provider.** We have always competed as the challenger in the UK fixed-line telecommunication market, consistently offering UK consumers and businesses a price advantage compared with our competitors, such as BT, Sky, Vodafone and Virgin Media. Our competitive positioning as a value provider has enabled us to grow to be the fourth-largest residential fixed-line phone and broadband provider with an 11% market share, based on connections, for 2018 (*Source: Ofcom*). As a result, our business operates on lower ARPU than many of our competitors, which makes us less vulnerable to the continued price erosion that our higher-priced competitors face. Many customers of our competitors would save money if they switched to TalkTalk, giving us a market advantage in being able to acquire new customers without materially diluting our existing ARPU.

  As consumer demand shifts towards OTT video streaming services, we have evolved our TV proposition to reflect this trend. Our capital-light pay TV offer is focused on value-conscious households who have historically preferred to watch free-to-air TV channels and did not participate in the premium subscription-based pay TV market. We focus on providing customers with flexible access to a wide range of third-party owned content through TalkTalk TV and our involvement in YouView, our joint venture with BBC, ITV, Channel 4, Channel 5, BT and Arqiva. TalkTalk TV allows customers to choose packages with up to 85 free-to-air channels, as well as flexible access to an extensive range of premium content from Sky and BT Sport and OTT streaming services Netflix and Amazon Video. YouView set top boxes enable customers to pause, rewind and record live TV. Our TV offerings continue to be an ARPU enhancement opportunity, offered as competitively priced add-ons that provide our customers with more optionality and flexibility to tailor their packages to their TV viewing appetite without long-term, expensive contractual commitments. Our flexible and value-based TV pricing is increasingly attractive to a wide group of consumers and businesses.

- **Large scale B2B business and number one provider of wholesale broadband.** TTB is one of the largest B2B telecommunication providers in the UK and our large-scale Exchange footprint gives us the reach to deploy nationwide connectivity at great value. Through the Partner channel, we work with approximately 900 Partners, which places us as the UK's largest provider of wholesale broadband to small business and consumers, with over 50% market share as at September 30, 2019. Our full suite of Ethernet products allows us to serve businesses from SMEs to enterprise, as well as the public sector. Through the Direct channel, our wide range of data connectivity solutions serves the needs of approximately 80,000 B2B customers nationwide, from SoHo and SME customers to mid-market companies and large retailers.

  The consolidated nature of the B2B wholesale broadband industry enables TTB to generate higher margins than our consumer business. As a scale player with wide network coverage, we can compete on price whilst guaranteeing the service levels that businesses require. Further, since we do not own access products, unlike Openreach or Virgin Media, we have the flexibility to aggregate supply from multiple providers and to select the best-priced product in each geography. The ongoing industry-wide move to FTTP will also benefit the B2B market as FTTP will become a direct substitute for high-priced Ethernet services, which will position us to gain market share through both Partner and Direct channels.

  The strength of our B2B business also mitigates the challenges of the highly competitive Consumer business. For example, if there is a particularly competitive period in the Consumer business, we can focus our efforts on acquiring customers in the B2B Partner channel. Whilst these indirect customers come with lower ARPU, their cost-to-acquire and cost-to-serve is also lower, so indirect B2B customers are broadly similar, in terms of profitability, to Consumer customers. Having both businesses also allows us to make maximum use of our network during the course of the day, with the Consumer business predominantly online in the evening and B2B customers online during working hours ensuring the network is being used efficiently through the day and night without exceeding capacity.

- **Ideally positioned for the nationwide shift to Full Fibre.** The UK market is at an inflection point as the underlying fixed-line access product moves from legacy copper wires, which were originally installed to serve analogue voice calls, to Full Fibre, whereby a fibre-optic cable connection runs all the way to the residential or business premises. FTTP has multiple advantages over copper wires, including increased bandwidth, which enables customers to simultaneously carry out multiple activities in parallel (e.g., streaming high-definition video in more than one location within the home), and improved reliability with fewer faults. This combination of advantages is beneficial for ISPs, such as the Group, since the marked improvement in customer experience and reliability reduces our operational costs and eliminates some of the key drivers of churn. These benefits are particularly important for us, as our churn is driven primarily by operational concerns rather than price competition. The shift to FTTP therefore enables us to provide an enhanced customer experience and reliability, while still offering a value-for-money proposition relative to our competitors.

  The construction of new fibre networks is highly capital intensive. The infrastructure incumbent, Openreach, has lagged in building new fibre networks since new fibre revenue is directly substitutional for their existing revenue from their copper networks. This has enabled well-funded new infrastructure builders, or altnets, to emerge as pioneers in laying fibre networks. These include Hyperoptic, CityFibre, G.Network, Gigaclear and Communityfibre. Critical to the success of these altnets is the rapid adoption of their fibre networks by a high volume of end users. By partnering with us, these altnets gain access to our large-scale end user customer base, across consumers and businesses, and a reliable revenue stream.

  Our scale and customer base has enabled us to negotiate the City Fibre Wholesale Agreement for consumer and business customers, which we will enter into on or about the FibreNation Disposal Completion Date, currently expected to occur in March 2020. Under this arrangement, we will receive competitive wholesale price and service commitments in return for our commitment to connect and migrate our customers to CityFibre's FTTP network on an exclusive basis, subject to certain exclusions and with variable volume commitments. Separately, we are in talks with Openreach in regards to a proposed national FTTP agreement. We will also seek to enter into other wholesale agreements for FTTP with other altnets where we are able to do so. Moving to FTTP will provide us with access to a superior product that will reduce our cost-to-serve, enabling us to deliver competitive prices and retain customers for longer.

- **Highly focused and simple business.** Over the past several years, we have been on a journey to simplify our business. Following the acquisition of AOL in 2006 and Tiscali in 2009, and the Demerger from Carphone Warehouse in 2010, there was a need to integrate multiple systems and simplify the back office. Much of this was achieved through our MTTS programme that ran from 2013 to 2017. After 2017, we simplified our business further by exiting our MVNO operations, rationalizing our TV offering, consolidating all of our offices in our new Soapworks campus in Salford and divesting our capital-intensive FTTP infrastructure operations.

  In October 2016, we launched our FLPPs which guaranteed fixed low prices for the duration of customers' contracts and allowed legacy customers to re-contract onto the new plans. The FLPPs provide simple, low-priced fixed connectivity, along with optional add-on boosts such as TV, mobile and fixed-line voice. Our FLPPs were developed in response to customer feedback that customers did not want to be locked into costly bundled packages and would prefer to pick and choose their add-ons with greater flexibility. We therefore moved away from the MVNO business and shifted to a capital-light reseller agreement with O2, which offers access to unique O2 deals only available to our customers. Further, with the rising popularity of OTT streaming services, such as Netflix and Amazon Video, we have become a content aggregator in TV, enabling customers to access the content they want in a more flexible way.

  Over the last 18 months, we have adopted a Fibre First strategy, narrowing our focus away from ADSL onto faster and more profitable FTTC and FTTP products, driven by customers' demand for higher bandwidth services. Our fibre customers receive an enhanced customer experience and improved reliability relative to ADSL customers. As at December 31, 2019, we had a total of approximately 2.2 million fibre customers, representing over 50% of our customer base.

  In January 2020, we completed a three-year consolidation of all of our offices in our new Soapworks campus in Salford, apart from a small satellite office in London. This consolidation enables us to maximise productivity and reduce running costs and improves connectivity and collaboration between teams. We estimate that this move will generate annualised cash savings of approximately £25-30 million. We have also seen a marked improvement in employee satisfaction, with a 26-point improvement in employee Net Promoter Scores. Further simplification and cost-saving efficiencies include outsourcing part of our workforce, automating business processes, making use of our data and new technologies and focusing customer acquisition and retention activities on those who deliver the highest returns. Our recent investments in improved connectivity and customer service deliver a better customer experience and further reduce both our costs and churn.

- **Proven track record of operational improvement and cost reduction.** Since the Demerger from CPW in 2010, we have had a strong proven track record of operational improvement. We have consistently been able to deliver significant levels of cost savings through systems integration and back-office simplification programmes. Over the last three years, we have streamlined our business by focusing primarily on the fixed-line telecommunication market and simplifying our organisational structure. We therefore approach additional services, such as TV and mobile, in a more capital-light way, whilst still providing our customers with the services they want at the best possible price. Our cost improvements over this period were driven by reductions in central costs, cost-to-serve efficiencies and our move to a lower cost customer acquisition and digital marketing model, which has enabled us to target customers through micro segmentation.

  Our headline pre-IFRS 16 EBITDA and headline pre-IFRS 16 EBITDA margin increased from £203 million and 12.6%, respectively, for the year ended March 31, 2018 to £237 million and 14.7%, respectively, for the year ended March 31, 2019 and £251 million and 15.8%, respectively, for the twelve months ended September 30, 2019.

  Since our shift towards fibre, our customer experience has been both demonstrably better and more efficient than in the past. Over 50% of our customer base is now on a fibre product. Our fibre products have faster and more reliable connectivity, with fewer faults, fewer calls to our customer service centre and fewer engineer visits. This results in significant efficiencies in our cost-to-serve fibre customers, compared with copper broadband customers. Our customer service approach has also shifted to an increasingly self-service model, driven by the launch of our pioneering My Service Centre dashboard, which enables customers to check the status of their line to diagnose and fix their own faults. Our My Service Centre dashboard has been rolled out at scale and is leading to a material improvement in cost-to-serve metrics and customer experience. We have also markedly improved our in-home connectivity experience with our award-winning router, the Wi-Fi Hub, which provides our fastest, strongest and most reliable Wi-Fi signal ever. The Wi-Fi Hub has driven lower outsourcing partner costs, with fewer call centre agents and fewer engineer visits required.

Overall, our operational improvement initiatives have delivered a markedly improved customer experience that is reflected in our customer satisfaction metrics: as at September 2019, we were the highest-ranked UK telecommunication provider on Trustpilot, we saw a 10% year-on-year improvement in CSAT scores and we recorded our lowest ever total and share of Ofcom complaints.

Our operational improvement, our FLPPs and our shift to fibre have also delivered significant reductions in customer churn, with year-on-year reductions for four straight years, with churn of 1.60%, 1.45%, 1.22% and 1.20% in the years ended March 31, 2016, 2017, 2018 and 2019. We experienced a slight increase in churn to 1.27% in the six months ended September 30, 2019, due to higher legacy copper customer churn.

Our FLPP propositions have led to a degree of ARPU dilution, in the year ended March 31, 2019, with a slight decline of £0.08, compared with the year ended March 31, 2018. Higher-ARPU fibre customers are offsetting the ARPU dilution of copper broadband customers. We expect to maintain broadly stable ARPU in our Consumer business in the coming years. Further dilution due to the re-contracting of legacy out-of-contract copper broadband customers and the ongoing industry-wide decline in fixed-line voice revenue will be largely offset by our higher-ARPU fibre offerings and our sensibly priced add-on boosts, such as TV, mobile and our enhanced security packages. In our B2B business, the Ethernet base, which provides high-speed data connections, continued to grow with approximately 5,300 net-adds in the year ended March 31, 2019. Notably, our new B2B customers are skewing towards 1Gb circuits, which come with materially higher ARPU and lower churn.

In addition, we continue to invest in an ongoing programme for the enhancement of our cyber security. Our security strategy is underpinned by the NIST Cyber Security Framework and is positioned to continuously improve the security maturity of our organisation. Over the last three years, we have made significant investments in building out a more robust security function and capability, including successfully establishing an in-house Security Operations Centre, which launched in late 2017.

- **Highly experienced management team.** Our senior management team has multiple decades of combined expertise in the telecommunication industry. The Chairman of our Board of Directors, Sir Charles Dunstone, founded the Group in 2003. Our Chief Executive Officer, Tristia Harrison, has been with us since we started operating in 2003, and was previously the Managing Director of our Consumer business. Our Chief Financial Officer, Kate Ferry, has been with us since 2017, having previously worked for Dixons Carphone, CPW, Merrill Lynch and PriceWaterhouseCoopers. Our General Counsel and Company Secretary, Tim Morris, has been with the Group since the Demerger in 2010 and prior to that he was General Counsel and Company Secretary at CPW from 2000. Also, on our executive committee we have Gary Steen, Managing Director, Technology, Change and Security, who has over 30 years' experience working in telecommunications in fixed broadband, wireless and air-to-ground broadband for the Group, Vodafone, BT, O2, Sprint, Telstra, France Telecom, GoGo and Sony. We have also recently appointed new Managing Directors for our Consumer and TTB businesses. Sian Doyle, our Managing Director for Consumer, joins with extensive experience in the telecommunications industry, having previously worked for BT/EE, Orange and in the United States and Canada for Comcast and Rogers. Jonathan Kini, our Managing Director of TTB, has held senior roles in Virgin Media and Vodafone across both B2C and B2B. 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 strategy is to strengthen our position as the number one value provider of fixed connectivity for consumers and businesses in the UK. Our strategy is underpinned by the sharp growth in demand for data consumption from both consumers and businesses. We believe that our low cost base, our next-generation network and our sustainable regulatory cost advantage with access to key parts of Openreach's network infrastructure enable us to pass along our cost reductions to customers and maintain our low-priced market position. Increasingly, the industry-wide adoption of Full Fibre across the UK is expected to provide us with more opportunities to become a leader in Full Fibre connectivity and further improve our value position by reducing churn and operating costs. Our success in becoming a leader in Full Fibre connectivity is expected to lead to sustainable, profitable growth as further reductions in costs are expected to help us lower our prices and drive volume increases. We aim to achieve this by focusing on six key areas:

- **Investing in the UK's fibre future.** We are determined to meet the increasing demand of consumers and businesses for reliable, fast connectivity. This underpins every limb of our strategy. We are currently driving scale adoption of our FTTC products, following a reduction in wholesale prices as a result of the Wholesale Local Access Market Review and a commercial agreement with Openreach. Our shift toward fibre products is mutually beneficial for our customers and our business. Customers on fibre products have higher satisfaction levels, as they enjoy faster, more reliable connectivity. These customers also generate higher ARPU, come with a lower cost-to-serve and lead to materially lower churn.

  Since 2014, we have been a pioneer in developing Full Fibre, driven by our belief that it is critical for the UK's digital future. We are determined to remain at the forefront of this drive. The UK government highlighted the importance of greater FTTP availability and greater altnet investment in Fibre infrastructure it its 2018 Future Telecoms Infrastructure Review. Such infrastructure development requires access to high volumes of customers who can quickly be migrated onto newly developed FTTP networks.

  With the extensive experience we have gained since 2014, from the roll-out of our FTTP and customer migration in York, we are well-placed to migrate our customer base quickly and cheaply onto new FTTP networks. With over 4 million customers, our scale and customer base has enabled us to negotiate the CityFibre Wholesale Agreement for consumer and business customers, which we will enter into on the Fibre Nation Disposal Completion Date. Under this arrangement, we will receive competitive wholesale price and service commitments in return for our commitment to connect and migrate our customers to CityFibre's FTTP network on an exclusive basis, subject to certain exceptions and with variable volume commitments. Separately, we are in talks with Openreach with respect to a proposed national FTTP agreement. We will also seek to enter into wholesale agreements for FTTP with other altnets where we are able to do so. We expect that moving to FTTP will provide us with access to a superior product that will reduce our cost-to-serve, enabling us to deliver competitive prices and retain customers for longer.

- **Creating the Fibre First challenger for consumers.** Our Consumer business serves residential customers directly through the TalkTalk brand. We have always been the value provider in this competitive market segment and plan to focus even more intently on sustaining our price advantage, improving connectivity and customer service, and acquiring customers more efficiently. We are pursuing four interlinked priorities to achieve this:

  - We intend to further increase our fibre volumes by migrating existing customers and driving new customers towards higher bandwidth and more reliable fibre products, as well as promoting adoption of our Wi-Fi Hub. We expect this to substantially improve the customer experience and to drive higher ARPU, higher gross margin, lower cost-to-serve and reduced churn. Our fibre products and Wi-Fi Hub also provide a more reliable fixed-line connection to support our position as a TV aggregator. We believe that our longer-term success is predicated on making the most of the opportunity presented by the roll-out of FTTP and we are developing the capability to grow our FTTP base to over 1 million customers over the next five years.

  - We aim to save our customers more money through transparent and fair pricing, as our fixed-price, fixed-term FLPPs continue to resonate with customers. We intend to fully benefit from our relatively small price differential between new and existing customers and to take advantage of the regulatory requirement for competitors to notify their customers of the best available offer. We intend to complete TalkTalk TV's transition to become a marketplace and aggregator. We also aim to continue offering our customers a fairly priced mobile add-on through a reseller agreement with O2.

  - We plan to continue to transform the customer experience and customer support architecture. Our key focus is to enable customers to interact with us on their terms at a low cost to us. We expect that increasing our product mix to 100% fibre by 2025 will help us achieve 60% of our planned total cost reduction, given the improved performance of fibre products. We expect to achieve the remaining 40% of our planned cost reduction goals by enhancing our digital-first support model, automating key customer journeys and simplifying the customer service experience with a combination of UK-based and offshore contact centres.

    - We are taking an increasingly data-led and digital approach to marketing. We are using micro segmentation to target and convert customers who we believe hold the highest customer lifecycle value. We aim to develop a more loyal customer base and build customer advocacy, moving away from less effective traditional marketing channels. We believe that this approach will deliver lower cost per acquisition and a higher IRR on every £1 spent.

- **Strengthening position as business data provider of choice.** TTB sells both directly to end customers, from the smallest home office user to the large multi-site enterprise customers, and indirectly through wholesale agreements to a network of approximately 900 Partners that use its connectivity and voice offerings to provide services to over one million businesses and residential customers. The Partner channel accounts for approximately 80% of TTB's revenue.

  The Partner channel allows us to retain a simple, cost effective business model, which can address the needs of businesses, as well as reaching a larger consumer base through Partners, such as the Post Office and Telecom Plus. Our network of Partners takes responsibility for providing the complex range of additional products B2B customers may need, as well as managing service, billing and customer acquisition.

  We intend to continue to grow our Ethernet base both directly and through wholesale partners, offering fast, highly reliable data products to B2B customers, who require enhanced connectivity and resilience.

  We see further opportunity to continue to grow our market share and profitability. We intend to cement our leading position in wholesale data as B2B customers move to faster, higher ARPU products, including G.Fast, FTTP and 10Gb Ethernet. As the business market becomes more complex and competitive, we intend to leverage our scale and experience to provide a simple way for our Partners to access the services they need. This includes investing further in portals, monitoring and insight to provide a simpler, lower cost, more frictionless customer experience. Crucially, we are aiming to do this whilst investing in greater automation and robotics to further reduce our costs and to enable us to offer competitive pricing.

- **Leveraging our scale and network to further enhance customer experience.** We are investing in new technologies to improve customer experience, increase capacity and build capability. We are building new tools to allow the network to 'self-drive' through incidents and outages to minimise customer disruption. We are using real-time network telemetry data to improve the quality of our products and customer experience and rolling-out advanced diagnostics that allows customers to identify and resolve problems more efficiently, without having to take the time to call us.

  The ever-increasing need for data transmission capacity compels us to find more ways to reduce cost per user, a key factor that enables us to be the lowest cost network in the UK. Over the last three years, data usage on our network has increased by almost 40% year-on-year, driven by customers upgrading to faster products and consuming significantly more data, especially video content. To manage this, we have made a number of investments to improve video performance with increased caching at the edge of our network. This improves the quality of video experience whilst significantly reducing bandwidth pressure on the network. We now serve close to 90% of Netflix video content this way. We are also adopting additional high-capacity optical products and deploying our next generation access switching capability that uses lower-cost, scalable backhaul options to further reduce cost.

- **Continuing to deliver cost efficiencies.** We intend to continue to simplify our business and deliver cost efficiencies, such as through the customer service and network initiatives described above. Our decision to concentrate on fixed connectivity has allowed us to focus our people and capital on a limited set of priorities, as we switched to delivering non-core services, such as TV and mobile, in a more capital-light manner. We intend to continue to reduce our external spend to ensure it aligns with our simpler model and is consistent with our position as a value brand.

  Over the past year, we have completed a fundamental restructuring of our organisation and created a leaner, more efficient business. In a milestone move for the Group, we relocated our headquarters from London to Salford, reducing our headcount to better reflect our simpler set of priorities. In addition to delivering material financial savings, it also supports our drive to create a more agile, collaborative culture better able to deliver the services our customers need at a price they can afford.

Our ongoing cost efficiency initiatives include the shift away from traditional marketing towards a more targeted, micro segmentation approach that will reduce our marketing and customer acquisition costs. We also aim to drive further cost efficiencies by increasing the proportion of our customers on fibre products, as our higher ARPU fibre products have a lower cost-to-serve and higher rates of customer satisfaction.

- **Operating as one TalkTalk team.** We intend to take advantage of our headquarters relocation to the new Soapworks campus in Salford to improve collaboration between teams, support a more flexible working environment and enable us to attract and retain the best talent. Since our relocation, we have seen a 26 point increase in employee Net Promoter Scores, highlighting our improved employee engagement and satisfaction.

  Further, while we have always had a base in the North-West of England, we intend to build on that heritage to be closer to our customers in the North-West and further enhance customer engagement. Over the next several years, we see significant opportunities to leverage our new campus to further improve customer and employee engagement, innovation, and cross-team collaboration.

HISTORY

We were created in 2003 as the telecommunication division of CPW, a retailer of mobile phones and related products, and we were demerged and listed on the London Stock Exchange in 2010.

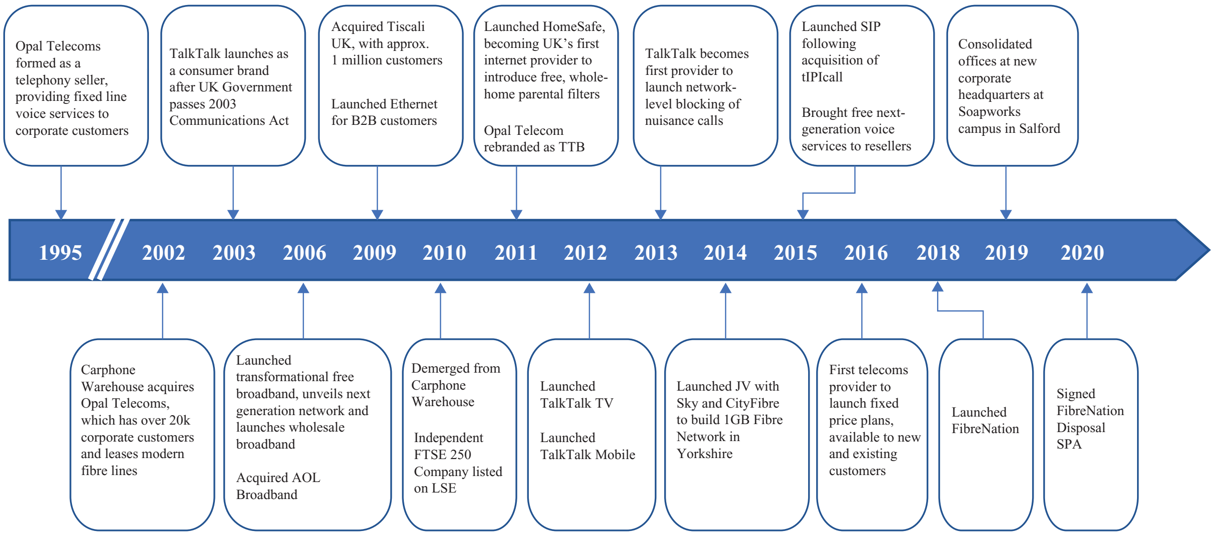
We have a long history of disrupting and challenging industry conventions. After launching a market-beating telephony offer in 2004, we began building our unbundled local loop network in 2005. In 2006 we launched the UK's first ever free broadband offer. This marked a pivotal moment in the evolution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

Increased demand for connectivity services, coupled with a compelling price 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 2006 and 2009, respectively. In 2010, we began offering mobile SIMs. In 2012, we launched TalkTalk TV, a pay TV service, and began offering quad play services. In 2015, we acquired the Tesco broadband service business, comprised of broadband (MPF, SMPF, and IP Stream) and voice customers.

During 2017, we began a wide-ranging strategic reset to focus on fixed-line connectivity and exit non-core businesses. Our objective was to focus on cementing our position as the value provider of fixed-line connectivity, and therefore to reduce the complexity of our business and focus our people and capital on a more focused set of priorities, as we switched to delivering non-core services, such as TV and mobile, in a more capital-light manner. This reset built on the successful launch in October 2016 of FLPPs, which offered customers fixed prices for the duration of their contract. In May 2017, we decided to exit our MVNO operations, and instead launched a proposition to sell unique O2 offers to our fixed-line customers. In June 2018, we shut down the TalkTalk TV Store and transferred TalkTalk TV Store customers to Rakuten TV. TalkTalk TV now focuses on providing access to over 85 free-to-air channels as well as flexible access to an extensive range of premium content, all accessed through the YouView platform. We also agreed in January 2020 to dispose of FibreNation, our FTTP infrastructure business.

Our B2B division, TTB, was founded in 1995 as Opal Telecom. TTB is one of the largest B2B telecom providers in the UK and leverages our extensive Exchange footprint that gives us a cost advantage compared with other providers. Through the Partner channel, we work with approximately 900 Partners and are the UK's largest provider of wholesale broadband to small businesses and consumers, with over 50% market share. Our full suite of Ethernet products allows us to serve businesses from SMEs to enterprise, as well as the public sector. We also serve 80,000 Direct customers nationwide through our separate TTB Direct division. Our TTB Direct customers range from the small businesses to mid-market companies and large enterprise customers, to whom we offer a wide range of data connectivity solutions.

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



PRODUCTS AND SERVICES

Services to consumers

We provide value-for-money fixed-line broadband and phone services to UK homes, differentiated by a clear and simple tariff structure that fixes prices during customers' contracts. Our TV options are offered as fairly priced add-ons that give customers the ability to tailor their content packages. We focus on providing customers with flexible access to a wide range of third-party owned content through TalkTalk TV on the YouView platform. YouView is our joint venture between BBC, ITV, Channel 4, Channel 5, BT and Arqiva. YouView set top boxes enable customers to pause, rewind and record live TV.

Broadband and fibre

Fast Broadband

Fast Broadband is our standard, fixed-price broadband plan designed for the needs of individual users or households that do not require the increased download speeds of a fibre connection. Broadband connectivity is provided via a standard analog telephone line using ADSL technology, which allows for download speeds of up to 24Mbps, and on average 11Mbps. Customers can customise their offering by adding on TalkTalk TV, which includes up to 85 free-to-air channels, and can choose from a variety of TV content packages.

Faster Fibre Broadband

Faster Fibre Broadband is designed for households who stream video content and have multiple devices that need to be connected to the internet at the same time. We also offer a Superfast Fibre boost which allows for download speeds of up to 67Mbps, approximately six times faster than the UK's average standard ADSL download speeds.

We continue to shift existing broadband Retail customers to fibre, with over 60% of our broadband Retail customer base now comprised of fibre customers. Over 90% of our Retail fibre customers are in-contract, and over 80% of new customers typically choose Faster Fibre Broadband. With the average UK fixed broadband speed is expected to reach 54.6Mbps by 2022, up from 33.7Mbps in 2017 *(Source: Cisco)*, we expect more of our customers to upgrade to superfast fibre boost.

TV

We provide our broadband and fibre customers with the option to add on TalkTalk TV. TalkTalk TV is a subscription-based offering through YouView, currently priced at £4 per month, whereby we provide flexible access to up to 85 free-to-air channels, an advanced interactive programme guide and an extensive range of premium 1-month subscription and pay-to-view services. Approximately 20% of new broadband customers choose to add on TalkTalk TV.

In addition to YouView, we provide our customers with the option to purchase a variety of TV content Boost packages, such as the Entertainment Boost, the Sky Sports Boost and the Kids Boost. Customers can customise their content packages with flexible access to premium content and without long-term contracts. 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, we appeal to a different segment than other TV providers and therefore are able to offer content owners access to incremental revenues.

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, as well as our view that unbundled OTT content delivery will continue to drive customer demand.

Services to business customers

Through TTB, we offer an extensive range of fixed-line services to our B2B customers. Approximately 20% of TTB revenue comes from selling fixed-line services directly to end user businesses. The remaining 80% of TTB revenue comes via our extensive network of approximately 900 Partners. These Partners typically combine our simple set of products with additional services, such as Cloud, Security, and bespoke networking solutions, tailoring them to the increasingly complex needs of end users.

Through the Direct channel, we offer a range of data solutions, including 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, such as B2B SIP VoIP and Hosted Unified Communications.

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 solutions Partners primarily address the consumer and small business market, delivering voice, broadband and fibre. Our 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 data and voice products without having to offer many of the complex and margin-dilutive products and services demanded by larger customers.

Our suite of data connectivity products offers different bandwidths and low-price options. From broadband to G. Fast, FTTP and 10Gb Ethernet, we offer competitively priced high-speed connectivity that takes advantage of our significant network capability and reach. Data revenues generate returns significantly in excess of our average and are a growing product set by revenue in our offering to B2B customers, with a significant and accelerating pipeline of data connections.

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

DIVIDEND POLICY

We paid dividends of £28 million in the year ended March 31, 2019 (year ended March 31, 2018: £71 million; year ended March 31, 2017: £150 million). Our Board of Directors is committed to improving profitability, cash generation and reducing leverage. In this context, for the year ending March 31, 2020 the Board of Directors declared an interim cash dividend of £11 million and expects to declare a final cash dividend of £17 million. Following the year ending March 31, 2020, the Board of Directors expects to return to a more normalized dividend policy once our business has reduced leverage towards the Group's mid-term net debt/headline EBITDA target of 2.0x.

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 Openreach, our largest supplier, are subject to the laws and regulations of the EU and the UK. At the EU level, the telecoms industry is 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 primarily seeks to open European markets for communications services, rather than addressing issues of content and comprises:

- Directive 2002/19 on access to, and interconnection of, electronic communications networks and associated facilities;
- Directive 2002/20 on the authorisation of electronic communications networks and services;
- Directive 2002/21 on a common regulatory framework for electronic communications networks and services; and
- Directive 2002/22 on universal service and users' rights relating to electronic communications networks and services.
- Directive 2018/1972 establishing the European Electronic Communications Code

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

In the UK, the Common Regulatory Framework is implemented through (i) the Communications Act 2003, which regulates all forms of communications technology, whether used for telecommunication or broadcasting; and (ii) the Wireless Telegraphy Act 2006, which regulates radio communications (including with respect to the spectrum, licensing arrangements, usage conditions and charges, licence bidding and trading, and enforcement and penalties). The Privacy and Electronic Communications Regulations 2003, as amended, implemented EU Directive 2002/58, regulating the processing of personal data and the protection of privacy in the electronic communications sector. Post-Brexit, the UK remains required to adhere to these Directives during the transition period, which runs until December 2020.

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, the Enterprise and Regulatory Reform Act 2013 and the Digital Economy Act 2017.

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

We rely upon a number of wholesale products from Openreach to be able to offer services to our customers. The key wholesale products are MPF (the copper connections into homes/businesses), Generic Ethernet Access (GEA) (access to Openreach's FTTC network) and Ethernet (fibre links used to connect Exchanges to our core network and also to connect some Business customers). The prices and terms of these are set by Ofcom though a triennial market review process which gives us reasonable certainty of future costs. From 2021 Ofcom will move to a five year review period and is conducting the reviews for major wholesale products such as MPF, GEA and Ethernet together to determine the regulations that will apply from April 2021-March 2026.

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

BT completed the legal separation of Openreach in October 2018 to address the competition concerns Ofcom identified in its 2016 Strategic Review of Digital Communications. Ofcom has committed to monitor the new arrangements and if they are not effective will review whether to impose structural separation. We continue to engage with Openreach and Ofcom to urge quicker progress and believe that structural separation will be required if legal separation does not yield tangible consumer benefits.

Wholesale Local Access Market Review (WLAMR)

In March 2018, Ofcom published its final determination in the 2018 Wholesale Local Access Market Review which set regulated prices and quality levels for MPF and GEA. This determination is the first time that Ofcom has imposed a charge control for GEA products and resulted in significant real term price reductions for both MPF and GEA. The MPF price is expected to remain essentially flat in nominal terms, moving from £85.81 in 2019/20 to £85.38 in 2020/21, while the 40/10 GEA price which fell significantly in 2019/20 will fall more modestly from £61.51 in 2019/20 to £59.97 in 2020/21. Many ancillary products, such as installations and ceases, will also see meaningful price reductions. Other GEA products (both lower and higher speeds) remain unregulated. TalkTalk has entered into a long term contract with Openreach which provides for prices well below listed charge levels.

At the same time, quality of service standards imposed on Openreach will increase. In particular, the required proportion of fault repairs completed on time will rise to at least 88% in 2020/21, from 86% today. These increased levels of quality of service are likely to benefit TalkTalk's customers and increase customer satisfaction.

Business Connectivity Market Review (BCMR)

Ofcom concluded its most recent Business Connectivity Market Review in June 2019. This statement continued the regulation of Openreach's leased line products, and imposed charge controls set at fixed nominal prices. This represented a break in Ofcom's previous approach, which had been to regulate Openreach's leased line charges in line with Openreach's costs. In addition, Ofcom imposed a dark fibre access obligation for lines between certain Openreach Exchanges; and introduced an obligation on BT to allow unrestricted physical infrastructure access, so that providers wishing to build networks offering leased line only networks can access BT's ducts and poles. TalkTalk has, in conjunction with Vodafone, appealed a number of aspects of this BCMR decision to the Competition Appeal Tribunal. An oral hearing of certain aspects took place in this case during January 2020. Other aspects will be decided upon by the Competition and Markets authority later this year. We expect the final decision before the end of the year.

Wholesale Fixed Telecoms Market Review

Ofcom is planning to combine the previous market reviews into a single integrated market review that is referred to as the Wholesale Fixed Telecoms Market Review which is intended to come into force from April 2021. Ofcom published a consultation in January 2020 which outlined its proposals which includes some significant changes in regulation aimed at promoting FTTP investment. Responses are due at the start of April 2020.

Universal Service Obligation

The Digital Economy Act 2017 gave the Secretary of State the power to introduce a new broadband Universal Service Obligation (USO). Secondary legislation came into force in April 2018, which provided residential and business customers with a legal right to request a broadband service of 10Mbps or more. Ofcom is responsible for implementing the USO and, following consultation, has designated BT and KCOM as the USO providers. It is due to confirm the funding regulations in Spring 2020. Customers will be able to request USO connections from March 2020

FTTP policy

Following the General Election, the Government set a new and more ambitious goal of ensuring that there is nationwide coverage with 'gigabit capable' broadband by 2025. This term would cover both FTTP connections and Virgin Media's DOCSIS network. As part of this goal, Government is committed to promoting infrastructure competition and bringing down barriers to network deployment. The key components of the strategy are:

- reducing build costs through bringing forward legislation to ensure Full Fibre deployment to new builds; and simplifying wayleaves so that telecoms companies have a 'right to entry' like other utilities. It is also seeking to streamline street works by issuing a standardised national framework for operators and local authorities;

- supporting access to passive infrastructure through Openreach delivery of the DPA improvements and reviewing the regulations for access to third party infrastructure;
- supporting roll-out in rural areas through an "outside-in" strategy to connect the final 20% using public investment;
- requiring Ofcom to oversee an industry-led switchover from copper to Full Fibre networks; and
- improving access to spectrum and cell sites to enable increased mobile coverage and enable 5G deployment.

Automatic compensation

The Digital Economy Act 2017 clarified Ofcom's powers to impose a system of automatic compensation. Following discussions with Ofcom and other providers, TalkTalk agreed to a voluntary code, which introduces automatic compensation in specific instances on broadband and landline services. The voluntary code is in lieu of formal regulation and is also supported by BT, Sky, Virgin Media and Zen Internet. TalkTalk implemented the changes under the new regime with effect from April 2019.

Television and video-on-demand regulation

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

There is, at present, no wholesale or retail price regulation on the provision of any TV channel, following Ofcom's withdrawal of regulation on Sky Sports in December 2015.

Other material current or potential regulation

Brexit

On January 31, 2020, the UK left the EU, although it remains in a transitional arrangement with the EU until the end of 2020. Final decisions on future telecoms regulation are likely to be subject to terms of the UK's future relationship with the EU. We continue to work closely with the Government and Ofcom on the issue.

Contingency planning for no-deal outcome

Since the 2016 vote on EU membership, TalkTalk has assessed the impact of a no-deal scenario. We consulted with our supply chain to understand potential disruption, and also engaged with Ofcom and the Government. Our conclusion is that we have limited exposure as a UK company which provides services only within the UK. Our assessment has highlighted potential impact in two areas:

- Supply chain disruption: any additional wait at point of entry could disrupt our supply of hardware, both that used in our network and by our customers. We plan to increase our stock stored in the UK for a period of time to mitigate against this risk.
- Limits to data sharing: we share industry concerns about any barriers to sharing data across UK-EEA boundaries in the absence of an agreement on UK adequacy with EU data protection standards. We are taking mitigating action to enable data sharing on a contractual basis.

This work has paused since the passage of the EU Withdrawal Act and the commencement of the transition period. It will continue to be reviewed as negotiations on a long-term trading partnership continue between the UK and the European Union, with the continued possibility of a no deal exit in December 2020.

Longer term

The exact implications of a new relationship will depend on the outcome of current negotiations on long-term trading arrangements. TalkTalk is not advocating radical regulatory changes as Britain withdraws from the EU. The EU Withdrawal Agreement and Political Declaration would see telecommunications continuing to closely align with the EU, including implementation of the new European Electronic Communications Code.

Child online safety

The Government consulted on its Online Harms White Paper in 2019, setting out proposals for a new regulator to oversee industry response to online harms. In our response, we advocated a strategic approach to the issue, which focuses on fewer, scalable solutions to the range of online harms children may encounter, and supported a new, light-touch regulatory body to oversee how social media companies minimise harm on their platforms. The Government is yet to respond to this consultation but any future regulatory structure is likely to focus on platform's processes to reduce and remove harmful content. ISPs may be required to play an enforcement role on behalf of a regulator by blocking harmful content. We accept this principle but argue that any new system should be proportionate and set within a clear legal framework.

The Government has paused plans to introduce a new age verification process for online pornography and will instead consider this issue as part of the wider online harms agenda. Therefore, all internal work on this project has ceased.

We continue to be active members of the self-regulatory body the Internet Watch Foundation and firmly support its work on removing child sexual abuse material from the internet.

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 nine directors, five of which are independent, non-executive directors. The Executive Chairman of the Issuer's board of directors is Sir Charles Dunstone.

The business addresses of the directors of the Issuer are at the Issuer's registered office at 11 Evesham Street, London W11 4AR, United Kingdom and its principal place of business at Soapworks, Colgate Lane, Salford M5 3TT, 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	55	Executive Chairman
Tristia Harrison	46	Chief Executive Officer
Kate Ferry	46	Chief Financial Officer
Ian West	55	Senior Independent Non-Executive Director
John Gildersleeve	75	Deputy Chairman, Non-Executive Director
Sir Howard Stringer	77	Non-Executive Director
Roger Taylor	55	Non-Executive Director
Nigel Langstaff	51	Non-Executive Director
Phil Jordan	52	Non-Executive Director

Sir Charles Dunstone is the founder of CPW and co-founded TalkTalk in 2003. He was appointed Chairman of TalkTalk in 2010 and became Executive Chairman in May 2017. Sir Charles has directed the development of TalkTalk to become one of the leading fixed-line telecommunication businesses in the UK. Sir Charles is currently Chairman of Royal Museums Greenwich and was previously Chairman of Dixons Carphone PLC.

Tristia Harrison is Chief Executive Officer of TalkTalk. Prior to this, Tristia was the Managing Director of TalkTalk's Consumer business. Tristia joined CPW in 2000 and has held a number of senior management and executive positions at CPW and TalkTalk Group. She joined the TalkTalk board of directors in 2014. Tristia is an Independent Non-Executive Director at Next PLC and is also a Trustee at Comic Relief and national charity Ambitious about Autism.

Kate Ferry is Chief Financial Officer of TalkTalk. Prior to joining TalkTalk, Kate was a member of the Dixons Carphone PLC Executive Committee, after originally joining CPW in 2010 as Corporate Affairs Director to facilitate the demerger from TalkTalk. Kate began her career in audit with PricewaterhouseCoopers, qualifying as a chartered accountant before moving to Merrill Lynch as a Director within the retail sector equity research team, where she spent the next ten years. Since June 2019, Kate has served as Independent Non-Executive Director of Greggs PLC.

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 30 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, and/or director of, 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 in May 2013.

John Gildersleeve is Deputy Chairman, having joined the board of directors in 2010. John was formerly Chairman of British Land, Deputy Chairman and Senior Independent Director of Spire Healthcare Group PLC, Chairman of CPW, New Look Retail Group, EMI Group and Gallaher Group; a Non-Executive Director of Dixons Carphone PLC, Lloyds TSB Bank PLC, Vodafone Group and Pick n Pay Stores (South Africa); and an Executive Director of Tesco PLC.

Sir Howard Stringer joined the board of directors in July 2012. In addition to his role at TalkTalk, Sir Howard is Chairman of Atrium TV. Sir Howard had a distinguished 30 year career as a journalist, producer and executive at CBS Inc., previous appointments include: Chairman of Sony Corporation; President of CBS Broadcasting of the American Film Institute; SAID Business School Oxford and New York Presbyterian Ophthalmology Center and Board member of BBC Commercial Holdings Ltd.

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

Nigel Langstaff joined the board of directors in November 2017 and was appointed as Chairman of the Audit Committee in June 2018. Nigel was at CPW from 1997 until its merger with Dixons Retail in 2014. He held a number of senior finance roles including UK Finance Director and Group Finance Director, before becoming Chief Financial Officer in 2010. He was also a Director of Virgin Mobile France from 2009 to 2014. Prior to working at CPW, he spent four years with Arthur Andersen, where he qualified as a Chartered Accountant. He is a Trustee for a number of charities, including Renaissance Foundation, Ensemble Pour La Difference and the David Ross Education Trust.

Phil Jordan joined the board of directors as a Non-Executive Director in October 2018. He previously spent more than 20 years in the telecoms sector as both Chief Information Officer of Vodafone UK & Ireland and Group Chief Information Officer of Telefonica, based in Madrid, Spain. He is now Group Chief Information Officer and a member of the Operating Board at Sainsbury's. Phil has worked as a non-executive adviser on technology in investment and retail banking and is a member of many global IT industry advisory boards.

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
Gary Steen	48	Managing Director, Technology, Change and Security
Daniel Kasmir	50	Chief People Officer
Nick Gunga	45	Chief Operating Officer, Consumer
Jonathan Kini	40	Managing Director, TalkTalk Business
Sian Doyle	52	Managing Director, Consumer (effective April 1, 2020)
Tim Morris	55	General Counsel and Company Secretary

Gary Steen is the Managing Director of Technology, Change & Security at TalkTalk. He has over 30 years' experience working in telecommunications in Fixed Broadband, Wireless and Air to Ground Broadband. He has a track record of delivering major IT and Network implementation and transformation projects for companies in the UK such as Vodafone, BT and O2, as well as several international projects for companies such as Sprint, Telstra, France Telecom, GoGo and Sony.

Daniel Kasmir was appointed to the position of Chief People Officer for TalkTalk in March 2019. Prior to working at TalkTalk, Daniel gained extensive experience of HR in a number of organisations including Shell, Manpower, FNZ, Xchanging and BDO. He has worked in Private Equity as both an adviser and within portfolio companies for General Atlantic, JC Flowers and Bain Capital.

Nick Gunga was appointed COO of TalkTalk Consumer in April 2018. He joined TalkTalk in 2005 and in the last 14 years he has spanned senior roles in sales, customer service, digital transformation and operations. Nick is a highly experienced telecoms expert with a career spanning over 20+ years in the industry.

Jonathan Kini is the Managing Director of TalkTalk Business, responsible for leading and shaping the growth of one of the UK's largest B2B providers of broadband, fibre and ethernet data services. Prior to this, Jonathan has held senior roles in Virgin Media and Vodafone across both B2C and B2B, most recently working for Drax Plc as CEO of the Customer Business. He also works as an adviser to the Bank of England. He is also the Chair of Business in the Community's (BITC's) Net Zero Carbon Taskforce, working with Government, BITC and businesses of all sizes to find simple, effective and innovative ways to help companies take action and create a more sustainable future for us all.

Sian Doyle previously worked for BT/EE, the UK's largest mobile provider, where she was the Retail Director responsible for leading and developing a team of over 3,500 employees across 580 stores in the UK. She has seven years of international experience in the US and Canada as Senior Vice President for telecommunications firms Comcast and Rogers managing the retailing strategy for their brands. Prior to moving overseas, Sian was Retail Director for Orange and also spent ten years at Asda/Walmart. Latterly, Sian worked for CBRE, the world's largest commercial property company heading up the European retail sector leading and developing their retail offering for global and national retailers. Sian has extensive communications and retail experience with a track record in leading transformative retail strategies for major corporates latterly developing new retail offerings through digital and innovative store design. She is a passionate leader who has always led retail from the shop floor, engaging the teams to deliver great customer experiences.

Tim Morris was appointed Group 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.

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 three members: Mr. Nigel Langstaff (Chair), Mr. Ian West and Mr. Phil Jordan. 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 four members: Mr. John Gildersleeve (Chair), Mr. Ian West, Mr. Roger Taylor and Sir Howard Stringer. 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 three members: Mr. John Gildersleeve (Chair), 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.

Compliance Committee

The compliance committee is composed of three members: Mr. John Gildersleeve (Chair), Ms. Tristia Harrison and Mr. Tim Morris and is attended by various other members of the executive management team. The compliance committee provides the board of directors with visibility of how we remain compliant with those consumer regulations that affect our businesses from time to time.

Security Committee

The security committee is composed of three members: Mr. Phil Jordan (Chair), Sir Charles Dunstone and Ms. Tristia Harrison and is attended by the Head of Security and various other members of the executive management team. The security committee provides overall assurance and oversight of our Security Program by managing the security threats and risks based off our business strategy and risk appetite.

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).
- compensation for loss of office

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 and the Shareholder Value Plan (“**SVP**”), operating under the rules of the Value Enhancement Scheme. The SVP is an alternative reward mechanism for Executive Directors and other members of the senior leadership team. The Remuneration Committee intends that, generally, in any one year, participants may only receive one long term incentive plan award. 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, 2019 was £7.5 million.

PRINCIPAL SHAREHOLDERS

The Issuer's issued share capital as at the date of this offering memorandum is £1,146,269.27, divided into 1,146,269,270 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 January 15, 2020, 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	339,953,838	29.7%
Toscafund Asset Management	318,381,314	27.8%
David Ross	128,675,616	11.2%
Jupiter Asset Management Ltd	45,655,244	4.0%
Capital Research Global Investors	39,834,600	3.5%
SG Securities	37,972,486	3.3%
Others	235,796,172	20.6%
Total	**1,146,269,270**	**100.0%**

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.

2017 Revolving Credit Facility

On May 8, 2017, the Issuer, as borrower, the Guarantors, as guarantors, and the lenders as described therein entered into the 2017 Revolving Credit Facility Agreement providing for the 2017 Revolving Credit Facility. The 2017 Revolving Credit Facility has a total capacity of £640 million. The final maturity date of the drawings under the 2017 Revolving Credit Facility is May 8, 2022.

As at September 30, 2019, we had £380 million outstanding under the 2017 Revolving Credit Facility. Since September 30, 2019, we have drawn certain additional amounts to finance day-to-day working capital requirements, as well as certain non-headline and non-recurring items, which we expect to repay in the ordinary course of business.

On the Issue Date, we intend to use the proceeds of the Offering to repay (without cancelling commitments) £161 million of principal amounts drawn under the 2017 Revolving Credit Facility. See "*Use of Proceeds*."

On or about the closing date of the FibreNation Disposal, we expect to use the gross proceeds thereof to repay (without cancelling commitments) £188 million of principal amounts drawn under the 2017 Revolving Credit Facility thereby further de-levering our business. See "*Capitalization*."

Following the completion of the Transactions, the aggregate principal amount outstanding under the 2017 Revolving Credit Facility is expected to be £105 million.

Receivables Purchase Facility

On September 16, 2016, the Issuer entered into the Receivables Purchase Facility Agreement, which contained a £75 million Receivables Purchase Facility. The Receivables Purchase Facility Agreement was amended and extended on March 27, 2019 and September 25, 2019. It currently provides for the £80 million Receivables Purchase Facility, of which £75 million is committed and £5 million is uncommitted and expires on September 26, 2021. As at September 30, 2019, we had £63 million outstanding under the Receivables Purchase Facility.

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 £575,000,000 aggregate principal amount of 3.875% Senior Notes due 2025 (the "**Notes**") under an indenture dated on or about February 20, 2020 (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 £575,000,000 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 International Stock Exchange Authority Limited (the "**Authority**") for the listing of, and the permission to deal in the Notes, on the Official List of The International Stock Exchange (the "**Listing 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 February 20, 2025;

(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, 2019, 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 £855 million and £nil, respectively.

The Guarantors represented (in each case, on a standalone but combined basis) 95% of our headline revenue, 83% of our headline EBITDA and 97% of our total assets as at and for the year ended March 31, 2019 and 97% of our headline revenue, 73% of our headline EBITDA; and 96% of our total assets as at and for the six months ended September 30, 2019.

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 February 20, 2025 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 £575,000,000. Each Note will bear interest at a rate per annum of 3.875% and will be payable semi-annually from August 20, 2020, 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 February 20 and August 20 of each year, commencing on August 20, 2020. Interest will be payable to Holders of record on each Global Note in respect of the principal amount thereof outstanding as at the Clearing System Business Day immediately preceding the payment date, as the case may be; however, owners of beneficial interest in the Global Note must rely on the procedures of Euroclear or Clearstream, as applicable. See "*Risk Factors—Risk relating to the Notes and the Guarantees — 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.*" To the extent Definitive Registered Notes have been issued, the Issuer will make each interest payment to holders of record of the Notes on the immediately preceding February 20 and August 20. 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 of 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.

At the Issuer's election, Additional Notes may be established in one or more supplemental indentures to the Indenture in lieu of an Officer's Certificate under this provision.

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 its 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) the implementation of a Permitted Reorganization;

(8) 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

(9) 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.

The Issuer may provide in any notice of redemption that payment of the redemption price and performance of the Issuer's obligations with respect to such redemption may be performed by another Person.

Notwithstanding anything else in the Indenture or the Notes, any notice of redemption may be given more than 60 days prior to a redemption date if the notice is in connection with a defeasance of Notes or a satisfaction and discharge of the Indenture.

If the optional redemption date is on or after an interest record date and on or before the related interest payment date, the accrued and unpaid interest and Additional Amounts, if any, will be paid to the Person in whose name the Note is registered at the close of business on such record date, and no additional interest will be payable to Holders whose Notes will be subject to redemption by the Issuer.

If a redemption date is not a Business Day, payment may be made on the next succeeding day that is a Business Day, and no interest shall accrue on any amount that would have been otherwise payable on such redemption date if it were a Business Day for the intervening period.

Notwithstanding the foregoing, in connection with any tender offer for the Notes, including a Change of Control Offer or Excess Proceeds Offer, if Holders of Notes of not less than 90% in aggregate principal amount of the applicable outstanding Notes validly tender and do not withdraw such Notes in such tender offer and the Issuer, or any third party making such a tender offer in lieu of the Issuer, purchases, all of the Notes validly tendered and not withdrawn by such Holders, all of the Holders of Notes will be deemed to have consented to such tender offer, and accordingly the Issuer or such third party will have the right upon not less than 10 nor more than 60 days' prior notice, given not more than 30 days following such tender offer expiration date, to redeem the Notes that remain outstanding in whole, but not in part, following such tender offer at a price equal to the price offered to each other Holder of Notes (excluding any early tender or incentive fee) in such tender offer, plus, to the extent not included in the tender offer payment, accrued and unpaid interest and Additional Amounts, if any, thereon, to, but excluding, such redemption date.

Optional Redemption prior to February 20, 2022 upon Equity Offering

At any time prior to February 20, 2022, 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 103.875% 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 February 20, 2022

At any time prior to February 20, 2022, 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, if any, to the redemption date.

Optional Redemption on or after February 20, 2022

At any time on or after February 20, 2022 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 February 20, 2022 of the years set forth below.

Year	Redemption Price
2022	101.938%
2023	100.969%
2024 and thereafter	100.000%

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, sending 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 Listing Exchange and the rules of the Listing Exchange so require, the Issuer will inform the Listing 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) £640.0 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, lease, rental 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 £50.0 million and 20.0% of Consolidated EBITDA;

(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 or similar obligations 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, indemnity, advance payment, customs, VAT or other tax or other guarantees or similar bonds, instruments or obligations and (iii) completion guarantees provided or letters of credit or similar instruments 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, refinance, defease or discharge Debt Incurred by it pursuant to, or described in, paragraphs (1), 2(b), (c), (l), (t) 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 or services 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 20.0% of Consolidated EBITDA in aggregate principal amount;

(t) (x) the Incurrence of Debt by the Issuer or any Restricted Subsidiary to finance an acquisition by the Issuer or a Restricted Subsidiary or any merger or consolidation of any Person with or into the Issuer or any Restricted Subsidiary or (y) Acquired Debt; *provided* that, in each case, after giving *pro forma* effect to such acquisition, merger or consolidation, (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 it was immediately prior to giving effect thereto;

(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 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 £75.0 million and 35.0% 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 (a) 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; and (b) if such Debt is Incurred to refinance other Debt denominated in currency other than Sterling, and such refinancing would cause the applicable Sterling-denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such Sterling-denominated restriction shall be deemed not to have been exceeded so long as the principal amount of such refinancing Debt does not exceed the amount set forth in clause (a) of the definition of "Permitted Refinancing Debt." 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 this "*Limitation on Debt*" covenant.

(5) For purposes of determining any particular amount of Debt under this "*Limitation on Debt*" covenant:

(a) obligations in the form of letters of credit, guarantees, Liens, bankers' acceptance or other similar instrument or obligation, 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 subsequent to October 1,2016, 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 subsequent to October 1, 2016 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 subsequent to October 1, 2016 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 subsequent to October 1, 2016 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.

The Issuer estimates that the amount available for making Restricted Payments under the preceding provisions as of September 30, 2019 (the most recent date as of which our consolidated financial statements are available as of the Issue Date) would have been approximately £337 million.

Notwithstanding the foregoing, any amounts (such amounts, the "**Excluded Amounts**") that would otherwise be included in the calculation of the amount available for Restricted Payments pursuant to sub-clauses (ii) or (iii) of the preceding clause (c) will be excluded to the extent (1) such amounts result from the receipt of Net Cash Proceeds, property or assets or marketable securities received in contemplation of, or in connection with, an event that would otherwise constitute a Change of Control pursuant to the definition thereof were it not a Specified Change of Control Event, (2) the purpose of the receipt of such Net Cash Proceeds, property or assets or marketable securities was to reduce the Consolidated Leverage Ratio of the Issuer so that there would be an occurrence of a Specified Change of Control Event that would not have been achieved without the receipt of such Net Cash Proceeds, property or assets or marketable securities and (3) no Change of Control Offer is made in connection with such event in accordance with the requirements of the Indenture.

Upon the occurrence of any Specified Change of Control Event following the Issue Date, all amounts calculated pursuant to clause (c) of the first paragraph of this covenant shall be reset to zero and all references to October 1, 2016 in clause (c) of the first paragraph of this covenant shall thereafter refer to the date of such Specified Change of Control Event.

(3) Notwithstanding paragraphs (1) and (2) above, the Issuer and any Restricted Subsidiary may take the following actions (collectively, "**Permitted Payments**") so long as (with respect to clauses (o), (p) and (r) below) no Default or Event of Default has occurred and is continuing:

(a) the payment of any dividend or consummation of any redemption within 60 days after the date of its declaration or giving notice of redemption, as applicable, if at such date of its declaration or giving notice of redemption, as applicable, 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, or for the benefit of, 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 Receivables Financing;

(o) any other Restricted Payment; *provided* that the total aggregate amount of Restricted Payments made under this clause (o) does not exceed the greater of £50.0 million and 20.0% of Consolidated EBITDA in any fiscal year;

(p) any Restricted Payment; provided that the Consolidated Leverage Ratio would not be greater than 3.25 to 1.00 on *a pro forma* basis after giving effect to such Restricted Payment; and

(r) the declaration and payment by the Issuer of, or loans, advances, dividends or distributions to any Parent to pay, dividends on the common stock or common equity interests of the Issuer or any Parent, in an amount not to exceed in any fiscal year 6% of the Market Capitalization; provided that after giving *pro forma* effect to such loans, advances, dividends or distributions, the Consolidated Leverage Ratio of the Issuer and its Restricted Subsidiaries shall be equal to or less than 3.50 to 1.00.

(4) The action described in clause (a), (o), (p) and (r) 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.

(5) In the event an item meets the criteria of more than one category of Permitted Investment and/or Restricted Payment, as applicable, the Issuer, in its sole discretion, may classify any Permitted Investment or other Restricted Payment as being made in part under one of the clauses or sub-clauses of this covenant (or, in the case of any Permitted Investment, the clauses or sub-clauses of Permitted Investments) and in part under one or more other such clauses or sub-clauses.

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 (as determined in good faith by the Issuer) with a Person that is not an Affiliate of the Issuer or any other Restricted Subsidiary;

(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 the greater of £20.0 million and 7.5% of Consolidated EBITDA, 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 the greater of £30.0 million and 12.0% of Consolidated EBITDA, 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 in any material respect to the holders of the Notes when taken as a whole (as determined in good faith by the Issuer);

(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;

(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 materially no less favorable than those that could reasonably have been obtained at such time from an unaffiliated party (as determined in good faith by the Issuer); and

(xii) any transaction effected as part of a Receivables Financing.

Limitation on Liens

(1) The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, create or permit to exist any Lien on any of its property or assets, whether owned on the date of the Indenture or thereafter acquired, securing any Debt of the Issuer or any Restricted Subsidiary (the "**Initial Lien**"), unless (i) such Lien is a Permitted Lien or (ii) contemporaneously therewith effective provision is made to secure the Notes and the Indenture or, in respect of Liens on property or assets of any Guarantor, such Guarantee thereof, equally and ratably with (or, in the case of Subordinated Debt of the Issuer or a Guarantor on a senior basis to) such Debt for so long as such Debt is so secured by such Initial Lien.

(2) Any such Lien arising as a result of this covenant "*Limitation on Liens*" in favor of the Notes or any such Guarantee will be automatically and unconditionally released and discharged upon the release and discharge of the Initial Lien to which it relates.

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, 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 and the date on which such Change of Control Offer expires (if different), which, in each case, will be a business day no earlier than 30 days nor later than 60 days after the date such notice is sent, 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.

(5) Notwithstanding anything to the contrary contained herein, a Change of Control Offer may be made in advance of a Change of Control, conditional upon the consummation of such Change of Control, if a definitive agreement is in place for the Change of Control at the time the Change of Control Offer is made.

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 Listing Exchange and the rules of the Listing Exchange so require, the Issuer will notify the Listing 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 (determined on a consolidated basis) 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 (including by way of relief from, or by any other Person assuming responsibility for, any liabilities, contingent or otherwise) 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 in good faith by the Issuer, and the Issuer's determination (including the Board of Directors' determination, as applicable) will be conclusive (as to the value of any and all non-cash consideration));

(b) except in case of a Permitted Asset Swap, 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 Cash 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 10.0% 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 actually received by the Issuer or any Restricted Subsidiary 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 Passu* 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 any 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 Cash Proceeds, the Issuer may temporarily reduce revolving credit borrowings or otherwise invest the Net Cash 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 (as determined in good faith by the Issuer) 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 (as determined in good faith by the Issuer) 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 or suppliers or surety, insurance or bonding companies 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, asset sale agreements, sale and leaseback agreements, shareholder agreements, stock sale agreements and other similar agreements entered into the ordinary course of business and in good faith; *provided* 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) 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;

(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*;" or

(o) any encumbrance or restriction that arises or is agreed to in the ordinary course of business and does not detract from the value of property or assets of the Issuer or any Restricted Subsidiary in any manner material to the Issuer or such Restricted Subsidiary (as determined in good faith by the Issuer); or

(p) any encumbrance or restriction pursuant to customary provisions restricting dispositions of real property interests set forth in any reciprocal easements agreements of the Issuer or any Restricted Subsidiary.

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 cease to be a "Restricted Subsidiary" and instead 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 (and may classify such amount within its capacity to make Restricted Payments and ability to make payments that would otherwise be Restricted Payments under the "Limitation on Restricted Payments" covenant as it sees fit) 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 (in each case, as determined by the Issuer in good faith); and

(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).

(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 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.

(iv) 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 otherwise 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 properties and assets of the Issuer and its Restricted Subsidiaries on a consolidated basis 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, an accession agreement or one or more other documents or instruments, each 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 prior to giving effect to 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 (subject to customary assumptions, exceptions, reservations and qualifications, in each case including as to enforceability).

(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 Listing Exchange and to the extent that the rules of the Listing Exchange so require, the Issuer will notify the Listing 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 (subject to customary assumptions, exceptions, reservations and qualifications, in each case including as to enforceability).

(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.

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*";

(5) "*—Limitation on Asset Sales*;"

(6) "*—Limitation on Guarantees of Debt*"; and

(7) clause (c) of paragraph (1) of "*—Merger, Consolidation or Sale of Assets — The Issuer*"

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 Transactions

When calculating the availability under any basket or ratio under the Indenture, in each case in connection with a Limited Condition Transaction, 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 Transaction are entered into and such baskets or ratios shall be calculated on a *pro forma* basis after giving effect to such Limited Condition Transaction 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 Transaction (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 Issuer or the target company) subsequent to such date of determination and at or prior to the consummation of the relevant Limited Condition Transaction, 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 Transaction 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 Transaction 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 Transaction.

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 by the Issuer or the relevant Guarantor to comply with the provisions of "*—Certain Covenants—Merger, Consolidation or Sale of Assets*;"

(d) 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;

(e) 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 £50.0 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;

(f) any Guarantee by any Guarantor that is a Significant Subsidiary ceases to be, or shall be asserted in writing by any Guarantor that is a Significant Subsidiary, or any Person acting on behalf of any Guarantor that is a Significant Subsidiary, 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), if such Default continues for 10 days;

(g) 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 for the payment of money either individually or in an aggregate amount, in each case in excess of £50.0 million (after deducting any insurance or indemnity or contribution amounts actually recovered by the Issuer or a Restricted Subsidiary within 60 days of such judgment, order or decree), 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

(h) the occurrence of certain events of bankruptcy, insolvency, receivership, schemes of arrangement (where any creditors are materially impaired) or reorganization with respect to the Issuer, any Significant Subsidiary, or of other Restricted Subsidiaries that are not Significant Subsidiaries but would, in the aggregate, when taken together (as of the end of the most recently completed fiscal period) constitute a Significant Subsidiary if considered as a single Person.

However, a Default under clauses (d), (e) or (g) 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 (d) and (g) the Issuer does not cure such default within the time specified in clauses (d) or (g) above, as applicable, after receipt of such notice.

If an Event of Default (other than as specified in clause (h) 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 (h) 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 (e) 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 (e) 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 or Events of Default 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 send 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 Issuer 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 beneficial owners 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 (h) 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 (subject to customary assumptions, exceptions, reservations and qualifications, in each case including as to enforceability) 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 (subject to customary assumptions, exceptions, reservations and qualifications, in each case including as to enforceability) 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 or such other entity 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 other entity as is designated 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 sending, or delivery to Euroclear and Clearstream in the case of a Global Note, 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 reasonably 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 (subject to customary assumptions, exceptions, reservations and qualifications, in each case including as to enforceability), each stating that all conditions precedent provided in the Indenture relating to the satisfaction and discharge of the Indenture have been satisfied.

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. The distribution and payment to Holders prior to the maturity or redemption date as set forth above will not include any negative interest, present value adjustment, break costs or any other premium on such amounts.

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*" or Permitted Reorganization;

(b) add to the Issuer's covenants or 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 or substantially 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) provide for any Restricted Subsidiary to provide a Guarantee in accordance with the covenant described under "*—Certain Covenants—Limitation on Debt*" or "*—Certain Covenants—Limitation on Guarantees of Debt*," to add Guarantees, to add security to or for the benefit of the Notes, or to confirm and evidence the release, termination, discharge or retaking of any Guarantee or Lien or any amendment in respect thereof with respect to or securing the Notes when such release, termination, discharge or retaking or amendment is not prohibited by 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 (as determined in good faith by the Issuer in respect of the Holders); 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 as to the permissibility of any such amendment, supplement or waiver.

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 bylaw:

(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 Listing Exchange and the rules of the Listing Exchange so require, any such notice to the Holders shall also be posted on the official website of the Listing 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; and provided, further, that any notice delivered via e-mail or other electronic means shall be deemed to have been "sent" in accordance with the terms of this paragraph. 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 such Holder if so mailed within the time prescribed. Failure to send 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 sent in the manner provided above, it is duly given, whether or not the addressee receives it. If a notice or communication is given via Euroclear or Clearstream, it is duly given on the day the notice is given to Euroclear or Clearstream.

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

"**2017 Revolving Credit Facility**" means the £640 million revolving credit facility, dated May 8, 2017, 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, any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with 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 February 20, 2022 (such redemption price being set forth in the table appearing below the caption "*Optional Redemption—Optional Redemption on or after February 20, 2022*"*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 February 20, 2022 (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); or

(b) any 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 £25.0 million or, if greater, 10.0% of Consolidated EBITDA;

(ii) any transfer or disposition of assets (including Capital Stock of a Subsidiary) 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 connection with any Receivables Financing;

(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) any making of a Restricted Payment that does not violate the covenant described under *"—Certain Covenants—Limitation on Restricted Payments*" and the making of any Permitted Investment;

(vii) any "fee in lieu" or other disposition of assets to any governmental authority or agency that continue in use by the Issuer or any Restricted Subsidiary, so long as the Issuer or any Restricted Subsidiary may obtain title to such assets upon reasonable notice by paying a nominal fee;

(viii) 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, including, without limitation, pursuant to agreements entered into in the ordinary course of business;

(ix) 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;

(x) any issuance, sale or disposition of Capital Stock, Debt or other securities of an Unrestricted Subsidiary;

(xi) 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);

(xii) any transfer, termination, unwinding or other disposition of Hedging Agreements in the ordinary course of business and not for speculative purposes;

(xiii) 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;

(xiv) any disposition in connection with a Permitted Lien;

(xv) the licensing, sub-licensing, lease, sub-lease, conveyance or assignment of intellectual property or other general intangibles and licenses, sub-licenses, leases, subleases, conveyances or assignments of other property, in each case, in the ordinary course of business;

(xvi) any disposition arising from foreclosure, condemnation or any similar action with respect to any property or other assets;

(xvii) the surrender or waiver of contract rights or the settlement, release or surrender of contract, tort or other claims of any kind;

(xviii) 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;

(xix) 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;

(xx) a disposition of cash or Cash Equivalents;

(xxi) 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;

(xxii) 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;

(xxiii) discount or 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;

(xxiv) the abandonment or disposition of patents, trademarks or other intellectual property that are, in the good faith opinion of the Issuer, no longer economically practicable to maintain or useful in the conduct of the business of the Issuer and its Subsidiaries taken as a whole;

(xxv) any disposition of assets to any governmental authority or agency pursuant to state asset acquisition laws, regulations or rules; or

(xxvi) the FibreNation Disposal.

"**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.

"**Bolt Pro Shares**" means 200 ordinary shares in the share capital of Bolt Pro Tem Limited, a limited liability company incorporated under the laws of England and Wales, registered under company number 08975479, representing 66.7% of its issued and outstanding shares.

"**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 capitalized and reflected as a liability on a balance sheet (excluding footnotes thereto) prepared under IFRS; provided that no obligation which would have been classified as an operating lease prior to the implementation of IFRS 16 (*Leases*) or any successor thereto shall constitute Capitalized Lease Obligations. 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.

"**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 €250.0 million, whose long-term, unsecured, unsubordinated and unguaranteed debt has a rating, at the time any investment is made therein, of at least BBB- or the equivalent thereof from S&P, at least Baa3 or the equivalent thereof from Moody's, at least BBB- or the equivalent thereof from Fitch or the equivalent rating category of another internationally recognized agency;

(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-2 or the equivalent thereof from S&P, at least P-2 or the equivalent thereof from Moody's or at least F1 or the equivalent thereof from Fitch;

(d) repurchase obligations with a term of not more than thirty days for underlying securities of the type described in clause (a) or (b) 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;

provided that, in each case, a Change of Control shall not be deemed to have occurred if such Change of Control is also a Specified Change of Control.

Notwithstanding the foregoing, (1) a transaction will not be deemed to involve a Change of Control solely as a result of the Issuer becoming a direct or indirect wholly-owned subsidiary of a holding company if (i) the direct or indirect holders of the Voting Stock of such holding company immediately following that transaction are substantially the same as the holders of the Issuer's Voting Stock immediately prior to that transaction or (ii) immediately following that transaction no Person (other than a holding company satisfying the requirements of this sentence) is the beneficial owner, directly or indirectly, of more than 50% of the Voting Stock of such holding company, (2) the right to acquire Voting Stock (so long as such Person does not have the right to direct the voting of the Voting Stock subject to such right) will not cause a party to be a beneficial owner and (3) any Voting Stock of which any Permitted Holder is the beneficial owner shall not be included in any Voting Stock of which any other person or group is the beneficial owner, unless that person or group is not an Affiliate of a Permitted Holder and has greater voting power with respect to that Voting Stock of such Permitted Holder.

"**CityFibre**" means CityFibre Infrastructure Holdings Limited and CityFibre Infrastructure Limited.

"**Clearing System Business Day**" means a day upon which Euroclear and Clearstream are open for business;

"**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; *plus*

(k) adjustments of the type used in calculating "Headline EBITDA" as set out in this Offering Memorandum; *minus*

(l) 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;

(b) if the Issuer or any Restricted Subsidiary has repaid, repurchased, redeemed, defeased or otherwise retired or discharged any Debt (each, a "**Discharge**") since the beginning of such period that is no longer outstanding or if the transaction giving rise to the need to calculate the Consolidated Leverage Ratio is a Discharge of Debt or both (in each case other than Debt Incurred under any revolving credit facility unless such Debt has been permanently repaid), Consolidated EBITDA and Consolidated Leverage for such period shall be calculated, without duplication, after giving effect on a *pro forma* basis, including in respect of anticipated expense and cost reductions and synergies, to such Discharge as if such Discharge had occurred on the first day of such period;

(c) 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; and

(e) since the beginning of such period, a transfer of shares of, or other transaction has occurred or is contractually committed with respect to, such Person or any Restricted Subsidiary, that constitutes an event that is contemplated by the definition of "Specified Change of Control Event" (any such transaction, a "**Specified Change of Control Transaction**"), and solely for the purpose of making the determination pursuant to "**Specified Change of Control Event**," Consolidated EBITDA for such period shall be calculated after giving *pro forma* effect thereto (including anticipated synergies and expenses and cost savings expected to be obtained from the Specified Change of Control Transaction) as if such Specified Change of Control Transaction (including such synergies and expenses and cost savings) had 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).

For purposes of this definition, without double counting, (1*) pro forma* effect may be given to any transaction referred to in clauses (a) through (e) above, or the amount of income or earnings relating thereto, and the *pro forma* calculations in respect thereof (including, without limitation, in respect of anticipated cost savings or synergies relating to any such transaction (calculated on a *pro forma* basis as though such cost savings or synergies had been realized on the first day of the relevant period) net of the amounts of any actual benefits realized during the relevant period from such actions) shall be as determined in good faith by an authorized responsible financial or accounting Officer of the Issuer; and (2) when determining *pro forma* Consolidated EBITDA of the Issuer and the Restricted Subsidiaries, the Issuer may adjust Consolidated EBITDA to add an amount equal to the cost savings or synergies projected to be realized as the result of actions taken or to be taken on or prior to the date that is 18 months after the consummation of any operational change (calculated on a *pro forma* basis as though such cost savings or synergies had been realized on the first day of the relevant period), net of the amount of any actual benefits realized during the relevant period from such actions, as determined in good faith by an authorized responsible financial or accounting Officer of the Issuer.

"**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 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.

"**Contingent Obligations**" means, with respect to any Person, any obligation of such Person guaranteeing in any manner, whether directly or indirectly, any operating lease, dividend or other obligation that does not constitute Debt ("**primary obligations**") of any other Person (the "**primary obligor**"), including any obligation of such Person, whether or not contingent:

(1) to purchase any such primary obligation or any property constituting direct or indirect security therefor;

(2) to advance or supply funds:

(a) for the purchase or payment of any such primary obligation; or

(b) to maintain the working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor; or

(3) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation against loss in respect thereof.

"**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) the principal of indebtedness 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) the principal of 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 180 days past due or (b) more than 180 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 under IFRS prior to the adoption of IFRS 16 (*Leases*); (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 €250.0 million, whose debt has a rating immediately prior to the time such transaction is entered into, of at least BBB- or the equivalent thereof from S&P, at least Baa3 or the equivalent thereof from Moody's, at least BBB- or the equivalent thereof from Fitch or the equivalent rating category of another internationally recognized rating agency 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; (vi) Subordinated Shareholder Debt and (vii) Contingent Obligations Incurred in the ordinary course of business.

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; provided that the ownership of Capital Stock in a person that has a direct or indirect financial interest in or with respect to such transactions or series of related transactions will not in itself disqualify a member of the Issuer's Board of Directors from being a Disinterested Member with respect to any 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 2017 Revolving Credit Facility and the Receivables Purchase Facility.

"**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, Chief Executive Officer or Chief Financial Officer, in each case whose determination will be conclusive.

"**Fibre Assets**" means FibreNation Limited and Bolt Pro Term Limited.

"**FibreNation Disposal**" means the contemplated disposal of the Fibre Nation Share and the Bolt Pro Shares in accordance with the FibreNation SPA, the completion of which is subject to certain customary conditions. See "*Summary—Recent Developments—The FibreNation Disposal.*"

"**FibreNation Share**" means 1 share in the share capital of FibreNation Limited, a limited liability company incorporated under the laws of England and Wales, registered under company number 11441177, representing 100.0% of its issued and outstanding shares.

"**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 February 20, 2022; provided, however, that if the period from such redemption date to February 20, 2022 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 (a) TalkTalk Telecom Holdings Limited, TalkTalk Communications Limited and TalkTalk Telecom Limited and (b) any other person that executes a Guarantee in accordance with the provisions of the Indenture, and any Guarantor's respective successors and assigns, in each case, until the Guarantee of such Person has been released in accordance with the Indenture.

"**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 (formerly International Accounting Standards) as issued by the International Accounting Standard Board (and related interpretations issued by the IASB) or any variation thereof with which the Issuer or its Restricted Subsidiaries are, or may be, required to comply, as in effect on the Issue Date or, with respect to the covenant described under the caption "*Certain Covenants—Reports*," as in effect from time to time. 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. At any time after the Issue Date, the Issuer may elect to implement any new measures or other changes to IFRS in effect on or prior to the date of such election; provided that any such election, once made, shall be irrevocable. Notwithstanding anything to the contrary (including in the financial definitions set out in this Agreement), when calculating all ratios, baskets and determinations based upon IFRS to be calculated or made pursuant to the Indenture, the Issuer shall account for leases in a manner consistent with IFRS prior to the effective date of IFRS 16 (*Leases*) and any successor standard thereto.

"**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—Limitation on 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 February 20, 2020.

“**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 Transaction**” means (i) 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 and (ii) any repayment, repurchase or refinancing of Debt with respect to which an irrevocable notice of repayment (or similar irrevocable notice) has been delivered.

“**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 £5.0 million in the aggregate outstanding at any time.

“**Market Capitalization**” means an amount equal to (i) the total number of issued and outstanding shares of common stock or common equity interests of the Issuer on the date of the declaration of the relevant dividend multiplied by (ii) the arithmetic mean of the closing prices per share of such common stock or common equity interests for the 30 consecutive trading days immediately preceding the date of declaration of such dividend.

“**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 Asset Swap**" means the substantially concurrent purchase and sale or exchange of assets used or useful in a Permitted Business or a combination of such and Cash Equivalents between the Issuer or any of its Restricted Subsidiaries and another Person; provided, that (i) any Cash Equivalents received must be applied in accordance with the covenant described under "*—Certain Covenants—Asset Sales*."

"**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 and/or (iv) any group (within the meaning of Section 13(d)(3) or Section 14(d)(2) of the Exchange Act or any successor provision) of which any of the foregoing (or any Persons mentioned in the following sentence) are members; provided that, in the case of such group and without giving effect to the existence of such group or any other group, Persons specified in clause (i) and such Persons referred to in the following sentence, collectively, have beneficial ownership of more than 50% of the total voting power of the voting stock of the Issuer. Any person or group whose acquisition of beneficial ownership constitutes (i) a Change of Control in respect of which a Change of Control Offer is made in accordance with the requirements of the Indenture or (ii) a Change of Control which is also a Specified Change of Control Event, will thereupon and thereafter, together with its Affiliates, constitute an additional Permitted Holder.

"**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 or amalgamated with or into, or transfers or conveys all or substantially all of its assets to, or is liquidated into, 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 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, Debt) 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 £50.0 million and 20.0% 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 3.75 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, amalgamation 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 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 the greater of £50.0 million and 20.0% of Consolidated EBITDA 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 or cash pooling program established in the ordinary course of business for the Issuer's benefit;

(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 the greater of £75.0 million and 35.0% of Consolidated EBITDA 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;

(y) liens created or subsisting in connection with any Receivables Financing;

(z) (i) mortgages, liens, security interests, restrictions, encumbrances or any other matters of record that have been placed by any developer, landlord or other third party on property over which the Issuer or any Restricted Subsidiary has easement rights or on any real property leased by the Issuer or any Restricted Subsidiary and subordination or similar agreements relating thereto and (ii) any condemnation or eminent domain proceedings or compulsory purchase order affecting real property; and

(aa) Liens on property or assets under construction (and related rights) in favor of a contractor or developer or arising from progress or partial payments by a third party relating to such property or assets.

"**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.

"**Permitted Reorganization**" means any amalgamation, demerger, merger, voluntary liquidation, consolidation, reorganization, winding up or corporate reconstruction involving any Restricted Subsidiary (a "**Reorganization**"), in each case, that is made on a solvent basis; provided that: (a) any payments or assets distributed in connection with such Reorganization remain within the Issuer and its Restricted Subsidiaries; and (b) if any of the Guarantees are released pursuant to "*—Guarantees—Release of the Guarantees*," substantially equivalent Guarantees must be granted by a surviving entity, if any.

"**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. The term "Public Debt" shall not include (i) the Notes, (ii) any Debt issued to institutional investors in a direct placement of such Debt that is not underwritten by an intermediary, (it being understood that, without limiting the foregoing, a financing that is distributed to not more than ten Persons (provided that multiple managed accounts and affiliates of any such Persons shall be treated as one Person for the purposes of this definition) shall be deemed not underwritten), (iii) any bank Debt, commercial bank or similar Debt, Capitalized Lease Obligations or recourse transfer of any financial asset or (iv) any other type of Debt Incurred in a manner not customarily viewed as a "securities offering."

"**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, the bank accounts into which the proceeds of such receivables are collected and other assets which are customarily transferred, and other assets which are customarily sold or in respect of which security interests are customarily granted in connection with securitization, discounting, receivable sale facilities, factoring, invoice discounting facilities or supply chain financing transactions involving such assets.

"**Receivables Purchase Facility**" means means the £75 million receivables purchase agreement facility between the Issuer and Nottingdale Receivables Limited, dated September 16, 2016, as amended and extended on March 27, 2019 and September 25, 2019.

"**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, majority (or more) owned Subsidiary or partner or member 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*."

"**Significant Subsidiary**" means any Restricted Subsidiary that would be a "significant subsidiary" of the Issuer within the meaning of Rule 1-02 (but excluding clause (1) of the definition of "significant subsidiary") under Regulation S-X promulgated by the SEC, as in effect on the Issue Date.

"**Specified Change of Control**" means the occurrence of any event that would constitute a Change of Control pursuant to the definition thereof; provided that the Consolidated Leverage Ratio of the Issuer would have been less than 3.5 to 1.0, and giving *pro forma* effect to such event; *provided*, that when calculating the Consolidated Leverage Ratio of the Issuer for the purposes of this definition, the Issuer shall be entitled at its option to make such calculations as it would if making calculations of baskets or ratios in connection with a Limited Condition Transaction, and the date of determination of the Consolidated Leverage Ratio of the Issuer shall, upon such election by the Issuer, be the date of the definitive agreement in respect of such event with such *pro forma* adjustments as are appropriate and consistent with the *pro forma* provisions set forth in the definition of "Consolidated Leverage Ratio" after giving effect to such event 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 period for purposes of determining the ability for such event to qualify as a Specified Change of Control Event. Notwithstanding the foregoing, only one Specified Change of Control Event shall be permitted under the Indenture after the Issue Date.

"**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, including pursuant to any mandatory redemption provision, but shall not include any Contingent Obligations to repay, redeem or repurchase such principal prior to the date originally scheduled for the payment thereof.

"**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).

"**TalkTalk Sellers**" means the Issuer, TalkTalk Communications Limited, TalkTalk Group Limited and TalkTalk Corporate Limited.

"**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.

"**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 Listing 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. Prospective purchasers of Notes should consult their own tax advisers as to the consequences under the tax laws of the country in which they are resident for tax purposes of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes. This summary is based upon the law as in effect on the date of this offering memorandum and is subject to any change in law that may take effect after such date.

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 Listing 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 Listing 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 may be 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 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 the Issuer and does not consider the tax consequences of any such substitution, merger, consolidation or amalgamation.

Stamp Duty and Stamp Duty Reserve Tax

No UK 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 (other than Estonia, 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. The issuance and subscription of Notes should, however, be exempt.

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.

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. However, as the United Kingdom formally left the European Union on January 31, 2020, it is no longer able to become a participating Member State.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

CERTAIN INSOLVENCY AND ENFORCEABILITY CONSIDERATIONS

The following is a summary of certain insolvency and other legal considerations in the European Union and 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

The Issuer and the Guarantors are companies duly incorporated under the laws of England and Wales. As the United Kingdom is in the process of exit from the European Union, it is anticipated that during the transitionary period subsequent to 31st January 2020, European Union law will continue to apply to the Issuer and the Guarantors. A summary of the European Union regime is below.

Council Regulation (EU) 2015/848 of the European Parliament and of the Council dated 20 May 2015 on insolvency proceedings (recast) as amended (the **EU Insolvency Regulation**) became fully effective on June 26, 2017, replacing the previous Council Regulation (EC) No 1346/2000 of 29 May 2000. Pursuant to Article 4 of the EU Insolvency Regulation, a court requested to open insolvency proceedings will be required to examine whether it has jurisdiction pursuant to Article 3. Article 3(1) provides that the court that has jurisdiction to open main insolvency proceedings in relation to a company (subject to certain exceptions) is the court of the Member State (in this section, a reference to a Member State excludes Denmark) in which that company has its "centre of main interests" (**COMI**) (as that term is used in Article 3 (1) of the EU Insolvency Regulation) is situated. The forms of insolvency proceedings that 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 "*—England and Wales—Administration*" and "*—England and Wales—Liquidation/Winding-Up*" below). The determination of where a company has its COMI is a question of fact on which the courts of the different Member States may have differing and even conflicting views. Under Article 3(1) of the EU Insolvency Regulation, there is, in most cases, a rebuttable presumption that a company's COMI is in the place where its registered office is located in absence of proof to the contrary. This rebuttable presumption only applies 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 main insolvency proceedings. Recital 30 of the EU Insolvency Regulation contains a number of examples of where the presumption of the COMI being at the place of the registered office may be rebutted: for instance, 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 centre of management and supervision and of the management of its interests is located in that other Member State. In this regard, the factors that courts may take into consideration can include, where board meetings are held, the location where a company conducts the majority of its business, or has its head office, the location where the majority of the creditors are established and their perception as to where a company conducts the administration of its interests. If the COMI of a company subject to the EU Insolvency Regulation (a "**debtor**"), at the time of the request to open insolvency proceedings, is located in a Member State, only the courts of that Member State have jurisdiction to open the main insolvency proceedings in respect of the debtor under the EU Insolvency Regulation and accordingly a court in such jurisdiction would be entitled to commence the types of insolvency proceedings referred to in Annex A to the EU Insolvency Regulation. In the event of a shift in the COMI, this may require informing the creditors of the new location from which the company 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).

The European Court of Justice has held that the presumption can only be rebutted 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 places where the company's business is managed and operated, board meetings held and the accounts prepared and audited.

The point at which a company's COMI falls to be determined is at the time that the relevant insolvency proceedings are opened—although note that there is a three month look back period as regards the presumption of the company's centre of main interests.

Insolvency proceedings opened in one Member State under the EU Insolvency Regulation are to be recognized in other Member States (subject to any public policy exception), although secondary proceedings or territorial insolvency proceedings may (subject to certain exceptions) additionally be opened in any Member State. If the COMI of a debtor, at the time an insolvency application is made, is in a Member State under Article 3(2) of the EU Insolvency Regulation, the courts of another Member State have jurisdiction (subject to certain exceptions) to commence secondary insolvency proceedings or territorial insolvency proceedings against that debtor only where the company has an "establishment" (as defined in Article 2(10) of the EU Insolvency Regulation) in the territory of such other Member State. Secondary proceedings may be any insolvency proceeding listed in Annex A of the EU Insolvency Regulation and for the avoidance of doubt, are not limited to winding-up proceedings. Territorial proceedings are, in effect, secondary proceedings which are commenced prior to the opening of main insolvency proceedings. An "establishment" is defined as any place of operations where a company carries out or has carried out in the 3-month period prior to the request to open main insolvency proceedings a non-transitory economic activity with human means and assets. Accordingly, the opening of secondary insolvency proceedings or territorial insolvency proceedings in another Member State will also be possible if the debtor had an establishment in such Member State in the 3-month period prior to the request for opening of main insolvency proceedings.

The effect of secondary proceedings is limited to the assets located in that Member State.

Where main proceedings in the Member State in which the debtor has its COMI have not yet been commenced, territorial insolvency proceedings may only be commenced in another Member State where the debtor has an establishment where either (i) insolvency proceedings cannot be commenced in the Member State in which the debtor's COMI is situated under the conditions laid down by that Member State's law; or (ii) the opening of territorial insolvency proceedings is requested by (a) a creditor whose claim arises from or is in connection with the operation of an establishment situated within the territory of the Member State where the opening of territorial proceedings is requested, or (b) a public authority which, under the law of the Member State within the territory of which the establishment is situated, has the right to request the opening of insolvency proceedings. When main insolvency proceedings are opened, territorial insolvency proceedings become secondary insolvency proceedings. Irrespective of whether the insolvency proceedings are main or secondary or territorial insolvency proceedings, such proceedings will, subject to certain exceptions, be governed by the local insolvency law of the court that has assumed jurisdiction over the insolvency proceedings of the debtor.

The courts of all Member States must recognize the judgment opening insolvency proceedings of the court commencing proceedings (subject to any public policy exception). The judgment of the court commencing main proceedings will produce the same effects in the other Member States as under the law of the Member State commencing main proceedings, so long as no secondary insolvency proceedings or territorial insolvency proceedings have been commenced in that other Member State and subject to certain other exceptions (e.g. rights in rem situated in another Member State remain subject to the original law governing that right). The insolvency practitioner appointed or confirmed by a court in the Member State which has jurisdiction to commence main proceedings may exercise the powers conferred on it by the laws of that Member State in another Member State (such as to remove assets of the debtor from that other Member State). These powers are subject to certain limitations (e.g. the powers are available provided that no insolvency proceedings have been commenced in that other Member State nor any preservation measure to the contrary has been taken there further to a request to commence secondary proceedings in that other Member State where the debtor has assets).

In addition, the concept of "group coordination proceedings" has been introduced in the EU Insolvency Regulation with the aim of bolstering communication and efficiency in the insolvency proceedings of several members of a group of companies opened in one or more Member States (other than Denmark). Under Article 61 of the EU Insolvency Regulation, group coordination proceedings may be requested before any court having jurisdiction over the insolvency proceedings of a member of the group, by an insolvency practitioner appointed in insolvency proceedings opened in relation to a member of the group. Participation in group coordination proceedings and adherence to the coordinating insolvency practitioner's recommendations or plan however is voluntary.

In the event that the Issuer and certain of the Guarantors experiences financial difficulty, it is not possible to predict with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings would be commenced, or the outcome of such proceedings. Applicable laws may affect the enforceability of the obligations and the security of Issuer and the Guarantors.

There remains considerable uncertainty (and there is likely to be uncertainty for some time to come) as to the impact the UK's withdrawal from the EU will have on the regulatory environment in the EU and the United Kingdom, and on the applicability of EU law in the United Kingdom. In a 'no deal' Brexit scenario (subsequent to the transitionary period running from 31 January 2020) in particular, it will likely be harder for UK office holders and UK restructuring and insolvency proceedings to be recognised in Member States and to effectively deal with assets located in those other Members States. Much depends upon the private international rules in the particular Member State and the need may well arise to open parallel proceedings, increasing the element of risk. In particular, in cases where the appointment of a UK office holder has been made in reliance on a UK domestic approach, it is much less certain that there will be recognition in the relevant Member State even if UK jurisdiction is taken on the grounds of UK COMI or establishment (where such concepts are retained as a matter of UK domestic law).

ENGLAND AND WALES

The Issuer and the Guarantors are incorporated under the laws of England and Wales. Assuming that their COMI is in England and Wales (see "*—European Union*" above), jurisdiction for main insolvency proceedings under the EU Insolvency Regulation in respect of the Issuer and Guarantors would be commenced in England and conducted in accordance with the requirements of English insolvency law.

Formal Insolvency Processes

Under the Insolvency Act 1986, as amended by the Enterprise Act 2002, and as otherwise amended from time to time (the "**IA86**"), certain types of company may file for or become subject to certain formal insolvency processes. Formal insolvency proceedings under the laws of England and Wales include administration and liquidation,

The distinction between administration and liquidation is discussed further below but, in essence, administration is designed to provide a tool to rescue the company or its business as a going concern where the company is or is likely to become insolvent, whereas liquidation is a termination procedure designed to distribute the company's assets to its creditors.

In addition to administration and liquidation, there are two other insolvency regimes under the IA86 for certain types of company in England and Wales, namely company voluntary arrangements and administrative receivership. Certain secured creditors may also have the ability to appoint a receiver (in contrast to an administrative receiver) which is a self-help remedy often granted within the documents granting the security interests over the collateral. Save for receivership and administrative receivership, all of these insolvency procedures under the IA86 are collective remedies for the benefit of all creditors.

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 21 days to pay, secure or compound the sum(insolvency is presumed); (ii) if it is proved to the satisfaction of the court that the company is unable to pay its debts as they fall due ("cash flow" basis); 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 ("balance sheet" basis).

Administration

Under English insolvency law, English courts are empowered to order the appointment of an administrator in respect of a company registered in England and Wales or a company with its COMI in England and Wales in certain circumstances. There are two distinct methods for placing a company into administration: (i) an application to court followed 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 (note that it is possible to obtain an administration order other than as listed above. For example, a foreign court in a state designated for the purposes of section 426 of the IA86 may make a request to the English court for the English court to make an administration order in relation to a foreign company. However, this is unusual). 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. In addition, upon the application of the holder of a qualifying floating charge (who would otherwise be entitled to appoint an administrator via an out of court process), the court may make an administration order if it is satisfied that the administration order is reasonably likely to achieve the stated purpose of the administration (and without having regard to whether the relevant company is or is likely to become "unable to pay its debts").

A QFC is defined in paragraph 14 of Schedule B1 to the IA86 as being a floating charge created by an instrument which (i) states on its face that paragraph 14 applies to it and/or (ii) purports to empower the holder of the floating charge to appoint an administrative receiver and/or an administrator of the company. A person is the holder of a QFC if that person 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*" above). Regardless of how an administrator is appointed, the administrator will need to consent to act as administrator and to state that, in his or her opinion, one of the following statutory objectives can be satisfied (the second objective can only be considered if the first objective is not reasonably practicable and similarly for the third objective): (i) to rescue the company (as distinct from the business carried on by the company) as a going concern (the "**first objective**"); (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 (the "**second objective**"); or (iii) to realize property to make a distribution to one or more secured or preferential creditors (see "*Statutory order of priorities*" below) (the "**third objective**"). An administrator must attempt to achieve the first objective of administration, unless he or she thinks either that it is not reasonably practicable to achieve the first objective, or that the second objective would achieve a better result for the company's creditors as a whole. The administrator cannot pursue the third objective unless he thinks that it is not reasonably practicable to achieve either the first objective or the second objective and that it will not unnecessarily harm the interests of the creditors of the company as a whole to pursue the third objective. Subject to this, the administrator must perform his functions in the interests of the company's creditors as a whole.

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 or proceedings 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, in either case, a court will consider a range of discretionary factors in determining any application for leave in light of the hierarchy of statutory objectives of administration), no administrative receiver can be appointed, no resolution can be passed for the winding-up of the company and, except in certain limited circumstances, no order can be made for the winding-up of the company. This moratorium does not apply to (a) contractual set-off rights which may continue to be exercised, at least until the administrator makes an authorised distribution and (b) financial collateral constituting 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 and credit claims). Note that the Financial Collateral Regulations are secondary legislation implementing EU Directive 2002/47/EC.

An administrator owes his or her duties to the creditors of the company as a whole. Upon appointment, an administrator takes control of the day-to-day running of the company and takes custody or control of all property to which the administrator thinks the company is entitled. He or she 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; such permission will only be granted if disposing of the property in question is likely to promote the administration's purpose and the proceeds of sale are 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*" below 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 or she can choose to breach a contract if he or she 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*" below). 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 that the legislature has considered to be essential. 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.

Ordinary corporate administration terminates automatically after a year (albeit the administration may be extended by court order or, subject to a limit of one additional year, by consent of the creditors).

A company may exit administration if the administrator is satisfied that one or more of the statutory objectives have been achieved (upon application to and order of the court if the administration is pursuant to an administration order). On exiting administration the company may resume normal business. However, the administrator also has the power, should he conclude that there is no reasonable prospect of rescuing the company, to either place the company into liquidation or use his powers under, and in accordance with, the IA86 to distribute the company's assets and thereby achieve substantially the same result as a liquidation.

Administrative Receivership

If a company registered in England & Wales grants a "**qualifying floating charge**" to a party for the purposes of English insolvency law, that party may be able to appoint an administrative receiver or an administrator out of court, provided that, in the case of the ability to appoint an administrative receiver, the QFC pre-dates September 15, 2003 or falls within one of the exceptions under the IA86 to the prohibition on the appointment of administrative receivers. In order to constitute a qualifying floating charge, the floating charge must be created by an instrument which: (a) states that the relevant statutory provision applies to it; (b) purports to empower the holder to appoint an administrator of the company; or (c) purports to empower the holder to appoint an administrative receiver within the meaning given by Section 29(2) of the IA86. A party will be the holder of a QFC if he holds one or more debentures of the company secured: (a) by a QFC which relates to the whole or substantially the whole of the company's property; (b) by a number of charges which together relate to the whole or substantially the whole of the company's property; or (c) 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 QFC.

Section 72A(1) of the IA86 provides that the holder of a QFC in respect of a company's property may not appoint an administrative receiver of the company subject to certain exemptions set out in sections 72B to 72GA.

Pursuant to section 72B of the IA86, the first exception to this general prohibition is in the context of capital markets. There are three limbs that have to be satisfied in order to qualify for this exception: (i) the appointment is in pursuance of an agreement which is or forms part of a capital market arrangement; (ii) a party incurs, or when the agreement was entered into was expected to incur, a debt of at least £50 million under the arrangement; and (iii) the arrangement involves the issue of a capital market investment.

Each of the above three limbs is considered further below.

Pursuant to paragraph 1 of Schedule 2A to the IA86, an arrangement is a capital market arrangement if: (i) it involves a grant of security to (A) a person holding it as trustee for a person who holds a capital market investment issued by a party to the arrangement; or (B) a party to the arrangement who issues a capital market investment; or (C) a person who holds the security as trustee for a party to the arrangement in connection with the issue of a capital market investment; or (D) a person who holds the security as trustee for a party to the arrangement who agrees to provide finance to another party; or (ii) at least one party guarantees the performance of obligations of another party; or (iii) at least one party provides security in respect of the performance of the obligations of another party; or (iv) it involves an investment of a kind described in articles 83 to 85 of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544), which relates to options, futures and contract for differences (the "**Regulated Activities Order**").

Paragraph 1(3) of Schedule 2A to the IA86 states that a party to an arrangement includes a party to an agreement which forms part of the arrangement, provides for the raising of finance as part of the arrangement, or is necessary for the purposes of implementing the arrangement. We note that there is no statutory definition or case law on the meaning of the term "arrangement", however it is clear that an arrangement can be more than just one agreement and in our view the term is apposite to describe a series of inter-related transactions.

Pursuant to paragraph 5 of Schedule 2A to the IA86, the requirement to incur debt of at least £50 million may be incurred at any time during the life of the capital market arrangement and may be expressed wholly or partly in foreign currency (in which case the sterling equivalent shall be calculated as at the time when the arrangement is entered into).

Pursuant to paragraph 2 of Schedule 2A to the IA86, an investment is a capital market investment if it: (i) is within article 77 or 77A of the Regulated Activities Order; and (ii) is rated, listed or traded or designed to be rated, listed or traded.

To place a company into administrative receivership, the holder of a QFC must execute a document appointing an administrative receiver in accordance with the terms of the security document pursuant to which the QFC was created. There is also a (limited) statutory right under section 101 of the Law of Property Act 1925 for the holder of a mortgage or charge created by deed over the assets of a chargor to appoint a receiver over the charged assets to collect the income of the charged property and apply it in satisfaction of the secured debt. This appointment document must then be delivered to the proposed administrative receiver and the appointment takes effect upon receipt (provided that the administrative receiver formally accepts the appointment by the end of the next business day). There is no statutory moratorium that takes effect in relation to or as a result of the appointment of an administrative receiver, so creditors can enforce any rights that are consistent with the priority of the security, including exercising rights of set-off and forfeiture, collecting goods that are subject to valid retention of title claims and terminating contracts (in accordance with their terms).

If a company is already in administration, the moratorium on creditor action will prevent the appointment of a receiver or administrative receiver unless the administrator consents, the court permits the appointment or an exception to the moratorium applies

The principal duty of an administrative receiver is to realize the assets of the company in order to repay the principal and interest secured by the document pursuant to which the administrative receiver was appointed (the **Secured Debt**) (subject to the requirement to set aside the prescribed part). The administrative receiver does, however, also owe duties to the company, in particular a duty to obtain the best price reasonably obtainable at the relevant time when selling any asset. An administrative receiver generally has broad powers to deal with the company and its assets which derive from both the security document pursuant to which he or she was appointed and Schedule 1 of the IA86 (except insofar as this is inconsistent with the terms of that security/ charge document). In exercising such powers, an administrative receiver acts as agent of the company unless and until it goes into liquidation. However, an administrative receiver can only dispose of assets which are subject to prior ranking security with the permission of the court if the court is satisfied that the disposal (with or without other property) would be likely to promote a more advantageous realization of the company’s property than would otherwise be effected and on the condition that the proceeds of sale and any difference between those and the open market value must be paid to the holder of that security. Further, unlike an administrator, an administrative receiver’s powers do not extend to bringing actions against the directors or former directors or (except in very limited circumstances) seeking to set aside certain transactions.

Assets coming into the hands of the administrative receiver are applied in payment of Secured Debt, less any costs of realization, the preferential debts and the prescribed part (as to the meaning of which see “*Statutory order of priorities*” below).

Liquidation/Winding-Up

Liquidation is a terminal insolvency process pursuant to which the assets of a company are realized by the liquidator and the proceeds distributed to creditors in accordance with a statutory order of priority (see “—*Statutory order of priorities*” below), 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, by order of the court; and (ii) voluntary, by resolution of the company’s members, and which is in turn divided into members’ voluntary liquidation (“**MVL**”) and creditors’ voluntary liquidation (“**CVL**”). A CVL (other than as an exit from administration) is initiated by a resolution of the members, not the creditors, but once in place is subject to some degree of control by the creditors.

On the appointment of a liquidator, the directors’ powers to bind the company automatically cease, save for those powers that are sanctioned by the liquidator or creditors (as appropriate). Regardless of how a liquidator is appointed, a liquidator owes his or her 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 (however, this power does not apply to a contract where all of the obligations have been performed nor can it be used to disturb accrued rights and liabilities, and if a contract is disclaimed the contractual counterparty has a right to sue for damages in respect of the terminated contract) ; (v) bring actions against the directors or former directors; and (vi) bring actions to set aside certain transactions (see "*—Antecedent Transaction Laws*" below 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 or contributory of the company, 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 or one of the other parties set out in section 124 of the IA86 (including the company itself or the directors of the company collectively) 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 123 of the IA86. The most common grounds are that: (i) the company is unable to pay its debts (see "*—The Insolvency Test*" above 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. Subject to certain exceptions, 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 any of the specified transactions carried out after the presentation of a winding up petition will be void if a winding up order is subsequently made unless the company (or an interested party) has first obtained a validation order from the court. Once a winding up order is made by the court, a stay of all proceedings against the company will be imposed. No action or proceeding may be continued or commenced against the company without permission of the court although there is no stay on the enforcement of security.

In the context of a voluntary liquidation however, there is no equivalent to the retrospective effect of a winding-up order; the winding-up commences on the passing of the members' resolution to wind up. As a result, there is no equivalent of Section 127 of the IA86. There is also no automatic stay in the case of a voluntary liquidation—it is for the liquidator, or any creditor or contributory of the company, to apply for a stay.

Members' voluntary liquidation

A 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 majority of 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 in full, including interest, within a stated period not exceeding 12 months from the start of the liquidation.

Creditors' voluntary liquidation

A CVL is also commenced by the shareholders passing a special resolution to place the company into liquidation and has no court involvement. In contrast to a MVL, however, the directors do not swear a statutory declaration of solvency for a CVL (meaning the company can be solvent or insolvent). If the creditors choose a different person to act as liquidator from the shareholders, the creditors' choice will prevail unless any director, member or creditor of the company successfully applies to the court for an order otherwise.

Schemes of arrangement

Pursuant to Part 26 of the Companies Act 2006 the English courts have jurisdiction to sanction a scheme of arrangement that effects a compromise of a company's liabilities between a company and its creditors (or any class of its creditors) where such company (i) is liable to be wound-up under the IA86; and (ii) has "sufficient connection" to the English jurisdiction (provided that, where the company has its COMI in another Member State, there is nothing in the Jurisdiction and the Recognition and Enforcement of Judgments in Civil and

Commercial Matters (the "**Recast Judgments Regulation**") which would prevent the English court approving the scheme and, if the company is incorporated or has its COMI in another jurisdiction, the effect of the scheme will be recognized in that jurisdiction). In practice, a foreign company is likely to satisfy the first limb of this test and the second limb has been found to be satisfied where, amongst other things, the company's COMI is in England, the company's finance documents are English law-governed, or the company's finance documents have been amended in accordance with their terms to be governed by English law. Ultimately, each case will be considered on its particular facts and circumstances so previous cases will not necessarily determine whether or not any of the grounds of the second limb are satisfied in the present case. Provided that at least some of a foreign company's scheme creditors are domiciled in England, then the Recast Judgments Regulation has not, in the past, fettered the English court's powers to sanction a scheme. Whether the effect of the scheme will be recognized in the jurisdiction of a foreign company or a company with its COMI in a foreign jurisdiction will depend on the jurisdiction in question. The English court has previously sanctioned schemes where expert evidence was provided showing that the foreign jurisdiction would recognize the scheme in that jurisdiction (e.g. a large number of Member States (including Spain, Germany, France and Italy) and certain jurisdictions outside of the EU (such as the United States)). However, each case will be considered on its particular facts and circumstances so previous cases will not necessarily determine whether or not this test would be satisfied in the present case.

Before the court considers the sanction of a scheme of arrangement at a hearing where the fairness and reasonableness of the scheme will be considered the proposed compromise or arrangement must be voted on by the affected creditors or members (the convening of which is approved by the court). The affected creditors will vote on a detailed debt compromise in respect of their claims in a single class or in a number of classes, depending on the rights of such creditors that will be affected by the proposed scheme and any new rights that such creditors are given under the scheme. Classes must be comprised of those persons whose rights are not so dissimilar as to make it impossible for them to consult together with a view to their common interest. Such compromise can be proposed by the company or its creditors. If 75% or more by value and over 50% in number of those creditors present and voting at the creditor meeting(s) vote in favor of the proposed compromise, irrespective of the terms and approval thresholds contained in the finance documents, that compromise will then be considered by the court again at the sanction hearing, at which point the court will consider the fairness of scheme and whether it is reasonable. The court has the discretion to sanction the scheme as approved, make an order conditional upon modifications being made or reject the scheme. If sanctioned by the court, a scheme will be binding on each class of creditors (both secured and unsecured) and members including any dissenting or abstaining party In certain circumstances, a scheme of arrangement can also result in the release of guarantees in order to ensure the effectiveness of the compromise.

Company voluntary arrangements

Though it does not result in the insolvency of a company, a company voluntary arrangement is implemented under the supervision of an insolvency practitioner who will act as the nominee before the company voluntary arrangement proposals are approved, and as the supervisor afterwards. CVAs may also be used as a tool alongside a formal insolvency procedure such as administration in order to implement a compromise between the debtor company and its creditors.

Pursuant to Part I of the IA86, a company (by its directors or its administrator or liquidator as applicable) may propose a company voluntary arrangement to the company's shareholders and creditors which entails a compromise, or other arrangement, between the company and its creditors, typically a rescheduling or reducing of the company's debts. Provided that the proposal is approved by the requisite majority of creditors by way of a decision procedure, it will bind all unsecured creditors who were entitled to vote on the proposal. A company voluntary arrangement cannot affect the right of a secured creditor to enforce its security, except with its consent.

A company is eligible to propose a company voluntary arrangement proposal if it is (i) registered under the CA06 (or the preceding legislation) in England and Wales or Scotland (ii) if it is incorporated in a Member State other than the UK or (iii) if the company is not incorporated in a Member State but has its COMI in a Member State (other than Denmark). The CVA can be proposed by the relevant company's directors (if the relevant company is not in administration or liquidation) or, if the relevant company is in administration or liquidation, by the administrator or the liquidator (as applicable).

In order for the company voluntary arrangement proposal to be passed, it must be approved by at least 75% (by value) of the company's creditors who respond in the decision procedure, and no more than 50% (by value) of unconnected creditors may vote against it. Secured debt cannot be voted in a company voluntary arrangement. However, a secured creditor may vote to the extent that it is undersecured. A secured creditor who proves in the company voluntary arrangement for the whole of its debt may be deemed to have given up its security.

Avoidance of Transactions

There are circumstances under English insolvency law in which the granting by a company of security and guarantees, or the entry by a company into a transaction can be challenged. In most cases, this will only arise if the company is placed into administration or liquidation within a specified period from the relevant act. Therefore, if during the specified period an administrator or liquidator is appointed to a company, the administrator or liquidator may challenge the validity of the security or guarantee given, or certain transactions entered into by that company and, as such, it cannot be certain that, in the event that the onset of a company's insolvency (as described below) is within any of the requisite time periods, the grant of a security interest or a guarantee in respect of the Notes would not be challenged or that a court would uphold the transaction as valid.

Statutory order of priorities

One of the primary functions of liquidation (and, where the company cannot be rescued as a going concern, one of the possible functions of administration) under English law is to realize the assets of the insolvent company and to distribute the cash realizations made from those assets to its creditors. Under the IA86, creditors are placed into different classes and, with the exceptions and adjustments noted below, the proceeds from the realization of the insolvent company's property applied in descending order of priority, as set out below. A liquidator or administrator will need to comply with the following statutory order of priority when he or she distributes the proceeds of realized assets to a company's creditors: (i) proceeds of realizations from assets subject to a fixed charge are paid to the fixed charge holder (less any costs of realization); (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, which include (but are not limited to) contributions to occupational and state 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) proceeds of floating charge asset realizations (less any costs of realization, the preferential debts and the prescribed part (see below)); (vi) provable debts of unsecured creditors (these rank equally among themselves unless there are subordination agreements in place between any of them) and any secured creditor to the extent of any unsecured shortfall, in each case including accrued and unpaid interest on those debts up to the date of commencement of the relevant insolvency proceedings; (vii) statutory interest that arises on debts after the insolvency at the higher of the applicable contractual rate and the official rate; and (vii) 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. Subject to the above order of priority, subordinated creditors are ranked according to the terms of the subordination language in the relevant documentation (and provided that such terms do not contravene the IA86).

The prescribed part is a ring-fenced amount of money that the administrator or liquidator must set aside from realizations from floating charge assets to distribute to unsecured creditors (unless the cost of doing so would be disproportionate to the resulting benefit to creditors), and is calculated as 50% of the first £10,000 of net realizations and 20% of the net realizations thereafter, up to a maximum aggregate of £600,000.

Foreign currency risk

Under English insolvency law, where creditors are asked to submit formal proofs of claim for their debts, any proofs of debt of a company payable in a currency other than British pounds (such as euros in the case of the Notes) must be converted by the officeholder into British pounds at a single rate for each currency determined by the office-holder by reference to the exchange rates prevailing at the date when the company went into liquidation or administration (or where a liquidation was immediately preceded by an administration, the rate prevailing on the date that the company entered administration. If a creditor considers the rate to be unreasonable, they may apply to the court.

Noteholders may be subject to exchange rate risk between the date on which the Issuer or a Guarantor entered administration or liquidation and the date of receipt of any amounts to which they may become entitled by way of a distribution in the administration or liquidation.

Post-petition interest

Any interest accruing under or in respect of amounts due under the Notes or any Guarantee to which an English company is a party (at the higher of the applicable contractual rate and the official rate) in respect of any period after the commencement of administration which has been converted into a distributing administration or after the commencement of liquidation proceedings would only be recoverable 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. Subject to certain exceptions, the compulsory winding-up of a company by the court is deemed to start when a winding-up petition is presented in respect of 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 Regulations and will not prevent a close-out netting provision taking effect in accordance with its terms.

Trust assets

Assets held on trust by the company for a third-party generally fall outside the insolvent estate that is available for distribution.

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 regardless of whether the company is in insolvency proceedings. The granting of security or guarantees by a company could be subject to challenge under these provisions.

Onset of insolvency

The date of the onset of insolvency, for the purposes of transactions at an undervalue, preferences and invalid floating charges (as discussed below), depends on the insolvency procedure in question.

In administration, the onset of insolvency is the date on which: (a) the court application for an administration order is issued; (b) the notice of intention to appoint an administrator is filed at court; or (c) otherwise, the date on which the appointment of an administrator takes effect.

In a compulsory liquidation the onset of insolvency is the date the winding-up petition is presented to court, whereas in a voluntary liquidation it is the date the company passes a winding-up resolution. Where liquidation follows administration, the onset of insolvency will be the same as the initial administration.

Connected persons

If the given transaction at an undervalue, preference, or invalid floating charge has been entered into by the company with a "connected person", then particular specified time periods and presumptions will apply to any challenge by an administrator or liquidator (as set out below).

A "connected person" of a company granting a security interest or guarantee for the purposes of transactions at an undervalue, preferences or invalid floating charges is a party who is: (a) a director of the company; (b) a shadow director; (c) an associate of such director or shadow director; or (d) an associate of the relevant company.

The term "associate" is very widely defined; key "associates" are defined below. A party is associated with an individual if they are: (a) a relative of the individual; (b) the individual's husband, wife or civil partner; (c) a relative of the individual's husband, wife or civil partner; or (d) the husband, wife or civil partner of a relative of the individual.

A person is an associate of any person with whom he is in partnership and of the husband, wife or civil partner or relative of any individual with whom he is in partnership.

A party is associated with a company if they are employed by that company (and in this case directors of a company are treated as employees of that company). A person is also an associate of any person whom he employs. A company is an associate of another person if that person has control of it or if that person and persons who are his associates together have control of it.

A company is associated with another company if the same person has control of both companies, or a person has control of one and persons who are his associates, or he and persons who are his associates, have control of the other, or if a group of two or more persons has control of each company, and the groups either consist of the same persons or could be regarded as consisting of the same persons by treating (in one or more cases) a member of either group as replaced by a person of whom he is an associate.

A person is to be taken as having control of a company if the directors of the company or of another company which has control of it (or any of them) are accustomed to act in accordance with his directions or instructions, or he is entitled to exercise, or control the exercise of, one third or more of the voting power at any general meeting of the company or of another company which has control of it. Where two or more persons together satisfy either of these conditions, they are to be taken as having control of the company.

The potential grounds for challenge available under the English insolvency legislation that may apply to any security interest or guarantee granted by a company include, without limitation, the following described below.

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. We note that section 118 of the Small Business, Enterprise and Employment Act 2015 (the "**SBEEA**") introduced section 246ZD to the IA86 from 1 October 2015 and provides that liquidators and administrators may assign the cause of action (including the proceeds of the cause of action) in respect of any transaction under section 238 of the IA86. Where (i) a foreign officeholder has been granted recognition under the Model Law Regulations and has successfully applied to the court for an order under article 23 of Schedule 1 to the Model Law Regulations, or the court orders that a foreign officeholder can take advantage of its provisions as a matter of general comity, or by the grant of assistance under section 426 of the IA86 where that section applies, he or she also has standing to bring a claim for a transaction at an undervalue.

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 (within the two years before the onset of insolvency); 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 connected person). In any proceedings, it is for the administrator or liquidator to demonstrate that the company was insolvent unless a beneficiary of the transaction was a connected person (see "*—Connected Persons*" above), in which case there is a presumption of insolvency and the connected person must demonstrate the solvency of the company in such proceedings.

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.

If the court determines that the transaction was a transaction at an undervalue, the court can make such order as it thinks fit to restore the company to the position it would have been in had it not entered into the transaction (which may include the setting aside of any security interests or guarantees granted). An order by the court for a transaction at an undervalue may affect the property of, or impose any obligation on, any person whether or not he is the person with whom the company entered into the transaction, but such an order will not prejudice any interest in property which was acquired from a person other than the company in good faith and for value, or prejudice any interest deriving from such an interest, and will not require a person who received a benefit from the transaction in good faith and for value to pay a sum to the liquidator or administrator of the company, except where that person was a party to the transaction.

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. We note that section 118 of the SBEA introduced section 246ZD to the IA86 from 1 October 2015 and provides that liquidators and administrators may assign the cause of action (including the proceeds of the cause of action) in respect of any preference claim under section 239 of the IA86. Where (i) a foreign officeholder has been granted recognition under the Model Law Regulations and has successfully applied to the court for an order under article 23 of Schedule 1 to the Model Law Regulations, or the court orders that a foreign officeholder can take advantage of its provisions as a matter of general comity, or by the grant of assistance under section 426 of the IA86 where that section applies, he or she also has standing to bring a preference claim.

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 that person 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 that person 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 (within the six months before the onset of the insolvency or within the two years before 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. It is for the administrator or liquidator to demonstrate that the company was insolvent at the time and that the company was influenced by a desire to prefer the counterparty to the transaction, unless the beneficiary of the transaction was a connected person (other than by being an employee), in which case there is a presumption that the company was influenced by a desire to prefer and the connected person must demonstrate in such proceedings that there was no such desire.

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 Magazines 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 (*Re MC Bacon Ltd (No. 1), 1990, BCLC 324*). An order by the court for a preference may affect the property of, or impose any obligation on, any person whether or not he or she is the person to whom the preference was given, but such an order will not prejudice any interest in property which was acquired from a person other than the company in good faith and for value, or prejudice any interest deriving from such an interest, and will not require a person who received a benefit from the preference in good faith and for value to pay a sum to the liquidator or administrator of the company, except where the payment is to be in respect of a preference given to that person at a time when he or she was a creditor of the company.

If the court determines that the transaction was a preference, the court has very wide powers for restoring the position to what it would have been if that preference had not been given, which could include reducing payments under or setting aside the relevant Notes, Guarantees and collateral (although there is certain protection (described below) for a third-party who enters into a transaction in good faith and without notice). An order by the court for a preference may affect the property of, or impose any obligation on, any person whether or not he is the person to whom the preference was given, but such an order will not prejudice any interest in property which was acquired from a person other than the company in good faith and for value, or prejudice any interest deriving from such an interest, and will not require a person who received a benefit from the preference in good faith and for value to pay a sum to the liquidator or administrator of the company, except where that person was a party to the transaction constituting a preference or where the payment is to be in respect of a preference given to that person at a time when he was a creditor of the company.

Voidable floating charges

A floating charge created by a company over its property may be invalid in whole or in part if certain conditions are met, if it was created in the relevant time. Where the transaction is with a connected person, this means within a period of two years before the onset of insolvency. In all other cases, this means within a period of 12 months before the onset of 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 the consideration for the creation of the charge (as consists of money paid, or goods or services supplied or the discharge or reduction of any debt of the company and interest thereon) supplied to the company at the time of, or after the creation of, the charge.

Further, the power to avoid a floating charge under section 245 of the IA86 is disapplied in respect of a financial collateral arrangement (as defined in the Financial Collateral Arrangements (No.2) Regulations 2003 (as amended)).

If a floating charge is held to be wholly invalid, then it will not be possible for the holder of that charge to appoint an administrator out-of-court or through the less onerous in-court route for qualifying floating charge holders or (if the holder would otherwise have been entitled to appoint an administrative receiver but for the floating charge being held invalid), to appoint an administrative receiver.

No court action is required, save for where there is a foreign officeholder recognized under the Model Law Regulations who wishes to attack the floating charge under article 23 of the Model Law Regulations. Section 245 of the IA86 does not apply to a floating charge constituting 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 by the court 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 is making or may make a claim against the company or otherwise prejudicing that person's interests in relation to the claim which that person is making or may make.

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 court himself or herself (with the leave of the court if the company is in liquidation or administration) and is not therefore limited to liquidators or administrators and, subject to certain conditions, the UK Financial Conduct Authority, the UK Prudential Regulation Authority and the UK Pensions Regulator. Where (i) a foreign officeholder has been granted recognition under the Model Law Regulations and has successfully applied to the court for an order under article 23 of Schedule 1 to the Model Law Regulations, or the court orders that a foreign officeholder can take advantage of its provisions as a matter of general comity, or by the grant of assistance under section 426 of the IA86 where that section applies, he or she also has standing to bring a claim for a transaction defrauding creditors.

The IA86 also does not prescribe a set time limit within which to bring the action (subject to the normal statutory limitation periods). The fact that the transaction was not entered into with a dishonest motive is no defense 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.

If the court determines that the transaction was a transaction defrauding creditors, the court can make such orders as it thinks fit to restore the position to what it would have been if the transaction had not been entered into and to protect the interests of the victims of the transaction. The relevant court order may affect the property of, or impose any obligation on, any person, whether or not he is the person with whom the transaction was entered into. However, such an order will not prejudice any interest in property which was acquired from a person other than the debtor company in good faith, for value and without notice of the relevant circumstances, and will not require a person who received a benefit from such transaction in good faith, for value and without notice of the relevant circumstances to pay any sum unless such person was a party to the transaction.

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. We note that section 118 of the SBEA introduced section 246ZD to the IA86 from October 1, 2015 and provides that liquidators and administrators may assign the cause of action (including the proceeds of the cause of action) in respect of any extortionate credit transaction claim under section 244 of the IA86. Where (i) a foreign officeholder has been granted recognition under the Model Law Regulations and has successfully applied to the court for an order under article 23 of Schedule 1 to the Model Law Regulations, or the court orders that a foreign officeholder can take advantage of its provisions as a matter of general comity, or by the grant of assistance under section 426 of the IA86 where that section applies, he or she also has standing to bring a claim for an extortionate credit transaction.

A transaction is extortionate if, having regard to the risk accepted by the person providing the credit, the terms of it are (or were) (i) such as to 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. It is presumed, unless otherwise proved by the person extending the credit, that a transaction with respect to which an administrator or liquidator makes an application to set aside an extortionate credit transaction is extortionate.

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). That order may set aside, either in whole or in part, any obligation created by the transaction (which could include obligations of sureties). It may also vary the terms of the transaction or the terms of any security for the purposes of the transaction. The court may require any party to the transaction to repay to the liquidator or administrator sums already paid under the transaction and it may order the surrender of any security held for the purpose of the transaction. It should be noted that there are no provisions for the protection of third parties who acquire interests in the extortionate credit transaction (e.g. assignees of the benefit of the transaction from the person who provided credit under it).

Secondary Legislation

UK secondary legislation, such as the Financial Collateral Regulations, may be invalid and ineffective if, among other things, it is not enacted within the scope of the relevant primary statute or within the powers of the relevant rule-making authorities.

Enforcement

Enforcement of security and guarantees may be affected by general legal and equitable principles regarding the legality, validity and enforceability of contractual provisions and contractual obligations and liabilities (including guarantees and security). More specifically, such a transaction must be allowed by the respective company's memorandum and articles of association. To the extent that these documents do not allow such an action, there is the risk that the grant of the guarantee and/or security can be found to be void and the respective creditor's rights unenforceable. Some comfort may be obtained for third parties if they are dealing with an English company in good faith; however, the relevant legislation is not without difficulties in its interpretation. Further, corporate benefit must be established for the company in question by virtue of entering into the proposed transaction. Section 172 of the CA06 provides that a director of a company must act in the way that he considers, in good faith, would be most likely to promote the success of that company for the benefit of its members as a whole. If the directors enter into a transaction where there is no or insufficient commercial benefit, they may be found as abusing their powers as directors and such a transaction may be vulnerable to being set aside by a court.

Recharacterization of fixed security interests

There is a possibility that a court could find that security interests expressed to be fixed charges created by the security documents governed by English law properly take effect as floating charges – this is because the description given to them as fixed charges within the security document is not determinative. Whether the purported fixed security interests will be upheld as fixed security interests rather than floating security interests will depend, among other things, on whether the secured party has the requisite degree of control over the company's ability to deal in the relevant assets and the proceeds thereof and, if so, whether such control is exercised by the holder of the security, in practice. Where a company is free to deal with the assets that are the subject of a purported fixed charge in its discretion and without the consent of the chargee, the court would be likely to hold that the security interest in question constitutes a floating charge, notwithstanding that it may be described as a fixed charge. If a fixed security interest is recharacterized as a floating charge, this will, among other things, adversely impact the returns of the holder of the charge in an administration, liquidation or administrative receivership (see "*—Statutory order of priorities*" above) and prevent the holder relying on that charge to appoint a receiver.

Account banks' right to set-off

With respect to any English law charges over cash deposits (each an "**Account Charge**") granted by a company over any of its bank accounts, the banks with which some of those accounts are held (each an "**Account Bank**") may have reserved their right at any time (whether prior to or upon a crystallization event under the Account Charge) to exercise the rights of netting or set-off to which they are entitled under their cash pooling or other arrangements with that English company. As a result, and if the security granted over those accounts is merely a floating (rather than fixed) charge, the collateral constituted by those bank accounts will typically be subject to the relevant Account Bank's netting and set-off rights with respect to the bank accounts charged under the relevant Account Charge. Once the floating charge has crystallized and converted into a fixed charge (as typically would occur on enforcement or the occurrence of certain insolvency events with respect to an English company) the collateral will no longer be subject to the relevant Account Bank's netting and set-off rights, since the Account Bank will only be entitled to exercise its netting and set-off rights while the bank accounts are subject only to floating security, except where account banks have expressly reserved set-off rights.

Financial assistance

A liability incurred directly or indirectly for the purpose of an acquisition (an "**Acquisition Liability**") by any person of shares in an English company or in any holding company (within the meaning contained in section 1159 of the CA06) of that company, or a liability incurred directly or indirectly for the purpose of the discharge or reduction of any Acquisition Liability, could be subject to challenge if that incurrence, discharge or reduction is unlawful under section 678 or 679 of the CA06. These provisions apply to financial assistance (which is wider than monetary assistance and includes, for example, guarantees or security) granted in connection with an acquisition of shares in an English company, if the English company providing the assistance is either a public company the shares in which are being acquired, a public or private company that is a subsidiary of the public company the shares in which are being acquired, or a public company that is a subsidiary of a private company the shares in which are being acquired.

Assignments

Any assignment of a debt or other chose in action can only take effect as a legal assignment under section 136 of the Law of Property Act 1925 if it meets the requirements of that provision, which are: (i) the assignment must be in writing and signed by the assignor; (ii) the assignment must be absolute and not purporting to be by way of charge only; (iii) notice of the assignment must be given to the underlying obligor; and (iv) the rights to be assigned must be wholly ascertainable and must not relate to only part of a debt, or other legal chose in action. If any of these requirements is not satisfied, the assignment may still constitute a valid equitable assignment if there is a clear intention to assign. Equitable assignments are subject to certain limitations, including, without limitation: (i) where an equitable interest is followed by a legal interest, the subsequent legal interest will take priority if the holder acquired it for value without notice of the equitable interest; and (ii) the priority of dealings in most equitable interests is determined by the time at which notice of such interest is given to the underlying obligor or to the person in control of that equitable interest. The first person to give notice will take priority, if that person does not have actual or constructive notice of the prior interest.

Share mortgages

A mortgage of shares can only take effect as a legal mortgage if title to those shares is vested in the lender, although it may still give rise to a valid equitable security interest.

Application of proceeds

The enforceability of a provision in a security document that relates to the application of proceeds will be subject to any obligations mandatorily preferred by applicable law.

Turnover trust

A turnover trust may be construed as creating a registrable charge under section 859A of the CA06, in which case it will be void in the circumstances set out in section 859H of the CA06, unless the prescribed statement of particulars, together with a certified copy of the agreement or instrument under which the turnover trust arises, are delivered to the Registrar of Companies in accordance with section 859A of the CA06 within 21 days after the date of creation of that charge (unless an order allowing an extended period is made under section 859F of the CA06).

Ranking

The description given by the parties to the ranking of security interests is not determinative of the ranking of those security interests.

Foreign laws

If, and to the extent that, an asset subject to security under a security document (or the obligor of any debt or other right against any person, which debt or right constitutes all or part of the property or rights subject to that security) is located in any jurisdiction other than England and Wales or is not governed by English law, the validity and priority of that security may be affected by any applicable foreign laws.

Third party rights

Security granted over debts from, or other rights against, third parties (including contracts and insurance policies) may be subject to any rights of those third parties.

Amendments

An English court may interpret restrictively any provision purporting to allow the beneficiary of a guarantee or other suretyship to make a material amendment to the obligations to which the guarantee or suretyship relates without further reference to the guarantor or surety.

Fetters on exercise of powers

A provision under which a company or other legal person agrees, or purports to agree, to fetter the exercise of its powers under its constitutional documents or any applicable law (or regulation) may not be enforceable against the company or other legal person.

UK Government Proposal for Changes

In August 2018 the UK Government proposed a number of substantial changes to the insolvency regime. It is not yet known when the proposals will be introduced, but the UK Government have indicated that they will bring forward legislation as soon as parliamentary time permits. The proposals include the following:

Moratorium proposal

The UK Government proposed a new standalone moratorium to facilitate company restructurings.

The UK Government intends that entry into a moratorium will be similar to the current out of court administrator appointment procedure, i.e., filing papers at court. A "moratorium monitor" (the "Monitor") (an insolvency practitioner and officer of the court) will file their consent to act and confirm that they have assessed the company's eligibility and that all moratorium qualifying conditions are satisfied. Costs incurred during a moratorium will be treated in the same way as expenses in an administration. Where a company exits a moratorium and subsequently enters administration or liquidation, any unpaid moratorium costs will have super priority over any costs or claims in the administration or liquidation, including the expense of those later procedures.

The moratorium is intended to enable the company to reach an agreement with creditors and the Monitor will be expected to access whether, on the balance of probabilities, a rescue deal is more likely than not to be achieved.

Eligibility for the moratorium will exclude companies that are already insolvent. The qualifying test will be one of prospective insolvency, based upon the requirement that a company will become insolvent if action is not taken, it will be for the proposed Monitor to assess whether the criterion is met. The UK Government proposed that a company which has entered into a moratorium, administration or company voluntary arrangement on the last 12 months should not qualify for a moratorium. In addition, it is proposed that certain of the categories of companies currently excluded from the small companies company voluntary arrangement moratorium (including those "excluded" as parties to capital markets arrangements) will be ineligible. A company must also have sufficient funds available to carry on its business during a moratorium, meeting current obligations as and when they fall due as well as any new obligations incurred in the moratorium.

The UK Government's proposal allows the moratorium to last for an initial period of 28 days, which may be extended for a further 28 days by the company. Where an extension is proposed, the Monitor must confirm that the qualifying conditions continue to be met. Further extensions (beyond 56 days) will be available but may only be done where there remains a good prospect of achieving a better outcome for creditors than might otherwise be possible. Such extensions must be approved by creditors, both secured and unsecured. The required threshold for approval will be more than 50% of secured and 50% of unsecured creditors (both by value).

The UK Government intends to allow creditors to challenge the moratorium, whether on the grounds of the qualifying conditions not being met (or the company being ineligible) or unfair prejudice to creditors, at any time during the moratorium. Where the Monitor concludes that a company no longer meets the qualifying conditions, the company will be required immediately to commence termination of the moratorium.

The UK Government proposed a repeal of the existing small companies company voluntary arrangement moratorium.

Ipso facto clauses to be prohibited

The UK Government proposed a prohibition on the enforcement of termination clauses by a supplier in contracts for goods and services which are based on a formal insolvency procedure. It has also indicated that certain types of financial products and services shall be exempt from the prohibition, but the scope and details of the exemptions are not yet available. The UK Government stated that the ability of a party to terminate a contract on other grounds not specifically predicated on insolvency (such as a requirement to proceed regularly and diligently with works) will not be affected.

Restructuring plan proposal

The UK Government also proposed the creation of a new restructuring process, similar to a scheme of arrangement but with an ability for cross class cramdown.

This standalone restructuring option will be available to all companies except those eligible for the small companies company voluntary arrangement moratorium and certain financial market participants. The process will closely resemble that of schemes where a restructuring plan proposal will be sent to creditors and shareholders and filed at court. The restructuring plan proposal has no financial eligibility criteria and will therefore be available as an option to both solvent and insolvent companies (in the latter case, the plan would be proposed by the incumbent insolvency practitioner).

At a first hearing, the court will examine the classes of creditors and shareholders as defined by the company. Challenges to classes can be made at the first court hearing, in addition to creditors being able to put forward counterproposals, which can be voted on by creditors (and shareholders). Subject to the requisite voting thresholds being met and the rules for imposing a cross class cramdown being complied with, the court will schedule a second hearing. At a second hearing, the court will consider if the necessary requirements have been met and will decide whether the restructuring plan is to be permitted and, as a result, binding on affected creditors and shareholders. Necessary information is likely to be included in a form of explanatory statement (similar to that used in schemes).

A restructuring plan confirmed by the court will be binding on all affected parties. Parties' rights following confirmation of a restructuring plan will be as provided for in the plan and any previous rights will be extinguished. If a company subsequently entered an insolvency procedure after the failure of a restructuring plan, the rights and claims of any creditors bound by the failed plan would be as set out in the plan. Any debt forgiveness would therefore be binding in the subsequent insolvency.

The restructuring plan will allow cross class cramdown on both secured and unsecured creditors. The voting threshold requires 75% by value of those creditors voting in each class to vote in favor of a restructuring plan. There is also an additional provision that more than half of the total value of unconnected creditors vote in favor. There is no numerosity requirement but at least one class of impaired creditors (that is, creditors who will not receive payment in full under the restructuring plan) class must vote in favor, for cross class cramdown to be confirmed by the court.

In addition, there will also be an absolute priority rule whereby a dissenting class of creditors must be satisfied in full before a more junior class may receive any distribution. However, there will be sufficient flexibility to allow departure from this rule (with the court's sanction) where the departure is vital to agreeing an effective and workable restructuring plan.

The court's discretion on absolute priority will be in addition to its general discretion to sanction a plan on just and equitable grounds. In an effort to avoid valuation disputes, there will be a flexible valuation test based on the 'next best alternative' for creditors. This is intended to differentiate the situations where administration (and a higher return) might be feasible from those cases where liquidation would only be the likely alternative.

Prescribed part proposal

The UK Government proposed an increase in the current £600,000 cap on the Prescribed Part to reflect the effect of inflation since 2003.

Government guidance dated September 13, 2018 on insolvency in the event of a Brexit "no deal scenario"

The Government has issued guidance with respect to the United Kingdom leaving the European Union in the event of a "no deal scenario." The guidance provides that, in such instance, the majority of the EU Insolvency Regulation would be repealed. However, EU rules that provide for the UK courts to have jurisdiction where a company or individual is based in the United Kingdom would be retained and the law would ensure that insolvency proceedings can continue to be opened in those circumstances.

Once the United Kingdom leaves the European Union, EU Insolvency Regulation tests would no longer restrict the opening of insolvency proceedings in the United Kingdom and insolvency proceedings could be opened in the United Kingdom under the tests set out under domestic UK law regardless of whether the company's COMI is somewhere else in Europe. EU insolvency proceedings and judgments would no longer be recognizable in the United Kingdom under the EU Insolvency Regulation but may still be recognized under the Model Law Regulations.

Companies would need to make applications under an EU country's domestic law to have UK insolvency proceedings recognized there and the guidance notes the risk that EU countries may not recognize UK insolvency proceedings because, for instance, they do not feel there is sufficient protection for local creditors or for other reasons.

CROSS-BORDER INSOLVENCY REGULATIONS 2006

The Cross-Border Insolvency Regulations 2006 (the "**Model Law Regulations**") provide that the Model Law on Cross-Border Insolvency as adopted by the United Nations Commission on International Trade Law on 30 May 1997 has the force of law in the United Kingdom, subject to certain modifications.

The Model Law Regulations apply where (i) assistance is sought in the United Kingdom by a foreign court or a foreign representative in connection with a foreign proceeding, or (ii) assistance is sought in a foreign state in connection with a proceeding under British insolvency law, or (iii) a foreign proceeding and a proceeding under British insolvency law in respect of the same company are taking place concurrently or (iv) creditors or other interested parties in a foreign state have an interest in requesting the commencement of, or participating in, a proceeding under British insolvency law.

The Model Law Regulations provide for the recognition of two types of foreign insolvency proceedings (defined to be collective judicial or administrative proceedings in a foreign state, including an interim proceeding pursuant to a law relating to insolvency in which proceeding the assets and affairs of the company are subject to control or supervision by a foreign court, for the purpose of reorganisation or liquidation): (i) "foreign main proceedings", which can be opened in the state in which the company has its COMI (which is subject to a rebuttable presumption that the company's registered office is the centre of the company's main interests and it should be noted that the COMI for the purposes of the Model Law Regulations may be different from the COMI of an entity for the purposes of the EU Insolvency Regulation); and (ii) "foreign non-main proceedings", which can be opened in the state in which the company possesses an "establishment" (defined as any place of operations where the company carries out a non-transitory economic activity with human means and assets or services) but not a COMI.

A foreign representative (defined to be a person or body, including one appointed on an interim basis, authorized in a foreign proceeding to administer the reorganisation or the liquidation of the company's assets or affairs or to act as a representative of the foreign proceeding) appointed in a foreign main proceeding or foreign non-main proceeding is entitled to apply to commence a proceeding under British insolvency law (as defined in the Model Law Regulations) if the conditions for commencing such a proceeding are otherwise met.

A foreign representative may apply to the court for recognition of the foreign proceeding in which the foreign representative has been appointed. From the time of filing of such an application until the time the application is decided upon, the court may, at the request of the foreign representative and where relief is urgently needed to protect the assets of the company or the interests of the creditors, grant relief of a provisional nature. Such relief may include staying execution against the company's assets, entrusting the administration or realization of all or part of the company's assets located in Great Britain to the foreign representative or another person designated by the court, suspending the right to transfer, encumber or otherwise dispose of any assets of the company, providing for the examination of witnesses, the taking of evidence or the delivery of information concerning the company's assets, affairs, rights, obligations or liabilities and the granting of any additional relief that may be available to a British insolvency officeholder (as defined in the Model Law Regulations) under the law of the United Kingdom, including any relief provided under paragraph 43 of Schedule B1 to the Insolvency Act 1986 ("**IA86**").Upon recognition of a foreign main proceeding, commencement or continuation of individual actions or individual proceedings concerning the company's assets, rights, obligations or liabilities and execution against the company's assets are stayed and the right to transfer, encumber or otherwise dispose of any assets of the company is suspended. Any such stay and suspension does not affect any right to take any steps to enforce security over the company's property or of a creditor to set off its claim against a claim of the company, provided that such right would have been exercisable if the company had been made the subject of a winding-up order under the IA86. No automatic stay applies in relation to foreign non-main proceedings (albeit such a stay may be requested from the English Court).

Upon recognition of a foreign proceeding, whether main or non-main, where necessary to protect the assets of the company or the interests of the creditors the court may, at the request of the foreign representative, grant any appropriate relief. This may include, without limitation, staying the commencement or continuation of individual actions or individual proceedings concerning the company's assets, rights, obligations or liabilities, staying execution against the company's assets, suspending the right to transfer, encumber or otherwise dispose of any assets of the company, providing for the examination of witnesses, the taking of evidence or the delivery of information concerning the company's assets, affairs, rights, obligations or liabilities, entrusting the administration or realization of all or part of the company's assets located in Great Britain to the foreign representative or another person designated by the court, extending relief of a provisional nature previously granted and the granting of any additional relief that may be available to a British insolvency officeholder under the law of Great Britain, including any relief provided under paragraph 43 of Schedule B1 to the IA86.

In addition, upon recognition of a foreign proceeding, the foreign representative has standing to make an application to the court for an order under or in connection with sections 238, 239, 244, 245 and 423 of the IA86 (see "*—Antecedent Transaction Laws*" above). For such purpose, certain time periods and notice periods specified in such sections shall be determined by reference to the date of the opening of the foreign proceeding or the date on which a person has notice of the opening of the relevant foreign proceedings as provided in the Model Law Regulations. Where such an application is made, then those sections (together with ancillary sections of the IA86 relating thereto) shall apply whether or not the company is being wound-up or is in administration under British insolvency law.

Note that where the Model Law Regulations conflicts with an obligation of the UK under the EU Insolvency Regulation, the requirements of the EU Insolvency Regulation will prevail. This means that, in practice, the Model Law Regulations will be most relevant where the company has its COMI outside of the EU. It is possible, however, that the Model Law Regulations could apply where a company has its COMI in the EU (but outside of the United Kingdom) provided that there is no conflict with the EU Insolvency Regulation (for example, where main proceedings have not yet been commenced in the place of the COMI or where the relief being sought in England under the Model Law Regulations is not inconsistent with the automatic recognition provisions under the EU Insolvency Regulation). Notwithstanding this, in respect of a company with its COMI in the EU (but outside of the United Kingdom) in our view, a foreign insolvency officeholder is unlikely to make an application for recognition under the Model Law Regulations rather than relying on automatic recognition of the relevant proceedings under the EU Insolvency Regulation (and any application for recognition under the Model Law Regulations may conflict with the EU Insolvency Regulation, in which case the requirements of the EU Insolvency Regulation will prevail).

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, NatWest Markets Plc, Banco Santander, S.A., Credit Industriel et Commercial S.A., DNB Markets, a division of DNB Bank ASA, ING Bank N.V., London Branch 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 and the related Guarantees have not been and will not be registered under the laws of any member state of the EEA. The offering of the Notes and related Guarantees is being made, and the Notes and the related Guarantees are being offered and issued, only to persons other than retail investors in the EEA, each defined as a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a "qualified investor" as defined in the Prospectus Regulation. Consequently, no key information document required by the PRIIPs Regulation for offering or selling the Notes or otherwise making them available to retail investors in the

EEA has been prepared. Offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

The Notes are not intended to be, and should not be, advertised, offered, sold or resold, transferred, delivered or otherwise made available to any individual in Belgium qualifying as a consumer within the meaning of Article I.1 of the Belgian Code of Economic Law.

The Initial Purchasers have represented and agreed that an offering of Notes may not be advertised to any individual in Belgium qualifying as a consumer within the meaning of Article I.1 of the Belgian Code of Economic Law (a "**Belgian Consumer**") and that it has not offered, sold or resold, transferred or delivered, and will not offer, sell, resell, transfer or deliver, the Notes, and that it has not distributed, and will not distribute, any offering memorandum, memorandum, information circular, brochure or any similar documents in relation to the Notes, directly or indirectly, to any Belgian Consumer.

The Notes are a new issue of securities for which there currently is no market. We will apply, through our listing agent, to list the Notes on the Official List of the Listing Exchange and trade them thereon. The Official List of the Listing 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 Listing 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.

The Initial Purchasers and their respective affiliates are full-service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. 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 financial advisory, consulting and various other services for the Issuer, the Guarantors and their respective affiliates in the ordinary course of business, for which they have received, or may in the future receive, customary fees, commissions and reimbursement of expenses. 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.

Certain of the Initial Purchasers or their affiliates are senior lenders and will act as agents under the existing 2017 Revolving Credit Facility agreement. A portion of the proceeds of the Offering will be applied to repay a portion of the drawings under the 2017 Revolving Credit Facility agreement.

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).

(6) 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, 2017, 2018 and 2019 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 11 Evesham Street, London W11 4AR, 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 by a resolution of the Board of Directors of the Issuer dated February 7, 2020, with approval of the final terms delegated to a committee of the Board of Directors of the Issuer.

6. Application is expected to be made to the Authority for the listing of and permission to deal in the Notes on the Official List of the Listing Exchange. There can be no assurance that the Notes will be listed on the Official List of the Listing 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 212116734. The international securities identification number (ISIN) for the Notes is XS2121167345.

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 SA/NV, Luxembourg Branch, 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, 2019, 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, 2017, 2018 and 2019, together with the auditors' report relating thereto, and our Interim Financial Statements for the six months ended September 30, 2019.

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

Note: References to pages or sections in the notes to the Financial Statements presented below are, as the context requires, to such pages or sections in the relevant Annual Reports, or the Half Year Results Announcement, as applicable, and should be read in conjunction therewith.

TalkTalk Telecom Group PLC

Interim condensed consolidated financial statements of the Group as at and for the six months ended September 30, 2019

TalkTalk Telecom Group PLC
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP AS AT AND FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2019

CONTENTS

INDEPENDENT REVIEW REPORT TO TALKTALK TELECOM GROUP PLC

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2019 which comprises the condensed consolidated income statement, the condensed consolidated balance sheet, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement and related notes 1 to 15 We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Directors’ responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom’s Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom’s Financial Conduct Authority.

Deloitte LLP
Statutory Auditor
London, United Kingdom
15 November 2019

Condensed consolidated income statement

For the period ended 30 September 2019

		Six months ended 30 September 2019 Unaudited			Six months ended 30 September 2018[1] Unaudited		
	Notes	Headline[2] £m	Non-Headline £m	Statutory[2] £m	Headline[2] £m	Non-Headline £m	Statutory[2] £m
Revenue	3	**786**	**6**	**792**	808	14	822
Cost of sales		**(384)**	**(2)**	**(386)**	(383)	(8)	(391)
Gross profit		**402**	**4**	**406**	425	6	431
Operating expenses		**(262)**	**(14)**	**(276)**	(324)	(12)	(336)
EBITDA[2]		**140**	**(10)**	**130**	101	(6)	95
Depreciation and amortisation		**(92)**	**(4)**	**(96)**	(67)	(4)	(71)
Share of results of associates and joint ventures		**(5)**	—	**(5)**	(5)	—	(5)
Operating profit		**43**	**(14)**	**29**	29	(10)	19
Net finance costs	4	**(28)**	—	**(28)**	(23)	—	(23)
Profit before taxation		**15**	**(14)**	**1**	6	(10)	(4)
Taxation	5	**(3)**	**3**	**—**	(1)	2	1
Profit for the period attributable to the owners of the Company		**12**	**(11)**	**1**	5	(8)	(3)
Earnings/(loss) per share							
Basic (p)	8			**0.1**			(0.3)
Diluted (p)	8			**0.1**			(0.3)

(1) The six months ended 30 September 2018 have not been restated for the adoption of IFRS 16 'Leases'—see note 2 for further information.

(2) See note 2 for explanation of alternative performance measures and note 7 for a reconciliation of statutory information to Headline information.

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

Condensed consolidated balance sheet

As at 30 September 2019

	Notes	30 September 2019 Unaudited £m	30 September 2018[1] Unaudited (restated)[2] £m	31 March 2019[1] Audited £m
Non-current assets				
Goodwill		**495**	495	495
Other intangible assets		**223**	242	235
Property, plant and equipment	9	**325**	223	199
Investment in joint venture and associates		**2**	5	2
Trade and other receivables		**4**	2	2
Contract costs		**348**	238	308
Deferred tax assets		**119**	90	118
		1,516	1,295	1,359
Current assets				
Inventories		**28**	32	34
Trade and other receivables		**148**	259	160
Contract assets		**43**	42	39
Cash and cash equivalents		**12**	37	67
		231	370	300
Assets classified as held for sale	11	**58**	40	47
Total assets		**1,805**	1,705	1,706
Current liabilities				
Trade and other payables		**(426)**	(519)	(491)
Contract liabilities		**(23)**	(17)	(20)
Lease liabilities	2	**(60)**	—	—
Current income tax payable		**—**	(8)	—
Borrowings	10	**(5)**	(85)	(10)
Provisions		**(29)**	(22)	(35)
		(543)	(651)	(556)
Liabilities classified as held for sale	11	**(7)**	(6)	(7)
Non-current liabilities				
Trade and other payables		**—**	(6)	(5)
Borrowings	10	**(837)**	(752)	(838)
Lease liabilities	2	**(151)**	—	—
Provisions		**(4)**	(26)	(12)
		(992)	(784)	(855)
Total liabilities		**(1,542)**	(1,441)	(1,418)
Net assets		**263**	264	288
Equity				
Share capital		**1**	1	1
Share premium		**684**	684	684
Translation reserve		**(64)**	(64)	(64)
Demerger reserve		**(513)**	(513)	(513)
Retained earnings and other reserves		**155**	156	180
Total equity		**263**	264	288

(1) *The six months ended 30 September 2018 have not been restated for the adoption of IFRS 16 'Leases' – see note 2 for further information.*

(2) *See note 2 for further details on the restatement of comparative information.*

Condensed consolidated cash flow statement
For the period ended 30 September 2019

	Notes	Six months ended 30 September 2019 Unaudited £m	Six months ended 30 September 2018[1] Unaudited (restated)[2] £m
Operating activities			
Operating profit		**29**	19
Share-based payments		**2**	3
Depreciation of property, plant and equipment		**58**	35
Amortisation of other operating intangible assets		**34**	32
Amortisation of acquisition intangibles		**4**	4
Share of losses of joint ventures		**5**	5
Decrease in provisions		**(5)**	(11)
Operating cash flows before movements in working capital		**127**	87
Decrease/(increase) in trade and other receivables		**7**	(15)
Increase in contract assets		**(44)**	(32)
Decrease/(increase) in inventory		**6**	(3)
(Decrease)/increase in trade and other payables		**(61)**	51
Increase/(decrease) in contract liabilities		**3**	(1)
Net cash flows generated from operating activities		**38**	87
Investing activities			
Acquisition of subsidiaries, associates and joint ventures, net of cash acquired	12	**(6)**	(6)
Investment in intangible assets		**(36)**	(39)
Investment in property, plant and equipment		**(14)**	(16)
Cash flows used in investing activities		**(56)**	(61)
Financing activities			
Settlement of Group ESOT shares		**—**	1
Repayments of obligations in respect of leases		**(26)**	(4)
Repayments of borrowings		**—**	(21)
Drawdown of borrowings		**33**	30
Interest paid		**(25)**	(21)
Other finance costs		**(2)**	—
Equity dividends paid	6	**(17)**	(17)
Cash flows generated used in financing activities		**(37)**	(32)
Net decrease in cash and cash equivalents		**(55)**	(6)
Cash and cash equivalents at the start of the period		**67**	43
Cash and cash equivalents at the end of the period		**12**	37

(1) The six months ended 30 September 2018 have not been restated for the adoption of IFRS 16 'Leases'—see note 2 for further information.

(2) See note 2 for further details on the restatement of comparative information.

Condensed consolidated statement of changes in equity

For the period ended 30 September 2019

	Notes	Share capital £m	Share premium £m	Translation reserve £m	Demerger reserve £m	Retained earnings and other reserves £m	Total equity £m
At 1 April 2018 as previously reported		1	684	(64)	(513)	104	212
Change in accounting policies in respect of IFRS 9 and IFRS 15 (net of tax)		—	—	—	—	68	68
At 1 April 2018 (restated)		1	684	(64)	(513)	172	280
Loss for the period		—	—	—	—	(3)	(3)
Total comprehensive expense		—	—	—	—	(3)	(3)
Transactions with the owners of the Company							
Share-based payments		—	—	—	—	3	3
Settlement of Group ESOT shares		—	—	—	—	1	1
Equity dividends	6	—	—	—	—	(17)	(17)
Total transactions with the owners of the Company		—	—	—	—	(13)	(13)
At 30 September 2018 (unaudited)		1	684	(64)	(513)	156	264

	Notes	Share capital £m	Share premium £m	Translation reserve £m	Demerger reserve £m	Retained earnings and other reserves £m	Total equity £m
At 30 September 2018 (unaudited)		1	684	(64)	(513)	156	264
Profit for the period		—	—	—	—	35	35
Total comprehensive income		—	—	—	—	35	35
Transactions with the owners of the Company							
Equity dividends		—	—	—	—	(11)	(11)
Total transactions with the owners of the Company		—	—	—	—	(11)	(11)
At 31 March 2019		1	684	(64)	(513)	180	288

	Notes	Share capital £m	Share premium £m	Translation reserve £m	Demerger reserve £m	Retained earnings and other reserves £m	Total equity £m
At 31 March 2019 as previously reported		**1**	**684**	**(64)**	**(513)**	**180**	**288**
Change in accounting policies in respect of IFRS 16 (net of tax)	2	**—**	**—**	**—**	**—**	**(10)**	**(10)**
At 1 April 2019 (unaudited)		**1**	**684**	**(64)**	**(513)**	**170**	**278**
Profit for the period		**—**	**—**	**—**	**—**	**1**	**1**
Total comprehensive income		**—**	**—**	**—**	**—**	**1**	**1**
Transactions with the owners of the Company							
Share-based payments		**—**	**—**	**—**	**—**	**2**	**2**
Taxation of items directly in reserves		**—**	**—**	**—**	**—**	**(1)**	**(1)**
Equity dividends	6	**—**	**—**	**—**	**—**	**(17)**	**(17)**
Total transactions with the owners of the Company		**—**	**—**	**—**	**—**	**(16)**	**(16)**
At 30 September 2019 (unaudited)		**1**	**684**	**(64)**	**(513)**	**155**	**263**

Notes to the interim condensed consolidated financial statements
For the period ended 30 September 2019

1. General Information

The information for the year ended 31 March 2019 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor reported on those accounts; their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

2. Basis of preparation

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

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

The accounting policies adopted in the preparation of the condensed interim financial statements are consistent with those followed in the preparation of the consolidated annual financial statements for the year ended 31 March 2019, except for the changes outlined below.

This report should be read in conjunction with the consolidated annual financial statements for the year ended 31 March 2019. Full details of the audited consolidated financial statements for the year ended 31 March 2019 are available at www.talktalkplc.com.

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

In preparing these unaudited condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies were consistent with those that applied to the consolidated financial statements for the year ended 31 March 2019, except for the below and new significant judgements and key sources of estimation uncertainty related to the application of IFRS 16 (outlined in changes in accounting policies).

In applying IFRS 15 the Group is required to make certain estimates that effect the determination of the amount and timing of revenue and costs from contracts with customers. This includes an estimate of the expected average duration of customer relationships which has been determined to still be 50-120 months depending on the product and channel for the period ended 30 September 2019.

In addition, the Group continues to recognise certain service level related credits from suppliers to compensate the Group where the supplier has not operated within the contractual terms of these arrangements**.** At 30 September 2019, a receivable of £6m (September 2018: £55m, March 2019: £3m) existed in relation to claims where the supplier has not operated within contractual terms, the resolution of which may give rise to an increase or decrease in the level of receivable recognised. This is without prejudice to the Group's legal position.

As described in the 2019 annual report following the preparation of the unaudited condensed consolidated financial statements for the period 30 September 2018 management concluded and finalised the impact of the IFRS 15 for the year ended 31 March 2019. This resulted in changes to the period over which certain contract costs are amortised and additional costs being capitalised, which amounted to a £26m increase in contract assets and retained earnings on the balance sheet for 30 September 2018. In addition to this an adjustment has been made to recognise stock previously owned by a third party totalling £14m as the transaction was considered to be a financing arrangement under IFRS 15. This has resulted in a decrease of that amount to the inventory balance and retained earnings on the balance sheet for 30 September 2018 and a re-presentation of the cash outflow from operating activities to financing activities of £21m on the condensed cash flow statement. These changes have been restated in the comparative information provided in this report, further details in relation to the retrospective application of IFRS 15 can be found in the consolidated annual financial statements for the year ended 31 March 2019. The Group has also restated its comparative information in respect of assets and liabilities held for sale as described in the 2019 annual report to more appropriately classify the assets and liabilities held for sale within the Group. This has resulted in a decrease to the liabilities held for sale of £5m and an increase in trade payables of £5m.

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

These unaudited condensed consolidated interim financial statements were authorised for issue by the Company's Board on 15 November 2019.

Going concern

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

The Group has committed credit facilities throughout the 12 month going concern assessment period of £1,115m comprising an RCF of £640m, bond of £400m and a receivable purchase agreement of £75m. The receivable purchase agreement was extended during the period to September 2021. As at 30 September 2019, the Group's headroom was £273m. Net debt drawn under these facilities fluctuates throughout the year and can be higher than the amount reported at 30 September 2019.

The Group's forecasts and projections since the March 2019 financial statements have been updated to reflect the current position of relevant matters, so as to include possible downside sensitivities, expected cash flow cycles of the Group, feasible mitigating cash management/cost reduction activities and the Group's current committed and uncommitted facilities.

Whilst the Group's forecasts and projections give consideration to the expected disposal of our fibre assets, this going concern assessment also considers the Group's expected financial position and future cash flows in a scenario where the sale did not complete during the assessment period.

The forecasts and projections consider both a 'soft' Brexit and a 'no deal' scenario. It is assessed the Group has limited direct exposure to Brexit as it only provides services within the UK, has limited non-UK suppliers and contingency plans are in place for identified risks. Whilst a no deal Brexit would likely affect business / consumer confidence and potentially drive customer churn across the wider market, the Group considers demand for our products would continue and as the largest value provider in the UK it may further enhance our relevance to customers in such a scenario.

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

Alternative performance measures (APMs)

The consolidated financial statements include APMs as well as statutory measures. These APMs used by the Group are not defined terms under IFRS and may therefore not be comparable with similarly titled measures reported by other companies. They are not intended to be a substitute for, or superior to, GAAP measures. All APMs relate to the current year results and comparative periods where provided. This presentation is also consistent with the way that financial performance is measured by management, reported to the Board, the basis of financial measures for senior management's compensation schemes and provides supplementary information that assists the user in understanding the financial performance, position and trends of the Group. The APMs have been applied consistently in the period ended 30 September 2019 as defined in the consolidated annual financial statements for the year ended 31 March 2019 except for the addition of pre-IFRS 16 values which in absence of restating the prior periods have been provided to aid the users of the financial statements to better understand the impact of applying the new standard. See note 7 for reconciliation of statutory information to headline information. This APM will be presented until the year ended 31 March 2021 when the current and prior year values will be prepared under the same basis.

Performance is measured based on headline EBITDA, defined as operating profit before non-headline items, as presented to the chief operating decision maker. EBITDA is defined as the operating profit before depreciation, amortisation, share of results of joint ventures and associates, net finance costs and taxation.

Other APMs used include:

- Headline revenue—excludes non-headline items, specifically MVNO revenue. In addition, also excludes carrier and off-net revenues;

- Headline basic EPS—basic EPS excluding non-headline items;

- Net debt—total borrowings after derivatives offset by cash and cash equivalents; and

- Pre-IFRS 16—both headline and statutory values prepared under IAS 17 ‘Leases’ and therefore excluding the impact of applying IFRS 16.

Changes in accounting policies

Aside from the adoption of IFRS 16, which is described below, other changes to accounting standards in the current period had no material impact. There have been no changes to accounting policies in the period and changes to estimates in the current period are outlined above.

IFRS 16

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

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

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

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

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

- property, including offices, data centres and car parks;

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

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

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

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

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

- Lease liabilities are initially measured at the present value of the future lease payments discounted using the interest rate implicit in the lease or if this cannot be readily determined using an incremental borrowing rate calculated by the Group. Lease payments include fixed lease payments less lease incentives, variable lease payments that are dependent on an index or rate measured at the index or rate at the commencement date of the lease, the amount expected to be payable at the end of lease under residual value guarantees, the exercise price of purchase options if the lessee is reasonably certain to exercise the option and payments of penalties for terminating the lease if the lease term reflects the exercise of an option to terminate the lease. The lease liabilities are subsequently measured by increasing the value to reflect the unwind of interest and reducing the value to reflect the lease payments made by the Group.
- The Group remeasures the lease liability when either the lease term changes, the lease payments change due to a change in an index or rate or where the lease is modified and the modification does not result in a separate lease. Where a lease liability is remeasured a corresponding entry is made to the right of use asset.
- The right of use assets are valued initially at an equivalent value to the lease liability with the addition of any directly attributable costs. The value of the right of use asset is increased and a provision is recognised for any costs to dismantle/remove an asset or restore the asset to a condition required under the terms of the lease when the Group incurs the obligation. The assets are subsequently measured at cost less accumulated depreciation and impairments.
- The right of use assets are depreciated over the shorter of the lease term or the useful economic life of the underlying asset. Where the Group expects to retain the asset for a period greater than the minimum non-cancellable period management estimates the period it expects it will use the assets using a portfolio approach which it will review annually. The right of use assets are presented within the same line item as that with which the corresponding underlying assets would be presented if they were owned.

- The Group has used the exemption for leases of low value assets resulting in the expense being recognised straight line in operating expenses. The Group has applied this exemption to tie cables and laptops leading to an expense of £3m being recognised in operating expenses.

Transition approach and practical expedients

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

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

- The Group has applied a single discount rate to portfolios of leases with reasonably similar characteristics;

- The Group has utilised hindsight in determining the lease term;

- The Group has utilised its assessments under IAS 37 to determine if leases are onerous immediately before the date of initial application and adjusted the right of use assets by the carrying amount of the onerous lease provisions at 1 April 2019 opposed to performing an impairment review under IAS 36; and

- The Group has applied on a lease by lease basis the short term lease exemption for those leases with less than twelve months remaining at the date of transition. The expenses relating to these leases amount to £3m for the period ended 30 September 2019 and are recognised in other operating expenses.

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

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

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

Key accounting judgements and estimates

The application of IFRS 16 requires the Group to make critical judgements in determining the scope of applying IFRS 16. Management has concluded that the determination described above that the 'last mile' does not contain a lease is a critical accounting judgement.

The application of IFRS 16 requires the Group to make certain estimates that affect the amounts recognised in the consolidated income statement and balance sheet. Management has concluded the assessment of a five year lease term for its network assets to be a key accounting estimate. In reaching this conclusion management has considered historical data and it's expectation of future changes in the network landscape and the technologies used. Sensitivities of this estimate are shown below:

- An increase to 6 years would impact the balance sheet by increasing the right of use assets by £35m and increasing the lease liabilities by £34m at 30 September 2019;

- An increase to 6 years would impact the income statement by decreasing depreciation by £5m and increasing finance costs by £5m for the six months ended 30 September 2019;

- A reduction to 4 years would impact the balance sheet by decreasing the right of use assets by £26m and decreasing the lease liabilities by £22m at 30 September 2019; and

- A reduction to 4 years would impact the income statement by increasing depreciation by £1m and decreasing finance costs by £5m for the six months ended 30 September 2019.

Summary of financial impact on condensed consolidated financial statements

The following tables summarise the financial impacts of adopting IFRS 16 on the Group's consolidated income statement for the six months ended 30 September 2019 and on the Group's consolidated balance sheet at the date of application (1 April 2019):

Consolidated income statement and other comprehensive income

	Headline Six months ended 30 September 2019 Unaudited			**Statutory Six months ended 30 September 2019 Unaudited**		
	Pre-IFRS 16 £m	**IFRS 16 adjustments £m**	**As reported £m**	**Pre-IFRS 16 £m**	**IFRS 16 adjustments £m**	**As reported £m**
Revenue	**786**	—	**786**	**792**	—	**792**
Cost of sales	**(384)**	—	**(384)**	**(386)**	—	**(386)**
Gross profit	**402**	—	**402**	**406**	—	**406**
Operating expenses	**(287)**	**25**	**(262)**	**(301)**	**25**	**(276)**
EBITDA	**115**	**25**	**140**	**105**	**25**	**130**
Depreciation and amortisation	**(68)**	**(24)**	**(92)**	**(72)**	**(24)**	**(96)**
Share of results of associates and joint ventures	**(5)**	—	**(5)**	**(5)**	—	**(5)**
Operating profit	**42**	**1**	**43**	**28**	**1**	**29**
Net finance costs	**(24)**	**(4)**	**(28)**	**(24)**	**(4)**	**(28)**
Profit before taxation	**18**	**(3)**	**15**	**4**	**(3)**	**1**
Taxation	**(3)**	—	**(3)**	**—**	**—**	**—**
Profit for the period attributable to the owners of the Company	**15**	**(3)**	**12**	**4**	**(3)**	**1**
Total comprehensive income			**12**			**1**

During the period ended 30 September 2019, the following charges arising from lease arrangements were recognised in the consolidated income statement:

	Six months ended 30 September 2019 Unaudited £m	**Six months ended 30 September 2018 Unaudited £m**
Depreciation	**31**	—
Finance costs	**5**	—
Operating expenses—lease expenses under the low value exemption	**3**	—

Consolidated balance sheet

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

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

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

	Six months ended 30 September 2019 Unaudited £m	Six months ended 30 September 2018 Unaudited £m
Less than 1 year	**60**	—
2 to 5 years	**102**	—
Greater than 5 years	**49**	—
	211	**—**

3. Segmental reporting

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

	Six months ended 30 September 2019 Unaudited £m	Six months ended 30 September 2018 Unaudited £m
Statutory revenue	**792**	822
Less MVNO revenue	**(6)**	(14)
Headline revenue (1)	**786**	808
Headline EBITDA (1)	**140**	101
Depreciation of property, plant and equipment	**(58)**	(35)
Amortisation of operating intangibles	**(34)**	(32)
Amortisation of acquisition intangibles	**(4)**	(4)
Share of results of joint ventures	**(5)**	(5)
Non-headline items – gross profit (1)	**4**	6
Non-headline items – operating expenses (1)	**(14)**	(12)
Statutory operating profit (1)	**29**	19

Total statutory revenue can be disaggregated as below:

	Six months ended 30 September 2019 Unaudited £m	Six months ended 30 September 2018 Unaudited £m
Equipment	**40**	28
Services	**752**	794
	792	822

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

	Six months ended 30 September 2019 Unaudited £m	Six months ended 30 September 2018 Unaudited £m
On-net	**627**	629
Corporate	**154**	172
Off-net	**5**	7
Headline revenue (1)	**786**	808
Less Carrier	**(17)**	(30)
Less Off-net	**(5)**	(7)
Headline revenue (excluding Carrier and Off-net) (1)	**764**	771

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

Corporate revenue is further analysed as:

	Six months ended 30 September 2019 Unaudited £m	Six months ended 30 September 2018 Unaudited £m
Carrier	**17**	30
Data	**90**	86
Voice	**47**	56
Corporate revenue	**154**	172

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

4. Net finance costs

Net finance costs are analysed as follows:

	Six months ended 30 September 2019 Unaudited £m	Six months ended 30 September 2018 Unaudited £m
Interest on bank loans and overdrafts	**20**	20
Finance charge arising from leases under IFRS 16	**5**	—
Facility fees and similar charges	**3**	3
	28	23

5. Tax

The Headline tax charge for the year was £3m implying an effective Headline rate of 20% (2018: 17%) against a statutory rate of 19%.

6. Dividends

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

	Six months ended 30 September 2019 Unaudited £m	Six months ended 30 September 2018 Unaudited £m
Ordinary dividends		
Final dividend for the year ended 31 March 2018 of 1.50p per ordinary share	**—**	17
Final dividend for the year ended 31 March 2019 of 1.50p per ordinary share	**17**	—
Total ordinary dividends	**17**	17

The proposed interim dividend of 1.00p per ordinary share was approved by the Board on 15 November 2019 and has not been included as a liability as at 30 September 2019.

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

7. Reconciliation of statutory information to headline information

Accounting policy – non-headline items

Headline information is provided because the Directors consider that it provides assistance in understanding the Group's underlying performance. The policy in relation to non-headline items has been consistent and consistently applied in the preparation of these unaudited condensed consolidated interim financial statements as in the preparation of the financial statements for the year ended 31 March 2019 and these unaudited condensed consolidated interim financial statements for period ending 30 September 2019 with the exception of pre-IFRS 16 measures which are defined and reconciled to statutory measures in note 2.

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

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

Period ended 30 September 2018	**Revenue £m**	**Gross profit £m**	**EBITDA £m**	**Operating profit £m**	**(Loss)/profit before taxation £m**	**Taxation £m**	**(Loss)/profit for the period £m**
Statutory results	822	431	95	19	(4)	1	(3)
MVNO operating profit(a)	(14)	(6)	(1)	(1)	(1)	—	(1)
Network transformation(b)	—	—	7	7	7	(2)	5
Amortisation of acquisition intangibles(d)	—	—	—	4	4	—	4
Headline results	808	425	101	29	6	(1)	5

During the period ended 30 September 2019, cash exceptional items were £19m (2018: £20m).

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

(a) MVNO operating profit

Following the Group's announcement in May 2017 to reassess the Group's mobile strategy, the Group is now progressing with its alternative mobile distribution strategy. Operating profits of £2m (2018: profit of £1m) associated with the MVNO strategy have been generated, given this one-off strategic decision, management consider these profits are non-headline items though they do not meet the criteria under IFRS 5 for separate disclosure as discontinued operations. The Group continues to transition from a wholesale agreement with Vodafone to a mobile distribution agreement with Telefonica. The wholesale agreement with Vodafone has been extended to support the smooth transition of remaining customers. The MVNO trading activity will continue to diminish with contractual commitments expiring in 2021.

A taxation credit of £nil has been recognised on these costs (2018: £nil).

(b) Network transformation

During the period ended 30 September 2019, the Group continued its significant multi-year transformation programme which will fundamentally restructure the Group's network, IT infrastructure and technology organisation. The change the Group is undertaking will ensure it is fit for the future and underpins the wider Group strategy in providing an outstanding service to our customers as a value provider in the industry. This is a discrete project that is expected to run until 2021.

This programme has resulted in £5m (2018: £7m) of costs including project management, consultancy, dual running costs and decommissioning costs.

A total taxation credit of £1m has been recognised on these costs in the period ended 30 September 2019 (2018: £2m).

(c) OneTeam operating model

Costs of £7m (2018: £nil) have been incurred as a result of simplifying the Group's organisational structure and relocating roles to one primary location at the Soapworks in Salford. These costs have been determined to be adjusting items in accordance with the Group's accounting policy as they represent a material business restructuring programme.

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

A taxation credit of £2m has been recognised on these costs in the period ended 30 September 2019 (2018: £nil).

(d) Amortisation of acquisition intangibles

An amortisation charge in respect of acquisition intangibles of £4m was incurred during the period (2018: £4m). Management consider amortisation of acquisitions of intangibles to be a non-headline item due to it being inherently linked to historic acquisitions of businesses in accordance with the Group's non-headline accounting policy.

8. Earnings/(loss) per ordinary share

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

	Six months ended 30 September 2019 Unaudited £m	**Six months ended 30 September 2018 Unaudited £m**
Headline earnings (note 7)	**12**	5
Statutory profit/(loss)	**1**	(3)
Weighted average number of shares (millions)		
Shares in issue	**1,146**	1,146
Less weighted average holdings by Group ESOT	**(1)**	(3)
For basic EPS	**1,145**	1,143
Dilutive effect of share options	**5**	13
For diluted EPS	**1,150**	1,156

	Six months ended 30 September 2019 Unaudited Pence	**Six months ended 30 September 2018 Unaudited Pence**
Basic earnings/(loss) per ordinary share		
Headline	1.0	0.4
Statutory	0.1	(0.3)

	Six months ended 30 September 2019 Unaudited Pence	**Six months ended 30 September 2018 Unaudited Pence**
Diluted earnings/(loss) per ordinary share		
Headline	1.0	0.4
Statutory	0.1	(0.3)

9. Property, plant and equipment

During the period, the Group had additions of £34m, of which £21m were right of use assets and disposals of £1m.

See note 2 for further information regarding the initial application of IFRS 16. Right of use assets are presented within property, plant and equipment.

See note 2 for details of property, plant and equipment purchases through leases. See note 14 for commitments in relation to property, plant and equipment.

10. Borrowings

The Group's committed debt facilities total £1,115m (March 2019: £1,115m), which expire between 2021 and 2022. The Group's uncommitted debt facilities total £70m (March 2019: £90m).

On 25 September 2019, the Group signed an extension to the receivables purchasing agreement of £80m of which £75m is committed and £5m uncommitted (March 2019: £100m, £75m committed and £25m uncommitted). The agreement has a maturity of September 2021 and the uncommitted element of the agreement has been reduced from £25m to £5m.

The financial covenants included in each bank facility restrict the ratio of net debt to EBITDA and require minimum levels of interest cover. The amounts used in the covenant calculations are pre-IFRS 16 (note 2) and adjustments are made for receivables purchasing agreement, non-Headline items (note 7) and other adjusting items which are deemed exceptional under the agreements. The Group was in compliance with its covenants throughout the current and prior periods.

11. Assets and liabilities held for sale

The Group is continuing to progress with its planned sale of FibreNation, which provides wholesale full fibre, as required to achieve the Fibre-to-the-Premise (FTTP) network roll out speed and ultimate scale required. The sales process of Group assets and liabilities associated with FTTP operations is ongoing and the sale is expected to be completed by 31 March 2020.

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

	30 September 2019 Unaudited £m	**30 September 2018 Unaudited (restated) £m**
Assets classified as held for sale		
Goodwill	**2**	2
Investment in joint ventures and associates (note 12)	**2**	—
Other non-current assets	**41**	23
Current assets	**13**	15
Total assets classified as held for sale	**58**	40
Liabilities associated with assets classified as held for sale		
Current payables	**(7)**	(6)
Total liabilities associated with assets classified as held for sale	**(7)**	(6)

12. Acquisition of associate

On 2 April 2019, the Group acquired 20% of the issued share capital of the company Makehappen Group Limited and this investment forms part of the assets classified as held for sale as described in note 11.

13. Financial instruments fair value disclosures

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

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

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

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

The book value and fair value of the Group's financial assets, liabilities and derivative financial instruments [(1)], are as follows:

	30 September 2019 Unaudited £m	**30 September 2018 Unaudited (restated) £m**	**31 March 2019 Audited £m**
Financial assets (level 1)[(1)]			
Cash and cash equivalents	**12**	37	67
Contract assets	**43**	42	39
Trade and other receivables[(2)]	**148**	259	160
Non-current investments and investment in joint venture	**2**	5	2
Non-current trade and other receivables	**4**	2	2
Non-current contract assets	**348**	238	308
Financial assets (level 2)[(1)]			
Derivative financial instrument	**—**	—	—
Financial liabilities (level 1)[(1)]			
Contract liabilities	**(23)**	(17)	(20)
Trade and other payables	**(426)**	(519)	(491)
Lease liabilities	**(60)**	—	—
Current borrowings	**(5)**	(85)	(10)
Non-current trade and other payables	**—**	(6)	(5)
Non-current lease liabilities	**(151)**	—	—
Non-current borrowings	**(837)**	(752)	(838)
Financial liabilities (level 2)[(1)]			
Derivative financial instruments (level 2)	**—**	—	—

(1) The Group has no financial instruments designated as fair value through the profit and loss (FVTPL).

(2) Accrued and deferred income has been included within the other receivables so as to give completeness over the Group's future cash inflows.

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.

14. Commitments

The Group has in the normal course of business entered into various multi-year supply and working capital agreements for core network, IT and customer equipment. As at 30 September 2019, expenditure contracted but not provided for in these financial statements amounted to £167m (September 2018: £170m, March 2019: £134m). Of this amount, £99m (September 2018: £91m, March 2019: £82m) related to supply for core network, IT and customer equipment and £68m (September 2018: £79m, March 2019: £52m) related to capital commitments.

See note 15 for details of commitments made in relation to related party transactions.

15. Related party transactions

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

During the period £4m was loaned to the joint venture YouView.

A Loan Agreement in respect of a Working Capital Facility has been signed with MakeHappen Group Limited. The parties have agreed to working capital support of up to £17m. As of the balance sheet date, the current drawdown on the facility is £3m.

In the year ended 31 March 2019, the freehold interest of a property owned by a third party and which is leased to TalkTalk was acquired by a company of which the Executive Chairman is a controlling owner. There were no new transactions between TalkTalk and that company and the contractual terms of the lease with TalkTalk remain unchanged.

TalkTalk Telecom Group PLC

Consolidated financial statements of the Group as at and for the year ended March 31, 2019[1]

(1) Extracted from TalkTalk Telecom Group PLC Annual Report 2019.

TalkTalk Telecom Group PLC
CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP AS AT AND FOR THE YEAR ENDED MARCH 31, 2019[(1)]

CONTENTS

(1) Extracted from TalkTalk Telecom Group PLC Annual Report 2019.

Independent auditor's report
To the members of TalkTalk Telecom Group PLC

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of TalkTalk Telecom Group plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2019 and of the group's loss 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.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated and parent company cash flow statements;
- the statement of accounting policies;
- the related notes to the group accounts 1 to 28; and
- the notes to the parent company financial statements 1 to 12.

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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters

The key audit matters that we identified in the current year were:

- management override of controls;
- disclosure of non-Headline items and the presentation of alternative performance measures in the financial statements;
- revenue recognition including the impact of the transition to IFRS 15 Revenue in the year;
- capitalised time and the impairment of network assets; and
- complex supplier arrangements.

Within this report, any new key audit matters are identified with and any key audit matters which are the same as the prior year identified with.

Materiality

The materiality that we used in the current year was £5.0m which was determined on the basis of considering a number of different measures including Statutory loss before taxation, Headline profit before taxation, EBITDA and Statutory revenue. This approach is in line with prior year and our considerations reflect the volatility in the results of the Group as management continue to focus on simplifying the business.

Scoping

Based on our assessment of the risks of material misstatement at the group level, we focused our group audit scope primarily on TalkTalk Consumer and TalkTalk Business. Each of these were subject to a full audit and together this covered over 99% (2018: 99%) of the group's total revenues. Together with our audit of the group balances, our group audit scope covered 89% of statutory loss before taxation (2018: 92% of statutory loss before taxation) and 97% of net assets (2018: 97% of net assets).

Significant changes in our approach

Last year our report included revenue recognition as a key audit matter—specifically in relation to the completeness of revenue recorded through billing systems, the accuracy and completeness of revenue recognised on transactions which are outside the billing process and the appropriateness of revenue share arrangements with third parties and how the revenue and costs are disclosed in the financial statements. In the current year we have rather directed our audit focus on the adjustments made in relation to the transition to IFRS 15, which are processed outside of the billing system, as well as the key judgements applied in respect of the accounting policies adopted under IFRS 15.

Revenue share arrangements have now been included within a newly identified key audit matter in the year, being the accounting in relation to complex supplier arrangements. Due to the financial impact of various complex supplier arrangements entered into by the group and the accounting judgements adopted within the group accounting policies we increased the level of audit focus in relation to the interpretation of the contracts in place and the accounting adopted thereon.

Conclusions relating to going concern, principal risks and viability statement

Going concern

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

We have reviewed the directors' statement in note 1 to the financial statements 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 and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

Principal risks and viability statement

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

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

the disclosures on pages 27 to 31 that describe the principal risks and explain how they are being managed or mitigated;

the directors' confirmation on page 48 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; or

the directors' explanation on page 48 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 are also required to report whether the directors' statement relating to the prospects of the group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

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.

Management override of controls

Key audit matter description	International Standards on Auditing require us to presume a risk of fraud arising from management override of controls and conduct our audit testing accordingly. Key areas of potential risk include inappropriate bias in relation to accounting judgements and inappropriate accounting for significant or unusual transactions taking place in the year. Our audit focus in this area primarily related to the quantum and nature of items occurring during the year, including the recording of non-Headline items, accounting adopted in relation to complex supplier arrangements, judgements applied in relation to the carrying value of assets on the balance sheet, accounting judgments applied in relation to the transition to IFRS 15 and judgements made within management forecasts. The number of areas requiring the application of judgement and estimation techniques creates additional risk of bias in accounting estimates and therefore we have considered this to be a key audit matter. This risk is heightened in a year where there has been a guidance downgrade. Disclosures relating to the items noted above are included in notes 1 and 9 and the matters are discussed in the report of the Audit Committee on pages 49 to 51.
How the scope of our audit responded to the key audit matter	In considering the key audit matter relating to management override of controls we have: • challenged accounting estimates (individually and collectively) for management bias that would result in material misstatement, in particular focusing our attention on the areas noted above. We obtained evidence to support the rationale behind key estimates made and quantified the impact on the financial statements. Details of our audit response in relation to disclosure of non-Headline items, revenue recognition policies and complex supplier arrangements have been outlined below in their respective key audit matters; • obtained supporting documentation and obtained an understanding of the business rationale for significant transactions that we have become aware of that are outside the normal course of business or that otherwise appear to be unusual given our understanding of the Group; • challenged management's forecasts supporting their goodwill and non-current asset carrying values as well as the going concern assumption including working capital trends throughout the year. We have agreed known commitments and transactions and challenged key underlying assumptions. We have run our own sensitivity analysis including a reasonable worst-case scenario which removes uncommitted or unapproved items. In considering our reasonable worst-case scenario we have also considered mitigating actions and cash management techniques that in the event of a breach of covenant that management has within their control which would be used to ensure covenants are not breached; and • completed journal entry testing, where data analytics tools were used to identify those postings that might be indicative of management override of controls. For the journal entries that were determined to meet these characteristics, we obtained explanations and examined supporting documentation to understand the nature and rationale for each entry.

Key observations	We note there continues to be significant judgements taken by management in reaching both Statutory and Headline results in relation to the carrying value of assets on the balance sheet, accounting judgements made in relation to complex supplier arrangements and the subsequent treatment of costs and accounting estimates revisited in light of current data within the business. We concur with the judgmental items included within Statutory and Headline results and are satisfied that these have been disclosed in the financial statements.

Disclosure of non-Headline items and the presentation of alternative performance measures in the financial statements

Key audit matter description	The Group presents alternative performance measures to provide supplemental information to enable users of the financial statements to gain an understanding of the Group's financial performance. During the year, the Group has incurred items classified as 'non-Headline items' amounting to £42 million prior to the impact on taxation (2018—£115 million). The disclosure of non-Headline items and their presentation on the face of the income statement remains a key audit matter given the level of management judgement involved as inappropriate classification of such items would impact on the disclosure of Headline earnings, which is a key performance indicator used by the Group. Over the last few years, the Group has come to the end of a number of significant projects and has started a number of projects (such as 'Network Transformation' and 'One Team') as well as disclosing the impact of the loss on exiting the Mobile Virtual Network Operator (MVNO) operations as a key non-Headline item in the current year. These are multi-phase projects spanning a number of years and consequently, we consider there is significant management judgement in determining whether those costs or projects are non-Headline based on the Group's policy or are, in substance, 'business as usual' and therefore should be recognised in arriving at Headline earnings. The nature of these costs has been defined in note 9 to the accounts and the related accounting policy has been disclosed in note 1. The Audit Committee's discussion of this matter is set out on pages 49 to 51.
How the scope of our audit responded to the key audit matter	In addition to understanding the composition of non-Headline items and agreeing a sample of items to supporting documentation, we challenged management's rationale for the presentation of items within the consolidated income statement as non-Headline, particularly around the areas of higher judgement such as dual running costs, internal labour costs, and costs in relation to the launch of 'Network Transformation' to determine whether the costs recognised as non-Headline meet the criteria of the accounting policy for such items defined by the Group within note 1. This includes assessing the incremental nature of the costs, whether they are specific to individual projects (including the MVNO operations of the Group) and considering whether they should be classified as part of Headline operations. Our work has also included a testing, on a sample basis, of items included within the income statement to identify income and expenses which may be non-Headline by nature but not separately identified. This included consideration of credit balances within Headline results, including those in relation to billing disputes.
Key observations	We concur with the treatment of non-Headline items in the year that have been recognised in accordance with the Group's accounting policy.

Revenue recognition and the impact of the transition to IFRS 15

Key audit matter description	Revenue represents a significant balance of £1,609 million (2018 restated—£1,605 million), consisting of a high volume of individually low value transactions across the business and consumer customer bases. We have identified the following types of transactions and assertions related to revenue recognition which give rise to a key audit matter relating to risks arising from the complexity of telecom transaction processing within the Group as well as the level of management judgement: • the completeness of revenue recorded through billing systems due to the large number of transactions processed to support the revenue postings; • the accuracy and completeness of revenue recognised on transactions which are outside the normal billing process, which by their nature carry a higher level of management judgement (such as customer credit provisions and adjustments made in relation to third party arrangements) including the IFRS 15 adjustments which are processed as part of a SQL model outside of the underlying billing systems; and • the level of complexities involved when determining the key judgements made by management with FY2019 being the first financial year where the Group will report under IFRS 15. These judgments include the identification of material rights, support for the recoverability of contract assets, assessment of average customer life over which contract costs are amortised, treatment of early termination charges, contract identification within the TTB Indirect channel and completeness of the IFRS 15 assessment for the TTB business. Due to this, the judgements made and the accounting adopted has been a focus area for the FY2019 audit. See note 1 to the financial statements for revenue recognition policy and the critical judgements and key sources of estimation uncertainty relevant to the transition to IFRS 15 that has been applied by the Group and the Audit Committee report on pages 49 to 51.
How the scope of our audit responded to the key audit matter	*Completeness of revenue recorded through billing systems* We involved our IT specialists to test the operating effectiveness of automated and non-automated controls over the customer billing systems. Our tests assessed the controls in place to ensure services supplied to customers are input into and processed through the billing systems. This enabled us to take a controls reliance approach over billing systems processing over 95% of revenue transactions (by value). We subsequently applied a combination of audit procedures and sample testing to obtain evidence over the accuracy 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* We performed testing on a sample of non-systematic adjustments which included the adjustments made in relation to IFRS 15. We involved specialists to assess the appropriateness of the SQL model used by management for the purposes of calculating the IFRS 15 adjustments. Our work also included agreeing a sample of contracts to the output per the SQL model to determine whether they had been recognised in line with Group policies as well as analytical reviews to understand the movement’s year on year.

Judgements made in relation to the transition to IFRS15

We assessed the appropriateness of the revenue recognition policy adopted with reference to IFRS 15. We and completeness of the IFRS 15 assessment for the TTB business. We involved subject matter experts on IFRS15 to assess the appropriateness of the policies adopted by management. We also performed testing to assess whether the judgments applied had been recognised in line with Group policy.

Key observations

We note that the policies applied in relation to revenue recognition are in line with the guidance of IFRS 15 however note the high level of estimation applied in determining the IFRS 15 transition adjustments and group policy. We note that estimates applied are highly sensitive in supporting the accounting adopted in relation to IFRS 15 and refer to more detail outlined in relation to these in Note 1.

In our testing on IT systems, we have identified certain control deficiencies. We confirmed that the mitigating business controls identified address the risk of a material misstatement to the financial statements.

Capitalised time and impairment of operating intangibles

Key audit matter description

The Group has significant network assets held on the balance sheet of £420m (2018: £493m) which is predominantly made up of £227m (2018: £235m) of operating intangibles and £193m (2018: £226m) of network equipment and computer hardware. Network assets include £29.2m (2018: £30.1m) of internally capitalised time recorded in FY19. Internal capitalised time relating to the development of network infrastructure and system enhancements remains a significant balance year on year accordingly there is a risk that inappropriate classification of operating expenses would impact on the disclosure of Headline earnings, which is a key performance indicator used by the Group and hence this has been determined as a key audit matter.

With the launch of the 'Network Transformation' programme and the impending copper line switch programme, there is also a risk assets and work capitalised (including external resource, licensing and software) supersede existing network infrastructure, resulting in the carrying value of assets exceeding the recoverable value and triggering impairments across the existing asset base.

See note 1 to the financial statements for the impairment and asset related accounting policies that have been applied by the Group and the Audit Committee report on pages 49 to 51.

How the scope of our audit responded to the key audit matter

Capitalised time

We reviewed each capital programme in progress across the year against the requirements of IAS 38 Intangible Assets ("IAS 38"). We also performed substantive testing procedures on a sample of time capitalised in the year via corresponding with project managers and agreeing time spent to the core timesheet system as well as gaining an understanding of the work carried out in the year and whether directly attributable to each capital programme.

Impairment review of network assets

We challenged management's impairment review of the asset base as at 31 March 2019, focusing on those areas under the 'Network Transformation' programme via assessing the recoverable value of assets held against the carrying value on the balance sheet. We assessed management's review by involving specialists to assess the discount rate used via independently calculating an acceptable range with reference to market data, challenging the identification of Cash Generating Units and challenging management's sensitivity analyses in line with our forecasting work outlined above.

Key observations	We are satisfied with the carrying value of the network assets held on the balance sheet as at 31 March 2019 and that the nature of capital additions in the year are in line with the requirements of IAS 38.

Complex supplier arrangements

Key audit matter description	The Group periodically enters into complex supplier arrangements including revenue share arrangements and agency structured contracts. Due to the judgement required in determining the commercial substance of the arrangement, as well as the complexity of certain arrangements including multi-year considerations, there is a risk that these are incorrectly accounted for or recognised in the wrong accounting period and that all arrangements are not disclosed appropriately. Judgements made vary by supplier and contractual arrangements in place individually. Please see Note 1 of the financial statements for disclosure on the supplier arrangements.
How the scope of our audit responded to the key audit matter	As part of our procedures in addressing the key audit matter identified above, we performed the following: • we reviewed the completeness of the list of supplier arrangements provided by management through reviewing an extract of debit items recorded on supplier accounts through the year; • we held discussions with the key supplier relationship managers at TalkTalk in order to understand fully the commercial substance of complex supplier arrangements; • we tested a sample of material balances recorded during the year by reviewing the signed contract agreements, assessing whether the amounts recognised are in line with the agreed terms and conditions and meet the appropriate recognition criteria; and • we assessed and challenged disclosures made to determine whether these allow transparency and a clear understanding of the arrangements entered into.
Key observations	We are satisfied that the treatment in the accounts is appropriate and that these judgements are appropriately disclosed within the financial statements.

Our application of materiality

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

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

	Group financial statements	Parent Company financial statements
Materiality	£5.0m (2018: £3.6m)	£4.7m (2018: £3.4m)
Basis for determining materiality	Materiality has been determined by considering a number of different measures including Statutory loss before taxation, headline profit before taxation, EBITDA and Statutory revenue.	1% of net assets (2018: 0.3% of net assets)
Rationale for the benchmark applied	There continues to be significant volatility in the results of the Group due to the change in the Mobile strategy, the roll out of programmes such as Network Transformation and the group reorganisation. As such, we have considered a range of metrics when determining our materiality. The materiality applied equates to 0.3% of revenue (2018: 0.2%), 2.3% of EBITDA (2018: 2.6%) and 0.3% of total assets (2018: 0.2%).	We consider the net assets to be an appropriate benchmark for the measure of the materiality of the parent company on the basis that it is the Group's ultimate parent and is a non-trading company.

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 50% of group materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered the following factors:

- the quality of the control environment and whether we were able to rely on controls,
- the two guidance downgrades that have been issued in the last 18 months;
- a greater number of significant and higher risks of material misstatement; and
- the significant changes in the group as they focus on simplifying the strategy which has impacted results.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £250,000 (2018: £180,000), 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 and consistent with the prior year, we focused our Group audit scope primarily on the TalkTalk Consumer and TalkTalk Business operating units. Each of these were subject to a full audit which was performed directly by the Group audit team and together they represent over 99% (2018: over 99%) of the Group's total revenues. Specific focused audit work was performed over Group functions, including those covering treasury and taxation. Together this covered 89% of Statutory loss before taxation (2018: Statutory loss before taxation—87%) and 97% of net assets (2018: 97%). Our audit work at each division was executed at levels of materiality which were lower than Group materiality and ranged from £4.25m to £3.5m (2018: £2.5m to £3.1m).

	Full audit scope	Review at Group level
Revenue	100%	—
Statutory loss before taxation	89%	11%
Net assets	97%	3%

Other information

We have nothing to report in respect of these matters.

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

Fair, balanced and understandable—the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

Audit committee reporting—the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or

Directors' statement of compliance with the UK Corporate Governance Code—the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Responsibilities of Directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit and the audit committee, including obtaining and reviewing supporting documentation, concerning the group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, including tax, valuations, pensions, IT, revenue and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas: management override of controls, revenue recognition, complex supplier arrangements, recognition of capitalised time and the impairment of network assets; and
- obtaining an understanding of the legal and regulatory framework that the group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the group. The key laws and regulations we considered had a direct effect on the financial statements included the UK Companies Act, Listing Rules and tax legislation. In addition, compliance with Ofcom regulation is fundamental to the group's operations.

Audit response to risks identified

As a result of performing the above, we identified management override of controls, complex supplier arrangements and capitalised time and impairment of assets as key audit matters. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with BT Openreach and other large suppliers and also Ofcom; and

- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments and our procedures to address the risks identified within revenue recognition; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions 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.

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

We have nothing to report in respect of these matters.

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.

Directors' remuneration

We have nothing to report in respect of these matters.

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.

Other matters

Auditor tenure

Following the recommendation of the audit committee, we were appointed by TalkTalk Telecom Group plc in 2002 to audit the financial statements for the year ending 31 March 2002 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 17 years, covering the years ending 31 March 2010 to 31 March 2019.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Use of our report

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.

Kate J Houldsworth FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, UK
23 May 2019

Consolidated income statement
For the year ended 31 March 2019

		2019			2018 (restated)[1]		
	Notes	Headline[2] £m	Non-Headline (note 9)[2] £m	Statutory £m	Headline[2] £m	Non-Headline (note 9)[2] £m	Statutory £m
Revenue	2	**1,609**	**23**	**1,632**	1,605	48	1,653
Cost of sales		**(759)**	**(11)**	**(770)**	(774)	(38)	(812)
Gross profit		**850**	**12**	**862**	831	10	841
Operating expenses[2]		**(613)**	**(46)**	**(659)**	(628)	(103)	(731)
EBITDA[3]	9	**237**	**(34)**	**203**	203	(93)	110
Depreciation and amortisation	3	**(138)**	**(8)**	**(146)**	(131)	(12)	(143)
Share of results of joint ventures	14	**(10)**	**—**	**(10)**	(11)	—	(11)
Operating profit/(loss)	3, 9	**89**	**(42)**	**47**	61	(105)	(44)
Net finance costs	6	**(52)**	**—**	**(52)**	(46)	(10)	(56)
Profit/(loss) before taxation	9	**37**	**(42)**	**(5)**	15	(115)	(100)
Taxation	7, 9	**32**	**5**	**37**	(22)	22	—
Profit/(loss) for the year attributable to the owners of the Company	9	**69**	**(37)**	**32**	(7)	(93)	(100)
Earnings/(loss) per share							
Basic (p)	10			**2.8**			(10.3)
Diluted (p)	10			**2.8**			(10.1)

The accompanying notes 1 to 28 are an integral part of this consolidated income statement. All amounts relate to continuing operations.

(1) See note 1 for further details on the restatement of comparative information due to the retrospective application of IFRS 15 and IFRS 9.

(2) Operating expenses includes £11m (2018: £20m) of credit losses on financial assets. For further details see note 17.

(3) See note 1 for an explanation of Alternative Performance Measures (APMs) and non-Headline items. See note 9 for a reconciliation of Headline information to Statutory information.

Consolidated statement of comprehensive income
For the year ended 31 March 2019

	2019 £m	2018 (restated)[1] £m
Profit/(loss) for the year attributable to the owners of the Company	**32**	(100)
Other comprehensive income		
Items that may be reclassified to profit or loss:		
Gain on a hedge of a financial instrument	—	2
Gain on a hedge reclassified to income statement	—	6
Total other comprehensive income	—	8
Total comprehensive income/(expense) attributable to the owners of the Company	**32**	(92)

The accompanying notes 1 to 28 are an integral part of this consolidated statement of comprehensive income. All amounts relate to continuing operations.

(1) See note 1 for further details on the restatement of comparative information due to the retrospective application of IFRS 15 and IFRS 9.

Consolidated balance sheet
Company number: 07105891
As at 31 March 2019

	Notes	2019 £m	2018 (restated)[1,2] £m
Non-current assets			
Goodwill	11	**495**	495
Other intangible assets	11	**235**	251
Property, plant and equipment	12	**199**	234
Investment in joint venture	14	**2**	3
Trade and other receivables	17	**2**	2
Contract costs	18	**308**	228
Deferred tax assets	7	**118**	81
		1,359	1,294
Current assets			
Inventories	16	**34**	29
Trade and other receivables	17	**160**	246
Contract assets	18	**39**	20
Cash and cash equivalents	20	**67**	43
		300	338
Assets classified as held for sale[2]	15	**47**	34
Total assets		**1,706**	1,666
Current liabilities			
Trade and other payables	19	**(491)**	(480)
Contract liabilities	18	**(20)**	(16)
Borrowings	20	**(10)**	(96)
Provisions	22	**(35)**	(31)
		(556)	(623)
Liabilities classified as held for sale	15	**(7)**	(6)
Non-current liabilities			
Trade and other payables	19	**(5)**	(6)
Borrowings	20	**(838)**	(723)
Provisions	22	**(12)**	(28)
		(855)	(757)
Total liabilities		**(1,418)**	**(1,386)**
Net assets		**288**	280
Equity			
Share capital	23	**1**	1
Share premium	24	**684**	684
Translation reserve	24	**(64)**	(64)
Demerger reserve	24	**(513)**	(513)
Retained earnings and other reserves	24	**180**	172
Total equity		**288**	**280**

(1) See note 1 for further details on the restatement of comparative information due to the retrospective application of IFRS 15 and IFRS 9.

(2) See note 1 for further details on the restatement of the assets classified as held for sale.

The accompanying notes 1 to 28 are an integral part of this consolidated balance sheet.

These financial statements were approved and authorised for issue by the Board on 23 May 2019. They were signed on its behalf by:

T Harrison
Chief Executive Officer

K Ferry
Chief Financial Officer

Consolidated cash flow statement
For the year ended 31 March 2019

	Notes	2019 £m	2018 (restated)[1] £m
Operating activities			
Operating profit/(loss)		**47**	(44)
Share-based payments	4	**3**	8
Depreciation of property, plant and equipment	12	**71**	72
Amortisation of other operating intangible assets	11	**67**	62
Amortisation of acquisition intangibles	11	**8**	9
Share of losses of joint ventures	14	**10**	11
Impairment of other operating intangible assets	11	**—**	2
Reversal of cost of inventories previously written down		**(2)**	(1)
Gain on disposal of customer base		**(2)**	—
Gain on disposal of joint venture	14	**—**	(1)
(Decrease)/increase in provisions		**(12)**	23
Operating cash flows before movements in working capital		**190**	141
Decrease in trade and other receivables		**76**	39
Increase in contract assets		**(99)**	(8)
(Increase)/decrease in inventory		**(3)**	1
Increase/(decrease) in trade and other payables		**25**	(38)
(Decrease)/increase in contract liabilities		**4**	1
Cash flows generated from operating activities		**193**	136
Income taxes paid		**(1)**	—
Net cash flows generated from operating activities		**192**	136
Investing activities			
Acquisition of subsidiaries and joint ventures, net of cash acquired		**(9)**	(8)
Disposal of customer bases		**2**	—
Investment in intangible assets		**(67)**	(87)
Investment in property, plant and equipment		**(37)**	(38)
Cash flows used in investing activities		**(111)**	(133)
Financing activities			
Settlement of Group ESOT shares		**1**	1
Issue of shares		**—**	201
Repayments of obligations under finance leases		**(9)**	(4)
Repayments of borrowings	25	**(27)**	(391)
Drawdown of borrowings	25	**55**	309
Interest paid		**(43)**	(42)
Other finance costs		**(6)**	(13)
Equity dividends paid	8	**(28)**	(71)
Cash flows used in financing activities		**(57)**	(10)
Net increase/(decrease) in cash and cash equivalents		**24**	(7)
Cash and cash equivalents at the start of the year		**43**	50
Cash and cash equivalents at the end of the year	20	**67**	43

(1) See note 1 for further details on the restatement of comparative information due to the retrospective application of IFRS 15 and IFRS 9.

The accompanying notes 1 to 28 are an integral part of this consolidated cash flow statement.

Consolidated statement of changes in equity
For the year ended 31 March 2019

	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 2017 as previously reported		1	684	(64)	(513)	32	140
Change in accounting policies in respect of IFRS 9 and IFRS 15 (net of tax)	1	—	—	—	—	89	89
At 1 April 2017 (restated)(1)		1	684	(64)	(513)	121	229
Loss for the year (restated)		—	—	—	—	(100)	(100)
Other comprehensive income							
Items that may be reclassified to profit or loss:							
Gain on hedge of a financial instrument		—	—	—	—	2	2
Gain on hedge of a financial instrument		—	—	—	—	6	6
Total other comprehensive income		—	—	—	—	8	8
Total comprehensive expense (restated)		—	—	—	—	(92)	(92)
Transactions with the owners of the Company							
Share-based payments	4	—	—	—	—	12	12
Settlement of Group ESOT shares		—	—	—	—	1	1
Issue of shares	23	—	—	—	—	201	201
Equity dividends	8	—	—	—	—	(71)	(71)
Total transactions with the owners of the Company		—	—	—	—	143	143
At 31 March 2018 (restated)		1	684	(64)	(513)	172	280
Profit for the year		**—**	**—**	**—**	**—**	**32**	**32**
Total comprehensive income		**—**	**—**	**—**	**—**	**32**	**32**
Transactions with the owners of the Company							
Share-based payments	4	**—**	**—**	**—**	**—**	**3**	**3**
Settlement of Group ESOT shares		**—**	**—**	**—**	**—**	**1**	**1**
Equity dividends	8	**—**	**—**	**—**	**—**	**(28)**	**(28)**
Total transactions with the owners of the Company		**—**	**—**	**—**	**—**	**(24)**	**(24)**
At 31 March 2019		**1**	**684**	**(64)**	**(513)**	**180**	**288**

(1) See note 1 for further details on the restatement of comparative information due to the retrospective application of IFRS 15 and IFRS 9.

The accompanying notes 1 to 28 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 and is a public limited company. The registered office of the Company is 11 Evesham Street, London, W11 4AR. The principal activities of the Group are the provision of telecommunication services to Consumer and B2B customers.

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

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

Management has reviewed the potential impact of Brexit on the Group financial statements and has concluded that the impact will be limited, this includes any impact on the IFRS 9 expected loss model, further details have been included in note 17 to the consolidated financial statements. Management also note no changes to this assessment from a post balance sheet event perspective.

The consolidated financial statement comparatives have been restated to reflect the retrospective application of IFRS 9 and 15. In addition, following the preparation of the unaudited condensed financial statements for the period ended 30 September 2018 and the conclusion of the IFRS 15 transition project, management have finalised the impact of IFRS 15. This has given rise to changes to the period of contract cost deferral and the recognition of stock owned by a third party. Further details are included in relation to the retrospective application of IFRS 15 within this note to the consolidated financial statements on pages 93 to 96.

During the year ended 31 March 2019, the Group has restated the assets classified as held for sale at 31 March 2018 from £13m to £34m. This has arisen as non-current assets of £8m and inventory of £13m were identified as forming part of the FibreNation disposal group and therefore more appropriately classified as held for sale under IFRS 5. The Group has also restated the liabilities classified as held for sale at 31 March 2018 from £11m to £6m to more appropriately classify liabilities within the Group. The impact has been to reduce non-current assets from £1,095m by £13m and reduce current assets from £434m by £8m. Current liabilities has decreased from £568m by £5m (before the impact of IFRS 9 and IFRS 15 restatements). Further details on assets held for sale is presented in note 15.

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 up to 31 March each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

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

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

Alternative performance measures (APMs)

The consolidated financial statements include APMs as well as Statutory measures. These APMs used by the Group are not defined terms under IFRS and may therefore not be comparable with similarly titled measures reported by other companies. They are not intended to be a substitute for, or superior to, GAAP measures. All APMs relate to the current year results and comparative periods where provided. This presentation is also consistent with the way that financial performance is measured by management, reported to the Board, the basis of financial measures for senior management's compensation schemes and provides supplementary information that assists the user in understanding the financial performance, position and trends of the Group. The APMs were the same as those that applied to the audited consolidated financial statements for the year ended 31 March 2018. See note 9 for reconciliation of Headline information to Statutory information.

During the prior year, the Group refined its policy in relation to non-Headline items so as to streamline its application, simplify the Group's reporting and ensure consistency between Headline and non-Headline performance. In particular, the Board considers that the recognition of service level related credits should be included in Headline performance, consistent with the recognition of the associated costs for which the Group is being compensated. The MVNO operating loss, being in relation to a business being exited, has also been recognised within non-Headline results. There was no impact on the Statutory performance of the Group or the Group's consolidated balance sheet. See page 139 for listing and definitions of APMs.

Performance is measured based on Headline EBITDA, defined as operating profit or loss before non-Headline items, as presented to the CODM. EBITDA is defined as the operating profit or loss before depreciation, amortisation, share of results of joint ventures, net finance costs and taxation.

Going concern

The Directors have acknowledged the guidance 'Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009', published by the FRC in October 2009.

Our business activities, together with the factors likely to affect our future performance and market position are set out in the Chief Executive's Review. Our financial position, cash and borrowing facilities are described within the Chief Financial Officer's Statement, together with further detail on other sources of finance including receivables financing and commitments given in the notes to the consolidated financial statements.

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

We have £1,115m of committed credit facilities and as at 31 March 2019 the headroom on these facilities was £306m. Our forecasts and projections, after assuming a soft/no Brexit, and taking into account reasonably possible changes in trading performance indicate that there is sufficient cash and covenant headroom on our facilities. In considering reasonably possible sensitivities, we have identified feasible mitigating actions and cash management activities together with the use of additional, currently uncommitted, facilities within our control to ensure covenants are not breached. This, together with our market positioning, means that we are well placed to manage our business risks successfully and have adequate resources to continue in operational existence for the foreseeable future. The Directors have therefore adopted the going concern basis of accounting preparing the financial statements.

The UK Corporate Governance Code requires the Directors to assess and report on the prospects of the Group over a longer period. This longer term viability statement is set out within the Annual Report on page 48.

Accounting policies

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

Revenue

Revenue is presented net of VAT and other sales related taxes. Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a good or service to a customer.

Nature of goods and services

The Group's revenues are earned from the provision of fixed connectivity services. The typical length of a contract for bundled packages is 12–36 months. Contracts often include multiple goods and services, which are generally capable of being separately identifiable or distinct and accounted for as separate performance obligations.

For bundled packages, including monthly service fees and activation fees from contract subscribers, the Group accounts for revenue from individual goods and services separately if they are distinct – i.e. if a good or service can be distinguished from other components of the bundled package and if a customer can benefit from it separately. The consideration for the bundled packages comprises cash flows from customers, expected to be received in relation to goods and services delivered over the contract term. The consideration (transaction price) is net of any discounts and credits and is allocated between separate performance obligations in a bundle based on their relative stand-alone selling prices.

The Group identifies the following primary performance obligations: supply of connectivity services (broadband, Fibre, ethernet, TV, etc.) and the supply of hardware (routers, set top boxes, etc.). As a practical expedient different connectivity services are typically applied concurrently; as a result, they are accounted for as a single performance obligation.

Stand-alone selling prices for connectivity services and hardware are based on individual pricing where such observable prices exist. Otherwise such prices are defined in reference to their assessed market value or a cost plus a margin approach.

The timing of satisfaction of performance obligations is summarised below:

- Hardware—at a point in time, typically at contract inception when control of the hardware is transferred to the customer. This usually occurs when the customer signs a new contract, the connectivity service is due to commence and the hardware is sent to the customer.

- Services/subscriptions—over time as the services are provided, reflecting the customer simultaneously receiving and consuming the connectivity service. Revenue is recognised on a straight line basis over the contract term based on the nature of the connectivity services. The services are billed and paid for on a monthly basis.

Additional services, such as usage (including TV content), result in revenue recognition only once the customer utilises the service.

The probability of collectability is assessed across the Group and where collectability is identified not to be probable, revenue is recognised only when the cash is received from the customer.

Contract assets and liabilities

The recognition of revenue as described above results in the recognition of contract assets (e.g. where more revenue has been recognised upfront in relation to hardware compared to actual cash consideration received for the hardware) and contract liabilities (e.g. where connection revenues received from the customer upfront are deferred over the contract term). Each contract asset and liability will unwind over the related contract term. Both contract assets and liabilities are shown separately in the consolidated financial statements. Contract assets include some accrued income which is assessed for impairment based on lifetime expected credit losses (ECL), in accordance with IFRS 9.

Contract costs

Contract costs eligible for capitalisation as incremental costs of obtaining a contract comprise commission costs directly attributable to obtaining contracts or pools of contracts. Contract costs are capitalised in the month of service activation if the Group expects to recover those costs. Contract costs comprise sales commissions paid to retail partners and to sales agents which can be directly attributed to an acquired or retained contract. In all other cases subscriber acquisition and retention costs are expensed when incurred.

Costs directly incurred in fulfilling a contract with a customer, which largely comprise the cost of connecting a customer to the Group's network so that the connectivity services can be provided are recognised as an asset.

Capitalised commission and connection costs are amortised on a systematic basis that is consistent with the transfer to the customer of the services when the related revenues are recognised. The Group has determined that average customer tenure (50–60 months for broadband and 120 months for Ethernet) is an appropriate period to amortise cost to obtain and fulfil a contract. This reflects the fact that incremental commissions are typically not paid on customer renewals or extensions. Likewise, connection costs support a customer over their tenure and are not required again because a customer renews or goes beyond their minimum contract term. These costs are accounted for on a portfolio basis, and are reviewed for impairment, taking into account the Group's customer life-time value analysis.

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 IFRS 9 'Financial Instruments' has been applied. The gain or loss is recognised 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**	
	2019	**2018**	**2019**	**2018**
Euro	**1.13**	1.14	**1.16**	1.14
United States Dollar	**1.31**	1.34	**1.30**	1.40

Leases

The Group as lessee

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below).

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

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.

Classification and measurement of financial assets and liabilities

Classification of financial assets is generally based on the business model in which the financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at amortised cost if it is held with the objective of collecting the contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. All other financial assets are measured at fair value through other comprehensive income or profit or loss.

Financial assets at amortised cost

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 financial assets measured at amortised cost.

Under the IFRS 9 'expected credit loss' model, a credit event (or impairment 'trigger') no longer needs to occur before credit losses are recognised. The Group analysed the risk profile of trade receivables based on past experience and an analysis of the receivable's current financial position, potential for a default event to occur, adjusted for specific factors, general economic conditions of the industry in which the receivables operate and assessment of both the current and the forecast direction of conditions at the reporting date. A default event is considered to occur when information is obtained that indicates that a receivable is unlikely to pay the Group.

Credit risk is regularly reviewed by management to ensure the expected credit loss (ECL) model is being appropriately applied.

Interest income is recognised by applying the effective interest rate, except for short term receivables when the recognition of interest would be immaterial.

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

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

Income from suppliers in the year related to renegotiated contract rates and compensation received under existing contracts and 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.

Financial liabilities at amortised cost

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 are generally classified as subsequently measured at amortised cost. Financial liabilities not measured at amortised cost include, derivatives held for trading and other financial liabilities designated as such at initial recognition, which are measured at fair value through other comprehensive income. Financial liabilities are derecognised when they are extinguished.

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, Senior Notes, a receivables purchase agreement and bank overdrafts. These are initially measured at net proceeds and are subsequently measured at amortised cost, using the effective interest rate method.

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

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

Financial assets and liabilities at fair value through other comprehensive income

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 within 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.

The Group's hedging policy is not affected by the adoption of IFRS 9.

Cash flow hedges

The Group may use derivative instruments (primarily interest rate swaps) to manage its interest rate risk. The Group designates these as cash flow hedges. The portion of the gain or loss on the hedging instrument determined to be an effective hedge is recognised in other comprehensive income. These amounts have been reclassified to profit or loss in accordance with IFRS 9. Any remaining gain or loss on the hedging instrument is hedge ineffectiveness that is recognised in profit or loss.

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.

- 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 principal items in the financial statements involving critical accounting judgements are as follows:

Forecast assumptions used in the going concern and viability statement assessments

When the Directors review forecast assumptions used in the going concern assessment, they apply judgement on what are considered reasonably possible changes in trading performance, how likely sources of finance will be renewed and whether certain future commitments will crystallise. In relation to the viability statement, the Directors take into account the Group's current financial position, and give judgement on which hypothetical scenarios linked to the Group's principal risks would be necessarily severe for the purpose of creating outcomes that have the ability to threaten the viability of the Group and consequently give rise to the need for mitigating actions. These judgements are subjective in nature, but such considerations are necessary for the Directors to confirm the viability of the Group and the treatment of it as a going concern.

Classification of items as non-Headline

Headline measures represent trading results before non-Headline items which are defined in note 9. The Directors believe that presentation of the Group's results in this way is relevant to assist the user in understanding the financial performance, position and trends of the Group, as non-Headline items are identified by virtue of their size, nature and/or incidence. This presentation is consistent with the way that financial performance is measured by management, reported to the Board, the basis of financial measures for senior management's compensation schemes and assists in providing supplementary information that allows the user in understanding the underlying trading results. In determining whether an event or transaction is non-Headline, the Directors consider both quantitative and qualitative factors such as the nature of the item and the frequency or predictability of occurrence.

Supplier arrangements

The Group will from time to time enter new or amended supplier arrangements, which due to their nature may require judgement to ensure that associated income and costs are classified and measured appropriately and recognised in the correct period. Such arrangements may include bonuses/commissions received or paid. For amounts paid consideration is given as to whether these are treated as a contract cost and therefore deferred on the balance sheet over customer tenure or instead recognised upfront in the period incurred. For income received a judgement is made as to whether this relates to future or past events and the timing of recognition will reflect this.

Recognition of revenue

The application of IFRS 15 requires the Group to make critical judgements that affect the determination of the amount and timing of revenue and costs from contracts with customers. These include:

- Contract costs

  Judgement has been exercised in determining contract costs that are appropriate to be capitalised. Most incremental commissions and connection costs in the business clearly meet the requirements; however, other arrangements, such as volume bonuses based on the delivery of a pool of contracts, require greater judgement. These contract costs are amortised over average customer tenure (50–120 months depending on the product and channel) which reflects the fact that incremental commissions are typically not paid on customer renewals and that connection costs support a customer over their tenure not just their initial contract term.

- Collectability

  The probability of collectability is assessed across the Group. Revenue is recognised when the performance obligation is complete. Early termination fees in the Consumer business have a lower recovery rate and on this basis such revenue is not recognised upfront, but rather when the cash is received from the customer.

- Agent vs principal

  Consideration is given to arrangements in the partner channel in the Business division, to assess who is the Group's customer, being either the partner or the end customer. Following consideration of the fact that customer relationship services, pricing decisions and billing to the end customer are provided by the partner, it is assessed that the partner is TalkTalk's customer. Whilst TalkTalk contracts directly with the partner, the IFRS 15 contract is assessed to be at the individual circuit and therefore measured at this level. This reflects the fact that it is at this level that the partner makes its buying decision, the Group accepts the order, each party defines its obligations, the contract terms are defined and the Group provides its services.

The principal items in the financial statements involving key sources of estimation uncertainty are:

Recognition of revenue

The application of IFRS 15 requires the Group to make certain estimates that affect the determination of the amount and timing of revenue and costs from contracts with customers. These include:

- **Contract costs and customer life-time value analysis**

  Contract costs are deferred and recognised over the expected duration of the customer relationship. The estimate of the expected average duration of customer relationship is based on customer churn relative to the size of the customer base and is currently determined to be 50–120 months depending on the product and channel. However, such rates are subject to fluctuation and may be impacted by future events such as new product launches, an increase in competition in the market or wider macroeconomic factors. A lower average customer tenure would mean that deferred costs are amortised over a shorter period of time and could result in an impairment of the asset in lower profitability channels. A six-month reduction in customer tenure which is considered a reasonably possible movement would not result in an impairment charge, but deferred costs associated with one channel would then have limited headroom and therefore could be subject to impairment at tenures below this.

New and amended accounting standards that have been issued but are not yet effective

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective and, in some cases, had not yet been adopted by the EU:

- IFRS 3 'Business Combinations'
- IFRS 11 'Joint Arrangements'
- IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'
- IAS 12 'Income Taxes'
- IAS 19 'Employee Benefits'
- IAS 28 'Investments in Associates and Joint Ventures'
- IAS 39 'Financial Instruments: Recognition and Measurement'

These IFRSs are not expected to have a material impact on the Group's consolidate financial position or performance of the Group.

Application of significant new or amended EU-endorsed accounting standards

IFRS 9

The Group has applied IFRS 9 retrospectively and restated comparatives, to aid comparability of financial performance. The adjustments arising from the adoption of IFRS 9 are reflected in the restated balance sheet as at 31 March 2018 with an opening cumulative effect being recognised in retained earnings as at 1 April 2017.

The application of IFRS 9's impairment requirements at 1 April 2017 and IFRS 15's collectability assessment resulted in a £33m reduction in the Group's retained earnings as at 1 April 2017. A related net deferred tax asset of £5m has also been recognised.

IFRS 9 introduces new requirements for the following areas:

- the classification and measurements of financial assets and financial liabilities;
- impairment of financial assets; and
- general hedge accounting.

Classification and measurement of financial assets and financial liabilities

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the Group's business model for managing financial assets and the contractual cash flow characteristics.

The Group has not designated any debt investments that meet the amortised cost or FVTOCI criteria as measured at fair value through profit or loss (FVTPL).

The Directors of the Company reviewed and assessed the Group's existing financial assets and liabilities based on the facts and circumstances upon transition and concluded that the initial application of IFRS 9 has had no impact on classification and measurement, apart from the impairment of financial assets noted below.

Impairment of financial assets

The only material impact on the consolidated financial statements is in relation to the impairment of trade receivables within financial assets.

IFRS 9 requires an ECL model as opposed to an incurred credit loss model under previous accounting policies (IAS 39 'Financial Instruments: Recognition and Measurement'). The ECL model requires the Group to account for lifetime ECL and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. On this basis, it is no longer necessary for a default event to have occurred before credit losses are recognised. As a consequence of this change, credit losses are recognised earlier than under IAS 39.

IFRS 9 requires the Group to assess the risk profile of its trade receivables. The Group analysed the risk profile of trade receivables based on past experience and an analysis of the receivable's current financial position, adjusted for specific factors, general economic conditions of the industry in which the receivables operate and assessment of both the current and the forecast direction of conditions at the reporting date. The Group has performed the calculation of ECL separately for Consumer and Business customers and rebutted the assumption under IFRS 9 that all debts over 90 days should have a credit allowance.

General hedge accounting

In accordance with IFRS 9's transition provisions for hedge accounting, the Group has applied the IFRS 9 hedge accounting requirements retrospectively from the date of initial application on 1 April 2017. The Group's qualifying hedging relationships in place as at 1 January 2018 also qualified for hedge accounting in accordance with IFRS 9 and were therefore regarded as continuing hedging relationships. No rebalancing of any of the hedging relationships was necessary on 1 April 2017. As the critical terms of the hedging instruments match those of their corresponding hedged items, all hedging relationships continue to be effective under IFRS 9's effectiveness assessment requirements. The Group has also not designated any hedging relationships under IFRS 9 that would not have met the qualifying hedge accounting criteria under IAS 39.

IFRS 15

Background and adoption

IFRS 15 'Revenue from Contracts with Customers' impacts the amount, timing and recognition of revenue and certain associated costs, as well as related disclosures. The Group has implemented IFRS 15 in the current year and has applied the fully retrospective approach meaning the comparative year has been restated and there has been a one-off cumulative credit to retained earnings relating to transition at 1 April 2017 of £144m and the recognition of a £27m deferred tax liability.

IFRS 15 requires the Group to apportion revenue earned from contracts with customers to performance obligations the Group has with our customers, on the basis of stand-alone selling prices. This is done through applying a five-step model defined in the standard:

1. Identify the contract with the customer.

2. Identify the performance obligations in the contract.

3. Determine the transaction price.

4. Allocate the transaction price to the performance obligations in the contract.

5. Recognise revenue when (or as) the entity satisfies a performance obligation.

In addition to the changes to revenue recognition described above, IFRS 15 also provides guidance in relation to certain costs incurred obtaining a contract or fulfilling the contract with the customer, requiring such costs to be deferred over time.

The Group put in place a cross-functional team to assess the impact of IFRS 15, determine appropriate accounting policies, and implement appropriate systems and processes so as to be able to calculate opening adjustments and ongoing IFRS 15 compliant financial records. Assessment was also given to other matters such as implications for employee remuneration, tax, forecasting and covenant compliance.

Key impacts and changes in accounting policy

The key effects of the application of IFRS 15 are as follows:

- Revenue continues to be recognised upfront in relation to hardware provided to the customer (routers, set top boxes, etc.); however, whilst previously such revenue was recognised only to the extent the customer contributed to this hardware, under IFRS 15 revenue is allocated to the hardware based on the relative stand-alone selling prices of each of the performance obligations of the contract regardless of their contract pricing. Stand-alone selling prices are determined by reference to the price at which the Group sells the individual goods or services stand-alone, their assessed market value and a cost plus methodology. As the Group often provides hardware free or at a discounted price to customers, this results in more revenue being recognised at the commencement of a contract when the hardware is provided, and less being recognised over the remainder of the contract as the service is provided.

- Connection revenues, being fees charged to the customer to connect them to the Group's network, were previously recognised at the point the connection activity has been completed at the commencement of the contract. Under IFRS 15 such activities are typically not a performance obligation and therefore the revenue forms part of the overall transaction price being allocated to each of the actual performance obligations of the contract based on their relative stand-alone prices.

- Certain discounts and credits were previously deferred and amortised over the minimum customer contract period and where such a minimum period did not exist over the average customer tenure. As these discounts are not related to performance obligations under IFRS 15 they form part of the total transaction price and are allocated to each of the performance obligations in line with their relative stand-alone selling prices.

- Incremental sales commission costs directly attributable to obtaining contracts or pools of contracts and directly attributable costs associated with fulfilling the customer contracts (largely comprising the costs of connecting a customer) were previously expensed as incurred. These costs are now recognised as an asset and amortised over the period in which the corresponding benefit is received, which is assessed to be average customer tenure (50–120 months). Average customer tenure is based on customer behaviour, with specific reference to their propensity to churn. Commission costs not incremental to new contracts continue to be expensed as incurred.

- A collectability assessment has been performed in relation to all streams of revenue. Where recoverability has been found not to be probable, which is the case in regard to certain early termination fees, the revenue is recognised when received rather than following the revenue recognition policies stated above.

- The Group previously had certain arrangements whereby it would repurchase stock owned by a third party, where this inventory had been previously sold by the Group. IFRS 15 provides prescriptive guidance on such repurchase arrangements and consequently this is now treated as a financing arrangement. Therefore rather than derecognising the stock when sold to the third party as was previously the treatment, the stock continues to be recognised by the Group and a corresponding debt balance recognised. This stock has been recognised applying the Group's stock provision policy set out in note 16.

Summary of financial impact of retrospective adoption of IFRS 15 and IFRS 9 on consolidated financial statements

The following tables summarise the financial impacts of adopting IFRS 15 and IFRS 9 on the Group's consolidated financial statements:

Consolidated income statement and other comprehensive income

	2018 Headline			**2018 Non-Headline**			**2018 Statutory**		
	Previously reported £m	**IFRS 15 & 9 adjustments £m**	**As restated £m**	**Previously reported £m**	**IFRS 15 & 9 adjustments £m**	**As restated £m**	**Previously reported £m**	**IFRS 15 & 9 adjustments £m**	**As restated £m**
Revenue	1,658	(53)	1,605	50	(2)	48	1,708	(55)	1,653
Cost of sales	(774)	—	(774)	(38)	—	(38)	(812)	—	(812)
Gross profit	884	(53)	831	12	(2)	10	896	(55)	841
Operating expenses	(651)	23	(628)	(109)	6	(103)	(760)	29	(731)
EBITDA	233	(30)	203	(97)	4	(93)	136	(26)	110
Depreciation and amortisation	(131)	—	(131)	(12)	—	(12)	(143)	—	(143)
Share of results of joint ventures	(11)	—	(11)	—	—	—	(11)	—	(11)
Operating profit/(loss)	91	(30)	61	(109)	4	(105)	(18)	(26)	(44)
Net finance costs	(45)	(1)	(46)	(10)	—	(10)	(55)	(1)	(56)
Profit/(loss) before taxation	46	(31)	15	(119)	4	(115)	(73)	(27)	(100)
Taxation	(28)	6	(22)	22	—	22	(6)	6	—
Loss for the period attributable to the owners of the Company	18	(25)	(7)	(97)	4	(93)	(79)	(21)	(100)
Total comprehensive expense							(71)	(21)	(92)

Earnings/(loss) per share

	2018		
	Previously reported £m	**IFRS 15 & 9 adjustments £m**	**As restated £m**
Headline earnings/(losses)	18	(25)	(7)
Statutory loss	(79)	(21)	(100)
Weighted average number of shares (millions)			
Shares in issue	979	—	979
Less weighted average holdings by Group ESOT	(4)	—	(4)
For basic EPS	975	—	975
Dilutive effect of share options	12	—	12
For diluted EPS	987	—	987

	Previously reported £m	**IFRS 15 & 9 adjustments £m**	**As restated £m**
Basic earnings/(loss) per ordinary share			
Headline	1.8	(2.5)	(0.7)
Statutory	(8.1)	(2.2)	(10.3)

	Previously reported £m	**IFRS 15 & 9 adjustments £m**	**As restated £m**
Diluted earnings/(loss) per ordinary share			
Headline	1.8	(2.5)	(0.7)
Statutory	(8.0)	(2.1)	(10.1)

Consolidated balance sheet

	2018 (restated)		
	Previously reported (re-presented)[(1)] £m	IFRS 15 & 9 adjustments £m	As restated £m
Non-current assets			
Goodwill	495	—	495
Other intangible assets	251	—	251
Property, plant and equipment	234	—	234
Investment in joint venture	3	—	3
Trade and other receivables	2	—	2
Contract costs	—	228	228
Deferred tax assets	97	(16)	81
	1,082	212	1,294
Current assets			
Inventories	22	7	29
Trade and other receivables	361	(115)	246
Contract assets	—	20	20
Cash and cash equivalents	43	—	43
	426	(88)	338
Assets classified as held for sale[(1)]	34	—	34
Total assets	1,542	124	1,666
Current liabilities			
Trade and other payables	(467)	(13)	(480)
Contract liabilities	—	(16)	(16)
Borrowings	(75)	(21)	(96)
Provisions	(31)	—	(31)
	(573)	(50)	(623)
Liabilities classified as held for sale	(6)	—	(6)
Non-current liabilities			
Trade and other payables	—	(6)	(6)
Borrowings	(723)	—	(723)
Provisions	(28)	—	(28)
	(751)	(6)	(757)
Total liabilities	(1,330)	(56)	(1,386)
Net assets	212	68	280
Equity			
Share capital	1	—	1
Share premium	684	—	684
Translation reserve	(64)	—	(64)
Demerger reserve	(513)	—	(513)
Retained earnings and other reserves	104	68	172
Total equity	212	68	280

(1) The Group has re-presented the net assets classified as held for sale as at 31 March 2018 to £28m from £2m to include additional non-current assets of £8m and inventory of £13m and a reduction in current liabilities of £5m, reflecting those assets and liabilities that qualify as held for sale under IFRS 5.

Consolidated cash flow statement

Impact on cash generated from operations:	2018 (restated) Previously reported £m	IFRS 15 & 9 adjustments £m	As restated £m
Operating activities			
Operating loss	(18)	(26)	(44)
Share-based payments	8	—	8
Depreciation of property, plant and equipment	72	—	72
Amortisation of other operating intangible assets	62	—	62
Amortisation of acquisition intangibles	9	—	9
Share of losses of joint ventures	11	—	11
Impairment of other operating intangible assets	2	—	2
Reversal of cost of inventories previously written down	—	(1)	(1)
Gain on disposal of joint venture	(1)	—	(1)
Increase in provisions	23	—	23
Operating cash flows before movements in working capital	168	(27)	141
Decrease in trade and other receivables	12	27	39
Increase in contract assets	—	(8)	(8)
(Increase)/decrease in inventory	(17)	18	1
Decrease in trade and other payables	(45)	7	(38)
Increase in contract liabilities	—	1	1
Cash generated from operations	118	18	136

Future accounting developments

At the date of authorisation of these consolidated financial statements, IFRS 16 has not been applied. IFRS 16 was in issue, but not yet effective.

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

IFRS 16

Transition approach

The Group will adopt this standard for the year ending 31 March 2020 under a modified retrospective approach. The Group has a variety of operating leases and certain finance leases already recognised within the Group financial statements. The accounting for finance leases remains materially unchanged between IAS 17 and IFRS 16. However, the accounting for operating leases in particular will change when IFRS 16 is implemented.

Structure and status of IFRS 16 implementation project

The Group commenced an implementation project prior to 31 March 2017, whereby management performed a feasibility impact of the proposed standard. This process and initial findings were discussed with the Audit Committee in March 2017 following consultation with advisers and the Group's auditor.

Following this feasibility review, management has implemented specific governance around the project cumulating in the development of an in-house central depositary platform for leases and the associated relevant data in the Group's network. The platform and its control environment will continue to be developed as the Group transitions to IFRS 16 during the year ending 31 March 2020.

Implications of IFRS 16

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

- a number of lease contracts currently disclosed within note 26 to the financial statements, which currently give rise to recurring expenses within operating expenses, will be recognised on the balance sheet as a 'right of use asset' for the year ending 31 March 2020;

- a corresponding lease liability (current and non-current) reflecting the Group's commitment to pay consideration to third parties under these contracts will also be recognised, increasing the Group's net debt although the cash flow profile remains the same for the Group;

- the Group will depreciate the right of use assets through profit and loss over the shorter of the assets' useful lives and the assessed lease term;

- the Group will charge interest on the liability using the rate of interest implicit in the lease or, if the interest rate implicit in the lease cannot be determined, the Group's incremental borrowing rate. Interest will be charged to finance costs; and

- the profile of the overall expense in profit and loss will change as the interest expense will be more front-loaded compared to a straight line operating lease rental expense.

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

- whether there is an identified asset that the Group has the right to obtain substantially all the economic benefits;

- whether the Group has the right to direct how and for what purpose the asset is used;

- whether the Group has the right to operate the asset without the supplier having the right to change those operating instructions; and

- whether the Group has designed the asset in a way that predetermines how and for what purpose the asset will be used.

In addition, management has also considered other salient factors in the assessment of the standard such as:

- the length of assessed lease term taking into account the non-cancellable period of the lease including periods covered by an option to extend or an option to terminate if the Group is reasonably certain to exercise either option; and

- the applicability of interest rate implicit in the lease or the Group's incremental borrowing rate.

Following the above assessment, management have concluded that the following items that are currently classified as operating leases (note 26) will be recognised in the financial statements using the new requirements:

- certain property, including offices and data centres;

- the Group's backhaul network, being backhaul circuits;

- the Group's collector ring, being collector circuits;

- elements of the Group's core network;

- all dedicated bandwidth Fibres we rent from third parties;

- the Group's interconnect network, being primarily ISI circuits and ducts;

- IT equipment leases, including printers; and

- motor vehicles.

Key IFRS 16 judgements

A high volume of transactions will be impacted by IFRS 16 and material judgements will be required in identifying and accounting for leases. The most significant judgements in applying IFRS 16 relate to the identification of leases and the determination of lease term, particularly in relation to high volume network leases. In identifying which arrangements contain a lease, management have concluded that the following arrangements will be out of the scope of IFRS 16 based upon the Group's specific network circumstances:

- the footprint the Group rents from BTOR in the unbundled exchanges and in co-location data centres, as this is not considered to be an identifiable asset that the Group has the right to direct the use of;

- the copper and Fibre lines the Group rents in the 'last mile', comprising copper between the exchange and customer/business premise for MPF and SMPF customers, and a combination of copper and Fibre for our FTTC customers, as the Group does not have the ability to control or direct the use of the equipment in full as stipulated within IFRS 16; and

- the determination of the lease term for high volume network leases has been made using a portfolio approach, for which the portfolio lease term has been determined as five years. This determination has been made based on the best available evidence of historical average use of such assets, taking into account expectations of future usage. The Group will review its portfolio term on an annualised basis. The potential impact on transition of adopting a four or six-year lease term would decrease or increase the lease liability respectively with a corresponding similar decrease or increase in the right of use asset.

Exemptions and practical expedients to be applied and taken

Management has reviewed available exemptions contained within IFRS 16 and concluded that tie cables, being the tie pairs the Group rents from BTOR in the unbundled exchanges, and laptops will fall under the low value asset exemption. The Group therefore intends to utilise this exemption for these assets.

Management has concluded that the following areas give rise to practical expedients which will be applied:

- The Group plans to exclude directly attributable initial costs from the measurement of the right of use asset on transition. The Group will therefore apply transition provisions in relation to previously capitalised connection costs and write off these costs through opening reserves. Future connection costs after the date of transition as will be included within the right of use asset.

- The Group plans to assess if leases are onerous under IAS 37 immediately before transition opposed to performing an impairment review under IAS 36.

- The Group will apply on a lease by lease basis the short term lease exemption under IFRS 16 for those leases with less than twelve months remaining at the date of transition.

2. Segmental reporting

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

	2019 £m	**2018 (restated) £m**
Statutory revenue	**1,632**	1,653
Less MVNO revenue	**(23)**	(48)
Headline revenue[(1)]	**1,609**	1,605

	2019 £m	2018 (restated) £m
Headline EBITDA[1]	**237**	203
Depreciation of property, plant and equipment	**(71)**	(69)
Amortisation of operating intangibles	**(67)**	(62)
Share of results of joint ventures	**(10)**	(11)
Non-Headline items—gross profit	**12**	10
Non-Headline items—operating expenses	**(46)**	(103)
Non-Headline items—depreciation and amortisation	**(8)**	(12)
Statutory operating profit/(loss) (note 9)	**47**	(44)

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

	2019 £m	2018 (restated) £m
On-net[3]	**1,263**	1,216
Corporate	**333**	367
Off-net	**13**	22
Headline revenue[1,2,3]	**1,609**	1,605
Less Carrier	**(52)**	(72)
Less Off-net	**(13)**	(22)
Headline revenue (excluding Carrier and Off-net)[1]	**1,544**	1,511

(1) See note 1 for an explanation of alternative performance measures (APMs) and non-Headline items. See note 9 for a reconciliation of Headline information to Statutory information.

(2) See note 1 for further details on the restatement of comparative information due to the retrospective application of IFRS 15 and IFRS 9. See note 9 for a reconciliation of Headline information to Statutory information.

(3) Statutory revenue is equal to Headline revenue plus MVNO revenue added to On-net.

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

Corporate revenue is further analysed as:

	2019 £m	2018 (restated) £m
Carrier	**52**	72
Data	**173**	162
Voice	**108**	133
Corporate revenue	**333**	367

3. Operating profit/(loss)

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

	2019 £m	2018 (restated) £m
Depreciation of property, plant and equipment (note 12)	**71**	69
Amortisation of other operating intangible assets (note 11)	**67**	62
Amortisation of acquisition intangibles (note 11)	**8**	9
Impairment of operating intangibles (note 11)	**—**	2
Gain on disposal of joint venture	**—**	(1)
Expected credit loss recognised on financial assets (note 17)	**11**	20
Employee costs (note 4)[3]	**124**	152
Cost of inventories recognised in expenses	**56**	48
Reversal of cost of inventories previously written down	**(2)**	(1)
Rentals under operating leases	**97**	101
Supplier rebates	**(5)**	(8)
Service level related disputes[1]	**(11)**	(14)
Auditor's remuneration[2]	**1**	1
Non-Headline items (note 9)	**34**	93
Non-Headline items—depreciation (note 9 and note 12)	**—**	3

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

(2) A breakdown of auditor's remuneration is disclosed within the Corporate Governance section on page 51.

(3) Includes a credit adjustment of £2m in relation to share based payments (note 5).

4. Employee costs

The average monthly number of employees (including Executive Directors) was:

	2019 Number	2018 Number
Administration	**1,625**	1,634
Sales and customer management	**562**	654
	2,187	2,288

The aggregate remuneration recognised in respect of these employees in the income statement comprised:

	2019 £m	2018 £m
Wages and salaries	**104**	124
Social security costs	**12**	15
Other pension costs	**5**	5
	121	144
Share-based payments (note 5)	**3**	8
	124	152

The Group provides various defined contribution pension schemes for the benefit of a significant number of its employees. These are charged to the income statement as they become payable in accordance with the rules of the schemes.

Compensation earned by key management personnel is analysed below. The key management personnel comprised the Board of Directors (see the Directors' Remuneration Report on pages 52 to 67) and other senior management.

	2019 £m	2018 £m
Salaries and fees	**4.0**	4.9
Performance bonuses	**0.8**	1.4
Benefits	**0.2**	0.3
Pension costs	**0.2**	0.2
Share-based payments	**1.1**	2.6
Notice payment	**—**	0.7
Compensation for loss of office	**1.2**	0.3
	7.5	10.4

The Board of Directors and key management personnel have been advanced loans to enable them to purchase participation shares in TalkTalk Group Limited in relation to SVP share schemes.

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. During the year, this has given rise to a credit adjustment to Headline EBITDA of £2m.

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 £1.17 (2018: £1.69).

Summary of share schemes

Year ended 31 March 2019	IFRS 2 charge £m	Dilutive effect number millions	Options outstanding at the end of the year number millions
TalkTalk Telecom Group PLC schemes			
SVP—participation shares	**—**	**—**	**—**
SVP III—participation shares	**1**	**—**	**9**
DSOP—2018 grant 2019	**—**	**3**	**4**
DSOP—2017 grant 2018	**—**	**6**	**5**
DSOP—2016 grant 2017	**1**	**4**	**6**
DSOP—2012 grant 2013	**—**	**—**	**—**
SAYE	**—**	**—**	**8**
Share Match Plan	**1**	**—**	**—**
Total TalkTalk Telecom Group PLC schemes	**3**	**13**	**32**

Year ended 31 March 2018	IFRS 2 charge £m	Dilutive effect number millions	Options outstanding at the end of the year number millions
TalkTalk Telecom Group PLC schemes			
SVP—participation shares	—	—	—
SVP II—participation shares	3	—	—
SVP III—participation shares	1	2	—
DSOP—2017 grant 2018	1	5	11
DSOP—2016 grant 2017	2	3	9
DSOP—2015 grant 2016	—	—	1
DSOP—2012 grant 2013	—	1	1
SAYE	—	–	5
Share Match Plan	1	1	—
Total TalkTalk Telecom Group PLC schemes	8	12	27

(i) SVP

The SVP, SVP II and SVP III are growth plans and not share option plans operating under the Value Enhancement Scheme (VES) rules previously approved by shareholders. The SVP and SVP II enable participants to share in up to 7% of any increase in the value of the Group over an opening market capitalisation of £2,941m based on a five business day average up to 3 June 2014 for SVP and £2,292m based on a five business day average up to 19 May 2016 for SVP II. The awards are subject to the following performance conditions:

- at least a 7% compound annual increase (CAGR) in the market capitalisation of the Group from the above valuation over a three and four-year period; and
- the Group's TSR outperforms the FTSE 250.

The SVP III scheme was awarded during the year ended 31 March 2018. The scheme enables participants to share in up to 7% of any increase in the value of the Group over an opening market capitalisation of £1,648m based on a five business day average up to 21 June 2017. The award is subject to the following performance condition:

- 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.

The performance conditions are measured over an initial performance period from 3 June 2014 (SVP), 19 May 2016 (SVP II) and 21 June 2017 to the date of announcement of the Group's 2017 (SVP), 2019 (SVP II) and 2020 (SVP III) annual results, after which a total of 60% of the options will vest. The remaining options are measured over a performance period from 3 June 2014 (SVP), 19 May 2016 (SVP II) and 21 June 2017 to the date of announcement of the Group's 2018 (SVP), 2020 (SVP II) and 2021 (SVP III) 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.

The Group advanced loans to participants to enable them to purchase participation shares in TalkTalk Group Limited, the holding company of the Group's operating business. These loans are subject to a commercial rate of interest based on rates set by HMRC.

If an employee leaves the Group before the scheme vests, then the participation shares are forfeited for the value of the outstanding loan plus accrued interest.

During the year ended 31 March 2018 the Group reviewed all of its existing long term incentive plans, including the SVP II, to ensure they are in line with the revised business strategy. It subsequently decided SVP II awarded in 2016, having been set under our old strategy, did not meet the purposes for which those awards were originally granted and cancelled the award. The cancellation of awards gave rise to an non-Headline charge of £3m.

A fair value exercise was conducted for the awards using the Monte Carlo method with the total fair value of the participation shares granted totalling £5m in SVP, £4m in SVP II and £5m in SVP III.

A summary of the schemes is shown below:

	Participation shares	
SVP—2015 grant	**2019 Number million**	**2018 Number million**
Outstanding at the beginning of the year	**11**	15
Forfeited during the year	**(11)**	(4)
Outstanding at the end of the year	**—**	11
Exercisable at the end of the year	**—**	—

	Participation shares	
SVP II—2016 grant	**2019 Number million**	**2018 Number million**
Outstanding at the beginning of the year	**—**	18
Cancelled during the year	**—**	(12)
Forfeited during the year	**—**	(6)
Outstanding at the end of the year	**—**	—
Exercisable at the end of the year	**—**	—

	Participation shares	
SVP III—2017 grant	**2019 Number million**	**2018 Number million**
Outstanding at the beginning of the year	**13**	—
Granted during the year	**—**	14
Forfeited during the year	**(4)**	(1)
Outstanding at the end of the year	**9**	13
Exercisable at the end of the year	**—**	—

(ii) DSOP

During the year ended 31 March 2019 the Group granted five million nil-priced share options (the '2018 grant'). These options are subject to the following performance condition:

- 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.

The options are measured as follows:

- a performance period from 24 May 2018 to 29 June 2021 vesting on announcement of the Group's 2021 annual results. A total of 60% of the vested options are exercisable from the vesting date, with the remaining 40% of options being exercisable twelve months later. Options are forfeited if an employee leaves the Group before the options vest, subject to the DSOP scheme rules.

In 2018 the Group granted twelve million nil-priced share options (the '2017 grant'). These options are subject to the following performance condition:

- 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.

The options are measured as follows:

- a performance period from 21 June 2017 to 21 June 2020 vesting on announcement of the Group's 2020 annual results. A total of 60% of the vested options are exercisable from the vesting date, with the remaining 40% of options being exercisable twelve months later. Options are forfeited if an employee leaves the Group before the options vest, subject to the DSOP scheme rules.

In 2017 (the '2016 grant'), the Group granted eleven million nil-priced share options. These options are subject to the following performance conditions:

- at least a 7% compound annual increase (CAGR) in the market capitalisation of the Group from the below valuation over the next three and four-year periods; and

- at least a 23.8% compound annual increase (CAGR) in the Headline earnings per share (EPS) of the Group from the 2016 Headline EPS; and

- the employee remains in service with the Group for the vesting periods.

The options are measured as follows:

- a performance period from 19 May 2016 to 19 May 2019 vesting on announcement of the Group's 2020 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.

On the announcement of the Group's 2018 annual results it was determined the 2015 grant did not meet the necessary performance conditions and subsequently all remaining options under the scheme lapsed on this date.

Options are forfeited if an employee leaves the Group before the options vest.

The following table summarises the number of options, weighted average exercise price (WAEP) and valuation assumptions of each grant.

Number of share options outstanding	2018 grant Number million	2018 grant WAEP £	2017 grant Number million	2017 grant WAEP £	2016 grant Number million	2016 grant WAEP £	2015 grant Number million	2015 grant WAEP £	2012 grant Number million	2012 grant WAEP £
Opening balance at 1 April 2017	—	—	—	—	10	—	1	—	1	—
Granted during the year	—	—	12	—	—	—	—	—	—	—
Exercised during the year	—	—	—	—	—	—	—	—	—	—
Lapsed during the year	—	—	—	—	—	—	—	—	—	—
Forfeited during the year	—	—	(1)	—	(1)	—	—	—	—	—
Closing balance at 31 March 2018	—	—	11	—	9	—	1	—	1	—
Granted during the year	5	—	—	—	—	—	—	—	—	—
Exercised during the year	—	—	—	—	—	—	—	—	—	—
Lapsed during the year	(1)	—	(6)	—	(3)	—	(1)	—	(1)	—
Forfeited during the year	—	—	—	—	—	—	—	—	—	—
Closing balance at 31 March 2019	4	—	5	—	6	—	—	—	—	—
Number of share options exercisable										
At 31 March 2018	—	—	—	—	—	—	—	—	1	—
At 31 March 2019	—	—	—	—	—	—	—	—	—	—

Valuation assumptions	**2018 grant**	**2017 grant**	**2016 grant**	**2015 grant**	**2012 grant**
Valuation method	Monte Carlo	Monte Carlo	Monte Carlo	Monte Carlo	Monte Carlo
Share price (p)	105	174	240	309	122
Exercise price (p)	nil	nil	nil	nil	nil
Expected volatility	38.26% and 34.78%	31.95% and 30.94%	28.75%	25.0%	30.0%
Expected exercise (60%/40%)	3 and 4 years	3 and 4 years	3 and 4 years	4 years	3 and 4 years
Risk free rate (3 years/4 years)	0.73% and 0.87%	0.24% and 0.39%	0.44% and 0.64%	1.67%	0.60%
Expected dividend yield	3.14%	4.73%	5.65%	5.60%	3.50%
Fair value of options granted (£m)	1	5	10	1	3
Weighted average remaining contractual life	7.2 years	8.3 years	7.1 years	n/a	n/a

Part of the 2016 grant was valued using the Black Scholes model; the valuation assumptions for these are shown below:

	DSOP—2016 grant
Valuation method	Black Scholes
Share price (p)	240
Exercise price (p)	nil
Expected volatility	N/A
Expected exercise (years)	3 and 4 years
Risk free rate	N/A
Expected dividend yield	5.65%
Fair value of options granted (£m)	9
Weighted average remaining contractual life	7.6 years

(iii) SAYE

The scheme permits the granting of options to employees linked to a bank SAYE contract for a term of three or five years. Contributions from UK employees range from £5 to £250 per month for schemes launched between 2010 and 2013 and between £5 and £500 per month for the 2014 scheme onwards. Options may be exercised at the end of the three or five year period at an exercise price determined at the invitation date. The scheme is available for a period each year for employees to join.

Exercise prices for the schemes are set out below:

2018 grant	93p per share
2017 grant	145p per share
2016 grant	209p per share
2015 grant	307p per share
2014 grant	240p per share
2013 grant	192p per share
2012 grant	123p per share
2011 grant	119p per share
2010 grant	102p per share

	2019		**2018**	
	Number million	**WAEP £**	**Number million**	**WAEP £**
Outstanding at the beginning of the year	**5**	**1.74**	3	2.26
Granted during the year	**6**	**0.93**	4	1.45
Exercised during the year	**—**	**—**	—	—
Forfeited during the year	**(3)**	**1.43**	(2)	1.94
Outstanding at the end of the year	**8**	**1.19**	5	1.74
Exercisable at the end of the year	**—**	**—**	—	—

	SAYE—2018 grant
Valuation method	Black Scholes
Share price (p)	1.16
Exercise price (p)	0.93
Expected volatility	29%
Expected exercise (years)	3.6
Risk free rate	0.79%
Expected dividend yield	2.24%
Fair value of options granted (£m)	1
Weighted average remaining contractual life	3.2 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 2018, the impact of the SIP on the Group's results was not material.

6. Net finance costs

Net finance costs are analysed as follows:

	2019 £m	2018 £m
Interest on bank loans and overdrafts	**43**	36
Facility fees and similar charges	**9**	10
Finance costs before non-items	**52**	46
Non-Headline—finance expense (note 9)	**—**	10
Finance costs	**52**	56

Included within facility fees and similar charges is £3m of amortised arrangement fees. In the year ended 31 March 2018, the Group refinanced its revolving credit facilities (RCF); arrangement fees of £5m were paid during the year and are being amortised over the life of the RCF.

The average interest rate in the year was 5.0% (2018: 4.6%).

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.

Tax—income statement

The tax credit comprises:

	2019 £m	2018 (restated) £m
Current tax		
UK corporation tax	**—**	—
Adjustments in respect of prior years:	**—**	(5)
Total current tax credit	**—**	(5)
Deferred tax		
Origination and reversal of timing differences	**(12)**	(16)
Effect from write off of deferred tax losses	**—**	15
Recognition of deferred tax losses	**(26)**	—
Effect of change in tax rate	**(3)**	4
Adjustments in respect of prior years—deferred tax charge	**4**	2
Total deferred tax (credit)/charge	**(37)**	5
Total tax credit	**(37)**	—

The tax credit on Headline earnings for the year ended 31 March 2019 was £32m (2018 restated: £22m charge), representing an effective tax rate on pre-tax profits of -86% (2018 restated: 147%). The tax credit on Statutory earnings for the year ended 31 March 2019 was £37m (2018 restated: £0m charge), representing an effective tax rate on pre-tax profits of 740% (2018 restated: 0%) 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 19% (2018: 19%) to the loss before taxation are as follows:

	2019 £m	**2018 (restated) £m**
Loss before taxation	**(5)**	(100)
Tax at 19% (2018: 19%)	**(1)**	(19)
Items attracting no tax relief or liability	**3**	2
Effect of change in tax rate	**(3)**	4
Adjustments in respect of prior years	**4**	(3)
Movement in unrecognised tax losses during the year	**(40)**	16
Total tax credit through income statement	**(37)**	—

No tax (credit)/charge has been recognised through retained earnings and other reserves.

Tax—balance sheet

The deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior year are as follows:

	Share-based payments £m	**Timing differences on capitalised costs £m**	**Tax losses £m**	**IFRS 15 £m**	**IFRS 9 £m**	**Short term timing differences £m**	**Total £m**
At 1 April 2018 as previously reported	3	43	43	—	—	8	97
Change in accounting policies in respect of IFRS 9 and IFRS 15 (note 1)	—	—	—	(21)	5	—	(16)
At 1 April 2018 (restated)	3	43	43	(21)	5	8	81
(Charge)/credit to the income statement	**(1)**	**(4)**	**28**	**21**	**—**	**(7)**	**37**
At 31 March 2019	**2**	**39**	**71**	**—**	**5**	**1**	**118**

	Share-based payments £m	**Timing differences on capitalised costs £m**	**Tax losses £m**	**IFRS 15 £m**	**IFRS 9 £m**	**Short term timing differences £m**	**Total £m**
At 1 April 2017 as previously reported	3	42	60	—	—	3	108
Change in accounting policies in respect of IFRS 9 and IFRS 15	—	—	—	(27)	5	—	(22)
At 1 April 2017 (restated)	3	42	60	(27)	5	3	86
(Charge)/credit to the income statement	—	1	(17)	6	—	5	(5)
At 31 March 2018 (restated)	3	43	43	(21)	5	8	81

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2019 £m	2018 (restated) £m
Deferred tax assets	**118**	102
Deferred tax liabilities	**—**	(21)
Total deferred tax	**118**	81

The prior year has been restated to recognise a deferred tax liability associated with the adoption of IFRS 15 from 1 April 2017. This liability fully unwound in the year ended 31 March 2019. The prior year has been restated to recognise a deferred tax asset associated with the adoption of IFRS 9 from 1 April 2017. This asset will unwind over ten years.

During the current year the Group agreed an updated loss streaming methodology with HM Revenue & Customs and has therefore reassessed its unused tax losses in light of this agreement and its forecast future performance, resulting in the recognition of further deferred tax assets of £40m.

At 31 March 2019, the Group had unused tax losses of £447m (2018: £527m) available for offset against future taxable profits. A deferred tax asset of £71m (2018: £43m) has been recognised in respect of £415m (2018: £254m) of such losses, based on expectations of recovery in the foreseeable future.

No deferred tax asset has been recognised in respect of the remaining £32m (2018: £273m) of losses 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.

Short term timing differences as at 31 March 2019 of £1m relate to costs arising on non-Headline reorganisation programmes. Short term timing differences as at 31 March 2018 of £8m relate to a Corporate Interest Restriction, IFRS 9 deduction and items relating to consolidation.

A deferred tax asset of £1m has not been recognised in respect of R&D Expenditure Credit as there is currently insufficient evidence that there will be suitable taxable profits against which this asset can be recovered.

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:

	2019 £m	2018 £m
Ordinary dividends		
Final dividend for the year ended 31 March 2017 of 5.00p per ordinary share	**—**	47
Interim dividend for the year ended 31 March 2018 of 2.50p per ordinary share	**—**	24
Final dividend for the year ended 31 March 2018 of 1.50p per ordinary share	**17**	—
Interim dividend for the year ended 31 March 2019 of 1.00p per ordinary share	**11**	—
Total ordinary dividends	**28**	71

The proposed final dividend for the year ended 31 March 2019 of 1.50p per ordinary share on 1,143 million ordinary shares (approximately £17m) was approved by the Board on 23 May 2019 and will be recommended to shareholders at the AGM on 17 July 2019. The dividend has not been included as a liability as at 31 March 2019. The payment of this dividend will not have any tax consequences for the Group.

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

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. Further details in relation to alternative performance measures (APMs) are contained within note 1.

Accounting policy—non-Headline items

During the years under review, the non-Headline items excluded from operating profit in arriving at Headline operating profit were certain adjusting items, the operating results of a business to be exited (MVNO operating profit/(loss)) and amortisation of acquisition intangibles.

Examples of charges or credits meeting the definition of adjusting items include where material, discontinued operations, gains or losses associated with the acquisition/disposal/exit of businesses, business restructuring and fundamental transformation programmes. Certain transformation and rationalisation programmes are so fundamental they may impact a number of years. In the event that other items meet the criteria, which are applied consistently from year to year, they are also treated as adjusting items.

Judgements in applying the Group's accounting policy

The classification of items as non-Headline is subjective in nature and therefore judgement is required to determine whether the item is in line with the accounting policies outlined above. Determining whether an item is non-Headline is a matter of qualitative assessment. Management consider amortisation of acquisition intangibles to be a non-Headline item due to it being inherently linked to losses associated with historic acquisitions of businesses in accordance with the Group's non-Headline accounting policy.

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

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

Year ended 31 March 2018 (restated)	Revenue £m	Gross profit £m	EBITDA £m	Depreciation, amortisation and results of Joint Ventures £m	Operating profit/ (loss) £m	Loss before taxation £m	Taxation £m	Loss for the year £m
Headline results (restated)	1,605	831	203	(142)	61	15	(22)	(7)
Adjusting items—network transformation(a)	—	—	(17)	(2)	(19)	(19)	4	(15)
MVNO operating loss(c)	48	10	(9)	—	(9)	(9)	2	(7)
Amortisation of acquisition intangibles(d)	—	—	—	(9)	(9)	(9)	2	(7)
Adjusting items—operating efficiencies—MTTS(e)	—	—	(3)	(1)	(4)	(4)	—	(4)
Adjusting items—operating efficiencies—fundamental property rationalisation(f)	—	—	(12)	—	(12)	(12)	2	(10)
Adjusting items—mobile proposition(g)	—	—	(33)	—	(33)	(33)	6	(27)
Adjusting items—business reorganisation(h)	—	—	(19)	—	(19)	(19)	4	(15)
Adjusting items—finance expense(i)	—	—	—	—	—	(10)	2	(8)
Statutory results (restated)	1,653	841	110	(154)	(44)	(100)	—	(100)

	2019 £m	2018 (restated)(1) £m
Operating profit/(loss)	**47**	(44)
Share of results of joint ventures	**10**	11
Depreciation and amortisation	**146**	143
EBITDA	**203**	110

(1) See note 1 for further details on the restatement of comparative information due to the retrospective application of IFRS 15 and IFRS 9. See note 9 for a reconciliation of Headline information to Statutory information.

During the year ended 31 March 2019, cash adjusting items were £47m (2018: £60m).

The above table shows how all APMs are reconciled to Statutory performance measures with the exception of Headline earnings per share (note 10) and net debt (note 20).

(a) Network transformation

During the year ended 31 March 2019, the Group continued its significant multi-year transformation programme which will fundamentally restructure the Group's network, IT infrastructure and technology organisation. The change the Group is undertaking will ensure it is fit for the future and underpins the wider Group strategy in providing an outstanding service to our customers as a value provider in the industry. This is a discrete project expected to run until 2021.

This programme has resulted in £15m (2018: £19m) of costs including project management, consultancy, dual-running costs, decommissioning costs, and accelerated depreciation.

A total taxation credit of £2m has been recognised on these costs in the year ended 31 March 2019 (2018: £4m).

(b) OneTeam operating model

Net costs of £22m (2018: £nil) have been incurred associated with simplifying the Group's organisational structure and relocating roles to one primary location at the Soapworks in Salford. These costs have been determined to be adjusting items and are presented as non-Headline in accordance with the Group's accounting policy as they represent a material business restructuring programme.

The costs include redundancy payments, dual-running costs, recruitment costs and other consultancy costs. The Group expects the finalisation of this fundamental reorganisation within FY20.

A taxation credit of £3m has been recognised on these costs (2018: £nil).

(c) MVNO operating profit/(loss)

Following the Group's announcement in May 2017 to reassess the Group's mobile strategy, the Group is now progressing with its alternative mobile distribution strategy. Operating profits of £3m (2018 restated: £9m loss) associated with this strategy have been incurred; given this one-off strategic decision, management considers these profits/(losses) are non-Headline items though they do not meet the criteria under IFRS 5 for separate disclosure as discontinued operations. The Group continues to transition from a wholesale agreement with Vodafone to a mobile distribution agreement with Telefonica. The wholesale agreement with Vodafone has been extended to support the smooth transition of remaining customers. The MVNO trading activity will continue to diminish with contractual commitments expiring in 2021.

A taxation charge of £1m has been recognised on these costs (2018: £2m credit).

(d) Amortisation of acquisition intangibles

An amortisation charge in respect of acquisition intangibles of £8m was incurred during the year (2018: £9m).

A taxation credit of £1m has been recognised on these costs (2018: £2m credit).

(e) Operating efficiencies—Making TalkTalk Simpler (MTTS)

During the year ended 31 March 2018, the Group completed its wide-ranging transformation programme that delivered material improvements to customer experience, driving operating cost savings, lower churn and subscriber acquisition costs.

The wide-ranging transformation programme was considered so fundamental that it impacted a number of years with the costs incurred relating to the improvement of the Consumer and TalkTalk Business systems and processes which focus on customer experience.

These programmes resulted in £4m of costs including project management, redundancy, consultancy, migration, call centre costs and accelerated depreciation costs.

A total taxation credit of £nil has been recognised on these costs in the year ended 31 March 2018.

(f) Operating efficiencies—fundamental property rationalisation

During the year ended 31 March 2018, the Group completed its fundamental rationalisation of the sites from which it operates including the relocation of its Warrington and Irlam sites to one site at the Soapworks in Salford together with the rationalisation of its London property footprint. The revised estimated cost of this property rationalisation programme was provided for giving rise to additional costs of £12m during the prior year.

A total taxation credit of £2m has been recognised on these costs in the year ended 31 March 2018.

(g) Mobile proposition

Following the Group's announcement in May 2017 to reassess the Group's mobile strategy net exceptional costs were incurred in relation to decommissioning costs, asset write offs, provision releases, onerous supplier commitments and redundancies amounting to £33m for the year ended 31 March 2018.

A total taxation credit of £6m has been recognised on these costs in the year ended 31 March 2018.

(h) Business reorganisation

Net costs of £19m were incurred in the year ended 31 March 2018 associated with implementing changes to the Group's organisational structure following the Group reorganising the business under the new leadership team.

The costs include redundancy, other rationalisation costs and consultancy costs.

A taxation credit of £4m has been recognised on these costs in the year ended 31 March 2018.

(i) Finance expense

During the year ended 31 March 2018, the Group completed the repurchase of its $185m US Private Placement Notes. This resulted in incremental costs of £8m relating to the settlement of derivative instruments in designated hedge accounting relationships and associated fees. The Group also refinanced its revolving credit facilities, resulting in the accelerated amortisation of arrangement fees relating to the previous facilities leading to a £2m charge in the year.

A taxation credit of £2m has been recognised on these costs in the year ended 31 March 2018.

10. Earnings/(loss) per ordinary share

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

	2019 £m	2018 (restated)(1) £m
Headline earnings/(loss) (note 9)	**69**	(7)
Statutory earnings/(loss)	**32**	(100)
Weighted average number of shares (millions)		
Shares in issue	**1,146**	979
Less weighted average holdings by Group ESOT	**(3)**	(4)
For basic EPS	**1,143**	975
Dilutive effect of share options (note 5)	**13**	12
For diluted EPS	**1,156**	987

(1) See note 1 for further details on the restatement of comparative information due to the retrospective application of IFRS 15 and IFRS 9.

	2019 Pence	2018 (restated)(1) Pence
Basic earnings/(loss) per ordinary share		
Headline	**6.0**	(0.7)
Statutory	**2.8**	(10.3)

	2019 Pence	2018 (restated)(1) Pence
Diluted earnings/(loss) per ordinary share		
Headline	**6.0**	(0.7)
Statutory	**2.8**	(10.1)

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.

During the year, management has reviewed the Group’s CGUs and now considers that the Group has five CGUs, of which four have allocated goodwill. These CGUs represent the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Cash inflows for the CGUs are generated as follows:

CGU	**Services provided**
TalkTalk Consumer	telecommunication services to retail customers
TalkTalk Business	telecommunication services to B2B customers through partner or wholesale channels
TalkTalk Business Direct	telecommunication services to B2B customers through direct channels
FibreNation	FTTP services
Historical MVNO operations	services as a mobile virtual network operator

The bulk of the Group's shared costs and assets relating mainly to infrastructure and central overheads are allocated across the CGUs based on the relative future cash flows generated by each and their reliance on the shared service functions and infrastructure.

Determining whether goodwill is impaired requires estimation of the value in use of the CGUs to which the goodwill has been allocated. In assessing value in use, the estimated cash flows of each CGU are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Impairment of goodwill

Goodwill is not subject to amortisation but is tested for impairment annually or whenever there is an indication that the asset may be impaired; this review is performed at a CGU level.

Impairment is determined by assessing the future cash flows of the CGU to which the goodwill relates. The future cash flows of the Group are taken from the Group's three-year plan and extrapolated out to twenty 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.

	2019 £m	**2018 £m**
Opening, closing cost and net book value	**495**	495

The goodwill acquired in business combinations is allocated at acquisition to the CGUs that are expected to benefit from that business combination as follows:

	2019 £m	**2018 £m**
TalkTalk Consumer	**347**	347
TalkTalk Business	**88**	148
TalkTalk Business Direct	**60**	—
MVNO operations	**—**	—
	495	495

Goodwill relating to FibreNation of £2m has been classified within assets held for sale (note 15).

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 1.6% (2018: 1.7%).

- **Discount rate**

The underlying discount rate for each CGU is based on the UK twenty-year gilt rate adjusted for an equity risk premium and the systematic risk of the CGU. The average pre-tax rate for all CGUs of 7.6% (2018: 7.8%) is used to discount the forecast pre-tax cash flows. 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 all CGUs due to the similarity of risk factors.

- **Capital expenditure**

Forecast capital expenditure to maintain property, plant and equipment is based on senior management expectations of future required support of the network and current run rate of expenditure, typically at 6–7% of revenue.

- **Customer factors**

The key assumptions for the forecast cash flows of each of the CGUs are based on expected customer growth rates, ARPU, direct costs including acquisition costs, and changes in product mix. The value assigned to each of these assumptions has been determined based on the extrapolation of historical trends in the Group and external information on expected trends in future market developments.

- **Profitability**

Forecast profitability over a three year period to March 2022 has been taken from the Group's viability assessment. Further years have been increased by the long-term growth rate stated above and the inclusion of a terminal value.

Goodwill sensitivity analysis

Sensitivity analysis has been performed in respect of certain scenarios, including an increase in competition impacting margins and lower than expected cost savings. The outcome of this analysis indicated that there is headroom in all CGUs. No reasonably possible changes in the key assumptions would cause the carrying amount of the CGUs to fall below the recoverable amount.

(b) Other intangible assets

Accounting policy

Operating intangibles

Operating intangibles include internal infrastructure and design costs incurred in the development of software for internal use. Internally generated software is recognised as an intangible asset only if it can be separately identified, it is probable that the asset will generate future economic benefits, and the development cost can be measured reliably. Where these conditions are not met, development expenditure is recognised as an expense in the year in which it is incurred. Directly attributable costs that are capitalised include employee costs specifically incurred in the development of the intangible asset. Operating intangibles are amortised on a straight-line basis over their estimated useful economic lives of up to eight years.

Acquisition intangibles

Acquired intangible assets such as customer bases and other intangible assets acquired through a business combination are capitalised separately from goodwill and amortised over their expected useful lives of up to six years on a straight-line basis. The value attributed to such assets is based on the future economic benefit that is expected to be derived from them, calculated as the present value of future cash flows after a deduction for contributory assets.

Impairment

At the acquisition date, acquisition intangibles are allocated to each of the CGUs expected to benefit from the synergies of the combination. The Group's shared costs and assets relating mainly to infrastructure and central overheads are allocated across all 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 the future cash flows of the CGUs and the selection of appropriate discount rates to calculate present values.

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.

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.

Other intangible assets are analysed as follows:

	Operating intangibles £m	Acquisition intangibles £m	Total other intangibles £m
Opening balance at 1 April 2018 as previously reported	241	16	257
Reclassification to assets held for sale[(1)]	(6)	—	(6)
Opening balance at 1 April 2018 as restated	235	16	251
Additions	**59**	**—**	**59**
Amortisation	**(67)**	**(8)**	**(75)**
Closing balance at 31 March 2019	**227**	**8**	**235**
Cost (gross carrying amount)	**682**	**143**	**825**
Accumulated amortisation	**(455)**	**(135)**	**(590)**
Closing balance at 31 March 2019	**227**	**8**	**235**

	Operating intangibles £m	Acquisition intangibles £m	Total other intangibles £m
Opening balance at 1 April 2017	219	24	243
Additions	86	1	87
Amortisation	(62)	(9)	(71)
Reclassification to assets held for sale[(1)]	(6)	—	(6)
Impairment	(2)	—	(2)
Closing balance at 31 March 2018 (restated)[(1)]	235	16	251
Cost (gross carrying amount)	623	143	766
Accumulated amortisation	(388)	(127)	(515)
Closing balance at 31 March 2018 (restated)[(1)]	235	16	251

(1) See note 1 for further details on the asset held for sale.

Operating intangibles

Operating intangibles includes internally generated assets with a net book value of £113m (2018: £106m), which are amortised over a period of up to eight years. This includes additions of £28m (2018: £28m) and an amortisation charge of £21m (2018: £24m) in the year ended 31 March 2019.

Acquisition intangibles

Acquisition intangibles relate to the broadband customer bases acquired from Virgin Media and Tesco in a prior year. These customer bases were valued from the discounted future cash flows expected from them, after a deduction for contributory assets.

At 31 March 2019, the net book value of the acquired broadband bases is material to the Group, with the Virgin Media base valued at £4m (2018: £8m) and the Tesco base valued at £4m (2018: £8m), with remaining useful economic lives of ten months (2018: 22 months) and eleven months (2018: 23 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:

Fixtures and fittings and short leasehold improvements	10–20% per annum or lease term if shorter
Network and customer premise equipment and computer hardware	12.5–40% per annum

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

Impairment of assets

The Group reviews the carrying amounts of its fixed assets to determine whether there is any indication that those assets have suffered an impairment loss at each reporting date. The Group uses the same methodology as set out in note 11 for operating and acquisition intangibles.

	Short leasehold improvements £m	**Network and customer premise equipment and computer hardware £m**	**Fixtures and fittings £m**	**Total £m**
Opening balance at 1 April 2018 as previously reported	2	228	6	236
Reclassification to assets held for sale[(1)]	—	(2)	—	(2)
Opening balance at 1 April 2018	2	226	6	234
Additions	**—**	**36**	**—**	**36**
Depreciation	**—**	**(69)**	**(2)**	**(71)**
Closing balance at 31 March 2019	**2**	**193**	**4**	**199**
Cost (gross carrying amount)	**8**	**945**	**10**	**963**
Accumulated depreciation and impairment charges	**(6)**	**(752)**	**(6)**	**(764)**
Closing balance at 31 March 2019	**2**	**193**	**4**	**199**

	Short leasehold improvements £m	Network and customer premise equipment and computer hardware £m	Fixtures and fittings £m	Total £m
Opening balance at 1 April 2017	1	228	6	235
Additions	1	70	2	73
Acquired from business combinations	—	10	—	10
Depreciation	—	(67)	(2)	(69)
Assets transferred to assets classified as held for sale	—	(12)	—	(12)
Accelerated depreciation (note 9)	—	(3)	—	(3)
Closing balance at 31 March 2018	2	226	6	234
Cost (gross carrying amount)	8	909	10	927
Accumulated depreciation and impairment charges	(6)	(683)	(4)	(693)
Closing balance at 31 March 2018 (restated)[1]	2	226	6	234

(1) See note 1 for further details on the asset held for sale.

Property, plant and equipment held under finance leases

	Network equipment and computer hardware
Cost as at 31 March 2019	49
Accumulated depreciation	(14)
NBV as at 31 March 2019	**35**
Cost as at 31 March 2018	33
Accumulated depreciation	(2)
NBV as at 31 March 2018	31

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 2019 related to a 7.3% (2018: 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. All entities are included in the consolidation of the Group.

Subsidiary undertakings	**Country of incorporation or registration**	**Registered office**	**Principal activity**	**Percentage of ordinary shareholding**
TalkTalk Telecom Holdings Limited[1]	England & Wales	11 Evesham Street[2]	Holding company	100
Beheer-en Beleggingsmaatschappij Antika BV	Netherlands	Euroweg[3]	In liquidation	100
Wireless Internet Portfolio BV	Netherlands	Euroweg[3]	In liquidation	100
TalkTalk Brands Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100
TalkTalk Group Ltd	England & Wales	11 Evesham Street[2]	Holding company	100
CPW Broadband Services (UK) Ltd	England & Wales	11 Evesham Street[2]	Telecommunications	100
Future Office Communications Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100
TalkTalk Broadband Services (Ireland) Limited	Ireland	39/40 Upper Mount Street[4]	Non-trading	100
TalkTalk Business (2CCH) Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100
TalkTalk Communications Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100
CPW Network Services Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100
TalkTalk Corporate Limited	England & Wales	11 Evesham Street[2]	Holding company	100
Core Telecommunications Limited	England & Wales	11 Evesham Street[2]	In liquidation	100
CPW UK Group Limited	England & Wales	11 Evesham Street[2]	Dormant	100
TalkTalk RB Limited (formerly Ratebuster Ltd)	England & Wales	11 Evesham Street[2]	Dormant	100
TalkTalk Technology Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Telequip Limited	England & Wales	348–350 Lytham Road[5]	In liquidation	100
Telco Global Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Vartec Telecom Europe Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Video Networks Limited	England & Wales	11 Evesham Street[2]	Dormant	100
World Online Telecom Limited	England & Wales	11 Evesham Street[2]	Dormant	100
GIS Telecoms Limited	England & Wales	11 Evesham Street[2]	Dormant	100
TalkTalk Direct Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Opal Connect Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Opal Business Solutions Limited	England & Wales	11 Evesham Street[2]	Dormant	100
UK Telco (GB) Limited	England & Wales	11 Evesham Street[2]	Dormant	100
TalkTalk UK Communications Services Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Onetel Telecommunications Limited	England & Wales	11 Evesham Street[2]	Dormant	100
V Networks Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Green Dot Property Management Limited	England & Wales	11 Evesham Street[2]	Non-trading	100
Executel Ltd	England & Wales	11 Evesham Street[2]	Dormant	100
Greystone Telecom Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Pipex Internet Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Pipex Communications Services Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Pipex UK Limited	England & Wales	11 Evesham Street[2]	Dormant	100
TalkTalk Telecom Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100
Telco Holdings Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100
Telco Global Distribution Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Tele2 Telecommunication Services Limited	Ireland	39/40 Upper Mount Street[4]	Non-trading	100
Tiscali UK Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100
Toucan Residential Ireland Limited	Ireland	39/40 Upper Mount Street[4]	Non-trading	100
TalkTalk TV Entertainment Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100
tIPicall Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100
Bolt Pro Tem Limited	England & Wales	15 Bedford Street[6]	Telecommunications	67
Nottingdale Receivables Limited[7]	England & Wales	6 St Andrew Street[8]	Receivables financing	—
Adventure Telecom Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100

Subsidiary undertakings	Country of incorporation or registration	Registered office	Principal activity	Percentage of ordinary shareholding
Treetop Telecom Limited	England & Wales	11 Evesham Street(2)	Telecommunications	100
FibreNation Limited	England & Wales	11 Evesham Street(2)	Telecommunications	100
TalkTalk Business Direct Limited	England & Wales	11 Evesham Street(2)	Telecommunications	100

(1) Directly held subsidiary.

(2) Full address: 11 Evesham Street, London, W11 4AR.

(3) Full address: Euroweg 20 3825 HD Amersfoort, Amsterdam, Netherlands.

(4) Full address: 39/40 Upper Mount Street, Dublin 2, Ireland.

(5) Full address: 348–350 Lytham Road, Blackpool, Lancashire, FY4 1DW.

(6) Full address: 15 Bedford Street, London, WC2E 9HE.

(7) Consolidated on the grounds of substance (see note 20).

(8) Full address: 5th floor, 6 St Andrew Street, London, EC4A 3AE.

Joint venture undertakings	Country of incorporation or registration	Registered office	Principal activity	Percentage of ordinary shareholding
YouView TV Limited	England & Wales	10 Lower Thames Street(1)	Telecommunications	14.3
Internet Matters Limited	England & Wales	6th Floor, One London Wall(2)	Telecommunications	25.0

(1) Full address: 10 Lower Thames Street, Third Floor, London, EC3R 6YT.

(2) Full address: 6th Floor One, London Wall, London, EC2Y 5EB.

(b) Acquisitions and disposals

(i) Acquisitions

In the prior year, the Group purchased a further 33.3% interest in Bolt Pro Tem Limited (BPT) for £1m, a joint venture in which it already held a 33.3% interest. Following this acquisition, the Group owned 67% and therefore a controlling interest in the company. As a result, the Group has recognised £2m of goodwill on acquisition and consolidated the assets and liabilities of BPT from the date of acquisition.

The impact of the acquisition to the Group's income statement is immaterial.

(ii) Disposals

The Group has made no disposal of investments during the current or prior year.

14. Investment in joint ventures

Accounting policy

Interests in joint ventures are accounted for using the equity method. The Group consolidated 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 consolidated 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% (2018: 14.3%) of the ordinary share capital of YouView, a joint venture with The British Broadcasting Corporation, ITV Broadcasting Limited, British Telecom PLC (BT), Channel Four Television Corporation, Arqiva Limited and Channel 5 Broadcasting Limited. The joint venture was set up in order to develop a free-to-air internet-connected TV service to UK homes. During a prior year, the Group signed a new agreement with the other existing holders of YouView whereby all seven original partners (together 'Tier 1' funders) continue to contribute approximately £1m per annum to fund basic operational and technology costs of YouView, and the Group together with BT as 'Tier 2' funders contribute up to a further £10m per annum for additional development of the technology to support their TV propositions. The Group's total contribution to YouView in the year ended 31 March 2019 was £9m (2018: £6m).

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 2019, the Group recognised an £10m share of losses (2018: £11m).

The Group has reviewed the carrying value of YouView and has concluded that there is no indication of impairment.

Bolt Pro Tem Limited (BPT)

In the prior year, the Group purchased an additional 33.3% of BPT for consideration of £1m which took its overall holding to 66.67% and therefore resulted in the Group holding a controlling interest in BPT. As such the Group began accounting for BPT as a subsidiary under IFRS 3 (see note 13). During the prior year, the Group contributed £nil to the joint venture and received £nil share of losses.

Internet Matters Limited

During the year ended 31 March 2014, the Group, alongside BSkyB, BT and Virgin Media, established an equal membership joint venture, Internet Matters Limited. It is a not-for-profit company set up as an industry-led body to promote and educate parents about internet safety for children.

Interest in joint ventures is analysed as follows:

	2019 £m	2018 £m
Opening balance at 1 April	**3**	8
Additions	**9**	6
Share of results	**(10)**	(11)
Gain on disposal on step up acquisition	**—**	1
Movement to subsidiary	**—**	(1)
Closing balance at 31 March	**2**	3

The Group's share of the results, assets and liabilities of its joint ventures are as follows:

Group share of results of joint ventures	2019 £m	2018 £m
Expenses	**(10)**	(11)
Loss before taxation	**(10)**	(11)
Taxation	**—**	—
Loss after taxation	**(10)**	(11)

Group share of net assets of joint ventures	2019 £m	2018 £m
Non-current assets	**2**	3
Net assets	**2**	3

15. Assets held for sale

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

	2019 £m	2018 (restated)[(1)] £m
Assets classified as held for sale		
Goodwill	**2**	2
Other non-current assets	**31**	18
Current assets	**14**	14
Total assets classified as held for sale	**47**	34
Liabilities associated with assets classified as held for sale		
Current payables	**(7)**	(6)
Total liabilities associated with assets classified as held for sale	**(7)**	(6)

(1) See note 1 for further details on the asset held for sale.

Under IFRS 5, when certain conditions are met, including the Group committing to a sale plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale.

On 21 November 2018, the Group announced that it would not be progressing on the basis of the Heads of Terms agreed with Infracapital which were announced in February 2018. The Group, on the same date, announced the formation of FibreNation which is a wholly owned Full Fibre wholesale provider. The Group is in discussions with potential partners to develop an appropriate long-term capital structure for FibreNation.

In order to roll out FibreNation at the speed and to the scale ultimately required, TalkTalk needs a partner to invest in the operations and therefore the Group is committed to selling down a majority stake in its investment. The Group has engaged external parties to support the sale process, which is expected to be completed by 31 March 2020.

16. 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, taking into account technical obsolescence and the level of technical supplier support.

	2019 £m	2018 (restated)[(1)] £m
Goods for resale	**34**	29

(1) See note 1 for further details on the restatement comparative information due to the retrospective application of IFRS 15.

The Group had certain arrangements whereby it would repurchase inventory owned by a third party, where this inventory had been previously sold by the Group. Under IFRS 15, this arrangement is considered a financing arrangement whereby the inventory continues to be recognised by the Group and the corresponding secured debt is recognised. Accordingly, comparatives have been restated. In addition, during the year the inventory financing has been repaid amounting to £21m (see note 20).

The carrying value of inventory expected to be recovered or settled after more than twelve months of 31 March 2019 is £5m (2018: £7m).

17. Trade and other receivables

Trade and other receivables comprise:

	2019 £m	2018 (restated)(1) £m
Non-current—trade and other receivables		
Other receivables	**2**	2
Current—trade and other receivables		
Trade receivables—gross	**105**	143
Less expected credit losses	**(22)**	(32)
Trade receivables—net	**83**	111
Other receivables	**34**	63
Prepayments	**20**	31
Accrued income	**23**	41
Total current trade and other receivables	**160**	246
Total trade and other receivables	**162**	248

(1) See note 1 for further details on the restatement of comparative information due to the retrospective application of IFRS 15 and IFRS 9.

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 20 days (2018: 26 days).

The Group has the ability on a rolling basis to sell its trade receivables to a third-party vehicle in exchange for a discounted consideration. The Group varies the level of trade receivables sold into the programme as part of managing its liquidity position. The Group is deemed to control the third-party vehicle and therefore continues to consolidate the relevant trade receivables on the grounds that substantially not all the risks and rewards of ownership have been transferred under the programme.

Service level related disputes

The Group's results include the recognition of certain service level related credits from suppliers to compensate the Group where the supplier has not operated within the contractual terms of these arrangements. The quantification of service level related credits may be subject to regulatory guidance, legal ruling or alternative dispute resolution processes. During the year the Group has settled certain service level related credits from suppliers to compensate the Group where the supplier has not operated within the contractual terms of these arrangements. This has resulted in the settlement of a receivable previously recognised.

In addition, during the year, the Group has recognised further service level payments of £3m where the supplier has not operated within contractual terms. On this basis, as at 31 March 2019, a receivable of £3m (2018: £46m) existed in relation to such claims, the resolution of which may give rise to an increase or decrease in the level of receivable recognised. This is without prejudice to the Group's legal position.

The Group's trade receivables are denominated in the following currencies:

	2019 £m	2018 (restated)(1) £m
UK Sterling	**97**	134
Other	**8**	9
	105	143

The ageing of gross trade receivables is as follows:

	2019 £m	2018 (restated)[1] £m
Not yet due	**56**	68
0 to 2 months	**16**	16
2 to 4 months	**9**	12
Over 4 months	**24**	47
	105	143

The ageing of the expected credit losses of trade receivables is as follows:

	2019 £m	2018 (restated)[1] £m
Not yet due	**(2)**	—
0 to 2 months	**(3)**	—
2 to 4 months	**(2)**	—
Over 4 months	**(15)**	(32)
	(22)	(32)

Movements in the expected credit losses of trade receivables are as follows:

	2019 £m	2018 (restated) £m
Opening balance	**(32)**	(41)
Charged to the income statement	**(11)**	(20)
Receivables written off as irrecoverable	**21**	29
Closing balance	**(22)**	(32)

Trade receivables of £29m (2018: £43m) 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:

	2019 £m	2018 £m
0 to 2 months	**13**	16
2 to 4 months	**7**	12
Over 4 months	**9**	15
	29	43

18. Contract balances

Contract assets and liabilities

Contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date. Remaining balances are transferred to receivables when the rights become unconditional.

The contract liabilities primarily relate to the advance consideration received from customers, usually for connection activity at the commencement of the contract, for which revenue is recognised over time.

The following table provides information about contract assets and liabilities from contracts with customers:

	31 March 2019 £m	31 March 2018 (restated) £m
Contract assets	**39**	20
Contract liabilities	**(20)**	(16)
Net contract asset	**19**	4

At 31 March 2017, contract assets were £21m and contract liabilities £15m.

Contract assets and liabilities will largely unwind over the following three years reflecting that contracts with customers typically have a length of between one and three years. The increase in the contract asset in the year ended 31 March 2019 is driven by the Group's launch of its Wi-Fi hub, which has a higher stand-alone selling price compared to hardware provided to customers in the prior year.

Revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period was £11m (2018: £9m).

Contract costs

The Group has contract costs of £308m (2018: £228m). These costs comprise incremental sales commissions associated with obtaining customer contracts and directly attributable costs related to fulfilling a contract, being the cost of connecting a customer to the Group's network. Contract costs are amortised on a basis consistent with the transfer of goods and services to the customer, largely being on a straight line basis over the customer tenure. Amortisation of £99m (2018: £85m) was recognised in the consolidated income statement. No impairment loss has been recognised in relation to the costs capitalised.

19. Trade and other payables

Trade and other payables comprise:

	2019 £m	2018 (restated) £m
Non-current—trade and other payables		
Trade and other payables	**5**	6
Current—trade and other payables		
Trade payables	**279**	269
Other taxes and social security costs	**9**	12
Other payables	**20**	26
Accruals	**125**	127
Deferred income	**58**	46
	491	480
Total trade and other payables	**496**	486

The Group has agreed longer commercial credit terms being up to 300 days with certain suppliers, this includes an arrangement with a major distribution partner, whereby the trade payable continues to be recognised. Excluding these suppliers, the underlying average credit period taken on trade payables was 53 days (2018: 49 days). Including these suppliers, the average credit period taken was 58 days (2018: 53 days). Included in trade payables are capital payables amounting to £28m (2018: £82m).

The Group offers, via its bank group, supply chain financing facilities to its suppliers. These facilities allow suppliers to obtain payment from the sponsoring bank ahead of the commercially agreed payment terms giving a liquidity benefit to the supplier. The Group has no obligation to provide any such facility to any of its suppliers, has no obligation to include any invoices into the arrangement, bares no cost for providing the facility to its suppliers and only currently makes the facility available for the benefit of suppliers who choose to participate.

The supplier is under no obligation to draw down on their receivable early, however due to the agreement between bank and supplier any invoices loaded into the programme become payable by the bank even on the original invoice due date. The supplier will manage the timing profile of when they receive funds directly with the sponsoring bank independently of TalkTalk, if election to receive payment early is made, they will receive funds from the sponsoring bank less a discount agreed between the bank and the supplier. The Group continues to have the payment obligation and will pay the sponsoring bank (invoice owner) on the original commercially agreed payment terms. At the 31 March 2019, the Group recognised payables of £50m (2018: £6m) where the supplier had elected to utilise the supply chain facilities, following the increased availability of such facilities.

Rebates receivable from suppliers of £6m (2018: £8m) 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.

20. Cash and cash equivalents and borrowings

(a) Cash and cash equivalents comprise:

	2019 £m	**2018 £m**
Cash at bank and in hand	**67**	43

The effective interest rate on bank deposits and money market funds was 0.5% (2018: 0.2%).

(b) Borrowings comprise:

	Maturity	**2019 £m**	**2018 (restated)[1] £m**
Current			
£75m receivables purchase agreement facility	2019	**—**	67
Finance leases	2019	**10**	8
Inventory financing	2019	**—**	21
		10	96

	Maturity	**2019 £m**	**2018 (restated)[1] £m**
Non-current			
£400m Senior Notes	2022	**400**	400
£640m revolving credit facility	2022	**348**	300
£75m receivables purchase agreement facility	2020	**61**	—
Finance leases	2020, 2021, 2022, 2023, 2024	**29**	23
Non-current borrowings		**838**	723
Total borrowings		**848**	819

Net debt comprises:

	2019 £m	**2018 (restated)[1] £m**
Cash at bank and in hand	**(67)**	(43)
Borrowings	**848**	819
Net debt	**781**	776

Undrawn available committed facilities are as follows:

	Maturity	2019 £m	2018 (restated)[1] £m
Undrawn available committed facilities (excluding finance leases)	2020, 2022	**306**	348

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

	2019 £m	2018 (restated)[1] £m
Less than 1 year	**10**	96
1 to 2 years	**71**	7
2 to 3 years	**406**	7
3 to 4 years	**359**	406
4 to 5 years	**2**	303
Total borrowings	**848**	819

(1) See note 1 for further details on the restatement of comparative information due to the retrospective application of IFRS 15.

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

Borrowing facilities

The Group's committed facilities total £1,115m (2018: £1,115m). The Group's uncommitted facilities total £90m (2018 restated: £131m) giving headroom on committed facilities and uncommitted facilities of £306m (2018: £348m) and £90m (2018 restated: £110m) respectively.

The financial covenants included in each bank facility restrict the ratio of net debt to EBITDA and require minimum levels of interest cover. The amounts used in the covenant calculations are subject to adjustments for the receivables purchase agreement facility and non-Headline items. As at 31 March 2019, net debt to Headline EBITDA as calculated for the purposes of the Group's borrowings equated to 3.1x (2018: 3.0x). The Group was also in compliance with its covenants throughout the current and prior year.

Details of the Group's borrowing facilities as at 31 March 2019 are set out below:

£400m Senior Notes

On 15 January 2017, TalkTalk Telecom Group PLC issued £400m Senior Notes due 2022. The Senior Notes include incurrence-based covenants customary for this type of debt, including limitations on TalkTalk's ability to incur additional debt and make restricted payments, subject to certain exceptions. The Group is permitted to incur additional debt subject to compliance with a net debt to EBITDA ratio of 4.0x and to pay dividends when net debt to EBITDA is below 3.0x (2.75x from January 2019). Regardless of the Company's net debt to EBITDA ratio, dividends are also permitted to be paid out of a basket based on 50% of cumulative consolidated net income from 1 October 2016. The interest rate payable on the notes is 5.375% payable semi-annually.

£640m revolving credit facility (RCF)

On 8 May 2017, the Group signed a £640m RCF agreement, which matures in May 2022. The interest rate payable in respect of drawings under this facility is at a margin over LIBOR 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 year.

£75m receivables purchase agreement

On 27 March 2019, the Group signed an extension to the £100m receivables purchase agreement (£25m on an uncommitted basis) which matures in June 2020 and is included within both the committed and uncommitted facilities. The Group has the ability on a rolling basis to sell its receivables to a third-party vehicle in exchange for a discounted consideration. The Group is deemed to control the third-party vehicle and therefore continues to consolidate the relevant receivables and the external debt on the grounds that substantially not all the risks and rewards of ownership have been transferred under the programme.

Uncommitted money market facilities, inventory financing and bank overdrafts

These facilities are used to assist in short term cash management and bear interest at a margin over the applicable borrowing rate. In the year ended 31 March 2019 the Group fully repaid and cancelled the £21m inventory financing facility.

Finance leases

The Group uses finance leases as an alternative source of financing for significant items of capital expenditure, matching the cash profile with the life of the asset and offering flexibility regarding ownership of the lease at the end of the finance term. Finance leases at 31 March 2019 were £39m (2018: £31m).

21. Financial risk management and derivative financial instruments

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

	2019 £m	2018 (restated) £m
Financial assets (Level 1)(1)		
Cash and cash equivalents	**67**	43
Contract costs	**308**	228
Current trade and other receivables(2)	**160**	246
Non-current investments and investment in joint venture	**2**	3
Non-current trade and other receivables	**2**	2
Contract assets	**39**	20
Financial liabilities (Level 1)(1)		
Contract liabilities	**(20)**	(16)
Current trade and other payables	**(491)**	(480)
Non-current trade and other payables	**(5)**	(6)
Current borrowings	**(10)**	(96)
Non-current borrowings	**(838)**	(723)
	(786)	(779)

(1) The Group has no financial instruments designated as fair value through profit or loss (FVTPL).

(2) Accrued income has been included within the other receivables.

(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 foreign exchange hedges 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's cash flow hedges swapping the interest rate risk on the bank debt from floating to fixed rates matured in January 2019. These hedges have been fully effective from inception. The Group will keep its risk position under review in the coming year to determine whether further hedges are required, in line with its policy.

The fair value measurement is classified as Level 2 (2018: 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 2019 is £nil (2018: £nil).

(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.

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
2019	
Borrowings	**809**
Finance leases	**39**
Total borrowings and finance leases	**848**

	UK Sterling £m
2018	
Borrowings	788
Finance leases	31
Total borrowings and finance leases	819

During the year, the Group used derivatives for the management of 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 can use cash flow hedges 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.

	2019 £m	**2018 £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.

The Group's core bank £640m revolving credit facility together with the Senior Notes, the Group's share capital and reserves and a number of equipment and property leases form the Group's core financing. The Group also has commercial contracts with certain customers on extended payment terms. To help manage the impact of these terms on its liquidity, the Group has access to invoice discounting lines with its banks which allow it to sell the receivables. The receivables are sold to the bank on a non-recourse basis and as such are derecognised on sale. At 31 March 2019, £36m (2018: £95m) of invoices had been sold using these lines.

In addition to focusing on its core sources of liquidity, the Group uses a mix of overdrafts, short-dated uncommitted money market facilities and commercial supplier terms to manage its day to day liquidity position. The Group will continue to review its sources of finance going forward.

Headroom is assessed based on historical experience as well as by assessing current business risks, availability and renewal of future facilities and foreign exchange movements.

The table below analyses the Group's financial liabilities into relevant maturity groupings. The amounts disclosed in the table are the contractual undiscounted gross cash flows including interest, assuming that 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**	**Total £m**
2019						
Borrowings	**(35)**	**(95)**	**(434)**	**(356)**	**—**	**(920)**
Finance leases	**(12)**	**(11)**	**(10)**	**(8)**	**(2)**	**(43)**
Trade and other payables	**(491)**	**(5)**	**—**	**—**	**—**	**(496)**
	(538)	**(111)**	**(444)**	**(364)**	**(2)**	**(1,459)**

	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**	**Total £m**
2018						
Borrowings	(118)	(30)	(30)	(430)	(301)	(909)
Finance leases	(9)	(8)	(7)	(6)	(4)	(34)
Trade and other payables	(480)	(6)	—	—	—	(486)
	(607)	(44)	(37)	(436)	(305)	(1,429)

(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 expected credit losses are made under IFRS 9 for any receivables that are considered to be irrecoverable. Further detail of the expected credit losses recognised are disclosed in note 17.

(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 bank facilities, Senior Notes, receivables purchase facility, invoice discounting, retained profits and equity.

The Group continues to review its funding and capital structure with the objectives of diversifying sources and managing both the average tenor and interest cost.

The Group also assesses the risk profile of its trade receivables based upon past experience and an analysis of the receivable's current financial position, adjusted for specific factors, general economic conditions of the industry in which the receivables operate and assessment of both the current and the forecast direction of conditions at the reporting date. The Group has performed the calculation of ECL separately for Consumer and Business customers and rebutted the assumption under IFRS 9 that all debts over 90 days should have a credit allowance.

22. 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.

The tables below analyse the Group's provisions:

	2019 £m	**2018 £m**
Current	**35**	31
Non-current	**12**	28
	47	59

	Property £m	**Contract and other £m**	**Total £m**
2019			
Opening balance	**19**	**40**	**59**
Charged to income statement	**3**	**19**	**22**
Released to income statement	**(3)**	**—**	**(3)**
Utilised in the year	**(4)**	**(27)**	**(31)**
Closing balance	**15**	**32**	**47**

	One Company integration £m	**Property £m**	**Contract and other £m**	**Total £m**
2018				
Opening balance	1	15	20	36
Charged to income statement	—	9	43	52
Released to income statement	(1)	—	(7)	(8)
Utilised in the year	—	(5)	(16)	(21)
Closing balance	—	19	40	59

Provisions are categorised as follows:

One Company integration

This provision related principally to reorganisation costs and was released during the year following the change in mobile strategy announced in May 2017.

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 relocated to one site at the Soapworks in Salford, and the rationalisation of our property footprint in London.

Contract and other

Contract and other provisions relate to onerous contracts and contracts with unfavourable terms, and committed costs relating to the OneTeam operating model. Onerous contracts are supplier commitments entered into prior to the reassessment of the Group's mobile strategy. These provisions are expected to be utilised over the next twelve months. All such provisions are assessed by reference to the best available information at the balance sheet date.

23. Share capital

	2019 million	2018 million	2019 £m	2018 £m
Authorised, issued and fully paid				
Ordinary shares of 0.1p each	**1,146**	1,146	1	1

The Company has one class of ordinary share that carries no right to fixed income. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

On 8 February 2018, the Group placed an aggregate of 190,654,206 new ordinary shares of 0.1p at a price of 107p per placing share to raise net proceeds of £201m after expenses. The placing shares represented approximately 19.95% of the Company's existing issued share capital. The placing utilised a cash box structure, whereby the cash box entity issued redeemable preference shares in consideration for the receipt of the cash proceeds (net of issue costs) arising from the placing. The Company's ordinary shares were issued as consideration for the transfer to it of the shares, which it did not already own, in the cash box entity. As a result, in the opinion of the Board, the placing qualified for merger relief under Section 612 of Companies Act 2006 so that the excess of the value of the acquired shares in the cash box entity over the nominal value of the ordinary shares issued by the Company was credited to the Company's other reserves.

The placing shares ranked pari passu in all respects with the existing ordinary shares, including the right to receive all dividends and other distributions declared, made or paid after the date of issue.

24. 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 Carphone Warehouse PLC on demerger.

Retained earnings

Retained earnings are made up of accumulated reserves and proceeds from the share placing discussed in note 23.

Retained earnings are considered to be distributable reserves.

Other reserve—Group ESOT

The Group ESOT held two million shares at 31 March 2019 (2018: four 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 £2m (2018: £5m).

25. Analysis of changes in net debt

	Opening £m	Net cash flow £m	Non-cash movements £m	Closing £m
2019				
Cash and cash equivalents	**43**	**24**	**—**	**67**
Borrowings[(1)]	**(788)**	**(28)**	**7**	**(809)**
	(745)	**(4)**	**7**	**(742)**
Finance leases (note 26(b))	**(31)**	**9**	**(17)**	**(39)**
Net debt	**(776)**	**5**	**(10)**	**(781)**

(1) During the year, amortised borrowing costs of £10m were reclassified from other receivables to Borrowings of which £3m has been amortised during the year.

	Opening £m	Net cash flow £m	Non-cash movements £m	Closing £m
2018 (restated)				
Cash and cash equivalents	50	(7)	—	43
Borrowings[(1)]	(908)	120	—	(788)
Derivatives	39	(39)	—	—
	(869)	81	—	(788)
	(819)	74	—	(745)
Finance leases (note 26(b))	—	—	(31)	(31)
Net debt	(819)	74	(31)	(776)

(1) During the year, amortised borrowing costs of £10m were reclassified from other receivables to Borrowings of which £3m has been amortised during the year.

26. Leases

(a) 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:

	2019			2018		
	Property	Network equipment	Total £m	Property	Network equipment	Total £m
Less than 1 year	**8**	**17**	**25**	10	13	23
2 to 5 years	**32**	**5**	**37**	30	15	45
Greater than 5 years	**53**	**1**	**54**	66	2	68
	93	**23**	**116**	106	30	136

(b) Finance leases

	Minimum lease payments	
	2019	**2018**
	£	**£**
Amounts payable under finance leases:		
Within one year	**12**	8
In the second to fifth years inclusive	**31**	26
	43	34
Less: future finance charges	**(4)**	(3)
Present value of lease obligations	**39**	31

	Present value of minimum lease payments	
	2019	**2018**
	£	**£**
Amounts payable under finance leases:		
Within one year	**10**	8
In the second to fifth years inclusive	**29**	23
Present value of lease obligations	**39**	31
Analysed as:		
Amount due for settlement within 12 months (shown under current liabilities)	**10**	8
Amount due for settlement after 12 months	**29**	23
Present value of lease obligations	**39**	31

It is the Group's policy to lease some of its equipment on finance leases. The average lease term is 4.1 years. For the year ended 31 March 2019, the average effective borrowing rate was 5.5% (2018: 6.2%). Interest rates are fixed at the contract date. All leases are on a fixed payment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in Sterling.

The fair value of the Group's lease obligations as at 31 March 2019 is estimated to be £39m (2018: £31m) using a 5.5% (2018: 6.2%) discount rate.

The Group's obligations under finance leases are secured by the lessors' rights over the leased assets.

27. Commitments

The Group has in the normal course of business entered into various multi-year supply and working capital agreements for core network, IT and customer equipment. As at 31 March 2019, expenditure contracted but not provided for in these financial statements amounted to £134m (2018: £203m). Of this amount, £82m (2018: £100m) related to supply for core network, IT and customer equipment, £52m (2018: £82m) related to capital commitments and £nil (2018: £21m) related to the supply of customer equipment. Of the capital commitments £10m (2018: £20m) relate to intangible assets.

28. 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 52 to 67. The remuneration of all key management personnel is disclosed in note 4.

On 8 February 2018, the Group placed an aggregate of 190,654,206 new ordinary shares of 0.1p at a price of 107p per placing share to raise net proceeds of approximately £201m after expenses. The Executive Chairman, other Directors (R Taylor, T Harrison, N Langstaff, K Ferry, C Bligh, J Gildersleeve and I West) and the Company Secretary (T Morris) participated in this placing purchasing 32,710,280 shares, 4,672,896 shares, 279,671 shares, 186,915 shares, 139,835 shares, 65,256 shares, 46,728 shares, 18,691 shares and 186,915 shares respectively.

During the year, the freehold interest of a property owned by a third party and which is leased to TalkTalk was acquired by a company of which the Executive Chairman is a controlling owner. There was no new transaction between TalkTalk and that company and the contractual terms of the lease with TalkTalk were unchanged.

TalkTalk Telecom Group PLC

Consolidated financial statements of the Group as at and for the year ended March 31, 2018[1]

(1) Extracted from TalkTalk Telecom Group PLC Annual Report 2018.

TalkTalk Telecom Group PLC
CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP AS AT AND FOR THE YEAR ENDED MARCH 31, 2018[1]

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(1) Extracted from TalkTalk Telecom Group PLC Annual Report 2018.

Independent auditor's report
to the members of TalkTalk Telecom Group PLC

Report on the audit of the financial statements

Opinion

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 2018 and of the Group's loss 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 consolidated financial statements, Article 4 of the IAS Regulation.**

We have audited the financial statements of TalkTalk Telecom Group plc (the 'Parent Company') and its subsidiaries (the 'Group') which comprise:

- the consolidated income statement;

- the consolidated statement of comprehensive income;

- the consolidated and Parent Company balance sheets;

- the consolidated and Parent Company cash flow statements;

- the consolidated and Parent Company statements of changes in equity;

- the accounting policies; and

- the related notes 1 to 27.

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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • management override of controls; • disclosure of non-Headline items and the presentation of alternative performance measures in the financial statements; • revenue recognition and revenue share arrangements with third parties; and • capitalised time and impairment of operating intangibles. Within this report, any new key audit matters are identified with ▲ and any key audit matters which are the same as the prior year identified with ▶.
Materiality	The materiality that we used in the current year was £3.6m which was determined on the basis of considering a number of different measures including Statutory loss before taxation, Headline profit before taxation and Statutory revenue. This is a change from prior year when materiality was determined on the basis of Headline profit before taxation and reflects the volatility in the results of the Group as management focuses on simplifying and resetting the business.
Scoping	Based on our assessment of the risks of material misstatement at the Group level, we focused our Group audit scope primarily on the TalkTalk Consumer and TalkTalk Business operating units. Each of these was subject to a full audit and together this covered 99% (2017: 99%) of the Group's total revenues. Together with this, our Group audit scope covered 92% of Statutory loss before taxation (2017: Statutory profit before tax 92%) and 97% of net assets (2017: 93%).
Significant changes in our approach	Last year our report included the recoverability of deferred tax assets and supplier rebate income as key audit matters. We do not consider the recoverability of deferred tax assets to be a key risk in the current year as this did not have a significant effect on our audit strategy nor the allocation of resources in the audit. We also note there was less judgement in the current year in relation to the recognition of supplier rebate income. We have included capitalised time and impairment of operating intangibles within our audit report as a key audit matter in the current year. Due to the nature and quantum of capitalised time being recorded year on year as well as the launch of the 'Network Transformation' programme in 2017, we increased the level of audit focus in relation to the potential impairment of the underlying asset base and nature of items capitalised in the year.

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the Directors' statement in note 1 to the financial statements 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 and Parent Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

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

Principal risks and viability statement

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Parent Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 22–26 that describe the principal risks and explain how they are being managed or mitigated;

- the Directors' confirmation on page 38 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; or

- the Directors' explanation on page 38 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 are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

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.

Management override of controls ▶

Key audit matter description

International Standards on Auditing require us to presume a risk of fraud arising from management override of controls and conduct our audit testing accordingly. Key areas of potential risk include inappropriate bias in relation to accounting judgements and inappropriate accounting for significant or unusual transactions taking place in the year. Our audit focus in this area primarily related to the quantum and nature of items occurring during the year, including the recording of non-Headline items, revenue share arrangements with third parties, supplier rebate income, income received in relation to service level related credits, and revisions to accounting estimates and management forecasts. The number of areas requiring the application of judgement and estimation techniques creates additional risk of bias in accounting estimates and therefore we have considered this to be a key audit matter.

Disclosures relating to the items noted above are included in notes 1 and 9 and the matters are discussed in the report of the Audit Committee on pages 40 and 41.

How the scope of our audit responded to the key audit matter

In considering the key audit matter relating to management override of controls we have:

- reviewed accounting estimates (individually and collectively) for management bias that would result in material misstatement, in particular focusing our attention on the areas noted above. We obtained evidence to support the rationale behind each estimate made and quantified the impact on the financial statements. Details of our audit response in relation to disclosure of non-Headline items and revenue recognition policies have been outlined below;

- obtained supporting documentation and obtained an understanding of the business rationale for significant transactions that we have become aware of that are outside the normal course of business or that otherwise appear to be unusual given our understanding of the Group;

- reviewed management's forecasts supporting their goodwill and non-current asset carrying values as well as the going concern assumption including working capital trends throughout the year. We have agreed known commitments and transactions and challenged key underlying assumptions. We have run our own sensitivity analysis including a reasonable worst-case scenario which strips out uncommitted or unapproved items. In considering our reasonable worst-case scenario we have also considered mitigating actions that in the event of a breach of covenant that management has within their control which would be used to ensure covenants are not breached; and

- completed journal entry testing, where data analytics tools were used to identify those postings that might be indicative of management override of controls. For the journal entries that were determined to meet these characteristics, we obtained explanations and examined supporting documentation to understand the nature and rationale for each entry.

Key observations

We note there continues to be significant judgements taken by management in reaching both Statutory and Headline results in relation to income received regarding service level related credits recognised, supplier settlements, true up of estimates in relation to revenue share arrangements with third parties and accounting estimates revisited in light of current data within the business.

We concur with the judgemental items included within Headline results and are satisfied that these have been disclosed in the financial statements.

Disclosure of non-Headline items and the presentation of alternative performance measures in the financial statements ▶

Key audit matter description

The Group presents alternative performance measures to provide supplemental information to enable users of the financial statements to gain an understanding of the Group's financial performance. During the year, the Group has incurred items classified as 'non-Headline items' amounting to £119m prior to the impact on taxation (2017: £129m). The disclosure of non-Headline items and their presentation on the face of the income statement remain a key audit matter given the level of management judgement involved as inappropriate classification of such items would impact on the disclosure of Headline earnings, which is a key performance indicator used by the Group. The impact of the classification of items as non-Headline has been to move the Group results from a Statutory loss before taxation of £73m to a Headline profit before taxation of £46m.

Over the last two years, the Group has come to the end of a number of significant projects (such as 'Making TalkTalk Simpler') and has started a number of projects (such as 'Network Transformation' and 'Business Reorganisation') as well as disclosing the impact of the loss on exiting the MVNO operations as a key non-Headline item in the year. These are multi-phase projects spanning a number of years and consequently, we consider there is significant management judgement in determining whether those costs or projects are non-Headline based on the Group's policy or are, in substance, 'business as usual' and therefore should be recognised in arriving at Headline earnings. Management has also revised their policy in the year resulting in an increase in prior year Headline profit before taxation by £66m. Please see note 1 for further detail of the accounting policy change in the year.

The nature of these costs has been defined in note 9 to the accounts and the related accounting policy has been disclosed in note 1. The Audit Committee's discussion of this matter is set out on page 40.

How the scope of our audit responded to the key audit matter

In addition to understanding the composition of non-Headline items and agreeing a sample of items to supporting documentation, we challenged management's rationale for the presentation of items within the consolidated income statement as non-Headline, particularly around the areas of higher judgement such as migration costs, internal labour, and costs in relation to the launch of 'Network Transformation' to determine whether the costs recognised as non-Headline meet the criteria of the accounting policy for such items defined by the Group within note 1. This includes assessing the incremental nature of the costs, whether they are specific to individual projects (including the MVNO operations of the Group) and considering whether they should be classified as part of Headline 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 non-Headline by nature but not separately identified. This included consideration of credit balances within underlying results, including those in relation to service level related disputes.

Key observations

We concur with the treatment of non-Headline items in the year that have been recognised in accordance with the Group's accounting policy.

Revenue recognition and revenue share arrangement with third parties ▶

Key audit matter description

Revenue represents a significant balance of £1,708 million (2017: £1,783 million), consisting of a high volume of individually low value transactions across the business to business and consumer customer base. We have identified the following types of transactions and assertions related to revenue recognition which give rise to a key audit matter relating to risks arising from the complexity of telecom transaction processing within the Group as well as the level of management judgement:

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

See note 1 to the financial statements for revenue recognition policy that has been applied by the Group and the Audit Committee Report on page 40.

How the scope of our audit responded to the key audit matter

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

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

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

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

Key observations

We note that the policies applied in relation to revenue recognition are in line with our expectations aside from the policy relating to the recognition of hardware sales where the quantum recognised in the year is insignificant in the context of the wider Group revenue balance.

In our testing on IT systems, we have identified certain control deficiencies. We confirmed that the mitigating business controls identified address the risk of a material misstatement to the financial statements.

Capitalised time and impairment of operating intangibles ▲

Key audit matter description

The Group has significant network assets held on the balance sheet of £493m (2017: £447m) which is predominantly made up of £241m (2017: £219m) of operating intangibles and £228m (2017: £228m) of network equipment and computer hardware. This includes £30m of internally capitalised time recorded in 2018. Internal capitalised time relating to the development of network infrastructure and system enhancements remains a significant balance year on year accordingly; there is a risk that inappropriate classification of operating expenses would impact on the disclosure of Headline earnings, which is a key performance indicator used by the Group and hence this has been determined as a key audit matter.

With the launch of the 'Network Transformation' programme, there is a risk assets and work capitalised (including external resource, licensing and software) supersede existing network infrastructure, resulting in the carrying value of assets exceeding the recoverable value and triggering impairments across the existing asset base.

See note 1 to the financial statements for the impairment and asset related accounting policies that have been applied by the Group and the Audit Committee Report on page 41.

How the scope of our audit responded to the key audit matter

We challenged management's impairment review of the asset base as at 31 March 2018, focusing on those areas under the 'Network Transformation' programme via assessing the recoverable value of assets held against the carrying value on the balance sheet. We assessed management's review by involving specialists to assess the discount rate used via independently calculating an acceptable range with reference to market data, challenging the identification of CGUs and performing relevant sensitivity analyses in line with our forecasting work outlined above.

We reviewed each capital programme in progress across the year against the requirements of IAS 38 Intangible Assets (IAS 38). We also performed substantive testing procedures on a sample of time capitalised in the year via corresponding with

	project managers and agreeing time spent to the newly implemented core timesheet system as well as gaining an understanding of the work carried out in the year and whether directly attributable to each capital programme.
Key observations	We are satisfied with the carrying value of the operating intangibles held on the balance sheet as at 31 March 2018 and that the nature of capital additions in the year is in line with the requirements of IAS 38.

Our application of materiality

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

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

	Group financial statements	**Parent Company financial statements**
Materiality	£3.6m (2017: £4.0m)	£3.4m (2017: £3.0m)
Basis for determining materiality	Materiality has been determined by considering a number of different measures including Statutory loss before taxation, Headline profit before taxation and Statutory revenue (2017: 3% of Headline profit before taxation).	The Parent Company materiality represents 0.3% of net assets (2017: 0.3%) which is capped at 95% of Group materiality.
Rationale for the benchmark applied	There is significant volatility in the results of the Group due to the change in the Mobile strategy and the launch of programmes such as Network Transformation and Business Reorganisation. As such, we have considered a range of metrics when determining our materiality. The materiality applied equates to 5% of Statutory loss before taxation, 7.8% of Headline profit before taxation and 0.2% of Statutory revenue.	We consider the net assets to be an appropriate benchmark for the measure of the materiality of the Parent Company on the basis that it is the Group's ultimate parent and is a non-trading company.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £180,000 (2017: £200,000) for the Group, 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 and consistent with the prior year, we focused our Group audit scope primarily on the TalkTalk Consumer and TalkTalk Business operating units. Each of these was subject to a full audit which was performed directly by the Group audit team and together they represent over 99% (2017: over 99%) of the Group's total revenues. Specific focused audit work was performed over Group functions, including those covering treasury and taxation. Together this covered 92% of Statutory loss before taxation (2017: Statutory profit before tax 92%) and 97% of net assets (2017: 93%). Our audit work at each division was executed at levels of materiality which were lower than Group materiality and ranged from £2.5m to £3.1m (2017: £2.4m to £3.2m).

Revenue	
Full audit scope	99%
Review at Group level	1%
Statutory loss before taxation	
Full audit scope	92%
Review at Group level	8%
Net assets	
Full audit scope	97%
Review at Group level	3%

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our Auditor's Report thereon.

We have nothing to report in respect of these matters.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- *Fair, balanced and understandable*—the statement given by the Directors that they consider the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

- *Audit Committee reporting*—the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or

- *Directors' statement of compliance with the UK Corporate Governance Code*—the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Responsibilities of Directors

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, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's Report.

Use of our report

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.

Report on other legal and regulatory requirements

Opinions 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.

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

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

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Directors' remuneration

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

We have nothing to report in respect of these matters.

Other matters

Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

Kate J Houldsworth FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London
24 May 2018

Consolidated income statement
For the year ended 31 March 2018

		2018			2017 (restated)[1]		
	Notes	Headline £m	Non-Headline (note 9) £m	Statutory £m	Headline £m	Non-Headline (note 9) £m	Statutory £m
Revenue	2	**1,658**	**50**	**1,708**	1,720	63	1,783
Cost of sales		**(774)**	**(38)**	**(812)**	(767)	(46)	(813)
Gross profit		**884**	**12**	**896**	953	17	970
Operating expenses excluding amortisation and depreciation		**(651)**	**(109)**	**(760)**	(592)	(131)	(723)
EBITDA	9	**233**	**(97)**	**136**	361	(114)	247
Depreciation and amortisation	3	**(131)**	**(12)**	**(143)**	(126)	(15)	(141)
Share of results of joint ventures	14	**(11)**	**—**	**(11)**	(11)	—	(11)
Operating (loss)/profit	3, 9	**91**	**(109)**	**(18)**	224	(129)	95
Net finance costs	6	**(45)**	**(10)**	**(55)**	(25)	—	(25)
(Loss)/profit before taxation	9	**46**	**(119)**	**(73)**	199	(129)	70
Taxation	7, 9	**(28)**	**22**	**(6)**	(45)	33	(12)
(Loss)/profit for the year attributable to the owners of the Company	9	**18**	**(97)**	**(79)**	154	(96)	58
(Loss)/earnings per share							
Basic (p)	10			**(8.1)**			6.1
Diluted (p)	10			**(8.0)**			6.0

The accompanying notes 1 to 27 are an integral part of this consolidated income statement. All amounts relate to continuing operations.

(1) See note 1 to the consolidated financial statements.

Consolidated statement of comprehensive income
For the year ended 31 March 2018

	2018 £m	2017 £m
(Loss)/profit for the year attributable to the owners of the Company	**(79)**	58
Other comprehensive income/(expense)		
Items that may be reclassified to profit or loss:		
Gains/(losses) on a hedge of a financial instrument	**2**	(5)
Loss on a hedge reclassified to income statement	**6**	—
Total other comprehensive income/(expense)	**8**	(5)
Total comprehensive (expense)/income attributable to the owners of the Company	**(71)**	53

The accompanying notes 1 to 27 are an integral part of this consolidated statement of comprehensive income. All amounts relate to continuing operations.

Consolidated balance sheet
Company number: 07105891
As at 31 March 2018

	Notes	2018 £m	2017 £m
Non-current assets			
Goodwill	11	**495**	495
Other intangible assets	11	**257**	243
Property, plant and equipment	12	**236**	235
Investment in joint venture	14	**3**	8
Trade and other receivables	16	**7**	6
Derivative financial instruments	19	**—**	31
Deferred tax assets	7	**97**	108
		1,095	1,126
Current assets			
Inventories	15	**35**	18
Trade and other receivables	16	**356**	369
Cash and cash equivalents	18	**43**	50
		434	437
Assets classified as held for sale	13	**13**	—
Total assets		**1,542**	1,563
Current liabilities			
Trade and other payables	17	**(462)**	(511)
Current income tax payable		**—**	(5)
Borrowings	18	**(75)**	—
Provisions	20	**(31)**	(22)
		(568)	(538)
Liabilities classified as held for sale	13	**(11)**	—
Non-current liabilities			
Borrowings	18	**(723)**	(871)
Provisions	20	**(28)**	(14)
		(751)	(885)
Total liabilities		**(1,330)**	(1,423)
Net assets		**212**	140
Equity			
Share capital	21	**1**	1
Share premium	22	**684**	684
Translation reserve	22	**(64)**	(64)
Demerger reserve	22	**(513)**	(513)
Retained earnings and other reserves	22	**104**	32
Total equity		**212**	140

The accompanying notes 1 to 27 are an integral part of this consolidated balance sheet.

These financial statements were approved and authorised for issue by the Board on 24 May 2018. They were signed on its behalf by:

T Harrison
Chief Executive Officer

K Ferry
Chief Financial Officer

Consolidated cash flow statement
For the year ended 31 March 2018

	Notes	2018 £m	2017 (re-presented)[(1)] £m
Operating activities			
Operating (loss)/profit		**(18)**	95
Share-based payments	5	**8**	5
Depreciation of property, plant and equipment	3	**72**	72
Amortisation of other operating intangible assets	11	**62**	59
Amortisation of acquisition intangibles	11	**9**	10
Share of losses of joint ventures	14	**11**	11
Impairment of stock inventory	15	**—**	18
Impairment of property, plant and equipment	12	**—**	22
Impairment of other operating intangible assets	11	**2**	—
Gain on disposal of joint venture	14	**(1)**	—
Profit on disposal of property, plant and equipment	3	**—**	(2)
Increase in provisions		**23**	8
Operating cash flows before movements in working capital		**168**	298
Decrease/(increase) in trade and other receivables		**12**	(63)
(Increase)/decrease in inventory		**(17)**	21
Decrease in trade and other payables		**(45)**	(26)
Cash generated from operations		**118**	230
Income taxes received		**—**	2
Net cash flows generated from operating activities		**118**	232
Investing activities			
Acquisition of subsidiaries and joint ventures, net of cash acquired		**(8)**	(10)
Investment in intangible assets		**(87)**	(82)
Investment in property, plant and equipment		**(38)**	(71)
Disposal of property, plant and equipment		**—**	20
Cash flows used in investing activities		**(133)**	(143)
Financing activities			
Settlement of Group ESOT shares		**1**	1
Issue of shares		**201**	—
Payment of contingent consideration		**—**	(8)
Repayments of obligations under finance leases		**(4)**	—
Repayments of borrowings	23	**(374)**	(315)
Drawdown of borrowings	23	**309**	458
Interest paid		**(41)**	(30)
Other finance costs		**(13)**	(5)
Equity dividends paid	8	**(71)**	(150)
Cash flows generated from/(used in) financing activities		**8**	(49)
Net (decrease)/increase in cash and cash equivalents		**(7)**	40
Cash and cash equivalents at the start of the year		**50**	10
Cash and cash equivalents at the end of the year	18	**43**	50

(1) See note 1 to the consolidated financial statements.

The accompanying notes 1 to 27 are an integral part of this consolidated cash flow statement.

Consolidated statement of changes in equity
For the year ended 31 March 2018

	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 2016		1	684	(64)	(513)	123	231
Profit for the year		—	—	—	—	58	58
Other comprehensive expense							
Items that may be reclassified to profit or loss:							
Loss on hedge of a financial instrument		—	—	—	—	(5)	(5)
Total other comprehensive expense		—	—	—	—	(5)	(5)
Total comprehensive income		—	—	—	—	53	53
Transactions with the owners of the Company							
Share-based payments	5	—	—	—	—	3	3
Settlement of Group ESOT shares		—	—	—	—	3	3
Equity dividends	8	—	—	—	—	(150)	(150)
Total transactions with the owners of the Company		—	—	—	—	(144)	(144)
At 31 March 2017		1	684	(64)	(513)	32	140
Loss for the year		**—**	**—**	**—**	**—**	**(79)**	**(79)**
Other comprehensive income							
Items that may be reclassified to profit or loss:							
Gain on hedge of a financial instrument		**—**	**—**	**—**	**—**	**2**	**2**
Loss on a hedge reclassified to income statement		**—**	**—**	**—**	**—**	**6**	**6**
Total other comprehensive income		**—**	**—**	**—**	**—**	**8**	**8**
Total comprehensive expense		**—**	**—**	**—**	**—**	**(71)**	**(71)**
Transactions with the owners of the Company							
Share-based payments	5	**—**	**—**	**—**	**—**	**12**	**12**
Settlement of Group ESOT shares		**—**	**—**	**—**	**—**	**1**	**1**
Issue of shares	21	**—**	**—**	**—**	**—**	**201**	**201**
Equity dividends	8	**—**	**—**	**—**	**—**	**(71)**	**(71)**
Total transactions with the owners of the Company		**—**	**—**	**—**	**—**	**143**	**143**
At 31 March 2018		**1**	**684**	**(64)**	**(513)**	**104**	**212**

The accompanying notes 1 to 27 are an integral part of this consolidated statement of changes in equity.

Notes to the consolidated financial statements

1. Accounting policies and basis of preparation

Basis of preparation

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

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

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

Basis of consolidation

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

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

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

Alternative Performance Measures (APMs)

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

- Headline revenue (excluding Carrier and Off-net);
- Headline EBITDA;
- Headline basic EPS;
- Headline net debt; and
- Net debt.

Further explanation of what each APM comprises and reconciliations between Statutory reported measures and Headline measures are shown in notes 2, 9 and 10. Refer to page 118 for comprehensive descriptions of all APMs including their relevance in providing supplementary information that assists the user to understand better the financial performance, position and trends of the Group. In addition, in response to the Guidelines on APMs issued by ESMA and the FRC and with a view to simplifing the Group's reporting, the Group has reduced the number of APM's used compared to the prior year. The APM's no longer used by the Group are Headline revenue, Headline EBITDA margin, Headline operating profit, Headline profit before taxation, Headline profit after taxation, Headline free cash flow and Headline leverage.

Headline measures represent trading results before non-Headline items which are defined in note 9. The Board believes that presentation of the Group results in this way is relevant to an understanding of the Group's financial performance, as non-Headline items are identified by virtue of their size, nature and/or incidence. This presentation is consistent with the way that financial performance is measured by management, reported to the Board, the basis of financial measures for senior management's compensation schemes and assists in providing supplementary information that assists the user to understand better the financial performance, position and trends of the Group. In determining whether an event or transaction is non-Headline, the Board considers both quantitative and qualitative factors such as the frequency or predictability of occurrence.

During the year, the Group has refined its policy in relation to non-Headline items so as to streamline its application, simplify the Group's reporting and ensure consistency between Headline and non-Headline performance. In particular, the Board considers the recognition of service level related credits should be included in Headline performance, consistent with the recognition of the associated costs for which the Group is being compensated. The MVNO operating loss, being in relation to a business being exited, has also been recognised within non-Headline results. On this basis prior year results have been restated, giving rise to a decrease in the Group's Headline revenue of £63m, an increase in the Group's Headline EBITDA of £57m and an increase in Group's Headline profit before taxation of £66m. There is no impact on the Statutory performance of the Group or the Group's consolidated balance sheet, further detail is set out in note 9.

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

Cash flow statement presentation

During the year, management has reviewed its cash flow statement presentation. As a result of this review movements in provisions have been re-presented within operating cash flows before movements in working capital. This is because management believe it to be more appropriate for movements in provisions not to be part of the Group's working capital. The prior year cash flow statement has been restated accordingly, resulting in an increase in operating cash flows before movement in working capital by £8m. There is no impact on cash generated from operations.

In addition, management has decided to split interest paid in financial activities to present arrangement fees separately. The prior year comparatives have been restated accordingly.

Going concern

Our business activities, together with the factors likely to affect our future performance and market position are set out in the Chief Executive's Review. Our financial position, cash and borrowing facilities are described within this Chief Financial Officer's statement, together with further detail on other sources of finance including receivables financing and commitments given in the notes to the consolidated financial statements.

We have £1,115m of committed credit facilities and as at 31 March 2018 the headroom on these facilities was £348m. Our forecasts and projections, taking into account reasonably possible changes in trading performance, indicate that there is sufficient cash and covenant headroom on our facilities. Sensitivity analysis has been performed in respect of certain scenarios, including an increase in churn, lower net adds growth and lower than expected cost savings, and we have considered mitigating actions and cash management activities within the Group's control in the event of a breach in covenant. This, together with our market positioning, means that we are well placed to manage our business risks successfully and have adequate resources to operate for the foreseeable future. The Directors have therefore adopted the going concern basis of accounting in relation to the preparation of the financial statements.

The UK Corporate Governance Code requires the Directors to assess and report on the prospects of the Group over a longer period. This longer term viability statement is set out within the Annual Report on page 38.

Accounting policies

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

Revenue

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

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

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

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

Subscriber acquisition costs

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

Foreign currency translation and transactions

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

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

	Average		Closing	
	2018	**2017**	**2018**	**2017**
Euro	**1.14**	1.19	**1.14**	1.17
United States Dollar	**1.34**	1.30	**1.40**	1.25

Leases

The Group as lessee

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below).

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

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.

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

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

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

Cash and cash equivalents

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

Trade payables

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

Financial liabilities and equity instruments

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

Borrowings

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

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

Bank overdrafts and other committed loans that are repayable on demand and form an integral part of the Group's cash management process and 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.

Change in accounting estimates

In light of the most up to date customer data, the Group has revised its accounting estimates in relation to the average contract period that certain promotional discounts and credits are amortised over, giving rise to an increase in the Group's Headline EBITDA of £2m (2017: £5m).

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 principal items in the financial statements involving critical accounting judgements are as follows:

Forecast assumptions used in the going concern and viability statement assessments

When the Directors review forecast assumptions used in the going concern assessment, they apply judgement on what is considered reasonably possible changes in trading performance, how likely sources of finance will be renewed and whether certain future commitments will crystallise. In relation to the viability statement, the Directors take into account the Group's current financial position, and give judgement on which hypothetical scenarios linked to the Group's principle risks would be necessarily severe for the purpose of creating outcomes that have the ability to threaten the viability of the Group and consequently give rise to the need for mitigating actions. These judgements are subjective in nature but such considerations are necessary for the Directors to confirm the viability of the Group and the treatment of it as a going concern.

Classification of item as non-Headline

Headline measures represent trading results before non-Headline items which are defined in note 9. The Directors believe that presentation of the Group results in this way is relevant to assist the user to understand better the financial performance, position and trends of the Group, as non-Headline items are identified by virtue of their size, nature and/or incidence. This presentation is consistent with the way that financial performance is measured by management, reported to the Board, the basis of financial measures for senior management's compensation schemes and assists in providing supplementary information that allows the user to understand better the underlying trading results. In determining whether an event or transaction is non-Headline, the Directors consider both quantitative and qualitative factors such as the nature of the item and the frequency or predictability of occurrence.

Revenue share arrangements with third parties

Certain subscriber acquisition costs relate to revenue share arrangements with third parties payable over a definable period subject to customer churn. Revenue share payable under these arrangements are recognised as an expense at the same time as the related revenue is recognised. Reimbursement of subscriber acquisition costs from third parties are recognised on customer acquisition.

Management applies judgement on the application and interpretation of the contractual relationship that includes periodic retrospective reviews. Such reviews ensure that the revenue share and related reimbursement on customer acquisition is recognised based upon actual customer churn data and costs for each accounting period and that recognition is recognised within the appropriate financial period.

Revenue recognition for bundled transactions

When the Group sells several products within a bundled transaction, the total consideration from the arrangement is allocated to each element based on their relative fair values. Management applies judgement in determining the amount of revenue the Group recognises for delivered elements, limited to the amounts billed for that element on the basis of recoverability. The rationale for this judgement is to ensure the total consideration from an arrangement is allocated on an appropriate basis relative to the fair value of goods and services provided to the customer.

Hardware revenue to third parties involved in outsourcing its customer acquisition

Where the Group sells hardware to third parties involved in outsourcing its customer acquisition, hardware revenue is recognised when risk and rewards of the related hardware is transferred to the outsourced third party. Management applies judgement in determining when risk and rewards have transferred to the outsourced third party. The rationale of this judgement is to ensure that revenue is recognised in the appropriate financial period when risk and rewards have transferred to the outsourced third party.

Amounts receivable from suppliers

The Group may enter agreements with certain suppliers which include the opportunity for rebates on the cost of goods purchased. Income may also relate to changes in contract rates or compensation received under existing contracts. Management applies judgement in relation to assessing the appropriate timing of recognition based on the nature of the income, whether the Group has discharged its obligations and the likelihood of receipt. Consideration is also given as to whether it should be treated as income or a reduction in the value of inventory.

The principal items in the financial statements involving key sources of estimation uncertainty are:

Service level related disputes

The Group's results include the recognition of certain service level related credits from suppliers to compensate the Group where the supplier has not operated within the contractual terms of these arrangements. The quantification of service level related credits may be subject to regulatory guidance, legal ruling or alternative dispute resolution processes. During the year, following a detailed independent assessment of underlying data and the Group has reviewed its estimation in relation to certain claims. At 31 March 2018, a receivable of £46m (2017: £32m) existed in relation to such claims, the resolution of which may give rise to an increase or decrease in the level of receivable recognised. This is without prejudice to the Group's legal position.

Taxation

The value of deferred tax asset may be uncertain as the extent to which tax losses can be utilised depends on future taxable profits and on the tax legislation then in force.

Recovery of the deferred tax asset relating to tax losses is estimated over a ten year time horizon using an extrapolation of the Group's three year plan. Sensitivities have been applied to these forecasts as noted in the viability statement on page 38. Forecast profits within the ten year agreed time horizon impacts the level of the deferred tax asset recognition. Accordingly, an increase or decrease in future profitability would increase or decrease the asset recognised.

Application of significant new or amended EU-endorsed accounting standards

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

Future accounting developments

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

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

- IFRS 9 'Financial Instruments', impacting the disclosure within the financial instruments. The Group will implement this standard for the year ended 31 March 2020. Management continue to review the impact of this standard.
- IFRS 15 FRS 15 "Revenue from Contracts with Customers" impacts the amount, timing and recognition of revenue and certain associated costs, as well as related disclosures. The Group will implement this standard for the year ended 31 March 2019 and will present the first-time application of IFRS 15 using the modified retrospective method, applying a one-off cumulative effect of transition to retained earnings at 1 April 2018.

IFRS 15 requires the Group to apportion revenue earned from contracts with customers to performance obligations the Group has with our customers, on the basis of the standalone selling prices. This is done through applying a five-step model:

1. Identify the contract with the customer.

2. Identify the performance obligations in the contract.

3. Determine the transaction price.

4. Allocate the transaction price to the performance obligation in the contract.

5. Recognise revenue when (or as) the entity satisfies a performance obligation.

In addition to the changes to revenue recognition described above, IFRS 15 also provides guidance in relation to certain costs incurred acquiring a customer or fulfilling the contract with the customer, requiring such costs to be deferred over time.

The Group has run a project for the implementation of IFRS 15 assessing the impact to the Group, designing accounting policies and implementing necessary processes and systems.

The key effects of the application of IFRS 15 are described below:

- Revenue will continue to be recognised upfront in relation to hardware provided to the customer. However whilst currently revenue is recognised only to the extent the customer contributes to this hardware, under IFRS 15 revenue will be allocated to the hardware based on the relative standalone selling prices of each of the performance obligations of the contract. As the Group often provides hardware free or at a discounted price to customers this will result in more revenue being recognised at the commencement of a contract when the hardware is provided, and less being recognised over the remainder of the contract as the service is provided.

- Connection revenues are currently recognised at the point the connection activity has been completed. Under IFRS 15 such activities will typically not be a performance obligation and therefore the revenue will form part of the overall transaction price being allocated to each of the actual performance obligations of the contract based on their relative standalone prices.

- Certain promotional discounts and credits are deferred and amortised over a defined period, however as these are not related to performance obligations, such credits and discounts will form part of the total transaction price and be allocated to each of the performance obligations.

- Incremental sales commission costs directly attributable to obtaining specific contracts and currently recognised as incurred will instead be deferred and recognised over time.

- Specific costs associates with fulfilling the customer contracts currently recognised on contract inception will instead be deferred and recognised over time.

The acceleration of revenue associated with hardware and the deferral of costs to obtain and fulfil will increase the net of assets of the Group, whilst the deferral of connection revenue will reduce net assets, We are in the process of finalising the impact to the Group of IFRS 15 including the opening adjustment to retained earnings. We will provide a reconciliation of our primary financial statements under IAS 18 to our primary financial statements under IFRS 15 in our 2019 Annual Report.

IFRS 16

'Leases', impacting lease recognition. The Group will implement this standard for the year ended 31 March 2020, as the Group continues to monitor the practical interpretation of this new standard within the telecommunications industry. Further detail of the requirements and management's current assessment of the implications for TalkTalk were disclosed within the 2017 Annual Report.

2. Segmental reporting

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

	2018 £m	2017 (restated)(1) £m
Statutory revenue	**1,708**	1,783
Less MVNO revenue	**(50)**	(63)
Headline revenue	**1,658**	1,720

	2018 £m	2017 (restated)(1) £m
Headline EBITDA	**233**	361
Depreciation of property, plant and equipment	**(69)**	(67)
Amortisation of operating intangibles	**(62)**	(59)
Share of results of joint ventures	**(11)**	(11)
Non-Headline items—gross profit	**12**	17
Non-Headline items—operating expenses excluding amortisation and depreciation (note 9)	**(109)**	(131)
Non-Headline items—depreciation and amortisation	**(3)**	(5)
Amortisation of acquisition intangibles (note 11)	**(9)**	(10)
Statutory operating (loss)/profit (note 9)	**(18)**	95

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

	2018 £m	2017 (restated)(1) £m
On-net	**1,263**	1,279
Corporate	**373**	397
Off-net	**22**	44
Headline revenue	**1,658**	1,720
Less Carrier	**(72)**	(121)
Less Off-net	**(22)**	(44)
Headline revenue (excluding Carrier and Off-net)	**1,564**	1,555

(1) See note 1 to the consolidated financial statements.

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

Corporate revenue is further analysed as:

	2018 £m	2017 £m
Carrier	**72**	121
Data	**168**	157
Voice	**133**	119
Corporate revenue	**373**	397

3. Operating (loss)/profit

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

	2018 £m	2017 (restated)[3] £m
Depreciation of property, plant and equipment (note 12)	**69**	69
Amortisation of other operating intangible fixed assets (note 11)	**62**	59
Amortisation of acquisition intangibles (note 11)	**9**	10
Profit on disposal of property, plant and equipment	**—**	(2)
Impairment of operating intangibles	**2**	—
Gain on disposal of joint venture	**(1)**	—
Impairment loss recognised on trade receivables (note 16)	**37**	60
Employee costs (note 4)	**152**	136
Cost of inventories recognised in expenses	**48**	55
Rentals under operating leases	**101**	105
Supplier rebates	**(8)**	(13)
Service level related disputes[1]	**(14)**	(56)
Auditor's remuneration[2]	**1**	1
Non-Headline items (note 9)	**97**	114
Non-Headline items—depreciation (note 9 and note 12)	**3**	5

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

(2) A breakdown of auditor's remuneration is disclosed within the Corporate Governance section on page 41.

(3) See note 1 to the consolidated financial statements.

4. Employee costs

The average monthly number of employees (including Executive Directors) was:

	2018 Number	2017 Number
Administration	**1,634**	1,588
Sales and customer management	**654**	638
	2,288	2,226

The aggregate remuneration recognised in respect of these employees in the income statement comprised:

	2018 £m	2017 £m
Wages and salaries	**124**	112
Social security costs	**15**	14
Other pension costs	**5**	5
	144	131
Share-based payments (note 5)	**8**	5
	152	136

The Group provides various defined contribution pension schemes for the benefit of a significant number of its employees. These are charged to the income statement as they become payable in accordance with the rules of the schemes.

Compensation earned by key management personnel is analysed below. The key management personnel comprised the Board of Directors (see the Directors' Remuneration Report on pages 42 to 58) and other senior management.

	2018 £m	2017 £m
Salaries and fees	**4.9**	4.0
Performance bonuses	**1.4**	1.5
Benefits	**0.3**	0.1
Pension costs	**0.2**	0.2
Share-based payments	**2.6**	0.7
Notice payment	**0.7**	—
Compensation for loss of office	**0.3**	0.9
	10.4	7.4

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 £1.69 (2017: £2.03).

Summary of share schemes

Year ended 31 March 2018	IFRS 2 charge £m	Dilutive effect number millions	Options outstanding at the end of the year number millions
TalkTalk Telecom Group PLC schemes			
SVP—participation shares	**1**	**—**	**—**
SVP II—participation shares	**3**	**—**	**—**
SVP III—participation shares	**1**	**2**	**—**
DSOP—2017 grant 2018	**1**	**5**	**11**
DSOP—2016 grant 2017	**2**	**3**	**9**
DSOP—2015 grant 2016	**—**	**—**	**1**
DSOP—2012 grant 2013	**—**	**1**	**1**
SAYE	**—**	**—**	**5**
Share Match Plan	**1**	**1**	**—**
Total TalkTalk Telecom Group PLC schemes	**8**	**12**	**27**

Year ended 31 March 2017	IFRS 2 charge £m	Dilutive effect number millions	Options outstanding at the end of the year number millions
TalkTalk Telecom Group PLC schemes			
SVP—participation shares	1	—	—
SVP II—participation shares	1	—	—
DSOP—2016 grant 2018	2	4	10
DSOP—2015 grant 2016	—	1	1
DSOP—2014 grant 2015	1	3	5
DSOP—2013 grant 2014	—	1	1
DSOP—2012 grant 2013	—	1	1
DSOP—2010 grant 2011	—	1	1
SAYE	—	—	3
Total TalkTalk Telecom Group PLC schemes	5	11	22

(i) SVP

The SVP, SVP II and SVP III are growth plans and not share option plans operating under the Value Enhancement Scheme (VES) rules previously approved by shareholders. The SVP and SVP II enable participants to share in up to 7% of any increase in the value of the Group over an opening market capitalisation of £2,941m based on a five business day average up to 3 June 2014 for SVP and £2,292m based on a five business day average up to 19 May 2016 for SVP II. The awards are subject to the following performance conditions:

- at least a 7% compound annual increase (CAGR) in the market capitalisation of the Group from the above valuation over a three and four year period; and

- the Group's TSR outperforms the FTSE 250.

The SVP III scheme was awarded during the year ended 31 March 2018; the scheme enables participants to share in up to 7% of any increase in the value of the Group over an opening market capitalisation of £1,648m based on a five business day average up to 21 June 2017. The award is subject to the following performance condition:

- 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.

The performance conditions are measured over an initial performance period from 3 June 2014 (SVP), 19 May 2016 (SVP II) and 21 June 2017 to the date of announcement of the Group's 2017 (SVP), 2019 (SVP II) and 2020 (SVP III) annual results, after which a total of 60% of the options will vest. The remaining options are measured over a performance period from 3 June 2014 (SVP), 19 May 2016 (SVP II) and 21 June 2017 to the date of announcement of the Group's 2018 (SVP), 2020 (SVP II) and 2021 (SVP III) 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.

The Group advanced loans to participants to enable them to purchase participation shares in TalkTalk Group Limited, the holding company of the Group's operating business. These loans are subject to a commercial rate of interest based on rates set by HMRC.

If an employee leaves the Group before the scheme vests, then the participation shares are forfeited for the value of the outstanding loan plus accrued interest.

During the year ended 31 March 2018 the Group reviewed all of its existing long term incentive plans, including the SVP II, to ensure they are in line with the revised business strategy. It subsequently decided SVP II awarded in 2016, having being set under our old strategy, will not meet the purposes for which those awards were originally granted and cancelled the award. The cancellation of awards gave rise to an exceptional charge of £3m.

A fair value exercise was conducted for the awards using the Monte Carlo method with the total fair value of the participation shares granted totalling £5m in SVP, £4m in SVP II and £5m in SVP III.

A summary of the schemes is shown below:

	Participation shares	
SVP—2015 grant	**2018 Number million**	**2017 Number million**
Outstanding at the beginning of the year	**15**	17
Forfeited during the year	**(4)**	(2)
Outstanding at the end of the year	**11**	15
Exercisable at the end of the year	**—**	—

	Participation shares	
SVP II—2016 grant	**2018 Number million**	**2017 Number million**
Outstanding at the beginning of the year	**18**	—
Granted during the year	**—**	20
Cancelled during the year	**(12)**	—
Forfeited during the year	**(6)**	(2)
Outstanding at the end of the year	**—**	18
Exercisable at the end of the year	**—**	—

SVP III—2017 grant	Participation shares 2018 Number million	2017 Number million
Outstanding at the beginning of the year	**—**	—
Granted during the year	**14**	—
Forfeited during the year	**(1)**	—
Outstanding at the end of the year	**13**	—
Exercisable at the end of the year	**—**	—

(ii) DSOP

During the year ended 31 March 2018 the Group granted 12 million nil-priced share options ('2017 grant'). These options are subject to the following performance condition:

- 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.

The options are measured as follows:

- a performance period from 21 June 2017 to 21 June 2020 vesting on announcement of the Group's 2020 annual results. A total of 60% of the vested options are exercisable from the vesting date, with the remaining 40% of options being exercisable twelve months later. Options are forfeited if an employee leaves the Group before the options vest, subject to the DSOP scheme rules.

In 2017 ('2016 grant'), the Group granted 11 million nil-priced share options. These options are subject to the following performance conditions:

- at least a 7% compound annual increase (CAGR) in the market capitalisation of the Group from the below valuation over the next three and four year periods; and

- at least a 23.8% compound annual increase (CAGR) in the Headline earnings per share (EPS) of the Group from the 2016 Headline EPS; and the employee remains in service with the Group for the vesting periods.

The options are measured as follows:

- a performance period from 19 May 2016 to 19 May 2019 vesting on announcement of the Group's 2020 annual results. A total of 60% of the vested options are exercisable from the vesting date, with the remaining 40% of options being exercisable twelve months later. Options are forfeited if an employee leaves the Group before the options vest, subject to the DSOP scheme rules.

In 2015 ('2014 grant') and 2016 ('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 2017 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.

On the announcement of the Group's 2017 annual results it was determined the 2014 grant did not meet the necessary performance conditions and subsequently all remaining options under the scheme lapsed on this date.

Options are forfeited if an employee leaves the Group before the options vest.

The following table summarises the number of options, WAEP and valuation assumptions of each grant.

	2017 grant		**2016 grant**		**2015 grant**		**2014 grant**		**2013 grant**		**2012 grant**		**2010 grant**	
Number of share options outstanding	**Number million**	**WAEP £**	**Number million**	**WAEP £**	**Number million**	**WAEP £**	**Number million**	**WAEP £**	**Number million**	**WAEP £**	**Number million**	**WAEP £**	**Number million**	**WAEP £**
Opening balance at 1 April 2016	—	—	—	—	2	—	7	—	4	—	2	—	2	1.27
Granted during the year	—	—	11	—	—	—	—	—	—	—	—	—	—	—
Exercised during the year	—	—	—	—	—	—	—	—	—	—	(1)	—	(1)	1.27
Forfeited during the year	—	—	(1)	—	(1)	—	(2)	—	(3)	—	—	—	—	—
Closing balance at 31 March 2017	—	—	10	—	1	—	5	—	1	—	1	—	1	1.27
Granted during the year	12	—	—	—	—	—	—	—	—	—	—	—	—	—
Exercised during the year	—	—	—	—	—	—	—	—	(1)	—	—	—	(1)	1.27
Lapsed during the year	—	—	—	—	—	—	(5)	—	—	—	—	—	—	—
Forfeited during the year	(1)	—	(1)	—	—	—	—	—	—	—	—	—	—	—
Closing balance at 31 March 2018	11	—	9	—	1	—	—	—	—	—	1	—	—	—
Number of share options exercisable														
As at 31 March 2017	—	—	—	—	—	—	—	—	—	—	1	—	1	1.27
As at 31 March 2018	—	—	—	—	—	—	—	—	—	—	1	—	—	—

Valuation assumptions	**2017 grant**	**2016 grant**	**2015 grant**	**2014 grant**	**2013 grant**	**2012 grant**	**2010 grant**
Valuation method	Monte Carlo	Monte Carlo	Monte Carlo	Monte Carlo	Monte Carlo	Monte Carlo	Monte Carlo
Share price (p)	174	240	309	321	228	122	132
Exercise price (p)	nil	nil	nil	nil	nil	nil	127
Expected volatility	31.95% and 30.94%	28.75%	25.0%	25.0%	30.0%	30.0%	37.0%
Expected exercise (60%/40%)	3 and 4 years	3 and 4 years	4 years	3 and 4 years	3 and 4 years	3 and 4 years	3 and 4 years
Risk free rate (3 years/4 years)	0.24% and 0.39%	0.44% and 0.64%	1.67%	1.27% and 1.67%	0.50% and 0.80%	0.60%	3.40%
Expected dividend yield	4.73%	5.65%	5.60%	5.60%	4.45%	3.50%	3.80%
Fair value of options granted (£m)	5	10	1	4	3	3	9
Weighted average remaining contractual life	9.3 years	8.1 years	7.4 years	N/A	N/A	3.9 years	N/A

Part of the 2016 grant was valued using the Black Scholes model, the valuation assumptions for these are shown below:

	DSOP—2016 grant
Valuation method	Black Scholes
Share price (p)	240
Exercise price (p)	nil
Expected volatility	N/A
Expected exercise (years)	3 and 4 years
Risk free rate	N/A
Expected dividend yield	5.65%
Fair value of options granted (£m)	9
Weighted average remaining contractual life	9.1 years

(iii) SAYE

The scheme permits the granting of options to employees linked to a bank SAYE contract for a term of three or five years. Contributions from UK employees range from £5 to £250 per month for schemes launched between 2010 and 2013 and between £5 and £500 per month for the 2014 scheme onwards. Options may be exercised at the end of the three or five year period at an exercise price determined at the invitation date. The scheme is available for a period each year for employees to join.

Exercise prices for the schemes are set out below:

2017 grant	145p per share
2016 grant	209p per share
2015 grant	307p per share
2014 grant	240p per share
2013 grant	192p per share
2012 grant	123p per share
2011 grant	119p per share
2010 grant	102p per share

	2018		2017	
	Number million	WAEP £	Number million	WAEP £
Outstanding at the beginning of the year	**3**	**2.26**	4	2.32
Granted during the year	**4**	**1.45**	2	2.09
Exercised during the year	**—**	**—**	(1)	1.88
Forfeited during the year	**(2)**	**1.94**	(2)	2.37
Outstanding at the end of the year	**5**	**1.74**	3	2.28
Exercisable at the end of the year	**—**	**—**	—	—

(iv) Share Match Plan

	SAYE—2017 grant
Valuation method	Black Scholes
Share price (p)	1.81
Exercise price (p)	1.45
Expected volatility	26%
Expected exercise (years)	3.6
Risk free rate	0.29%
Expected dividend yield	4.24%
Fair value of options granted (£m)	1
Weighted average remaining contractual life	3.1 years

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 2018, the impact of the SIP on the Group's results was not material.

6. Net finance costs

Net finance costs are analysed as follows:

	2018 £m	2017 (restated) £m
Interest on bank loans and overdrafts	**36**	20
Facility fees and similar charges	**9**	5
Finance costs before exceptional items	**45**	25
Exceptional—finance expense (note 9)	**10**	—
Finance costs	**55**	25

In the year ended 31 March 2018, the Group completed the repurchase of its $185m US Private Placement Notes. This resulted in exceptional costs of £8m (2017: £nil) including the settlement of derivative instruments in designated hedge accounting relationships and associated fees. In the year ended 31 March 2018, the Group also refinanced its revolving credit facilities (RCF), resulting in the accelerated amortisation of arrangement fees from the previous facilities leading to a £2m (2017: £nil) exceptional charge in the year. In addition, arrangement fees of £5m were paid during the year and are being amortised over the life of the RCF.

In the year ended 31 March 2017, the Group issued £400m Senior Notes repayable in 2022. Arrangement fees of £5m were paid and are being amortised over the life of the Notes. Upon receipt of the proceeds the Group repaid £50m of its term loan and the 2016 £100m RCF in full, accelerating the amortisation of the fees relating to this facility.

The average interest rate in the year was 4.60% (2017: 3.60%).

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.

The tax charge comprises:

	2018 £m	2017 £m
Current tax		
UK corporation tax	**—**	5
Adjustments in respect of prior years:	**(5)**	—
Total current tax (credit)/charge	**(5)**	5
Deferred tax		
Origination and reversal of timing differences	**(10)**	9
Effect from write off of deferred tax losses	**15**	—
Effect of change in tax rate	**4**	7
Adjustments in respect of prior years—deferred tax charge/(credit)	**2**	(1)
Adjustments in respect of prior years—exceptional credit	**—**	(8)
Total deferred tax charge	**11**	7
Total tax charge	**6**	12

The tax charge on Headline earnings for the year ended 31 March 2018 was £28m (2017: £45m), representing an effective tax rate on pre-tax profits of 61% (2017: 23%). The tax charge on Statutory earnings for the year ended 31 March 2018 was £6m (2017: £12m). The reconciliation between the Headline and Statutory tax charge is shown in note 9.

The principal differences between the tax charge and the amount calculated by applying the standard rate of UK corporation tax of 19% (2017: 20%) to the (loss)/profit before taxation are as follows:

	2018 £m	2017 £m
(Loss)/profit before taxation	**(73)**	70
Tax at 19% (2017: 20%)	**(14)**	14
Items attracting no tax relief or liability	**2**	—
Effect of change in tax rate	**4**	7
Adjustments in respect of prior years	**(3)**	(1)
Adjustments in respect of prior years—exceptional credit	**—**	(8)
Movement in recognised tax losses during the year	**17**	—
Total tax charge through income statement	**6**	12

Tax—retained earnings and other reserves

Tax on items recognised directly in retained earnings and other reserves is as follows:

	2018 £m	2017 £m
Total tax charge through income statement	**6**	12
Total tax charge through retained earnings and other reserves	**6**	12

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 2017	**3**	**42**	**60**	**3**	**108**
(Charge)/credit to the income statement	**—**	1	(17)	5	**(11)**
At 31 March 2018	**3**	**43**	**43**	**8**	**97**

	Share-based payments £m	Timing differences on capitalised costs £m	Tax losses £m	Other timing differences £m	Total £m
At 1 April 2016	3	53	56	3	115
(Charge)/credit to the income statement	—	(11)	4	—	(7)
At 31 March 2017	3	42	60	3	108

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.

At 31 March 2018, the Group had unused tax losses of £527m (2017: £606m) available for offset against future taxable profits. A deferred tax asset of £43m (2017: £60m) has been recognised in respect of £254m (2017: £339m) of such losses, based on expectations of recovery in the foreseeable future.

No deferred tax asset has been recognised in respect of the remaining £273m (2017: £267m) of losses 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:

	2018 £m	2017 £m
Ordinary dividends		
Final dividend for the year ended 31 March 2016 of 10.58p per ordinary share	**—**	100
Interim dividend for the year ended 31 March 2017 of 5.29p per ordinary share	**—**	50
Final dividend for the year ended 31 March 2017 of 5.00p per ordinary share	**47**	—
Interim dividend for the year ended 31 March 2018 of 2.50p per ordinary share	**24**	—
Total ordinary dividends	**71**	**150**

The proposed final dividend for the year ended 31 March 2018 of 1.50p per ordinary share on 1,142 million ordinary shares (approximately £17m) was approved by the Board on 24 May 2018 and will be recommended to shareholders at the AGM on 18 July 2018. The dividend has not been included as a liability as at 31 March 2018. The payment of this dividend will not have any tax consequences for the Group.

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

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. Further detail in relation to APMs are contained within note 1.

Accounting policy—non-Headline items

As explained within note 1, during the year the Group has refined its policy in relation to non-Headline items. Headline measures represent trading results before non-Headline items. The Directors believe that presentation of the Group results in this way is relevant to an understanding of our financial performance, as non-Headline items are identified by virtue of their size, nature and/or incidence. This presentation is consistent with the way that financial performance is measured by management, reported to the Board, the basis of financial measures for senior management's compensation schemes and assists in providing supplementary information that assists the user to understand better the financial performance, position and trends of the Group. In determining whether an event or transaction is non-Headline, the Board considers both quantitative and qualitative factors such as the frequency or predictability of occurrence.

During the periods under review, the non-Headline items excluded from operating profit in arriving at Headline operating profit were amortisation on acquisition intangibles, the operating results of a business to be exited (MVNO operating loss) and exceptional items.

Examples of charges or credits meeting the definition of exceptional items include, where material, discontinued operations, gains or losses associated with the acquisition/disposal/exit of businesses, business restructuring and fundamental transformation programmes. Certain transformation and rationalisation programmes are so fundamental they may impact a number of years. In the event that other items meet the criteria, which are applied consistently from year to year, they are also treated as exceptional items.

Critical judgements in applying the Group's accounting policy

The classification of items as non-Headline is subjective in nature and therefore judgement is required to determine whether the item is in line with the accounting policies outlined above. Determining whether an item is non-Headline is a matter of qualitative assessment. The following table includes details of non-Headline items:

Year ended 31 March 2018	Revenue £m	Gross profit £m	EBITDA £m	Operating loss £m	Loss before taxation £m	Taxation £m	Loss for the year £m
Headline results	**1,658**	**884**	**233**	**91**	**46**	**(28)**	**18**
Exceptional items—Operating efficiencies—MTTS(a)	**—**	**—**	**(3)**	**(4)**	**(4)**	**—**	**(4)**
Exceptional items—Operating efficiencies—property(b)	**—**	**—**	**(12)**	**(12)**	**(12)**	**2**	**(10)**
Exceptional items—Network transformation(c)	**—**	**—**	**(17)**	**(19)**	**(19)**	**4**	**(15)**
Exceptional items—Mobile proposition(d)	**—**	**—**	**(33)**	**(33)**	**(33)**	**6**	**(27)**
MVNO operating loss(e)	**50**	**12**	**(13)**	**(13)**	**(13)**	**2**	**(11)**
Exceptional items—Business reorganisation(f)	**—**	**—**	**(19)**	**(19)**	**(19)**	**4**	**(15)**
Exceptional items—Finance expense(g)	**—**	**—**	**—**	**—**	**(10)**	**2**	**(8)**
Amortisation of acquisition intangibles(k)	**—**	**—**	**—**	**(9)**	**(9)**	**2**	**(7)**
Statutory results	**1,708**	**896**	**136**	**(18)**	**(73)**	**(6)**	**(79)**

Year ended 31 March 2017 (restated)[1]	Revenue £m	Gross profit £m	EBITDA £m	Operating profit £m	Profit before taxation £m	Taxation £m	Profit for the year £m
Headline results	1,720	953	361	224	199	(45)	154
Exceptional items—Operating efficiencies—MTTS(a)	—	—	(24)	(24)	(24)	5	(19)
Exceptional items—Operating efficiencies—property(b)	—	—	(8)	(8)	(8)	2	(6)
Exceptional items—Network transformation(c)	—	—	(8)	(11)	(11)	2	(9)
Exceptional items—Mobile proposition(d)	—	—	(49)	(49)	(49)	10	(39)
MVNO operating loss(e)	63	17	(28)	(30)	(30)	5	(25)
Exceptional items—Acquisitions and disposals(i)	—	—	1	1	1	–	1
Exceptional items—Operating expenses—cyber attack(j)	—	—	2	2	2	(1)	1
Exceptional items—Taxation items(h)	—	—	—	—	—	8	8
Amortisation of acquisition intangibles(k)	—	—	—	(10)	(10)	2	(8)
Statutory results	1,783	970	247	95	70	(12)	58

(1) See note 1 to the consolidated financial statements.

During the year ended 31 March 2018, cash exceptional items were £60m (2017: £45m).

The above table shows how all APMs are reconciled to Statutory performance measures with the exception of Headline earnings per share (note 10) and net debt.

Net debt of the Group comprises:

	2018 £m	2017 £m
Headline net debt[1]	**(724)**	(782)
Finance leases	**(31)**	—
Net debt	**(755)**	(782)

(1) Represents all drawn amounts on Senior Notes and bank borrowing facilities offset by cash and cash equivalents.

(a) Operating efficiencies—Making TalkTalk Simpler (MTTS)

During the year ended 31 March 2018, the Group completed its wide-ranging transformation programme that is delivering material improvements to our customers' experience, driving operating cost savings, and reducing SAC through lower churn and costs per add.

The wide-ranging transformation programme was considered so fundamental that it impacted a number of years with the costs incurred in the year relating to the finalisation of improving Consumer and TalkTalk Business systems and processes which focus on customer experience.

These programmes have resulted in £4m (2017: £24m) of costs including project management, redundancy, consultancy, migration, call centre costs and accelerated depreciation costs.

A total taxation credit of £5m has been recognised on these costs in the year ended 31 March 2017.

(b) Operating efficiencies—fundamental property rationalisation

The Group has fundamentally rationalised the sites from which it operates including the relocation of its Warrington and Irlam sites to one site at the Soapworks in Salford together with the rationalisation of our London property footprint. The revised estimated cost of this property rationalisation programme has been provided for during the year and has given rise to additional costs of £12m (2017: £8m).

A total taxation credit of £2m has been recognised on these costs in the year ended 31 March 2018 (2017: £2m).

(c) Network transformation

During the year ended 31 March 2017, the Group embarked on a significant multi-year transformation programme which will fundamentally restructure the Group's network, IT infrastructure and technology organisation. The change the Group is undertaking will ensure it is fit for the future and underpins the wider Group strategy in providing a great service to our customers as a value provider in the industry. This is a discrete project expected to run until 2021.

This programme has resulted in £19m (2017: £11m) of costs including project management, consultancy, dual running costs, decommissioning costs and accelerated depreciation costs.

A total taxation credit of £4m has been recognised on these costs in the year ended 31 March 2018 (2017: £2m).

(d) Mobile proposition

Following the Group's announcement in May 2017 to reassess the Group's mobile strategy net exceptional costs have been incurred in relation to decommissioning costs, asset write offs, provision releases, onerous supplier commitments and redundancies amounting to £33m (2017: £49m).

A total taxation credit of £6m has been recognised on these costs in the year ended 31 March 2018 (2017: £10m).

(e) MVNO operating loss

Following the Group's announcement in May 2017 to reassess the Group's mobile strategy, the Group is now progressing with its alternative mobile distribution strategy. Operating losses of £13m (2017: £30m) associated with the MVNO strategy have been incurred; given this one-off strategic decision, management considers these material losses are non-Headline items though they do not meet the criteria under IFRS 5 for separate disclosure as discontinued operations. The MVNO trading activity will continue to reduce as contractual commitments expire, with the expectation that a loss will arise in 2019.

A taxation credit of £2m has been recognised on these costs (2017: £5m).

(f) Business reorganisation

Net costs of £19m (2017: £nil) have been incurred associated with implementing changes to the Group's organisational structure following the Group reorganising the business under the new leadership team.

The costs include redundancy, other rationalisation costs and consultancy costs. The Group expects the finalisation of this fundamental reorganisation within 2019.

A taxation credit of £4m has been recognised on these costs (2017: £nil).

(g) Finance expense

During the year ended 31 March 2018, the Group completed the repurchase of its $185m US Private Placement Notes. This resulted in incremental costs of £8m (2017: £nil) relating to the settlement of derivative instruments in designated hedge accounting relationships and associated fees. The Group also refinanced its revolving credit facilities, resulting in the accelerated amortisation of arrangement fees relating to the previous facilities leading to a £2m (2017: £nil) charge in the period.

A total taxation credit of £2m has been recognised on these items in the year ended 31 March 2018 (2017: £nil).

(h) Taxation items

During the year ended 31 March 2017, the Group resolved a longstanding enquiry with HMRC in relation to the tax treatment of £85m of losses in respect of TalkTalk Brands Limited. This resulted in a tax credit of £8m.

(i) Acquisitions and disposals

During the year ended 31 March 2017, final migrations of prior year customer base acquisitions were completed. Following completion any amounts provided for but not utilised were released resulting in a credit of £1m.

The tax impact was immaterial.

(j) Cyber attack

During the year ended 31 March 2017, the Group received insurance proceeds of £3m in relation to specific cyber related costs incurred in the prior year; these were offset by £1m of costs incurred in the prior year.

A total taxation charge of £1m was recognised on these items in the year ended 31 March 2017.

(k) Amortisation of acquisition intangibles

An amortisation charge in respect of acquisition intangibles of £9m was incurred in the year ended 31 March 2018 (2017: £10m).

A total taxation credit of £2m (2017: £2m) has been recognised in relation to the charge in the year ended 31 March 2018.

10. (Loss)/earnings per ordinary share

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

	2018 £m	**2017 (restated)[1] £m**
Headline earnings (note 9)	**18**	154
Statutory (loss)/earnings	**(79)**	58
Weighted average number of shares (millions)		
Shares in issue	**979**	955
Less weighted average holdings by Group ESOT	**(4)**	(7)
For basic EPS	**975**	948
Dilutive effect of share options (note 5)	**12**	11
For diluted EPS	**987**	959

	2018 Pence	**2017 Pence**
Basic earnings per ordinary share		
Headline	**1.8**	16.2
Statutory	**(8.1)**	6.1

	2018 Pence	**2017 Pence**
Diluted earnings per ordinary share		
Headline	**1.8**	16.1
Statutory	**(8.0)**	6.0

(1) See note 1 to the consolidated financial statements.

11. Goodwill and other intangible assets

(a) Goodwill

Accounting policy

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing the excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired is recognised initially as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

On disposal of a subsidiary undertaking, the relevant goodwill is included in the calculation of the profit or loss on disposal.

The Group has two cash generating units (CGUs) which have allocated goodwill – TalkTalk Consumer and TalkTalk Business, which represent the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Cash inflows generated by the TalkTalk Consumer CGU represent income generated from the provision of telecommunication services to Retail customers. Cash inflows generated by the TalkTalk Business CGU represent income generated from the provision of telecommunication services to B2B customers.

For the purpose of impairment testing, at the acquisition date, goodwill is allocated to each of the CGUs expected to benefit from the synergies of the acquisition. The Group's shared costs and assets relating mainly to infrastructure and central overheads are allocated across the two CGUs based on the relative future cash flows that those shared costs support.

Determining whether goodwill is impaired requires estimation of the value in use of the CGUs to which the goodwill has been allocated. In assessing value in use, the estimated cash flows of each CGU are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Impairment of goodwill

Goodwill is not subject to amortisation but is tested for impairment annually or whenever there is an indication that the asset may be impaired; this review is performed at a CGU level.

Impairment is determined by assessing the future cash flows of the CGU to which the goodwill relates. The future cash flows of the Group are taken from the Group's three year plan and extrapolated out to 20 years based on the UK's long term growth rate. This is discounted by the CGU's weighted average cost of capital pre-tax to give the net present value of that CGU. Where the net present value of future cash flows is less than the carrying value of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss is recognised in the income statement and is not subsequently reversed.

Sensitivity analysis is performed using reasonably possible changes in the key assumptions.

	2018 £m	2017 £m
Opening, closing cost and net book value	**495**	**495**

The goodwill acquired in business combinations is allocated at acquisition to the CGUs that are expected to benefit from that business combination. The Group has two CGUs which have allocated goodwill:

	2018 £m	2017 £m
TalkTalk Consumer	**347**	347
TalkTalk Business	**148**	148
	495	495

Impairment review

The key assumptions used in the Group's goodwill impairment review are as follows:

- **Long term growth rates**

Long term revenue growth rates applied are based on the growth rate for the UK per the Organisation for Economic Co-operation and Development (OECD). The rate applied in the current year was 1.7% (2017: 2.0%).

- **Discount rate**

The underlying discount rate for each CGU is based on the UK ten year gilt rate adjusted for an equity risk premium and the systematic risk of the CGU. The average pre-tax rate for both CGUs used to discount the forecast cash flows is 7.8% (2017: 8.0%). 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 to maintain property, plant and equipment is based on senior management expectations of future required support of the network and current run rate of expenditure, typically at 6–7% of revenue.

- **Customer factors**

The key assumptions for the forecast cash flows of each of the CGUs are based on expected customer growth rates, ARPU, direct costs including acquisition costs, and changes in product mix. The value assigned to each of these assumptions has been determined based on the extrapolation of historical trends in the Group and external information on expected trends of future market developments.

Sensitivity analysis has been performed for each key assumption and the Directors have not identified any reasonably possible changes in the key assumptions that would cause the carrying value of goodwill to exceed the recoverable amount.

(b) Other intangible assets

Accounting policy

Operating intangibles

Operating intangibles include internal infrastructure and design costs incurred in the development of software for internal use. Internally generated software is recognised as an intangible asset only if it can be separately identified, it is probable that the asset will generate future economic benefits, and the development cost can be measured reliably. Where these conditions are not met, development expenditure is recognised as an expense in the year in which it is incurred. Directly attributable costs that are capitalised include employee costs specifically incurred in the development of the intangible asset. Operating intangibles are amortised on a straight-line basis over their estimated useful economic lives of up to eight years.

Acquisition intangibles

Acquired intangible assets such as customer bases and other intangible assets acquired through a business combination are capitalised separately from goodwill and amortised over their expected useful lives of up to six years on a straight-line basis. The value attributed to such assets is based on the future economic benefit that is expected to be derived from them, calculated as the present value of future cash flows after a deduction for contributory assets.

Impairment

At the acquisition date, acquisition intangibles are allocated to each of the CGUs expected to benefit from the synergies of the combination. The Group's shared costs and assets relating mainly to infrastructure and central overheads are allocated across the two CGUs based on the relative future cash flows.

Determining whether the carrying amounts of operating and acquisition intangibles have any indication of impairment requires judgement. If an indication of impairment is identified, further judgement is required to assess whether the carrying amounts can be supported by the value in use of the CGU that the asset is allocated to.

The value in use calculation involves estimation of the future cash flows of the CGUs and the selection of appropriate discount rates 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 2017	**219**	**24**	**243**
Additions	**86**	**1**	**87**
Amortisation	**(62)**	**(9)**	**(71)**
Impairment	**(2)**	**—**	**(2)**
Closing balance at 31 March 2018	**241**	**16**	**257**
Cost (gross carrying amount)	**629**	**143**	**772**
Accumulated amortisation	**(388)**	**(127)**	**(515)**
Closing balance at 31 March 2018	**241**	**16**	**257**

	Operating intangibles £m	**Acquisition intangibles £m**	**Total other intangibles £m**
Opening balance at 1 April 2016	193	34	227
Additions	85	—	85
Amortisation	(59)	(10)	(69)
Closing balance at 31 March 2017	219	24	243
Cost (gross carrying amount)	543	142	685
Accumulated amortisation	(324)	(118)	(442)
Closing balance at 31 March 2017	219	24	243

Operating intangibles

Operating intangibles includes internally generated assets with a net book value of £106m (2017: £102m), which are amortised over a period of up to eight years. This includes additions of £28m (2017: £32m) and an amortisation charge of £24m (2017: £18m) in the year ended 31 March 2018.

Acquisition intangibles

Acquisition intangibles relate to the broadband customer bases acquired from Virgin Media and Tesco in a prior year; these customer bases were valued from the discounted future cash flows expected from them, after a deduction for contributory assets.

At 31 March 2018, the net book value of the acquired broadband bases is material to the Group, with the Virgin Media base valued at £8m (2017: £12m) and the Tesco base valued at £8m (2017: £12m), with remaining useful economic lives of 22 months (2017: 34 months) and 23 months (2017: 35 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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

Impairment of assets

Property, plant and equipment

The Group reviews the carrying amounts of its fixed assets to determine whether there is any indication that those assets have suffered an impairment loss at each reporting date. The Group uses the same methodology as set out in note 11 for operating and acquisition intangibles.

	Short leasehold improvements £m	Network equipment and computer hardware £m	Fixtures and fittings £m	Total £m
Opening balance at 1 April 2017	**1**	**228**	**6**	**235**
Additions	**1**	**70**	**2**	**73**
Acquired from Business Combinations	**—**	**10**	**—**	**10**
Depreciation	**—**	**(67)**	**(2)**	**(69)**
Assets transferred to assets classified as held for sale	**—**	**(10)**	**—**	**(10)**
Accelerated depreciation (note 9)	**—**	**(3)**	**—**	**(3)**
Closing balance at 31 March 2018	**2**	**228**	**6**	**236**
Cost (gross carrying amount)	**8**	**911**	**10**	**929**
Accumulated depreciation and impairment charges	**(6)**	**(683)**	**(4)**	**(693)**
Closing balance at 31 March 2018	**2**	**228**	**6**	**236**

	Short leasehold improvements £m	Land and buildings £m	Network equipment and computer hardware £m	Fixtures and fittings £m	Total £m
Opening balance at 1 April 2016	—	7	294	1	302
Additions	—	2	35	6	43
Depreciation	—	—	(71)	(1)	(72)
Disposals	—	(8)	(8)	—	(16)
Impairment (note 9)	—	—	(22)	—	(22)
Reclassification	1	(1)	—	—	—
Closing balance at 31 March 2017	1	—	228	6	235
Cost (gross carrying amount)	7	—	841	8	856
Accumulated depreciation and impairment charges	(6)	—	(613)	(2)	(621)
Closing balance at 31 March 2017	1	—	228	6	235

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 2018 related to a 7.3% (2017: 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	Registered office	Principal activity	Percentage of shareholding
TalkTalk Telecom Holdings Limited(1)	England & Wales	11 Evesham Street(2)	Holding company	100
Beheer-en Beleggingsmaatschappij Antika BV	Netherlands	Euroweg(3)	Non-trading	100
Wireless Internet Portfolio BV	Netherlands	Euroweg(3)	Non-trading	100
TalkTalk Brands Limited	England & Wales	11 Evesham Street(2)	Telecommunications	100
TalkTalk Group Ltd	England & Wales	11 Evesham Street(2)	Holding company	100
CPW Broadband Services (UK) Ltd	England & Wales	11 Evesham Street(2)	Telecommunications	100
Future Office Communications Limited	England & Wales	11 Evesham Street(2)	Telecommunications	100
TalkTalk Broadband Services (Ireland) Limited	Ireland	39/40 Upper Mount Street(4)	Non-trading	100
TalkTalk Business (2CCH) Limited	England & Wales	11 Evesham Street(2)	Telecommunications	100

Subsidiary undertakings	Country of incorporation or registration	Registered office	Principal activity	Percentage of shareholding
TalkTalk Communications Limited	England & Wales	11 Evesham Street(2)	Telecommunications	100
CPW Network Services Limited	England & Wales	11 Evesham Street(2)	Telecommunications	100
TalkTalk Corporate Limited	England & Wales	11 Evesham Street(2)	Holding company	100
Core Telecommunications Limited	England & Wales	11 Evesham Street(2)	Non-trading	100
CPW UK Group Limited	England & Wales	11 Evesham Street(2)	Dormant	100
TalkTalk RB Limited (formerly Ratebuster Ltd)	England & Wales	11 Evesham Street(2)	Dormant	100
TalkTalk Technology Limited	England & Wales	11 Evesham Street(2)	Dormant	100
Telequip Limited	England & Wales	348–350 Lytham Road(5)	In liquidation	100
Telco Global Limited	England & Wales	11 Evesham Street(2)	Dormant	100
Vartec Telecom Europe Limited	England & Wales	11 Evesham Street(2)	Dormant	100
Video Networks Limited	England & Wales	11 Evesham Street(2)	Dormant	100
World Online Telecom Limited	England & Wales	11 Evesham Street(2)	Dormant	100
GIS Telecoms Limited	England & Wales	11 Evesham Street(2)	Dormant	100
TalkTalk Direct Limited	England & Wales	11 Evesham Street(2)	Dormant	100
Opal Connect Limited	England & Wales	11 Evesham Street(2)	Dormant	100
Opal Business Solutions Limited	England & Wales	11 Evesham Street(2)	Dormant	100
UK Telco (GB) Limited	England & Wales	11 Evesham Street(2)	Dormant	100
TalkTalk UK Communications Services Limited	England & Wales	11 Evesham Street(2)	Dormant	100
Onetel Telecommunications Limited	England & Wales	11 Evesham Street(2)	Dormant	100
V Networks Limited	England & Wales	11 Evesham Street(2)	Dormant	100
Green Dot Property Management Limited	England & Wales	11 Evesham Street(2)	Non-trading	100
Executel Ltd	England & Wales	11 Evesham Street(2)	Dormant	100
Greystone Telecom Limited	England & Wales	11 Evesham Street(2)	Dormant	100
Pipex Internet Limited	England & Wales	11 Evesham Street(2)	Dormant	100
Pipex Communications Services Limited	England & Wales	11 Evesham Street(2)	Dormant	100
Pipex UK Limited	England & Wales	11 Evesham Street(2)	Dormant	100
TalkTalk Telecom Limited	England & Wales	11 Evesham Street(2)	Telecommunications	100
Telco Holdings Limited	England & Wales	11 Evesham Street(2)	Telecommunications	100

Subsidiary undertakings	Country of incorporation or registration	Registered office	Principal activity	Percentage of shareholding
Telco Global Distribution Limited	England & Wales	11 Evesham Street(2)	Dormant	100
Tele2 Telecommunication Services Limited	Ireland	39/40 Upper Mount Street(4)	Non-trading	100
Tiscali UK Limited	England & Wales	11 Evesham Street(2)	Telecommunications	100
Toucan Residential Ireland Limited	Ireland	39/40 Upper Mount Street(4)	Non-trading	100
TalkTalk TV Entertainment Limited	England & Wales	11 Evesham Street(2)	Telecommunications	100
tIPicall Limited	England & Wales	11 Evesham Street(2)	Telecommunications	100
Bolt Pro Tem Limited	England & Wales	15 Bedford Street(6)	Telecommunications	67
Nottingdale Receivables Limited(7)	England & Wales	6 St Andrew Street(8)	Receivables financing	—
Adventure Telecom Limited	England & Wales	11 Evesham Street(2)	Telecommunications	100

(1) Directly held subsidiary.

(2) Full address: 11 Evesham Street, London, W11 4AR.

(3) Full address: Euroweg 20 3825 HD Amersfoort, Amsterdam, Netherlands.

(4) Full address: 39/40 Upper Mount Street, Dublin 2, Ireland.

(5) Full address: 348–350 Lytham Road, Blackpool, Lancashire, FY4 1DW.

(6) Full address: 15 Bedford Street, London, WC2E 9HE.

(7) Consolidated on the grounds of substance (see note 18).

(8) Full address: 5th floor, 6 St Andrew Street, London, EC4A 3AE.

Joint venture undertakings	Country of incorporation or registration	Registered office	Principal activity	Percentage of shareholding
YouView TV Limited	England & Wales	10 Lower Thames Street(1)	Telecommunications	14.3
Internet Matters Limited	England & Wales	6th Floor, One London Wall(2)	Telecommunications	25.0

(1) Full address: 10 Lower Thames Street, Third Floor, London, EC3R 6YT.

(2) Full address: 6th Floor One, London Wall, London, EC2Y 5EB.

(b) Acquisitions and disposals

(i) Acquisitions

As described in note 14, on 20 December 2017, the Group purchased a further 33.3% interest in Bolt Pro Tem Limited (BPT) for £1m, a joint venture in which it already held a 33.3% interest. Following this acquisition, the Group owned 67% and therefore a controlling interest in the company. As a result, the Group has recognised £2m of provisional goodwill on acquisition and consolidated the assets and liabilities of BPT from the date of acquisition.

The impact of the acquisition to the Group's income statement is immaterial.

On 7 February 2018, the Group announced that it had agreed terms with Infracapital, the infrastructure equity investment arm of M&G Prudential, to provide FTTP to more than three million homes and businesses in the UK. The parties intend to create a company, with Infracapital funding 80% and TalkTalk 20%, with total potential equity investment of up to £500m over the medium term. TalkTalk would also be a founding wholesale customer of the new company, providing a minimum volume commitment. This venture was building on the success of BPT, which would be sold into the new venture. As a result, the assets and liabilities of BPT have been determined as qualifying as assets held for sale under IFRS 5 and disclosed as such within the consolidated balance sheet.

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

	2018 £m	**2017 £m**
Assets classified as held for sale		
Non-current assets	**12**	—
Current assets[1]	**1**	—
Total assets classified as held for sale	**13**	—
Liabilities associated with assets classified as held for sale		
Current payables	**(11)**	—
Total liabilities associated with assets classified as held for sale	**(11)**	—

(1) The cash balance acquired was immaterial.

(ii) Disposals

The Group has made no disposal of investments during the current or prior year.

14. Investment in joint ventures

Accounting policy

Interests in joint ventures are accounted for using the equity method. The Group consolidated 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 consolidated 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% (2017: 14.3%) of the ordinary share capital of YouView, a joint venture with The British Broadcasting Corporation, ITV Broadcasting Limited, British Telecom PLC (BT), Channel Four Television Corporation, Arqiva Limited and Channel 5 Broadcasting Limited. The joint venture was set up in order to develop a free-to-air internet-connected TV service to UK homes. During a prior year, the Group signed a new agreement with the other existing holders of YouView whereby all seven original partners (together 'Tier 1' funders) continue to contribute approximately £1m per annum to fund basic operational and technology costs of

YouView, and the Group together with BT as 'Tier 2' funders contribute up to a further £10m per annum for additional development of the technology to support their TV propositions. The Group's total contribution to YouView in the year ended 31 March 2018 was £6m (2017: £10m).

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 2018, the Group recognised an £11m share of losses (2017: £11m).

The Group has reviewed the carrying value of YouView and has concluded that there is no indication of impairment.

Bolt Pro Tem Limited

At 31 March 2017, the Group held 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 to deliver Fibre To The Premise (FTTP) broadband services in the City of York. On 20 December 2017, the Group purchased an additional 33.3% of BPT for consideration of £1m and therefore held a controlling interest in BPT. As such the Group began accounting for BPT as a subsidiary under IFRS 3 (note 13). During the period to 20 December 2017, the Group contributed £nil (2017: £nil) to the joint venture and received £nil share of losses (2017: £nil). In addition, it also lent a further £1m increasing the overall loan balance to £5m (2017: £4m).

Internet Matters Limited

During the year ended 31 March 2014, the Group, alongside BSkyB, BT and Virgin Media, established an equal membership joint venture, Internet Matters Limited. It is a not-for-profit company set up as an industry-led body to promote and educate parents about internet safety for children.

Interest in joint ventures is analysed as follows:

	2018 £m	2017 £m
Opening balance at 1 April	**8**	9
Additions	**6**	10
Share of results	**(11)**	(11)
Gain on disposal on step up acquisition	**1**	—
Movement to subsidiary	**(1)**	—
Closing balance at 31 March	**3**	8

The Group's share of the results, assets and liabilities of its joint ventures are as follows:

Group share of results of joint ventures	2018 £m	2017 £m
Expenses	**(11)**	(11)
Loss before taxation	**(11)**	(11)
Taxation	**—**	—
Loss after taxation	**(11)**	(11)

Group share of net assets of joint ventures	2018 £m	2017 £m
Non-current assets	**3**	8
Net assets	**3**	8

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.

	2018 £m	2017 £m
Goods for resale	**35**	18

During the year ended 31 March 2017, the Group revised its strategy toward its mobile proposition giving rise to an impairment of £18m. The impairment was recognised as an exceptional item (note 9).

16. Trade and other receivables

Trade and other receivables comprise:

	2018 £m	2017 £m
Non-current—trade and other receivables		
Other receivables	**7**	6
Current—trade and other receivables		
Trade receivables—gross	**171**	192
Less provision for impairment	**(33)**	(45)
Trade receivables—net	**138**	147
Other receivables	**146**	136
Prepayments	**31**	32
Accrued income	**41**	54
Total current trade and other receivables	**356**	369
Total trade and other receivables	**363**	375

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 31 days (2017: 33 days).

As explained in note 18, in September 2016, the Group signed a £75m receivables purchase agreement which matures in September 2018 of which £67m is drawn as at 31 March 2018 (2017: £58m). The Group has the ability on a rolling basis to sell its trade receivables to a third party vehicle in exchange for a discounted consideration. The Group varies the level of trade receivables sold into the programme as part of managing its liquidity position. The Group is deemed to control the third party vehicle and therefore continues to consolidate the relevant trade receivables on the grounds that substantially not all the risks and rewards of ownership have been transferred under the programme.

The Group's trade receivables are denominated in the following currencies:

	2018 £m	2017 £m
UK Sterling	**162**	181
Other	**9**	11
	171	192

The ageing of gross trade receivables is as follows:

	2018 £m	2017 £m
Not yet due	**72**	85
0 to 2 months	**16**	15
2 to 4 months	**14**	17
Over 4 months	**69**	75
	171	192

The ageing of the provision for impairment of trade receivables is as follows:

	2018 £m	2017 £m
Not yet due	**—**	—
0 to 2 months	**(3)**	(2)
2 to 4 months	**—**	(2)
Over 4 months	**(30)**	(41)
	(33)	(45)

Movements in the provisions for impairment of trade receivables are as follows:

	2018 £m	2017 £m
Opening balance	**(45)**	(30)
Charged to the income statement	**(37)**	(60)
Receivables written off as irrecoverable	**49**	45
Closing balance	**(33)**	(45)

Trade receivables of £66m (2017: £62m) 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:

	2018 £m	2017 £m
0 to 2 months	**13**	13
2 to 4 months	**14**	15
Over 4 months	**39**	34
	66	62

17. Trade and other payables

	2018 £m	2017 £m
Trade payables	**269**	273
Other taxes and social security costs	**12**	37
Other payables	**14**	12
Accruals	**122**	138
Deferred income	**46**	51
	463	511

The Group has agreed longer commercial credit terms with certain suppliers. Excluding these suppliers, the underlying average credit period taken on trade payables was 50 days (2017: 50 days). Including these suppliers, the average credit period taken was 55 days (2017: 57 days). Included in trade payables are capital payables amounting to £82m (2017: £65m). The Group offers, via its bank group, a supply chain financing facility to its suppliers. The facility allows suppliers to obtain payment from the bank ahead of the commercially agreed payment terms. When a supplier utilises the facility, the Group continues to have the payment obligation and will pay on the commercially agreed payment terms. At the 31 March 2018, the Group recognised payables of £6m where the supplier had elected to utilise the supply chain facility.

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 comprise:

	2018 £m	**2017 £m**
Cash at bank and in hand	**43**	50

The effective interest rate on bank deposits and money market funds was 0.2% (2017: 0.1%).

(b) Borrowings comprise:

	Maturity	**2018 £m**	**2017 £m**
Current			
£75m receivables purchase facility	2018	**67**	—
Finance leases	2018	**8**	—
		75	—

	Maturity	**2018 £m**	**2017 £m**
Non-current			
$185m US Private Placement (USPP) Notes	2021, 2024, 2026	**—**	148
£560m revolving credit facility	2019	**—**	165
£50m bilateral agreements	2019	**—**	50
£100m term loan	2019	**—**	50
£75m receivables purchase agreement facility	2018	**—**	58
£400m Senior Notes	2022	**400**	400
£640m revolving credit facility	2022	**300**	—
Finance leases	2019, 2020, 2021, 2022, 2023	**23**	—
Non-current borrowings before derivatives		**723**	871
Total borrowings before derivatives		**798**	871
Derivatives		**—**	(39)
Total borrowings after derivatives		**798**	832

Total borrowings after derivatives comprise:

	2018 £m	**2017 £m**
Headline debt	**767**	832
Finance leases	**31**	—
Total borrowing after derivatives	**798**	832

Undrawn available committed facilities are as follows:

	Maturity	2018 £m	2017 £m
Undrawn available committed facilities (excluding finance leases)	2018, 2022	**348**	412

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

	2018 £m	2017 £m
Less than 1 year	**75**	—
1 to 2 years	**7**	58
2 to 3 years	**7**	265
3 to 4 years	**406**	—
4 to 5 years	**303**	482
Greater than 5 years	**—**	27
Total borrowings after derivatives	**798**	832

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

Borrowing facilities

The Group's committed facilities total £1,115m (2017: £1,244m). The Group's uncommitted facilities total £110m (2017: £116m) giving headroom on committed facilities and uncommitted facilities of £348m (2017: £412m) and £110m (2017: £116m) respectively.

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

Details of the Group's borrowing facilities as at 31 March 2018 are set out below:

£400m Senior Notes

On 15 January 2017, TalkTalk Telecom Group PLC issued £400m Senior Notes due 2022. The Senior Notes include incurrence-based covenants customary for this type of debt, including limitations on TalkTalk's ability to incur additional debt and make restricted payments, subject to certain exceptions. The Group is permitted to incur additional debt subject to compliance with a net debt to EBITDA ratio of 4.0x and to pay dividends when net debt to EBITDA is below 3.0x (2.75x from January 2019). Regardless of the Company's net debt to EBITDA ratio, dividends are also permitted to be paid out of a basket based on 50% of cumulative consolidated net income from 1 October 2016. The interest rate payable on the notes is 5.375% payable semi-annually.

£640m revolving credit facility (RCF)

On 8 May 2017, the Group signed a £640m RCF agreement, which matures in May 2022. The interest rate payable in respect of drawings under this facility is at a margin over LIBOR 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 to a third party vehicle in exchange for a discounted consideration. The Group is deemed to control the third party vehicle and therefore continues to consolidate the relevant receivables on the grounds that substantially not all the risks and rewards of ownership have been transferred under the programme.

Uncommitted money market facilities and bank overdrafts

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

Finance leases

The Group uses finance leases as an alternative source of financing for significant items of capital expenditure, matching the cash profile with the life of the asset and offering flexibility regarding ownership of the lease at the end of the finance term. Finance leases at 31 March 2018 were £31m (2017: £nil).

$185m USPP Notes

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

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

On 8 May 2017, the Group refinanced the 2014 RCF, the 2014 bilateral agreement and the £100m term loan repaying the outstanding debt with the proceeds from the new £640m RCF, which matures in May 2022.

19. Financial risk management and derivative financial instruments

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

	2018 £m	2017 £m
Financial assets(1)		
Cash and cash equivalents (note 18)	**43**	50
Trade and other receivables(2)	**355**	369
Non-current investments and investment in joint venture	**3**	8
Non-current trade and other receivables	**7**	6
Derivative instruments in designated hedge accounting relationships:		
Derivative financial instruments(3)	**—**	31
Financial liabilities(1)		
Trade and other payables	**(416)**	(460)
Current borrowings before derivatives (note 18)	**(75)**	—
Non-current borrowings before derivatives (note 18)	**(723)**	(871)
	(807)	(867)

(1) The Group has no financial instruments designated as fair value through the profit and loss (FVTPL).

(2) Prepayments and accrued income has been included within the other receivables so as to give completeness over the Group's future cash inflows.

(3) Derivative financial instruments of £nil (2017: £32m) relates to the USPP Notes, and £nil (2017: (£1m)) 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 foreign exchange hedges and interest rate swaps. Other products, such as currency options, can also be used depending on the risks to be covered, but have not been used in the current or preceding financial year. The Group does not trade or speculate in any financial instruments.

The Group has cash flow hedges in place to swap the interest rate risk on the bank debt from floating to fixed rates. The outstanding swaps mature in January 2019. These hedges have been fully effective from inception. The Group will keep its risk position under review in the coming year to determine whether further hedges are required, in line with its policy.

The fair value measurement is classified as Level 2 (2017: 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 2018 is £nil (2017: £31m).

The cross-currency swaps held to hedge the risk on the USD denominated USPP $185m Notes were closed out in the year ended 31 March 2018 following the repurchase of the Notes, resulting in a reduction to the fair value measurement of financial instruments compared to the prior year.

(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. During the year the Group also used cross-currency swaps to hedge its US Dollar denominated borrowings (USPP Notes). At 31 March 2018, the adjustment to translate our net debt to Sterling at swap rates to reflect the impact of hedging was £nil (2017: £39m).

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	US Dollar £m	Total £m
2018			
Headline debt	**767**	**—**	**767**
Finance leases	**31**	**—**	**31**
Total borrowings after derivatives and finance leases	**798**	**—**	**798**

	UK Sterling £m	US Dollar £m	Total £m
2017			
Headline debt	723	148	871
Derivatives	—	(39)	(39)
Total borrowings after derivatives	723	109	832

During the year, the Group used derivatives for the management of the USPP Notes, foreign currency cash balances and foreign currency trading balances.

(d) Interest rate risk

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

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

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

	2018 £m	2017 £m
100 basis points movement in the UK Sterling interest rate		
Income statement movement	**3**	2

(e) Liquidity risk

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

During the first half of the financial year the Group refinanced its core bank facilities into a new £640m revolving credit facility. This new facility together with the Senior Notes, the Group's share capital and reserves and a number of equipment and property leases form the Group's core financing. In addition, the Group has commercial contracts with certain customers on extended payment terms. To help manage the impact of these terms on its liquidity, the Group has access to invoice discounting lines with its banks which allow it to sell the receivables. The receivables are sold to the bank on a non-recourse basis and as such are derecognised on sale. At 31 March 2018 £95m of invoices had been sold using these lines.

Following the refinancing of the bank debt, the Group successfully repurchased 100% of its USPP Notes simplifying the funding structure. In addition to focusing on its core sources of liquidity, the Group uses a mix of overdrafts, short-dated uncommitted money market facilities, receivables factoring and commercial supplier terms to manage its day to day liquidity position. The Group will continue to review its sources of finance going forward.

Headroom is assessed based on historical experience as well as by assessing current business risks, availability and renewal of future facilities and foreign exchange movements.

The table below analyses the Group's financial liabilities into relevant maturity groupings. The amounts disclosed in the table are the contractual undiscounted gross cash flows including interest, 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
2018							
Borrowings	**(97)**	**(30)**	**(30)**	**(430)**	**(301)**	**—**	**(888)**
Finance leases	**(9)**	**(8)**	**(7)**	**(6)**	**(4)**	**—**	**(34)**
Trade and other payables	**(463)**	**—**	**—**	**—**	**—**	**—**	**(463)**
	(569)	**(38)**	**(37)**	**(436)**	**(305)**	**—**	**(1,385)**

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

(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 bank facilities, Senior Notes, receivables and purchase facility, invoice discounting, retained profits and equity.

The Group continues to review its funding and capital structure with the objectives of diversifying sources and managing both the average tenor and interest cost. During the year, the Group made further changes to its funding structure, re-financing the £560m 2014 RCF with a £640m 2017 RCF in May 2017 and repurchasing the $185m US Private Placement Notes in August 2017 to better align our capital structure with the Group's strategy. In addition, on 8 February2018, the Group placed an aggregate of 190,654,206 new ordinary shares of 0.1p at a price of 107p per placing share to raise net proceeds of £201m after expenses. For further detail, see note 21 to the consolidated financial statements.

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.

The tables below analyse the Group's provisions:

	2018 £m	**2017 £m**
Current	**31**	22
Non-current	**28**	14
	59	36

	One Company integration £m	**Property £m**	**Contract and other £m**	**Total £m**
2018				
Opening balance	**1**	**15**	**20**	**36**
Charged to income statement	**—**	**9**	**43**	**52**
Released to income statement	**(1)**	**—**	**(7)**	**(8)**
Utilised in the year	**—**	**(5)**	**(16)**	**(21)**
Closing balance	**—**	**19**	**40**	**59**

	One Company integration £m	Property £m	Contract and other £m	Total £m
2017				
Opening balance	1	12	16	29
Charged to income statement	—	4	16	20
Released to income statement	—	(1)	(1)	(2)
Utilised in the year	—	—	(11)	(11)
Closing balance	1	15	20	36

Provisions are categorised as follows:

One Company integration

This provision related principally to reorganisation costs and was released during the year following the change in mobile strategy announced in May 2017 (note 9).

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 relocated to one site at the Soapworks in Salford, and the rationalisation of our property footprint in London.

Contract and other

Contract and other provisions relate to onerous contracts and contracts with unfavourable terms, anticipated costs of unresolved legal disputes and committed costs relating to exceptional projects. Onerous contracts are supplier commitments entered into prior to the reassessment of the Group's mobile strategy, these are expected to be utilised over the next 12 months. All such provisions are assessed by reference to the best available information at the balance sheet date.

21. Share capital

	2018 million	2017 million	2018 £m	2017 £m
Authorised, issued and fully paid				
Ordinary shares of 0.1p each	**1,146**	955	**1**	1

The Company has one class of ordinary share that carries no right to fixed income. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

On 8 February 2018, the Group placed an aggregate of 190,654,206 new ordinary shares of 0.1p at a price of 107p per placing share to raise net proceeds of £201m after expenses. The placing shares represented approximately 19.95% of the Company's existing issued share capital. The placing utilised a cash box structure, whereby the cash box entity issued redeemable preference shares in consideration for the receipt of the cash proceeds (net of issue costs) arising from the placing. The Company's ordinary shares were issued as consideration for the transfer to it of the shares, which it did not already own, in the cash box entity. As a result, in the opinion of the Board, the placing qualified for merger relief under section 612 of Companies Act 2006 so that the excess of the value of the acquired shares in the cash box entity over the nominal value of the ordinary shares issued by the Company was credited to the Company's other reserves.

The placing shares ranked pari passu in all respects with the existing ordinary shares, including the right to receive all dividends and other distributions declared, made or paid after the date of issue.

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 Carphone Warehouse plc on demerger.

Retained earnings

Retained earnings are accumulated reserves and placing discussed in note 21.

Other reserve —Group ESOT

The Group ESOT held four million shares at 31 March 2018 (2017: five million) in the Company for the benefit of employees. The decrease in the number of shares held is due to employees participating in the Group schemes exercising their options during the year.

23. Analysis of changes in net debt

	Opening £m	**Net cash flow £m**	**Non-cash movements £m**	**Closing £m**
2018				
Cash and cash equivalents	**50**	**(7)**	**—**	**43**
Borrowings	**(871)**	**104**	**—**	**(767)**
Derivatives	**39**	**(39)**	**—**	**—**
Headline debt (note 18)	**(832)**	**65**	**—**	**(767)**
Headline net debt	**(782)**	**58**	**—**	**(724)**
Finance leases (note 18)	**—**	**—**	**(31)**	**(31)**
Net debt[(1)]	**(782)**	**58**	**(31)**	**(755)**

	Opening £m	**Net cash flow £m**	**Non-cash movements £m**	**Closing £m**
2017				
Cash and cash equivalents	10	40	—	50
Borrowings	(709)	(143)	(19)	(871)
Derivatives	20	—	19	39
Headline debt	(689)	(143)	—	(832)
Headline net debt and net debt[(1)]	(679)	(103)	—	(782)

(1) See note 1 to the consolidated financial statements.

24. Leases

(a) Operating leases

The Group leases network infrastructure and offices under non-cancellable operating leases. The leases have varying terms, purchase options, escalation clauses and renewal rights. There were no leases which were individually significant to the Group.
Due to the forthcoming adoption in the year ended 31 March 2019 of IFRS 16 'Leases', impacting lease recognition, the Group has reviewed the completeness of its existing disclosure. Accordingly, the 2017 comparatives have been restated to ensure comparable information is presented. The previously presented 2017 total of £193m has been restated to £185m in the table below.

The Group had outstanding commitments for future minimum payments due as follows:

	2018			**2017 (restated)**		
	Property	**Network equipment**	**Total £m**	**Property**	**Network equipment**	**Total £m**
Less than 1 year	**10**	**13**	**23**	12	24	36
2 to 5 years	**30**	**15**	**45**	38	36	74
Greater than 5 years	**66**	**2**	**68**	72	3	75
	106	**30**	**136**	122	63	185

(b) Finance leases

	Minimum lease payments 2018 £	**2017 £**
Amounts payable under finance leases:		
Within one year	**8**	—
In the second to fifth years inclusive	**26**	—
	34	—
Less: future finance charges	**(3)**	—
Present value of lease obligations	**31**	—

	Present value of minimum lease payments 2018 £	**2017 £**
Amounts payable under finance leases:		
Within one year	**8**	—
In the second to fifth years inclusive	**23**	—
Present value of lease obligations	**31**	—
Analysed as:		
Amount due for settlement within 12 months (shown under current liabilities)	**8**	—
Amount due for settlement after 12 months	**23**	—
Present value of lease obligations	**31**	—

It is the Group's policy to lease some of its equipment on finance leases. The average lease term is 4.3 years. For the year ended 31 March 2018, the average effective borrowing rate was 6.2% (2017: nil). Interest rates are fixed at the contract date. All leases are on a fixed payment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in sterling.

The fair value of the Group's lease obligations as at 31 March 2018 is estimated to be £31m (2017: nil) using a 6.2% (2017: nil) discount rate.

The Group's obligations under finance leases are secured by the lessors' rights over the leased assets.

25. Commitments

The Group has in the normal course of business entered into various multi-year supply and working capital agreements for core network, IT and customer equipment. As at 31 March 2018, expenditure contracted but not provided for in these financial statements amounted to £203m (2017: £231m). Of this amount, £100m (2017: £127m) related to supply for core network, IT and customer equipment, £82m (2017: £65m) related to capital commitments and £21m (2017: £39m) related to the supply of customer equipment.

Under the Heads of terms agreed with Infracapital for the new FTTP venture, the parties have agreed to an initial funding commitment of £100m, of which the Group's share is £20m.

In addition, the Group has a contingent liability in relation to potential costs associated with a commercial agreement of up to £25m (2017: £nil).

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 51 to 55. The remuneration of all key management personnel is disclosed in note 4.

On 8 February 2018, the Group placed an aggregate of 190,654,206 new ordinary shares of 0.1p at a price of 107p per placing share to raise net proceeds of approximately £201m after expenses. The Executive Chairman, other Directors (R Taylor, T Harrison, N Langstaff, K Ferry, C Bligh, J Gildersleeve, I West) and the Company Secretary (T Morris) participated in this Placing purchasing 32,710,280 shares, 4,672,896 shares, 279,671 shares, 186,915 shares, 139,835 shares, 65,256 shares, 46,728 shares, 18,691 shares and 186,915 shares respectively.

27. Post balance sheet events

On 24 May 2018, the Group announced plans to sell its direct B2B business to Daisy for £175m. The transaction includes all direct business customers, who will be served by Daisy but will remain on Group's network via a new wholesale agreement. The transaction represents a non-adjusting post balance sheet event and underpins the Group's strategy to focus on core, high-growth partner and wholesale B2B channels.

TalkTalk Telecom Group PLC

Consolidated financial statements of the Group as at and for the year ended March 31, 2017[1]

(1) Extracted from TalkTalk Telecom Group PLC Annual Report 2017.

TalkTalk Telecom Group PLC
CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP AS AT AND FOR THE YEAR ENDED MARCH 31, 2017[(1)]

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(1) Extracted from TalkTalk Telecom Group PLC Annual Report 2017.

Independent auditor's report

to the members of TalkTalk Telecom Group PLC

Opinion on financial statements of TalkTalk Telecom Group PLC

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2017 and of the group's profit for the year then ended;

- the consolidated financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;

- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and

- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the consolidated financial statements, Article 4 of the IAS Regulation.

The financial statements that we have audited comprise:

- the consolidated Income Statement;

- the consolidated Statement of Comprehensive Income;

- the consolidated and Parent Company Balance Sheets;

- the consolidated and Parent Company Cash Flow Statements;

- the consolidated and Parent Company Statements of Changes in Equity;

- the Statement of Accounting Policies;

- the related notes 2 to 27; and

- the notes to the Company Financial Statements 1 to 11.

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

Summary of our audit approach

Key risks

The key risks that we identified in the current year were:

- management override of controls;

- disclosure of exceptional items and the presentation of adjusted measures in the financial statements;

- revenue recognition;

- supplier income; and

- recoverability of deferred tax assets.

Within this report, any new risks are identified with '↑' and any risks which are the same as the prior year identified with '—'.

Materiality

The materiality that we used in the current year was £4.0m, which was determined on the basis of 3% of Headline profit before taxation.

Scoping	Based on our assessment of the risks of material misstatement at the group level, we focused our group audit scope primarily on the TalkTalk Consumer and TalkTalk Business operating units. Each of these was subject to a full audit and together this covered 99% (2016: 99%) of the Group's total revenues. Together with this, our Group audit scope covered 96% of Headline profit before taxation (2016: 95%) and 93% of net assets (2016: 97%).
Significant changes in our approach	Last year our report included cyber attack impacts as a risk, which is not included in our report this year. In the prior year, the company website was subject to a significant and sustained cyber attack. Immediately following the incident, the Group incurred additional costs, £42 million of which the Directors presented as exceptional. Another event of this nature did not recur during the year ended 31 March 2017 and the impact of the prior year incident was largely recognised in 2016, with limited net impact in 2017. We have also removed the risk of impairment of goodwill within our audit report. We did not consider this a key risk in the current year as it did not have a significant effect on our audit strategy nor the allocation of resources in the audit. We have included the risk of management override of controls within our audit report as a key risk in the current year. Due to the quantum and nature of one-off items occurring during the year, we increased the level of audit focus in relation to the potential risk of management bias.

Separate opinion in relation to IFRSs as issued by the IASB

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

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

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

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

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

- the directors' confirmation on page 65 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 22 to 25 that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in the Chief Financial Officer's statement about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's ability to continue to do so over a period of at least twelve months from the date of approval of the consolidated financial statements; and

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

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

- the directors' explanation on page 40 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Independence

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

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

Our assessment of risks of material misstatement

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

Management override of controls '↑'

Risk description

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

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

How the scope of our audit responded to the risk

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

- reviewed accounting estimates (individually and collectively) for management bias that would result in material misstatement, in particular focusing our attention on the areas noted above. We obtained evidence to support the rationale behind each estimate made and quantified the impact on the financial statements. Details of our audit response in relation to disclosure of exceptional items, revenue recognition policies and supplier income recognition have been outlined below;

- obtained supporting documentation and obtained an understanding of the business rationale for significant transactions that we have become aware of that are outside the normal course of business or that otherwise appear to be unusual given our understanding of the Group; and

- completed journal entry testing, where data analytics tools were used to identify those postings that might be indicative of management override of controls. For the journal entries identified, we obtained explanations and examined supporting documentation to understand the nature and rationale for each entry.

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

Risk description

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

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

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

How the scope of our audit responded to the risk

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

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

Revenue recognition '—'

Risk description

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

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

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

How the scope of our audit responded to the risk

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

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

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

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

Supplier income '—'

Risk description

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

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

How the scope of our audit responded to the risk

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

Recoverability of deferred tax assets '—'

Risk description

As disclosed in note 7 to the consolidated financial statements the Group has significant carried forward tax losses of £606 million (2016: £650 million) for which the utilisation depends upon a complex allocation of the Group's profits to particular loss pools. The recognition of deferred tax assets (and provisions against any unrecoverable portion) is a significant management judgement due to the reliance on future forecasts.

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

How the scope of our audit responded to the risk

We engaged our tax specialists to challenge management's approach to the deferred tax assets recognised in the year including the decision to continue to use a 10 year forecast for the recognition of deferred tax assets in respect of losses. We have considered if the forecasts being used for these purposes have been updated to align to the Group forecast and have challenged the key assumptions, being the forecast cash flow projections and the discount rates applied. We assessed historical forecasting accuracy and benchmarked the discount rate and growth rates employed to available market data.

We considered ongoing correspondence with HMRC and the impact that this has on any judgements and the accounting treatment applied by management.

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

Our application of materiality

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

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

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

Headline PBT £133m

Group materiality £4m
Component materiality range £2.4m to £3.2m
Audit Committee reporting threshold £0.2m

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

An overview of the scope of our audit

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

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

	Full audit scope	Review at group level
Revenue	99%	1%
Headline profit before tax	96%	4%
Net assets	93%	7%

Opinion on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

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

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

Matters on which we are required to report by exception
Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Directors' remuneration

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

We have nothing to report arising from these matters.

Corporate Governance Statement

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

We have nothing to report arising from our review.

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.

We confirm that we have not identified any such inconsistencies or misleading statements.

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.

Respective responsibilities of directors and auditor

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

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

Scope of the audit of the financial statements

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

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

Consolidated income statement
For the year ended 31 March 2017

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

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

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

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

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

Consolidated statement of comprehensive income
For the year ended 31 March 2017

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

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

Consolidated balance sheet
Company number: 07105891
As at 31 March 2017

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

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

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

T Harrison
Chief Executive Officer

I Torrens
Chief Financial Officer

Consolidated cash flow statement
For the year ended 31 March 2017

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

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

Consolidated statement of changes in equity
For the year ended 31 March 2017

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

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

Notes to the consolidated financial statements

1. Accounting policies and basis of preparation

Basis of preparation

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

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

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

Basis of consolidation

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

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

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

Alternative performance measures

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

- Headline revenue;
- Headline EBITDA;
- Headline operating profit;
- Headline profit before taxation;
- Headline profit after taxation;
- Headline basic EPS;
- Headline free cash flow; and
- Headline leverage (net debt to Headline EBITDA ratio).

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

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

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

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

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

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

Going concern

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

Viability statement

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

Accounting policies

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

Revenue

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

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

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

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

Subscriber acquisition costs

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

Foreign currency translation and transactions

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

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

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

Leases

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

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

Financial instruments

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

Trade and other receivables

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

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

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

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

Cash and cash equivalents

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

Trade payables

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

Financial liabilities and equity instruments

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

Borrowings

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

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

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

Equity instruments

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

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

Derivative financial instruments and hedge accounting

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

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

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

Cash flow hedges

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

Measurement

The financial instruments included on the Group balance sheet are measured at fair value or amortised cost. The measurement of this fair value can in some cases be subjective and can depend on the inputs used in the calculations. The different valuation methods are called 'hierarchies' and are described below:

- Level 1: Fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities;

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

Critical accounting judgements and key sources of estimation uncertainty

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

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

- going concern and viability statement (pages 21 and 40 respectively)—forecast assumptions;
- revenue recognition for bundled transactions (note 1)—allocation of each element based on their relative fair values;
- hardware sales to third parties involved in outsourcing its customer acquisition (note 1)—transfer of risk and rewards to the outsourced third party;
- amounts receivable from suppliers (note 1)—quantum and nature of income;
- revenue share arrangements with third parties (note 1)—recognised as an expense at the same time as the related revenue; and
- exceptional items (note 9)—balance of income and cost between exceptional and Headline earnings.

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

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

Application of significant new or amended EU-endorsed accounting standards

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

Future accounting developments

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

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

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

IFRS 9

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

IFRS 15

IFRS 15 requirements

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

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

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

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

Implications for TalkTalk

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

Contract inception

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

Costs to fulfil contracts

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

Costs to obtain contracts

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

IFRS 16

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

IFRS 16 requirements

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

- a number of lease contracts currently disclosed within note 24 to the financial statements, which currently give rise to recurring expenses within operating expenses, will be recognised on the balance sheet as a 'Right of use asset' for the year ended 31 March 2019;

- a corresponding lease liability (current and non-current) reflecting the Group's commitment to pay consideration to third parties under these contracts will also be recognised, increasing the Group's net debt, although the cash flow profile remains the same for the Group;

- the Group will depreciate the right of use assets with a charge to the income statement over the shorter of the assets useful lives and the assessed lease term;

- the Group will charge interest on the liability using the rate of interest implicit in the lease or the Group's incremental borrowing rate. Interest will be charged to finance costs; and

- the profile of the overall expense in the income statement will change as the interest expense will be more front-loaded compared to a straight line operating lease rental expense.

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

- whether there is an identified asset that the Group has the right to obtain substantially all the economic benefits;

- whether the Group has the right to direct how and for what purpose the asset is used;

- whether the Group has the right to operate the asset without the supplier having the right to change those operating instructions; and

- whether the Group has designed the asset in a way that predetermines how and for what purpose the asset will be used.

In addition, management has also considered other salient factors in the assessment of the standard such as:

- the length of assessed lease term taking into account the non-cancellable period of the lease including periods covered by an option to extend or an option to terminate if the Group is reasonably certain to exercise either option; and

- the applicability of interest rate implicit in the lease or the Group's incremental borrowing rate.

Implications for TalkTalk

Following the above assessment, management has concluded that the following items that are currently classified as operating leases will be recognised in the financial statements using the new requirements:

- certain property, including offices and data centres;

- the Group's backhaul network, being backhaul circuits rented from BTOR, Virgin Media and others;

- the Group's collector ring, being collector circuits rented from BTOR and others;

- elements of the Group's core network;

- all fibres and other cable links rented from third parties;

- the Group's interconnect network, being primarily ISI circuits and ducts rented from BTOR and others;

- the Group's recurring licences for systems, to the extent they are not capitalised perpetual licences or subscriptions to services; and

- IT equipment leases, including laptops, mobile phones and printers.

In addition, management has concluded that the following areas will be out of the scope of IFRS 16 and key judgements based upon the Group's specific network circumstances:

- the footprint the Group rents from BTOR in the unbundled exchanges and in co-location data centres, as this is not considered to be an identifiable asset; and

- the copper and fibre connections the Group rents in the 'last mile', comprising copper between the exchange and customer/business premise for MPF and SMPF customers, and a combination of copper and fibre for our FTTC customers, as the Group does not have the total ability to control or direct the use of the equipment in full as stipulated within IFRS 16.

Management has also reviewed available exemptions contained within IFRS 16 and concluded that tie cables, being the tie pairs the Group rents from BTOR in the unbundled exchanges, will fall under the low value asset exemption. In addition, the Group does not intend to utilise the short term exemption for leases whose lease term represents a period of twelve months or less.

Beyond the information above in relation to IFRS 15 and 16 it is not currently practical to provide a reasonable financial estimate of the effect of these standards until the full implementation of each project has been concluded. Management expects to disclose the financial effect of these standards within the Group's Annual Report for the year ended 31 March 2018 and will also continue to monitor the practical interpretation of these new standards within the telecommunications industry prior to full implementation.

2. Segmental reporting

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

	2017 £m	**2016 £m**
Headline revenue	**1,783**	1,838
Headline EBITDA	**304**	260
Depreciation	**(69)**	(72)
Amortisation of operating intangibles	**(59)**	(49)
Share of results of joint ventures	**(11)**	(8)
Headline operating profit (note 9)	**165**	131
Non-operating amortisation	**(10)**	(10)
Exceptional items—revenue	**—**	(3)
Exceptional items—cost of sales	**21**	—
Exceptional items—operating expenses excluding amortisation and depreciation	**(78)**	(80)
Exceptional items—depreciation	**(3)**	—
Statutory operating profit (note 9)	**95**	38

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

	2017 £m	2016 £m
On-net	**1,342**	1,399
Corporate	**397**	384
Off-net	**44**	55
Headline revenue	**1,783**	1,838

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

Corporate revenue is further analysed as:

	2017 £m	2016 £m
Carrier	**121**	119
Data	**157**	120
Voice	**119**	145
Corporate revenue	**397**	384

3. Operating profit

Operating profit is stated after charging/(crediting):

	2017 £m	2016 £m
Depreciation of property, plant and equipment (note 12)	**69**	72
Amortisation of other operating intangible fixed assets (note 11)	**59**	49
Amortisation of acquisition intangibles (note 11)	**10**	10
Profit on disposal of property, plant and equipment	**(2)**	—
Impairment loss recognised on trade receivables	**60**	71
Employee costs (note 4)	**136**	139
Cost of inventories recognised in expenses	**55**	72
Rentals under operating leases	**105**	100
Supplier rebates[1]	**(13)**	(13)
Service level related dispute[2, 3]	**(27)**	(17)
Auditor's remuneration[4]	**1**	1
Exceptional items (note 9)	**86**	83
Exceptional items—disputed network charges in relation to prior years (note 9)[3]	**(29)**	—
Exceptional items—depreciation (note 9)	**3**	—

(1) Included in operating profit are associated increased costs of £13m relating to these supplier rebates.

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

(3) Included in 2017 exceptional items are £12m of service level related disputes relating to 2016.

(4) A breakdown of auditor's remuneration is disclosed within the Corporate Governance section on page 43.

4. Employee costs

The average monthly number of employees (including Executive Directors) was:

	2017 Number	2016 Number
Administration	**1,588**	1,670
Sales and customer management	**638**	620
	2,226	2,290

The aggregate remuneration recognised in respect of these employees in the income statement comprised:

	2017 £m	2016 £m
Wages and salaries	**112**	115
Social security costs	**14**	15
Other pension costs	**5**	4
	131	134
Share-based payments (note 5)	**5**	5
	136	139

The Group provides various defined contribution pension schemes for the benefit of a significant number of its employees. These are charged to the income statement as they become payable in accordance with the rules of the schemes.

Compensation earned by key management personnel is analysed below. The key management personnel comprised the Board of Directors (see the Directors' Remuneration Report on pages 44 to 62 and other senior management).

	2017 £m	2016 £m
Salaries and fees	**4.0**	3.8
Performance bonuses	**1.5**	1.8
Benefits	**0.1**	0.1
Pension costs	**0.2**	0.2
Share-based payments	**0.7**	1.4
Compensation for loss of office	**0.9**	—
	7.4	7.3

5. Share-based payments

Accounting policy

The Group issues equity settled share-based payments to certain employees and Executive Directors. Equity settled share-based payments are measured at fair value at the date of grant and expensed over the vesting period, based on an estimate of the number of shares that will eventually vest.

Fair value is measured by use of a dividend discount or binomial model for share-based payments with internal, non-market performance criteria (for example, EPS targets) and a Black Scholes or Monte Carlo model for those with external performance criteria (for example, TSR targets).

For schemes with non-market performance criteria, the number of options expected to vest is recalculated at each balance sheet date, based on expectations of performance against target and of leavers prior to vesting. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in reserves.

For schemes with market performance criteria, the number of options expected to vest is adjusted only for expectations of leavers prior to vesting. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in reserves.

If a scheme is cancelled, any remaining part of the fair value of the scheme is expensed immediately. If a scheme is forfeited, no further expense is recognised and any charges previously recognised are reversed.

Charges arise on loans that are provided to employees to fund the purchase of shares in the Group as part of long term incentive plans. To the extent to which the loans are not, in certain circumstances, repayable, the cost of such loans is expensed over the course of the relevant incentive plans. Charges are also recognised on loans provided to employees to settle personal tax liabilities. To the extent to which the loans are not, in certain circumstances, repayable, the cost of such loans is expensed.

TalkTalk Telecom Group PLC schemes

TalkTalk Telecom Group PLC schemes are the Shareholder Value Plan (SVP), Discretionary Share Option Plan (DSOP), Save-As-You-Earn (SAYE) Scheme and Share Match Plan (SIP). Where applicable, the ESOT holds shares to settle these plans, based on the latest view of vesting.

In order to aid the user of the financial statements, the dilutive effect on EPS of each scheme has been presented. This has been calculated using an average share price for the financial year of £2.03 (2016: £2.92).

Summary of share schemes

Year ended 31 March 2017	**IFRS 2 charge £m**	**Dilutive effect number millions**	**Options outstanding at the end of the year number millions**
TalkTalk Telecom Group PLC schemes			
SVP—participation shares	**1**	**—**	**—**
SVP II—participation shares	**1**	**—**	**—**
DSOP—2016 grant (FY17)	**2**	**4**	**10**
DSOP—2015 grant (FY16)	**—**	**1**	**1**
DSOP—2014 grant (FY15)	**1**	**3**	**5**
DSOP—2013 grant (FY14)	**—**	**1**	**1**
DSOP—2012 grant (FY13)	**—**	**1**	**1**
DSOP—2010 grant (FY11)	**—**	**1**	**1**
SAYE	**—**	**—**	**3**
Total TalkTalk Telecom Group PLC schemes	**5**	**11**	**22**

Year ended 31 March 2016	**IFRS 2 charge £m**	**Dilutive effect number millions**	**Options outstanding at the end of the year number millions**
TalkTalk Telecom Group PLC schemes			
SVP—participation shares	2	2	—
DSOP—2015 grant (FY16)	—	—	2
DSOP—2014 grant (FY15)	1	3	7
DSOP—2013 grant (FY14)	1	2	4
DSOP—2012 grant (FY13)	—	2	2
DSOP—2010 grant (FY11)	—	1	2
SAYE	1	1	4
Total TalkTalk Telecom Group PLC schemes	5	11	21

(i) SVP

The SVP and SVP II are growth plans and not share option plans operating under the Value Enhancement Scheme (VES) rules previously approved by shareholders. The SVP and SVP II enables participants to share in up to 7% of any increase in the value of the Group over an opening market capitalisation of £2,941m based on a five business day average up to 3 June 2014 for SVP and £2,292m based on a five business day average up to 19 May 2016 for SVP II. The awards are subject to the following performance conditions:

- at least a 7% compound annual increase (CAGR) in the market capitalisation of the Group from the above valuation over a three and four year period; and
- the Group's TSR outperforms the FTSE 250.

The performance conditions are measured over an initial performance period from 3 June 2014 (SVP) and 19 May 2016 (SVP II) to the date of announcement of the Group's FY17 (SVP) and FY19 (SVP II) annual results, after which a total of 60% of the options will vest. The remaining options are measured over a performance period from 3 June 2014 (SVP) and 19 May 2016 (SVP II) to the date of announcement of the Group's FY18 (SVP) and FY20 (SVP II) annual results. The Pool also has a maximum cap on incremental value equal to 2.75% of the total issued share capital of TalkTalk Telecom Group PLC at the date of each vesting.

There is a holding period on 100% of the PLC shares received in exchange for participation shares on vesting, of twelve months from each vesting date for Executive Directors. All other participants are required to hold 50% of the PLC shares received in exchange for participation shares on vesting for twelve months from each vesting date.

In FY15, the Company made awards in the SVP. No awards were made in the year ended 31 March 2016. The Group advanced loans to participants to enable them to purchase participation shares in TalkTalk Group Limited, the holding company of the Group's operating business. These loans are subject to a commercial rate of interest based on rates set by HMRC.

If an employee leaves the Group before the scheme vests, then the participation shares are forfeited for the value of the outstanding loan plus accrued interest.

A fair value exercise was conducted for the awards using the Monte Carlo method with the total fair value of the participation shares granted totalling £5m in SVP and £4m in SVP II.

A summary of the schemes is shown below:

	Participation shares	
SVP—2015 grant	**2017 Number million**	**2016 Number million**
Outstanding at the beginning of the year	**17**	17
Forfeited during the year	**(2)**	—
Outstanding at the end of the year	**15**	17
Exercisable at the end of the year	**—**	—

	Participation shares	
SVP II—2016 grant	**2017 Number million**	**2016 Number million**
Outstanding at the beginning of the year	**—**	—
Granted during the year	**20**	—
Forfeited during the year	**(2)**	—
Outstanding at the end of the year	**18**	—
Exercisable at the end of the year	**—**	—

(ii) DSOP

In FY15 ('2014 grant') and FY16 ('2016 grant'), the Group granted eight million nil-priced share option awards and two million nil-priced share. In FY17 ('2016 grant'), the Group granted eleven million nil-priced share options. These options are subject to the following performance conditions:

- at least a 7% compound annual increase (CAGR) in the market capitalisation of the Group from the below valuation over the next three and four year periods;
- at least a 23.8% compound annual increase (CAGR) in the headline earnings per share (EPS) of the Group from the FY16 headline EPS; and
- the employee remains in service with the Group for the vesting periods.

The options are measured as follows:

- a performance period from 19 May 2016 to 19 May 2019 vesting on announcement of the Group's FY20 annual results. A total of 60% of the vested options are exercisable from the vesting date, with the remaining 40% of options being exercisable twelve months later. Options are forfeited if an employee leaves the Group before the options vest, subject to the DSOP scheme rules.

In FY15 ('2014 grant') and FY16 ('2015 grant'), the Group granted eight million nil-priced share option awards and two million nil priced share option awards respectively. These awards are subject to the following performance conditions:

- at least a 7% compound annual increase (CAGR) in the market capitalisation of the Group from the below valuation over the next three and four year periods; and

- the Group's TSR outperforms the FTSE 250.

The options are measured as follows:

- 2014 grant: a performance period from 3 June 2014 to 3 June 2017 vesting on announcement of the Group's FY17 annual results. A total of 60% of the vested options are exercisable from the vesting date, with the remaining 40% of options being exercisable twelve months later. Options are forfeited if an employee leaves the Group before the options vest, subject to the DSOP scheme rules.

- 2015 grant: a performance period from 11 September 2015 to 11 September 2018 vesting on 11 September 2018. The vested options are only exercisable twelve months following the vesting date. Options are forfeited if an employee leaves the Group before the options vest, subject to the DSOP scheme rules.

In FY14 ('2013 grant'), the Group granted six million nil-priced share option awards subject to absolute TSR and EPS performance targets, 20% of the outstanding options vested on the announcement of the Group's FY16 annual results. These options are only exercisable twelve months after the vesting date.

Options are forfeited if an employee leaves the Group before the options vest.

	2016 grant		**2015 grant**		**2014 grant**		**2013 grant**		**2012 grant**		**2010 grant**	
Number of share options outstanding	**Number million**	**WAEP £**	**Number million**	**WAEP £**	**Number million**	**WAEP £**	**Number million**	**WAEP £**	**Number million**	**WAEP £**	**Number million**	**WAEP £**
Opening balance at 1 April 2015	—	—	—	—	8	—	5	—	8	—	2	—
Granted during the year	—	—	2	—	—	—	—	—	—	—	—	—
Exercised during the year	—	—	—	—	—	—	—	—	(2)	—	—	—
Forfeited during the year	—	—	—	—	(1)	—	(1)	—	(4)	—	—	—
Closing balance at 31 March 2016	—	—	2	—	7	—	4	—	2	—	2	1.27
Granted during the year	**11**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Exercised during the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(1)**	**—**	**(1)**	**1.27**
Forfeited during the year	**(1)**	**—**	**(1)**	**—**	**(2)**	**—**	**(3)**	**—**	**—**	**—**	**—**	**—**
Closing balance at 31 March 2017	**10**	**—**	**1**	**—**	**5**	**—**	**1**	**—**	**1**	**—**	**1**	**1.27**
Number of share options exercisable												
As at 31 March 2016	—	—	—	—	—	—	—	—	—	—	2	1.27
As at 31 March 2017	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1**	**—**	**1**	**1.27**

Valuation assumptions

Valuation method	Monte Carlo	Monte Carlo	Monte Carlo	Monte Carlo	Monte Carlo	Monte Carlo
Share price (p)	240	309	321	228	122	132
Exercise price (p)	nil	nil	nil	nil	nil	127
Expected volatility	28.75%	25.0%	25.0%	30.0%	30.0%	37.0%
Expected exercise (60%/40%)	3 and 4 years	4 years	3 and 4 years	3 and 4 years	3 and 4 years	3 and 4 years
Risk free rate (3 years/ 4 years)	0.44% and 0.64%	1.67%	1.27% and 1.67%	0.50% and 0.80%	0.60%	3.40%
Expected dividend yield	5.65%	5.60%	5.60%	4.45%	3.50%	3.80%
Fair value of options granted (£m)	10	1	4	3	3	9
Weighted average remaining contractual life	9.1 years	8.4 years	7.2 years	6.2 years	4.9 years	3.6 years

Part of the 2016 grant was valued using the Black Scholes model, the valuation assumptions for these are shown below:

	DSOP—2016 grant
Valuation method	Black Scholes
Share price (p)	240
Exercise price (p)	nil
Expected volatility	N/A
Expected exercise (years)	3 and 4 years
Risk free rate	N/A
Expected dividend yield	5.65%
Fair value of options granted (£m)	9
Weighted average remaining contractual life	9.1 years

(iii) SAYE

The scheme permits the granting of options to employees linked to a bank SAYE contract for a term of three or five years. Contributions from UK employees range from £5 to £250 per month for schemes launched between 2010 and 2013 and between £5 and £500 per month for the 2014 scheme onwards. Options may be exercised at the end of the three or five year period at an exercise price determined at the invitation date. The scheme is available for a period each year for employees to join.

Exercise prices for the schemes are set out below:

2016 grant	209p per share
2015 grant	307p per share
2014 grant	240p per share
2013 grant	192p per share
2012 grant	123p per share
2011 grant	119p per share
2010 grant	102p per share

	2017		**2016**	
	Number million	**WAEP £**	**Number million**	**WAEP £**
Outstanding at the beginning of the year	**4**	**2.32**	4	1.89
Granted during the year	**2**	**2.09**	2	3.07
Exercised during the year	**(1)**	**1.88**	(1)	1.19
Forfeited during the year	**(2)**	**2.37**	(1)	2.54
Outstanding at the end of the year	**3**	**2.26**	4	2.32
Exercisable at the end of the year	**—**	**—**	—	—

	SAYE—2016 grant
Valuation method	Black Scholes
Share price (p)	232
Exercise price (p)	209
Expected volatility	29.7%
Expected exercise (years)	3.8
Risk free rate	0.46%
Expected dividend yield	6.85%
Fair value of options granted (£m)	nil
Weighted average remaining contractual life	2.2 years

(iv) Share Match Plan

The Group launched its first all-employee, HMRC-approved Share Match Plan (SIP) in June 2014, following the Remuneration Committee approval of this scheme in the year ended 31 March 2014. This enables eligible employees to purchase market priced shares by entering into a partnership share agreement and holding such shares in trust for up to a five year period. The rules of the Plan allow an employee maximum contribution of £1,800 per annum, or in line with HMRC limits if these are increased. Approval for the TTG Share Match was granted by shareholders at the AGM on 24 July 2013.

The Remuneration Committee, at its discretion, may award matching and/or free shares to eligible participants. Matching shares may be granted up to a maximum ratio of two matching shares for each partnership share purchased by a participant. Free shares may be awarded up to a maximum value of £3,600 tax free per annum, or in line with HMRC limits if these are increased.

Currently the Group provides one matching share for each partnership share purchased by participating employees or Executive Directors. During the year ended 31 March 2017, the impact of the SIP on the Group's results was not material.

6. Net finance costs

Net finance costs are analysed as follows:

	2017 £m	2016 £m
Interest on bank loans and overdrafts	**27**	21
Facility fees and similar charges	**5**	3
Exceptional—finance income (note 9)	**(7)**	—
	25	24

In FY17, the Group recognised interest of £7m (2016: £nil) on a BT dispute settled in FY14 for the overcharging of certain wholesale Ethernet services (note 9). In 2016, the impact of finance income was not material.

In FY17, the Group issued £400m Senior Notes due 2022 (the bond). Arrangement fees of £5m were paid and are being amortised over the life of the notes. Upon receipt of the bond proceeds the Group repaid £50m of the term loan and the 2016 £100m RCF in full, accelerating the amortisation of the fees relating to this facility. The remaining fees in relation to the 2014 RCF, term loan and US Private Placement continue to be amortised over the expected life of the loans and are included within facility fees and similar charges above. The average interest rate in the year was 3.60% (2016: 3.10%).

7. Taxation

Accounting policy

Current tax, including UK corporation tax and overseas tax, is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is provided on temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base.

Deferred tax liabilities represent tax payable in future periods in respect of taxable temporary differences. Deferred tax assets represent tax recoverable in future periods in respect of deductible temporary differences, and the carry-forward of unused tax losses and credits. Deferred tax is determined using the tax rates that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Current and deferred tax is recognised in the income statement except where it relates to an item recognised directly in reserves, in which case it is recognised directly in reserves.

Deferred tax assets and liabilities are offset where there is a legal right to do so in the relevant jurisdictions.

Key sources of estimation uncertainty in applying the Group's accounting policy

The extent to which tax losses can be utilised depends on the extent to which taxable profits are generated in the relevant jurisdictions for the foreseeable future, and on the tax legislation then in force, and as such the value of associated deferred tax assets is uncertain.

Recovery of the deferred tax asset is estimated over a ten year time horizon using an extrapolation of the Group's three year plan. Sensitivities have been applied to these forecasts as noted in the viability statement on page 40. Forecast profits within the ten year agreed time horizon impact the level of the deferred tax asset recognition. Accordingly an increase or decrease in future profitability would increase or decrease the asset recognised. In particular, the assumptions regarding customer churn are most critical.

Tax—income statement

The tax charge/(credit) comprises:

	2017 £m	**2016 £m**
Current tax		
UK corporation tax	**5**	—
Adjustments in respect of prior years:		
UK corporation tax	**—**	(1)
Total current tax charge/(credit)	**5**	(1)
Deferred tax		
Origination and reversal of timing differences	**9**	7
Effect of change in tax rate	**7**	6
Adjustments in respect of prior years—deferred tax credit	**(1)**	(3)
Adjustments in respect of prior years—exceptional (credit)/charge	**(8)**	3
Total deferred tax charge	**7**	13
Total tax charge	**12**	12

The tax charge on Headline earnings for the year ended 31 March 2017 was £33m (2016: £28m), representing an effective tax rate on pre-tax profits of 25% (2016: 26%). The tax charge on Statutory earnings for the year ended 31 March 2017 was £12m (2016: £12m). The reconciliation between the Headline and Statutory tax charge is shown in note 9.

The principal differences between the tax charge and the amount calculated by applying the standard rate of UK corporation tax of 20% (2016: 20%) to the profit before taxation are as follows:

	2017 **£m**	**2016** **£m**
Profit before taxation	**70**	14
Tax at 20% (2016: 20%)	**14**	3
Items attracting no tax relief or liability	**—**	1
Effect of change in tax rate	**7**	6
Adjustments in respect of prior years	**(1)**	(3)
Adjustments in respect of prior years—exceptional (credit)/charge	**(8)**	3
Movement in recognised tax losses during the year	**—**	3
Movement in unrecognised tax losses during the year	**—**	(1)
Total tax charge through income statement	**12**	12

Tax—retained earnings and other reserves

Tax on items recognised directly in retained earnings and other reserves is as follows:

	2017 **£m**	**2016** **£m**
Total tax charge through income statement	**12**	12
Deferred tax charge recognised directly in retained earnings and other reserves	**—**	3
Total tax charge through retained earnings and other reserves	**12**	15

The deferred tax charge recognised directly in retained earnings and other reserves for the years ended 31 March 2017 and 31 March 2016 relates to share-based payments.

Tax—balance sheet

The deferred tax assets recognised by the Group and movements thereon during the year are as follows:

	Share-based payments £m	**Timing differences on capitalised costs £m**	**Tax losses £m**	**Other timing differences £m**	**Total £m**
At 1 April 2016	**3**	**53**	**56**	**3**	**115**
(Charge)/credit to the income statement	**—**	**(11)**	**4**	**—**	**(7)**
At 31 March 2017	**3**	**42**	**60**	**3**	**108**

	Share-based payments £m	**Timing differences on capitalised costs £m**	**Tax losses £m**	**Other timing differences £m**	**Total £m**
At 1 April 2015	6	54	69	1	130
(Charge)/credit to the income statement	—	(1)	(13)	2	(12)
Charge to reserves	(3)	—	—	—	(3)
At 31 March 2016	3	53	56	3	115

No deferred tax assets and liabilities have been offset in either year, except where there is a legal right to do so in the relevant jurisdictions.

On 6 September 2016, a reduction in the UK statutory rate of taxation was substantively enacted, bringing the tax rate down from 19% to 17% from 1 April 2020, replacing the 18% announced previously. Accordingly, the tax assets and liabilities recognised at 31 March 2017 take account of these changes.

At 31 March 2017, the Group had unused tax losses of £606m (2016: £650m) available for offset against future taxable profits. A deferred tax asset of £60m (2016: £56m) has been recognised in respect of £339m (2016: £299m) of such losses, based on expectations of recovery in the foreseeable future.

No deferred tax asset has been recognised in respect of the remaining £267m (2016: £351m) as there is insufficient evidence that there will be suitable taxable profits against which these losses can be recovered. All losses may be carried forward indefinitely.

8. Dividends

Accounting policy

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

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

	2017 £m	2016 £m
Ordinary dividends		
Final dividend for the year ended 31 March 2015 of 9.20p per ordinary share	**—**	85
Interim dividend for the year ended 31 March 2016 of 5.29p per ordinary share	**—**	50
Final dividend for the year ended 31 March 2016 of 10.58p per ordinary share	**100**	—
Interim dividend for the year ended 31 March 2017 of 5.29p per ordinary share	**50**	—
Total ordinary dividends(1)	**150**	135

(1) Deducted from Company reserves. See Company statement of changes in equity on page 112.

The proposed final dividend for the year ended 31 March 2017 of 5.0p (2016: 10.58p) per ordinary share on approximately 950 million (2016: 946 million) ordinary shares (approximately £48m) was approved by the Board on 10 May 2017 and will be recommended to shareholders at the AGM on 19 July 2017. The dividend has not been included as a liability as at 31 March 2017. The payment of this dividend will not have any tax consequences for the Group.

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

9. Reconciliation of Headline information to statutory information

Headline information is provided because the Directors consider that it provides assistance in understanding the Group's underlying performance.

Accounting policy

Headline results are stated before the amortisation of acquisition intangibles and exceptional items. Exceptional items are those that are considered to be one-off or non-recurring in nature and so material that the Directors believe that they require separate disclosure to avoid distortion of the presentation of underlying performance and should be separately presented on the face of the income statement.

Critical judgements in applying the Group's accounting policy

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

Year ended 31 March 2017	Revenue £m	EBITDA £m	Operating profit £m	Profit before taxation £m	Taxation £m	Profit for the year £m
Headline results	**1,783**	**304**	**165**	**133**	**(33)**	**100**
Exceptional items—Operating efficiencies—MTTS(a)	**—**	**(24)**	**(24)**	**(24)**	**5**	**(19)**
Exceptional items—Operating efficiencies—property(b)	**—**	**(8)**	**(8)**	**(8)**	**2**	**(6)**
Exceptional items—Network transformation(c)	**—**	**(8)**	**(11)**	**(11)**	**2**	**(9)**
Exceptional items—Mobile proposition(d)	**—**	**(49)**	**(49)**	**(49)**	**10**	**(39)**
Exceptional items—Acquisitions and disposals(e)	**—**	**1**	**1**	**1**	**—**	**1**
Exceptional items—Disputed network charges(f)	**—**	**29**	**29**	**29**	**(6)**	**23**
Exceptional items—Operating expenses—cyber attack(g)	**—**	**2**	**2**	**2**	**(1)**	**1**
Exceptional items—Finance income(h)	**—**	**—**	**—**	**7**	**(1)**	**6**
Exceptional items—Taxation(i)	**—**	**—**	**—**	**—**	**8**	**8**
Amortisation of acquisition intangibles(j)	**—**	**—**	**(10)**	**(10)**	**2**	**(8)**
Statutory results	**1,783**	**247**	**95**	**70**	**(12)**	**58**

Year ended 31 March 2016	Revenue £m	EBITDA £m	Operating profit £m	Profit before taxation £m	Taxation £m	Profit for the year £m
Headline results	1,838	260	131	107	(28)	79
Exceptional items—Revenue—cyber attack(g)	(3)	(3)	(3)	(3)	1	(2)
Exceptional items—Operating expenses—cyber attack(g)	—	(39)	(39)	(39)	8	(31)
Exceptional items—Operating efficiencies—MTTS(a)	—	(31)	(31)	(31)	6	(25)
Exceptional items—Operating efficiencies—property(b)	—	(10)	(10)	(10)	2	(8)
Exceptional items—Taxation(i)	—	—	—	—	(3)	(3)
Amortisation of acquisition intangibles(j)	—	—	(10)	(10)	2	(8)
Statutory results	1,835	177	38	14	(12)	2

During the year ended 31 March 2017, cash exceptional items amounted to £46m (2016: £88m).

a) Operating efficiencies—Making TalkTalk Simpler (MTTS)

During the year ended 31 March 2017, the Group substantially completed its wide-ranging transformation programme that is delivering material improvements to our customers' experience, driving operating cost savings, and reducing SAC through lower churn and costs per add (CPA).

The costs incurred in the year include work on improving Consumer and TalkTalk Business systems and processes which focus on customer experience and the review of the organisational structure of the business.

These programmes have resulted in £24m (2016: £31m) of costs including project management, redundancy, consultancy, migration and call centre costs.

A total taxation credit of £5m has been recognised on these costs in the year ended 31 March 2017 (2016: £6m).

b) Operating efficiencies—property rationalisation

During the prior year the Group reviewed the sites from which it operates, and announced its intention to exit its Warrington and Irlam sites to relocate to one site at the Soapworks in Salford.

These programmes have resulted in £8m (2016: £10m) of costs including redundancy, property, consultancy and dual running costs.

A total taxation credit of £2m has been recognised on these costs in the year ended 31 March 2017 (2016: £2m).

c) Network transformation

During the year ended 31 March 2017, the Group embarked on a significant transformation programme which will fundamentally restructure the Group's network, IT infrastructure and technology organisation. The change the Group is undertaking will ensure it is fit for the future and underpins the wider Group strategy in providing a great service to our customers as a value provider in the industry. This is a discrete project expected to run until FY20.

This programme has resulted in £11m (2016: £nil) of costs including project management, consultancy, dual running costs, decommissioning costs and accelerated depreciation costs.

A total taxation credit of £2m has been recognised on these costs in the year ended 31 March 2017 (2016: £nil).

d) Mobile proposition

During the year ended 31 March 2017, the Group began to reorganise the business under the new leadership team focusing on fewer, clearer priorities that are focused on investment in the Group's core fixed network. As part of the review the Group reassessed its mobile strategy and how capital is allocated. The Group has therefore decided not to pursue an inside-out mobile network strategy and instead we will continue to work closely with Telefónica UK on the right platform and customer offering.

As a result, the Group has assessed that items within inventory and property, plant and equipment have no further economic benefit to the Group leading to impairment charges and onerous lease costs of £49m (2016: £nil). Additional reorganisation costs may be incurred in FY18 as the Group works with its MNO partners on developing an alternative mobile distribution strategy.

A total taxation credit of £10m has been recognised on these costs in the year ended 31 March 2017 (2016: £nil).

e) Acquisitions and disposal

During the year ended 31 March 2017, final migrations of prior year customer base acquisitions were completed, following completion any amounts provided for but not utilised were released resulting in a credit of £1m (2016: £nil).

The tax impact in either year is immaterial.

f) Disputed network charges

During the year ended 31 March 2017, the Group has recognised a £29m credit (2016: £nil) following the resolution of disputes relating to prior periods.

A total taxation charge of £6m has been recognised on these credits in the year ended 31 March 2017 (2016: £nil).

g) Cyber attack

During the year ended 31 March 2017, the Group received insurance proceeds of £3m (2016: £nil) in relation to specific cyber related costs incurred in the prior year offset by £1m of costs incurred in the current year, including an ICO fine of £0.4m.

A total taxation charge of £1m has been recognised on these items in the year ended 31 March 2017 (2016: £nil).

In the prior year, there was a significant and sustained cyber attack on the TalkTalk website. Following this attack the Group issued an increased number of credits to retain its customers. The costs of these credits are recognised against revenue and amounted to £3m. The Group also incurred costs of £39m. These costs included restoring our online capability with enhanced security features, associated IT, incident response and consultancy costs and providing free upgrades to our customers.

A total taxation charge of £nil has been recognised on these items in the year ended 31 March 2017 (2016: credit of £8m).

h) Finance income

During the year ended 31 March 2017, the Group recognised interest of £7m (2016: £nil) on a BT dispute settled in FY14 for the overcharging of certain wholesale Ethernet services.

A total taxation charge of £1m has been recognised on these items in the year ended 31 March 2017 (2016: £nil).

i) Taxation items

During the year ended 31 March 2017, the Group resolved a longstanding enquiry with HMRC in relation to the tax treatment of £85m of losses in respect of TalkTalk Brands Limited. This has resulted in a tax credit of £8m (2016: £nil).

In the prior year, the Group recognised a tax charge of £3m which relates to the impact of the statutory corporation tax rate change from 20% to 19% and then to 18% on prior year exceptional tax assets.

j) Amortisation of acquisition intangibles

An amortisation charge in respect of acquisition intangibles of £10m was incurred in the year ended 31 March 2017 (2016: £10m).

A total taxation credit of £2m has been recognised in relation to the charge in the year ended 31 March 2017 (2016: £2m).

10. Earnings per ordinary share

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

	2017 £m	2016 £m
Headline earnings (note 9)	**100**	79
Statutory earnings	**58**	2
Weighted average number of shares (millions)		
Shares in issue	**955**	955
Less weighted average holdings by Group ESOT	**(7)**	(19)
For basic EPS	**948**	936
Dilutive effect of share options (note 5)	**11**	11
For diluted EPS	**959**	947

	2017 Pence	2016 Pence
Basic earnings per ordinary share		
Headline	**10.5**	8.4
Statutory	**6.1**	0.2

	2017 Pence	2016 Pence
Diluted earnings per ordinary share		
Headline	**10.4**	8.3
Statutory	**6.0**	0.2

There are no share options considered anti-dilutive in the year ended 31 March 2017 (2016: nil).

11. Goodwill and other intangible assets

(a) Goodwill

Accounting policy

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing the excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired is recognised initially as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

On disposal of a subsidiary undertaking, the relevant goodwill is included in the calculation of the profit or loss on disposal.

The Group has two cash generating units (CGUs)—TalkTalk Consumer and TalkTalk Business, which represent the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Cash inflows generated by the TalkTalk Consumer CGU represent income generated from the provision of telecommunication services to Retail customers. Cash inflows generated by the TalkTalk Business CGU represent income generated from the provision of telecommunication services to B2B customers.

For the purpose of impairment testing, at the acquisition date, goodwill is allocated to each of the CGUs expected to benefit from the synergies of the acquisition. The Group's shared costs and assets relating mainly to infrastructure and central overheads are allocated across the two CGUs based on the relative future cash flows that those shared costs support.

Determining whether goodwill is impaired requires estimation of the value in use of the CGUs to which the goodwill has been allocated. In assessing value in use, the estimated cash flows of each CGU are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Impairment of goodwill

Goodwill is not subject to amortisation but is tested for impairment annually or whenever there is an indication that the asset may be impaired; this review is performed at a CGU level.

Impairment is determined by assessing the future cash flows of the CGU to which the goodwill relates. The future cash flows of the Group are taken from the Group's three year plan and extrapolated out to 20 years based on the UK's long term growth rate. This is discounted by the CGU's weighted average cost of capital pre-tax to give the net present value of that CGU. Where the net present value of future cash flows is less than the carrying value of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss is recognised in the income statement and is not subsequently reversed.

Sensitivity analysis is performed using reasonably possible changes in the key assumptions.

	2017 £m	2016 £m
Opening cost and net book value	**495**	490
Acquisitions (note 13)	**—**	5
Closing cost and net book value	**495**	495

The goodwill acquired in business combinations is allocated at acquisition to the CGUs that are expected to benefit from that business combination. The allocation of goodwill across the CGUs is as follows:

	2017 £m	2016 £m
TalkTalk Consumer	**347**	347
TalkTalk Business	**148**	148
	495	495

Impairment review

The key assumptions used in the Group's goodwill impairment review are as follows:

- **Long term growth rates**

Long term revenue growth rates applied are based on the growth rate for the UK per the Organisation for Economic Co-operation and Development (OECD). The rate applied in the current year was 2.0% (2016: 2.0%).

- **Discount rate**

The underlying discount rate for each CGU is based on the UK ten year gilt rate adjusted for an equity risk premium and the systematic risk of the CGU. The average pre-tax rate for both CGUs used to discount the forecast cash flows is 8.0% (2016: 10.2%). The assumptions used in the calculation of the CGUs' discount rate are benchmarked to externally available data. The same discount rate has been applied to both CGUs due to the similarity of risk factors and geographical location.

- **Capital expenditure**

Forecast capital expenditure to maintain property, plant and equipment is based on senior management expectations of future required support of the network and current run rate of expenditure, typically at 6–7% of revenue.

- **Customer factors**

The key assumptions for the forecast cash flows of each of the CGUs are based on expected customer growth rates, ARPU, direct costs including acquisition costs, and changes in product mix. The value assigned to each of these assumptions has been determined based on the extrapolation of historical trends in the Group and external information on expected trends of future market developments.

Sensitivity analysis has been performed for each key assumption and the Directors have not identified any reasonably possible changes in the key assumptions that would cause the carrying value of goodwill to exceed the recoverable amount.

(b) Other intangible assets

Accounting policy

Operating intangibles

Operating intangibles include internal infrastructure and design costs incurred in the development of software for internal use. Internally generated software is recognised as an intangible asset only if it can be separately identified, it is probable that the asset will generate future economic benefits, and the development cost can be measured reliably. Where these conditions are not met, development expenditure is recognised as an expense in the year in which it is incurred. Directly attributable costs that are capitalised include employee costs specifically incurred in the development of the intangible asset. Operating intangibles are amortised on a straight line basis over their estimated useful economic lives of up to eight years.

Acquisition intangibles

Acquired intangible assets such as customer bases and other intangible assets acquired through a business combination are capitalised separately from goodwill and amortised over their expected useful lives of up to six years on a straight line basis. The value attributed to such assets is based on the future economic benefit that is expected to be derived from them, calculated as the present value of future cash flows after a deduction for contributory assets.

Impairment

At the acquisition date, acquisition intangibles are allocated to each of the CGUs expected to benefit from the synergies of the combination. The Group's shared costs and assets relating mainly to infrastructure and central overheads are allocated across the two CGUs based on the relative future cash flows.

Determining whether the carrying amounts of operating and acquisition intangibles have any indication of impairment requires judgement. If an indication of impairment is identified, further judgement is required to assess whether the carrying amounts can be supported by the value in use of the CGU that the asset is allocated to.

The value in use calculation involves estimation of both the future cash flows of the CGUs and the selection of appropriate discount rates to use to calculate present values.

Useful economic lives

The assessment of the useful economic lives of these operating and acquisition intangibles requires judgement. Amortisation is charged to the income statement based on the useful economic life selected. This assessment requires estimation of the period over which the Group will benefit from the assets.

Impairment of assets

The Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss at each reporting date. Where an indicator of impairment exists, the Group makes a formal estimate of the asset's recoverable amount and the extent of any impairment loss.

The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than the carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount.

Other intangible assets are analysed as follows:

	Operating intangibles £m	**Non-operating £m**	**Total other intangibles £m**
Opening balance at 1 April 2016	**193**	**34**	**227**
Additions	**85**	**—**	**85**
Amortisation	**(59)**	**(10)**	**(69)**
Closing balance at 31 March 2017	**219**	**24**	**243**
Cost (gross carrying amount)	**543**	**142**	**685**
Accumulated amortisation	**(324)**	**(118)**	**(442)**
Closing balance at 31 March 2017	**219**	**24**	**243**

	Operating intangibles £m	**Non-operating £m**	**Total other intangibles £m**
Opening balance at 1 April 2015	136	42	178
Additions	106	—	106
Finalisation of provisional acquisition intangible	—	2	2
Amortisation	(49)	(10)	(59)
Closing balance at 31 March 2016	193	34	227
Cost (gross carrying amount)	458	142	600
Accumulated amortisation	(265)	(108)	(373)
Closing balance at 31 March 2016	193	34	227

Operating intangibles

Operating intangibles includes internally generated assets with a net book value of £102m (2016: £88m), which are amortised over a period of up to eight years. This includes additions of £32m (2016: £43m) and an amortisation charge of £18m (2016: £14m) in the year ended 31 March 2017.

Included within operating intangibles is the following asset, which is material to the Group:

- TRIO, the customer billing system, which has a net book value of £28m (2016: £47m). TRIO is amortised over a period of up to eight years depending on the release date of the relevant component. The weighted average remaining useful economic life of the components of TRIO is two years (2016: two years).

Acquisition intangibles

Acquisition intangibles relate to the broadband customer bases acquired from Virgin Media and Tesco in a prior year; these customer bases are valued from the discounted future cash flows expected from them, after a deduction for contributory assets.

At 31 March 2017, the net book value of the acquired broadband bases is material to the Group; with the Virgin Media base valued at £12m (2016: £16m) and the Tesco base valued at £12m (2016: £15m), with remaining useful economic lives of 34 months (2016: 46 months) and 35 months (2016: 47 months) respectively.

12. Property, plant and equipment

Accounting policy

Property, plant and equipment are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its expected useful life from the date it is brought into use, as follows:

Short leasehold improvements	10% or the lease term if less than ten years
Land and buildings	3.33% per annum
Network equipment and computer hardware	12.5–50% per annum
Fixtures and fittings	20–25% per annum

Impairment of assets

Property, plant and equipment

The Group reviews the carrying amounts of its fixed assets to determine whether there is any indication that those assets have suffered an impairment loss at each reporting date. The Group uses the same methodology as set out in note 11 for operating and acquisition intangibles.

	Short leasehold improvements £m	Land and buildings £m	Network equipment and computer hardware £m	Fixtures and fittings £m	Total £m
Opening balance at 1 April 2016	**—**	**7**	**294**	**1**	**302**
Additions	**—**	**2**	**35**	**6**	**43**
Depreciation	**—**	**—**	**(71)**	**(1)**	**(72)**
Disposals	**—**	**(8)**	**(8)**	**—**	**(16)**
Impairment (note 9)	**—**	**—**	**(22)**	**—**	**(22)**
Reclassification	**1**	**(1)**	**—**	**—**	**—**
Closing balance at 31 March 2017	**1**	**—**	**228**	**6**	**235**
Cost (gross carrying amount)	**7**	**—**	**841**	**8**	**856**
Accumulated depreciation and impairment charges	**(6)**	**—**	**(613)**	**(2)**	**(621)**
Closing balance at 31 March 2017	**1**	**—**	**228**	**6**	**235**

	Short leasehold improvements £m	Land and buildings £m	Network equipment and computer hardware £m	Fixtures and fittings £m	Total £m
Opening balance at 1 April 2015	—	—	288	2	290
Additions	—	7	89	—	96
Depreciation	—	—	(71)	(1)	(72)
Disposals	—	—	(12)	—	(12)
Closing balance at 31 March 2016	—	7	294	1	302
Cost (gross carrying amount)	6	7	814	2	829
Accumulated depreciation and impairment charges	(6)	—	(520)	(1)	(527)
Closing balance at 31 March 2016	—	7	294	1	302

13. Non-current asset investments

Accounting policy

Investments, other than subsidiaries, are initially recognised at cost, being the fair value of the consideration given plus any transaction costs associated with the acquisition.

Investments are categorised as available for sale and are recorded at fair value. Changes in fair value, together with any related taxation, are taken directly to equity and recycled to the income statement when the investment is sold or determined to be impaired.

Non-current asset investments at 31 March 2017 related to a 7.3% (2016: 7.3%) interest in Shared Band Limited, a telecommunications technology provider. The cost of the investment is not material.

(a) Investments

The Parent Company has investments in the following subsidiary undertakings, which affected the profits or losses or net assets of the Group.

Subsidiary undertakings	Country of incorporation or registration	Registered office	Principal activity	Percentage of shareholding
TalkTalk Telecom Holdings Limited[1]	England & Wales	11 Evesham Street[2]	Holding company	100
Beheer-en Beleggingsmaatschappij Antika BV	Netherlands	Euroweg[3]	Non-trading	100
Wireless Internet Portfolio BV	Netherlands	Euroweg[3]	Non-trading	100
TalkTalk Brands Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100
TalkTalk Group Ltd	England & Wales	11 Evesham Street[2]	Holding company	100
CPW Broadband Services (UK) Ltd	England & Wales	11 Evesham Street[2]	Telecommunications	100
Future Office Communications Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100
TalkTalk Broadband Services (Ireland) Limited	Ireland	39/40 Upper Mount Street[4]	Non-trading	100
TalkTalk Business (2CCH) Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100
TalkTalk Communications Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100
CPW Network Services Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100
TalkTalk Corporate Limited	England & Wales	11 Evesham Street[2]	Holding company	100
Core Telecommunications Limited	England & Wales	11 Evesham Street[2]	Non-trading	100
CPW UK Group Limited	England & Wales	11 Evesham Street[2]	Dormant	100
TalkTalk RB Limited (formerly Ratebuster Ltd)	England & Wales	11 Evesham Street[2]	Dormant	100
TalkTalk Technology Limited	England & Wales	11 Evesham Street[2]	Dormant	100

Subsidiary undertakings	Country of incorporation or registration	Registered office	Principal activity	Percentage of shareholding
Telequip Limited	England & Wales	348–350 Lytham Road[5]	In liquidation	100
Telco Global Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Vartec Telecom Europe Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Video Networks Limited	England & Wales	11 Evesham Street[2]	Dormant	100
World Online Telecom Limited	England & Wales	11 Evesham Street[2]	Dormant	100
GIS Telecoms Limited	England & Wales	11 Evesham Street[2]	Dormant	100
TalkTalk Direct Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Opal Connect Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Opal Business Solutions Limited	England & Wales	11 Evesham Street[2]	Dormant	100
UK Telco (GB) Limited	England & Wales	11 Evesham Street[2]	Dormant	100
TalkTalk UK Communications Services Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Onetel Telecommunications Limited	England & Wales	11 Evesham Street[2]	Dormant	100
V Networks Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Green Dot Property Management Limited	England & Wales	11 Evesham Street[2]	Non-trading	100
Executel Ltd	England & Wales	11 Evesham Street[2]	Dormant	100
Greystone Telecom Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Pipex Internet Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Pipex Communications Services Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Pipex UK Limited	England & Wales	11 Evesham Street[2]	Dormant	100
TalkTalk Telecom Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100
Telco Holdings Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100
Telco Global Distribution Limited	England & Wales	11 Evesham Street[2]	Dormant	100
Tele2 Telecommunication Services Limited	Ireland	39/40 Upper Mount Street[4]	Non-trading	100
Tiscali UK Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100
Toucan Residential Ireland Limited	Ireland	39/40 Upper Mount Street[4]	Non-trading	100
TalkTalk TV Entertainment Limited (formerly blinkbox)	England & Wales	11 Evesham Street[2]	Telecommunications	100
tIPicall Limited	England & Wales	11 Evesham Street[2]	Telecommunications	100

(1) Directly held subsidiary.
(2) Full address: 11 Evesham Street, London, W11 4AR.
(3) Full address: Euroweg 20 3825 HD Amersfoort, Amsterdam, Netherlands.
(4) Full address: 39/40 Upper Mount Street, Dublin 2, Ireland.
(5) Full address: 348–350 Lytham Road, Blackpool, Lancashire, FY4 1DW.

Joint venture undertakings	Country of incorporation or registration	Registered office	Principal activity	Percentage of shareholding
YouView TV Limited	England & Wales	10 Lower Thames Street[1]	Telecommunications	14.3
Bolt Pro Tem Limited	England & Wales	15 Bedford Street[2]	Telecommunications	33.3
Internet Matters Limited	England & Wales	6th Floor One London Wall[3]	Telecommunications	25.0

(1) Full address: 10 Lower Thames Street, Third Floor, London, EC3R 6YT.
(2) Full address: 15 Bedford Street, London, WC2E 9HE.
(3) Full address: 6th Floor One London Wall, London, EC2Y 5EB.

(b) Acquisitions and disposals

(i) Acquisitions

The Group has made no acquisitions during the year ended 31 March 2017. There was no movement in the provisional goodwill recognised in the prior year relating to the tIPicall Limited acquisition when the goodwill was finalised in the current year.

The Group made the following acquisition during the year ended 31 March 2016:

tIPicall Limited

On 22 April 2015, the Group acquired 100% shares of tIPicall Limited, a company providing Voice over Internet Protocol (VoIP) services. The acquisition was satisfied by £5m cash plus £1m of contingent consideration depending on the performance of the business.

The amounts recognised in respect of assets and liabilities acquired are immaterial to the Group. The book value of the assets acquired is expected to equal their fair value. On this basis goodwill recognised in relation to the acquisition is £6m. This represents the future opportunities arising from the nature of the business and fit with the Group's existing operations. The provisional goodwill has been allocated to the Business cash generating unit (CGU).

(ii) Disposals

The Group has made no disposal of investments during the current or prior year.

14. Interest in joint ventures

Accounting policy

Interests in joint ventures are accounted for using the equity method. The Group income statement includes the Group's share of the post-tax profits or losses of the joint ventures based on their financial statements for the year.

In the Group balance sheet, the Group's interest in joint ventures is shown as a non-current asset, representing the Group's investment in the share capital of the joint ventures, as adjusted for post-acquisition changes in the Group's share of the net assets or liabilities less provision for any impairment.

In addition to the carrying amount of the investment, the Group's interest in joint ventures includes, where applicable, any long term interests in the venture that, in substance, form part of the Group's net investment in the joint venture. An item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension of the Group's interest in that joint venture.

Any loans advanced to a joint venture that, in substance, do not form part of the Group's net investment are shown separately in the balance sheet as a receivable to the Group. Losses recognised using the equity method in excess of the Group's investment in ordinary shares are applied to the other components of the Group's interest in the joint venture in the reverse order of their seniority (i.e. priority in liquidation).

YouView TV Limited ('YouView')

The Group holds 14.3% (2016: 14.3%) of the ordinary share capital of YouView, a joint venture with The British Broadcasting Corporation, ITV Broadcasting Limited, British Telecom PLC (BT), Channel Four Television Corporation, Arqiva Limited and Channel 5 Broadcasting Limited. The joint venture was set up in order to develop a free-to-air internet-connected TV service to UK homes. During a prior year, the Group signed a new agreement with the other existing holders of YouView whereby all seven original partners (together 'Tier 1' funders) continue to contribute approximately £1m per annum to fund basic operational and technology costs of YouView, and the Group together with BT as 'Tier 2' funders contribute up to a further £10m per annum for additional development of the technology to support their TV propositions. The Group's total contribution to YouView in the year ended 31 March 2017 was £10m (2016: £8m).

There was no change in the overall control of the joint venture as a result of these changes as all seven partners share overall control. Under this agreement, the Group's share of losses comprises one-seventh of any Tier 1 loss and half of any Tier 2 loss. During the year ended 31 March 2017, the Group recognised a £11m share of losses (2016: £8m).

The Group has reviewed the carrying value of YouView and has concluded that there is no indication of impairment.

Bolt Pro Tem Limited

The Group holds 33.3% of the ordinary share capital of Bolt Pro Tem Limited (BPT), a joint venture with British Sky Broadcasting Limited (BSkyB) and City Fibre Holdings Limited. The joint venture was set up in the prior year to deliver fibre to the premise (FTTP) broadband services in the City of York. During the year ended 31 March 2017, the Group contributed £nil (2016: £1m) to the joint venture and received £nil share of losses (2016: £nil).

During the prior year, due to an increased certainty around the time of the repayment of a portion of the Group's contribution to BPT, it was concluded that £3m was, in substance, a loan to BPT and not an extension of the investment in the joint venture. This was therefore reclassified on the balance sheet as a non-current trade and other receivable. During the current year the Group lent a further £1m to BPT increasing the overall balance to £4m.

The Group has reviewed the carrying value of BPT and has concluded that there is no indication of impairment.

Internet Matters Limited

During the year ended 31 March 2014, the Group, alongside BSkyB, BT and Virgin Media established an equal membership joint venture, Internet Matters Limited. It is a not-for-profit company set up as an industry-led body to promote and educate parents about internet safety for children.

Interest in joint ventures is analysed as follows:

	2017 £m	**2016 £m**
Opening balance at 1 April	**9**	10
Additions	**10**	10
Share of results	**(11)**	(8)
Reclassification to non-current assets—trade and other receivables	**—**	(3)
Closing balance at 31 March	**8**	9

The Group's share of the results, assets and liabilities of its joint ventures are as follows:

Group share of results of joint ventures	**2017 £m**	**2016 £m**
Expenses	**(11)**	(8)
Loss before taxation	**(11)**	(8)
Taxation	**—**	—
Loss after taxation	**(11)**	(8)

Group share of net assets of joint ventures	**2017 £m**	**2016 £m**
Non-current assets	**8**	9
Net assets	**8**	9

15. Inventories

Accounting policy

Inventories are stated at the lower of cost and net realisable value, valued on a FIFO basis, and consists primarily of set top boxes, power line adaptors and routers. Net realisable value is based on estimated selling price, less costs expected to be incurred. A provision is made for obsolete items where appropriate.

	2017 £m	2016 £m
Goods for resale	**18**	57

During FY17, the Group revised its strategy toward its mobile proposition giving rise to an impairment of £18m (2016: £nil). The impairment has been recognised as an exceptional item (note 9).

16. Trade and other receivables

Trade and other receivables comprise:

	2017 £m	2016 £m
Non-current—trade and other receivables		
Trade and other receivables	**2**	—

	2017 £m	2016 £m
Current—trade and other receivables		
Trade receivables—gross	**192**	174
Less provision for impairment	**(45)**	(30)
Trade receivables—net	**147**	144
Other receivables	**136**	84
Prepayments	**32**	21
Accrued income	**54**	45
Trade and other receivables	**369**	294

The Directors estimate that the carrying amount of trade receivables approximates to their fair value.

The average credit period taken on trade receivables, calculated by reference to the amount owed at the year end as a proportion of total revenue in the year, was 33 days (2016: 29 days).

As explained in note 18, in September 2016, the Group signed a £75m receivables purchase agreement which matures in September 2018. The Group has the ability on a rolling basis to sell its trade receivables to a third party vehicle in exchange for a discounted consideration. The Group varies the level of trade receivables sold into the programme as part of managing its liquidity position. The Group is deemed to control the third party vehicle and therefore continues to consolidate the relevant trade receivables on the grounds that substantially not all the risks and rewards of ownership have been transferred under the programme.

The Group's trade receivables are denominated in the following currencies:

	2017 £m	2016 £m
UK Sterling	**181**	163
Other	**11**	11
	192	174

The ageing of gross trade receivables is as follows:

	2017 £m	2016 £m
Not yet due	**85**	65
0 to 2 months	**15**	28
2 to 4 months	**17**	21
Over 4 months	**75**	60
	192	174

The ageing of the provision for impairment of trade receivables is as follows:

	2017 £m	2016 £m
Not yet due	—	(1)
0 to 2 months	(2)	(1)
2 to 4 months	(2)	—
Over 4 months	(41)	(28)
	(45)	(30)

Movements in the provisions for impairment of trade receivables are as follows:

	2017 £m	2016 £m
Opening balance	(30)	(25)
Charged to the income statement	(60)	(71)
Receivables written off as irrecoverable	45	66
Closing balance	(45)	(30)

Trade receivables of £62m (2016: £80m) were past due, but not impaired. These balances primarily relate to TalkTalk Consumer and TalkTalk Business fixed line customers. The Group has made provisions based on historical rates of recoverability and all unprovided amounts are considered to be recoverable. The ageing analysis of these trade receivables is as follows:

	2017 £m	2016 £m
0 to 2 months	13	27
2 to 4 months	15	21
Over 4 months	34	32
	62	80

17. Trade and other payables

	2017 £m	2016 £m
Trade payables	273	304
Other taxes and social security costs	37	28
Other payables	12	19
Accruals	138	150
Deferred income	51	62
	511	563

The Group has commercially agreed longer credit terms with certain suppliers. Excluding these suppliers, the underlying average credit period taken on trade payables was 50 days (2016: 40 days). Including these suppliers, the average credit period taken was 57 days (2016: 56 days). Included in trade payables are capital payables amounting to £65m (2016: £55m).

Rebates receivable from suppliers are accounted for in accordance with the policy set out in note 1.

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

18. Cash and cash equivalents and borrowings

(a) Cash and cash equivalents are as follows:

	2017 £m	2016 £m
Cash at bank and in hand	**50**	10

The effective interest rate on bank deposits and money market funds was 0.1% (2016: 0.3%).

(b) Borrowings comprise:

	Maturity	2017 £m	2016 £m
Current (£100m term loan)	2017	**—**	25

	Maturity	2017 £m	2016 £m
Non-current			
$185m US Private Placement (USPP) Notes	2021, 2024, 2026	**148**	129
£560m revolving credit facility	2019	**165**	430
£50m bilateral agreements	2019	**50**	50
£100m term loan	2019	**50**	75
£100m revolving credit facility	2017	**—**	—
£75m receivables purchase agreement facility	2018	**58**	—
£400m Senior Notes	2022	**400**	—
Non-current borrowings before derivatives		**871**	684
Total borrowings before derivatives		**871**	709
Derivatives		**(39)**	(20)
Borrowings after derivatives		**832**	689

	Maturity	2017 £m	2016 £m
Undrawn available committed facilities	2018, 2019	**412**	255

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

	2017 £m	2016 £m
Less than 1 year	**—**	25
1 to 2 years	**58**	25
2 to 3 years	**265**	—
3 to 4 years	**—**	530
4 to 5 years	**482**	—
Greater than 5 years	**27**	109
Borrowings after derivatives	**832**	689

Borrowing facilities

The Group's committed facilities total £1,244m (2016: £944m). The Group's uncommitted facilities total £116m (2016: £81m) giving headroom on committed facilities and uncommitted facilities of £412m (2016: £255m) and £116m (2016: £81m) respectively.

The financial covenants included in each bank facility and the USPP Notes restrict the ratio of net debt to EBITDA and require minimum levels of interest cover. The amounts used in the covenant calculations are subject to adjustments as defined under the terms of the arrangement. The Group was in compliance with its covenants throughout the current and prior periods.

Details of the Group's borrowing facilities of the Group as at 31 March 2017 are set out below:

£400m Senior Notes

On 15 January 2017 TalkTalk Telecom Group PLC issued £400m Senior Notes due 2022. The Senior Notes include incurrence-based covenants customary for this type of debt, including limitations on TalkTalk's ability to incur additional debt and make restricted payments, subject to certain exceptions. The Group is permitted to incur additional debt subject to compliance with a net debt to EBITDA ratio of 4.0x and to pay dividends when net debt to EBITDA is below 3.0x (2.75x from January 2019). Regardless of the Company's net debt to EBITDA ratio, dividends are also permitted to be paid out of a basket based on 50% of cumulative consolidated net income from 1 October 2016. The Senior Notes also contain a separate exception for the payment of the final dividend for FY17 up to £105m. The interest rate payable on the notes is 5.375% payable semi-annually. The bond proceeds were used to repay the drawings of the £100m 2016 revolving credit facility in full, and partially repay the drawings under the 2014 revolving credit facility and term loan.

$185m USPP Notes

In July 2014, the Group issued $185m of USPP Notes maturing in three tranches ($139m in 2021, $25m in 2024 and $21m in 2026). The interest rate payable on the Notes is at a margin over US treasury rate for the appropriate period. The USPP proceeds were swapped to Sterling to give £109m (£82m in 2021, £15m in 2024 and £12m in 2026) and the net debt includes retranslation of the USPP funds at the rates achieved where hedged by cross-currency swaps. The fair value of the cross-currency rate swap at 31 March 2017 was £39m (2016: £20m).

£560m revolving credit facility (RCF) and £50m bilateral agreement

The Group has a £560m RCF, which matures in July 2019. The interest rate payable in respect of drawings under this facility is at a margin over LIBOR and for the appropriate period. The actual margin applicable to any drawing depends on the ratio of net debt to EBITDA calculated in respect of the most recent accounting period. In addition to the RCF, the Group also has a £50m bilateral agreement on the same terms, signed in July 2014, which matures in July 2019.

£100m term loan

Following repayment of £50m from the bond proceeds, the Group has a committed term loan of £50m (March 2016: £100m), with a final maturity date of July 2019. The interest rate payable in respect of drawings under this facility is at a margin over LIBOR for the appropriate period. The actual margin applicable to any drawing depends on the ratio of net debt to EBITDA calculated in respect of the most recent accounting period.

Receivables purchase agreement

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

Uncommitted money market facilities and bank overdrafts

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

New £640m revolving credit facility (RCF)

On 8 May 2017, the Group refinanced the 2014 RCF, the 2014 bilateral agreement and the £100m term loan. The new £640m 2017 RCF is a five year committed facility which contains financial covenants that restrict the ratio of net debt to EBITDA and requires minimum levels of interest cover. The interest rate payable on this facility is at a margin over LIBOR for the appropriate period. The actual margin applicable to any drawing depends on the ratio of net debt to EBITDA calculated in respect of the most recent accounting period.

19. Financial risk management and derivative financial instruments

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

	2017 £m	2016 £m
Financial assets(1)		
Cash and cash equivalents	**50**	10
Trade and other receivables(2)	**369**	294
Non-current investments and investment in joint venture	**8**	9
Non-current trade and other receivables	**6**	3
Derivative instruments in designated hedge accounting relationships:		
Derivative financial instruments(3)	**31**	18
Financial liabilities(1)		
Trade and other payables	**(460)**	(501)
Borrowings before derivatives	**(871)**	(709)
Derivative instruments in designated hedge accounting relationships:		
Derivative financial instruments(3)	**—**	(1)
	(867)	(877)

(1) The Group has no financial instruments designated as fair value through the profit and loss (FVTPL).

(2) Accrued income has been included within the other receivables so as to give completeness over the Group's future cash inflows.

(3) Derivative financial instruments of £32m (2016: £20m) relates to the USPP Notes, and (£1m) (2016: (£2m)) relates to interest rate hedges.

(a) Financial instruments

The Group's activities expose it to a variety of financial risks including market risk (such as currency risk and interest rate risk), credit risk and liquidity risk. The Group treasury function uses certain financial instruments to mitigate potential adverse effects on the Group's financial performance from these risks. These financial instruments primarily consist of bank loans and cross-currency rate swaps. Other products, such as currency options, can also be used depending on the risks to be covered, but have not been used in the current or preceding financial year. The Group does not trade or speculate in any financial instruments.

The Group has cash flow hedges in place to (a) swap the interest rate risk on the bank debt from floating to fixed rates. The outstanding swaps mature between December 2017 and January 2019 and (b) swap the currency and interest rate risk on the USPP debt from USD to GBP and from fixed US Treasury interest rates to fixed GBP interest rates. The outstanding swaps cover the semi-annual cash flows associated with the USPP debt and final maturities are in intervals to match the USPP debt maturities. These hedges have been fully effective from inception.

The fair value measurement is classified as Level 2 (2016: Level 2), derived from other observable market data; this means that their fair value is based upon the mark to market valuation at the balance sheet date. Fair value measurement at Level 2 gives consideration to interest rates, yield curves and foreign exchange rates at commonly quoted intervals for relevant currencies. The Group has also assessed the credit risk within its financial instruments. The fair value of these instruments at 31 March 2017 is £38m (2016: £17m). A loss of £5m (2016: gain of £2m) has been recognised in other comprehensive income in the period ended 31 March 2017. As the hedges were fully effective there has been no income statement or tax impact.

(b) Embedded derivatives

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

(c) Foreign exchange risk

The Group uses spot and forward foreign exchange trading to hedge transactional exposures, which arise mainly through cost of sales and operating expenses and are primarily denominated in Euro and US Dollar. The Group also uses cross-currency swaps to hedge its US Dollar denominated borrowings (US Private Placement). At 31 March 2017, the adjustment to translate our net debt to Sterling at swap rates to reflect the impact of hedging was £39m (2016: £20m).

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

	UK Sterling £m	US Dollar £m	Total £m
2017			
Borrowings before derivatives	**723**	**148**	**871**
Derivatives	**—**	**(39)**	**(39)**
Borrowings after derivatives	**723**	**109**	**832**

	UK Sterling £m	US Dollar £m	Total £m
2016			
Borrowings before derivatives	580	129	709
Derivatives	—	(20)	(20)
Borrowings after derivatives	580	109	689

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

(d) Interest rate risk

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

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

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

	2017 £m	2016 £m
100 basis points movement in the UK Sterling interest rate		
Income statement movement	**2**	4

(e) Liquidity risk

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

During 2017 the Group continued to diversify its sources of funding with the objective of increasing the tenor of its credit facilities, reducing reliance on any one market, increasing its operational flexibility and managing cost. This was evidenced in the period as the Group issued £400m Senior Notes in the GBP public debt market, entered into a £75m receivables purchase agreement, executed the sale and leaseback of a data centre in Milton Keynes and, following the year end, refinanced its core bank facilities into a new £640m revolving credit facility. These new facilities together with the Group's share capital and reserves, existing US Private Placement and a number of equipment and property leases form the Group's core financing. In addition to focusing on its core sources of liquidity, the Group uses a mix of overdrafts, short-dated uncommitted money market facilities, receivables factoring and commercial supplier terms to manage its day to day liquidity position. The Group will continue to review its sources of finance going forward.

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

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

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

	Less than 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	More than 5 years £m	Total £m
2016							
Borrowings	(46)	(44)	(18)	(539)	(5)	(135)	(787)
Derivative financial instruments—receivable	—	—	—	—	—	20	20
Trade and other payables	(563)	—	—	—	—	—	(563)
	(609)	(44)	(18)	(539)	(5)	(115)	(1,330)

(f) Credit risk

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

(g) Capital risk management

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

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 18, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings. The Group's Board reviews the capital structure on an annual basis including reviewing opportunities to access other sources of finance including the public debt markets.

The Group uses the ratio of net debt to headline EBITDA to monitor its capital structure and has a medium term ratio target of 2.0x. The ratio at 31 March 2017 is 2.57x (2016: 2.61x) and the Board expects the ratio will return to its target in the medium term.

The net debt to Headline EBITDA ratio at the year end is as follows:

	2017 £m	2016 £m
Debt	**(871)**	(709)
Cash and cash equivalents	**50**	10
Derivatives	**39**	20
Net debt	**(782)**	(679)
Headline EBITDA	**304**	260
Net debt to Headline EBITDA ratio	**2.57x**	2.61x

20. Provisions

The tables below analyses the Group's provisions:

	2017 £m	2016 £m
Current	**22**	18
Non-current	**14**	11
	36	29

	One Company integration £m	Property £m	Contract and other £m	Total £m
2017				
Opening balance	**1**	**12**	**16**	**29**
Charged to income statement	**—**	**4**	**16**	**20**
Released to income statement	**—**	**(1)**	**(1)**	**(2)**
Utilised in the year	**—**	**—**	**(11)**	**(11)**
Closing balance	**1**	**15**	**20**	**36**

	One Company integration £m	Property £m	Contract and other £m	Total £m
2016				
Opening balance	1	2	32	35
Charged to income statement	—	11	17	28
Released to income statement	—	(1)	—	(1)
Utilised in the year	—	—	(33)	(33)
Closing balance	1	12	16	29

Accounting policy

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

Provisions are categorised as follows:

One Company integration

These provisions relate principally to reorganisation costs and are only recognised where plans are demonstrably committed and where appropriate communication to those affected has been undertaken at the balance sheet date. These provisions are expected to be utilised over the next twelve months.

Property

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

Contract and other

Contract and other provisions relate to SIM replacement costs as part of the mobile migration programme provided for in a prior year. The remaining provisions relate to onerous contracts and contracts with unfavourable terms, anticipated costs of unresolved legal disputes and committed costs relating to exceptional projects. All such provisions are assessed by reference to the best available information at the balance sheet date.

21. Share capital

	2017 million	2016 million	2017 £m	2016 £m
Authorised, issued and fully paid				
Ordinary shares of 0.1p each	**955**	955	**1**	1

The Company has one class of ordinary share that carries no right to fixed income. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

22. Reserves

Share premium

The share premium account records the difference between the nominal amount of shares issued and the fair value of the consideration received. The share premium account may be used for certain purposes specified by UK law, including to write off expenses incurred on any issue of shares or debentures and to pay up fully paid bonus shares. The share premium account is not distributable but may be reduced by special resolution of the Company’s ordinary shareholders and with court approval.

Translation reserve

The results of overseas operations are translated at the average foreign exchange rates for the year, and their balance sheets are translated at the rates prevailing at the balance sheet date. Exchange differences arising on the translation of opening net assets and results of overseas operations are recognised in the translation and hedging reserve. All other exchange differences are included in the income statement.

Demerger reserve

The demerger reserve primarily reflects the profits or losses arising on the transfer of investments and net assets of CPW on demerger.

Other reserve—Group ESOT

The Group ESOT held five million shares at 31 March 2017 (2016: nine million) in the Company for the benefit of employees. The decrease in the number of shares held is due to employees participating in the Group schemes exercising their options during the year. During the prior year, the Trustees of the Group ESOT reassessed their holdings in relation to the number of options expected to be exercised in the future. This resulted in the sale of 20 million shares, generating net proceeds of £61m. The Group ESOT has waived its rights to receive dividends and none of its shares have been allocated to specific schemes. At the year end the shares had a market value of £10m (2016: £22m).

23. Analysis of changes in net debt

	Opening £m	Net cash flow £m	Non-cash movements £m	Closing £m
2017				
Cash and cash equivalents	**10**	**40**	**—**	**50**
Borrowings	**(709)**	**(143)**	**(19)**	**(871)**
Derivatives	**20**	**—**	**19**	**39**
	(689)	**(143)**	**—**	**(832)**
Total net debt	**(679)**	**(103)**	**—**	**(782)**

	Opening £m	Net cash flow £m	Non-cash movements £m	Closing £m
2016				
Cash and cash equivalents	10	—	—	10
Borrowings	(615)	(90)	(4)	(709)
Derivatives	16	—	4	20
	(599)	(90)	—	(689)
Total net debt	(589)	(90)	—	(679)

24. Commitments under operating leases

The Group leases network infrastructure and offices under non-cancellable operating leases. The leases have varying terms, purchase options, escalation clauses and renewal rights. There were no leases which were individually significant to the Group.

Due to the forthcoming adoption in the year ended 31 March 2019 of IFRS 16 'Leases', impacting lease recognition, the Group has reviewed the completeness of its existing disclosure. Accordingly, the 2016 comparatives have been restated to ensure comparable information is presented. The previously presented 2016 total of £175m has been restated to £193m in the table below.

The Group had outstanding commitments for future minimum payments due as follows:

	2017			2016 restated		
	Property	Network equipment	Total £m	Property	Network equipment	Total £m
Less than 1 year	**12**	**28**	**40**	11	29	40
2 to 5 years	**38**	**43**	**81**	37	52	89
Greater than 5 years	**72**	**8**	**80**	55	9	64
	122	**79**	**201**	103	90	193

25. Commitments

The Group has in the normal course of business entered into various multi-year supply and working capital agreements for core network, IT and customer equipment. As at 31 March 2017, expenditure contracted, but not provided for in these financial statements amounted to £231m (2016: £318m). Of this amount, £65m (2016: £55m) related to capital commitments and £39m (2016: £25m) related to the supply of customer equipment.

26. Related party transactions

a) Subsidiaries and joint ventures

Details of subsidiaries and joint ventures are disclosed in notes 13 and 14 respectively.

b) Directors

The remuneration of the Directors, who are some of the key management personnel of the Group, is set out in the Directors' Remuneration Report on pages 44 to 62. The remuneration of all key management personnel is disclosed in note 4.

27. Post balance sheet event

Following the year end, the Board has decided not to pursue a femto-enabled, inside-out network strategy and instead we will continue to work closely with Telefónica UK on the right platform and customer offering.

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.
Altnet	An alternative network infrastructure provider for fixed-line connectivity
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
DOCSIS	Data Over Cable Service Interface Specification
FTTC	Fibre to the Cabinet. This is a broadband connection that is partially delivered by a fibre-optic cable, and then delivered from an Exchange to the end user's premises using a copper cable.
FTTP	Fibre to the Premise, or Full Fibre. This is a broadband connection that is delivered by a fibre-optic cable to the end user's residential or business premises.
Full Fibre	Fibre to the Premise, or FTTP. This is a broadband connection that is delivered by a fibre-optic cable to the end user's residential or business premises.
GB	Gigabyte
Gbps	Gigabits per second
GEA	Openreach's FTTC 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	Enabling consumers to choose their services on an a-la-carte basis.
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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