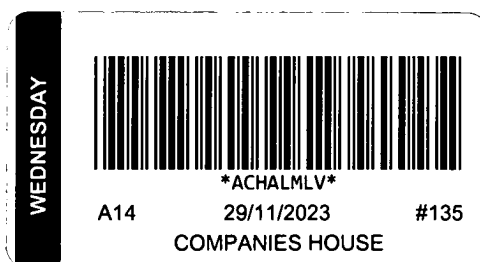


2023
Annual Report
TalkTalk Telecom Group Limited



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At a glance

HQ

in Salford, Greater Manchester

69,365

high-speed Ethernet connections

96%

population coverage

UK's largest

wholesale broadband provider, with over 60% share

c. 4 million

broadband customers

1,241 million

GB average customer downloads per month

3.4 million

TalkTalk Telecom Group Limited
Annual Report 2023

FTTC and FTTP customers

2,062

employees (as at 28 February 2023)

Who we are

TalkTalk Telecom Group PLC was officially delisted from the London stock exchange on 15 March 2021, becoming TalkTalk Telecom Group Limited (the Group). These are the second Annual Report and Accounts for the new entity.

TalkTalk is the UK's leading value for money connectivity provider. We believe that simple, affordable, reliable and fair connectivity should be available to everyone.

Since entering the market in the early 2000s, we have a proud history as an innovative challenger brand, ensuring customers benefit from more choice, affordable prices and better services.

Today, we provide Fibre, broadband, landline, TV and mobile services to nearly four million customers. We serve our residential customers through the TalkTalk brand, our business customers through the TalkTalk Business Direct brand, whilst also wholesaling to resellers via the TalkTalk Wholesale and Virtual1 brands. Our fixed line network currently covers approximately 96% of UK homes, with unbundling equipment (such as digital subscriber line access multiplexers, multi-service access nodes and Ethernet switches) installed in over 3,000 exchanges, which is the largest such deployment in the UK.

As we look forward, we are playing a key role in facilitating the roll-out of Full Fibre (Fibre to the Premises or FTTP) across the UK as network builders seek immediate access to high volumes of customers to support their investment. We are able to access discounted FTTP wholesale terms with Openreach following the successful conclusion of the Openreach Equinox deal. We are now migrating CityFibre customers at scale, have signed wholesale agreements with Community Fibre and Freedom Fibre, and are also in discussions with other Full Fibre builders about onboarding them onto our network. This will enable us to migrate our new and existing customers at a faster pace to higher bandwidth and more reliable products.

What we do

Fibre

We offer both residential and business customers access to faster, more reliable Fibre broadband, predominantly provided via our Fibre to the Cabinet (FTTC) network. Increasingly we are connecting customers to next generation FTTP networks through wholesale agreements with Openreach, CityFibre and other alternative networks (AltNets).

Broadband

We continue to provide standard broadband connectivity (ADSL) for those customers who do not yet require the increased download speeds offered by a Fibre connection.

Fixed line voice

We continue to offer fixed line voice connectivity to residential and business customers. In addition to this we offer great value boosts, such as unlimited UK calls and calling packages which give customers the ability to save money on items such as international calls.

Data products

We offer data solutions to business customers at great value through our high bandwidth Ethernet-based connectivity services. Within our product portfolio we are seeing a clear shift to businesses demanding higher capacity gigabit services.

TV

TalkTalk TV Hub lets our residential customers choose their perfect TV package through an Android TV based platform – with over 70 Live TV and radio channels available through YouView, in addition to an extensive range of over the top (OTT) services from Netflix, Now TV and Amazon Prime alongside 10,000 other TV apps and a variety of content available from Google Play.

Mobile

We have a small number of Mobile Virtual Network Operator (MVNO) legacy mobile contracts, in the tens of thousands, which are no longer open to new customers.

Our customers

Consumer Direct

Our Consumer Direct business provides affordable, reliable fixed line connectivity through the TalkTalk brand to residential customers.

Broadband is at the core of our proposition and is offered at varying bandwidths, with more than 92% of the Consumer base now taking a Fibre product. At present the majority of these are FTTC connections, but increasingly we are migrating customers to FTTP services as and when they are available.

In addition to the core Fibre broadband products, we offer sensibly priced and revenue enhancing TV and fixed line telephony add-ons. In particular, the TalkTalk TV Hub lets our residential customers choose their perfect TV package through an Android TV based platform – with over 70 Live TV and radio channels available through YouView, in addition to an extensive range of over the top (OTT) services from Netflix, Now TV and Amazon Prime alongside 10,000 other TV apps and a variety of content available from Google Play. We now also offer Total Home Wi-Fi, via our ground-breaking partnership with Amazon eero, plus the first Netflix Fibre bundle in the UK, which offers our customers the world's best entertainment in just one TalkTalk bill.

We are a value-centric business and always endeavour to save our customers money versus our competitors with affordable and fair prices, as well as the ability for customers to fix their price throughout their contract term.

Wholesale

Our Wholesale business is a nationwide platform for partners which aggregates both incumbent and AltNet Full Fibre networks.

Through our TalkTalk Wholesale division, we leverage our existing wholesale platform and successful wholesale relationships to serve a broad range of customers who benefit from our scale and capability. We service customers in the B2B and B2B2C spaces and through our partners enabling us to enhance our propositions and drive financial benefits. Through our partners, we are Britain's largest provider of wholesale broadband

to small business and consumers. Our full suite of Ethernet products allows us to serve businesses from SMEs to enterprise as well as public sector.

Our Business Wholesale division, serving the B2B sector, is the UK's leading provider of connectivity and cloud infrastructure, serving the needs of business and public sector customers nationwide and working with over 800 partners. Our award-winning portal and automation, customisable and streamlined connectivity covers over 96% of the UK's population, while our cloud delivers world-class security, backup and performance.

Our Consumer Wholesale division, serving B2B2C partners, remains focused on being a Fibre First provider and delivering a full range of products and services, including Broadband, Voice and associated equipment.

We are the largest wholesaler of broadband in the UK, with a market share of 60% achieved through over 400 active partners.

B2B Direct

Our Direct business arm, TalkTalk Business Direct Limited (TalkTalk Business Direct), is one of the largest B2B telecommunication services providers in the UK. We serve the needs of 90,000 Business customers nationwide.(1)

From SoHo and SME to mid-market companies and large retailers, TalkTalk Business Direct Limited offers a wide range of data connectivity solutions, from business broadband and Fibre, through to high-value Ethernet circuits and wide area networks.

- (1) Following the year end, the Group received offers from interested parties seeking to acquire TalkTalk Business Direct, its direct B2B business customer base. The Directors are confident that a sale will complete and intend for the proceeds to be retained in the Group to strengthen liquidity, reduce net indebtedness and support further investment. In the event that a sale of TalkTalk Business Direct does not complete in the near term and the Group is therefore not in receipt of those expected proceeds, the main shareholders of the Group's ultimate parent company have confirmed their intention to provide such funding support as may be required by the Group until a sale does complete, or alternatively for there to be a sale of TalkTalk Business Direct by the Group to those shareholders at fair market value.

Our business model

Our Platform

[Diagram]

Our Network

Unique position within the market

[Diagram]

Our strategy

TO PROVIDE SIMPLE, AFFORDABLE, RELIABLE AND FAIR FIXED CONNECTIVITY FOR EVERYONE

We aim to strengthen our position as a leading affordable fixed connectivity provider of scale for consumers and businesses across the UK. Our strategy is underpinned by the sharp growth in demand for data from both consumers and businesses, which has been further accelerated by the changing practices of working from home and remote meetings following the COVID-19 pandemic.

The Group consists of three distinct but related businesses:

1. Our Wholesale Platform: Our exchange network and efficient technology platform are managed through the Wholesale side of our business. It procures access to last mile connectivity from multiple infrastructure owners - primarily Openreach and City Fibre – so that our customers can gain access to high grade connectivity via our national network and industry leading customer service capability. The integration of alternative networks into the Platform provides a clear point of difference and enables a lower average cost per circuit to be achieved. We provide services from this platform to our own TalkTalk branded Consumer Direct and B2B Direct businesses, as well as to third party reseller customers who provide our network connectivity to their own branded consumer and business customers. Across all of these channels, the Wholesale Platform provides connectivity to approximately four million end users. Strengthened by the wider Group's acquisition of Virtual1 in May 2022, our Wholesale Platform has a market leading and technologically differentiated position and continues to gain profitable market share.

2. Our Consumer Direct Business: Serving 2.5 million residential customers directly under the TalkTalk brand, this business provides high quality, reliable, fast and affordable internet access. Its access to low-cost connectivity via our Wholesale Platform enables an attractive value offering to our customers, with our focus on transitioning our customer base to Full Fibre connectivity whilst improving high levels of customer experience to improve loyalty and increase customer value. We measure customer experience through Net Promoter Score – this metric has continued to improve year on year.

3. Our B2B Direct Business (TalkTalk Business Direct Limited)⁽¹⁾: Smallest of the three business units, though still a major player in its sector, the B2B Direct business serves UK businesses with high quality fixed line connectivity and voice services under the TalkTalk Business brand. Our customers are diverse, from the smallest home office to national retailers, and we command Trustpilot scores that are amongst the highest in the industry. B2B Direct has consistently grown its connectivity business, offsetting the industry decline in voice revenue and margin.

The Consumer Direct and B2B Direct are anchor customers of the Wholesale Platform adding further scale to this unique business.

Our strategy:

1. Accelerate growth in the Wholesale Platform business. We intend to do this both organically, and through acquisition particularly in the Ethernet space. The network asset and software capabilities of the platform mean that it can easily absorb more volume and distribute additional products and services through our wholesale channel. Our wholesale platform offering was significantly enhanced by the acquisition of Virtual1 in May 2022 which brought further strength in Ethernet sales and a differentiated customer portal allowing faster and more transparent access to UK connectivity for our wholesale customers. Virtual1 was acquired by a fellow subsidiary of our ultimate parent company, but its economic benefit and technological offering are passed down to TalkTalk Group via a wholesale agreement between the companies. We have also created a revenue stream from monetising the underlying value of our network assets – selling and leasing IP addresses, leasing backhaul access, and selling security, cloud and other services.

2. Disciplined investment in the Consumer Direct business: In recent years trading in the Consumer Direct market has been driven by the Openreach "112 Deal" which offered pricing discounts to Internet Service Providers (ISPs) conditional on meeting certain volume targets for new customer additions. Together with other factors, this has led to an extremely competitive pricing environment in residential consumer broadband. Whilst we have been successful in maintaining the scale and strategic value of our 2.5 million consumer base during this period, it has required sustained investment in connection and equipment costs to maintain the customer base and achieve the necessary new customer additions. This has resulted in margin erosion in some product areas. The 112 Deal is now coming to an end allowing us to focus on much more disciplined new customer acquisition with a focus on customer retention and the transition to Full Fibre. Additionally, the scale of Full Fibre build out by the AltNets is now further progressed offering a much more material potential contribution to the Full Fibre transition for our customer base. We will also be continuing our investment in retention, customer satisfaction and digital customer experience.

3. Strengthen our balance sheet: The investment required to date in the Consumer Direct business has consumed cash and increased indebtedness. As we now rebalance the strategic emphasis in Consumer Direct, we will be able to drive the business for free cash flow generation and deleveraging of the balance sheet. Following the year end, the Group received offers from interested parties seeking to acquire TalkTalk Business Direct, its direct B2B business customer base. The Directors are confident that a sale will complete, and intend for the proceeds to be retained in the Group to strengthen liquidity, reduce net indebtedness and support further investment.

We are also exploring the potential for third party investment or possible divestments across the other two business units of the Group, either of which could accelerate that deleveraging profile as we ultimately look towards refinancing of our existing debt which matures in November 2024 and February 2025. These objectives are fully aligned with our shareholders' objectives for monetisation and value creation. At the same time, we continue to focus on cost discipline across the Group.

We remain confident that our efficient cost base, critical infrastructure network and competitive access to UK connectivity will enable us to maintain our low-priced market position and grow the business sustainably and profitably over time.

Footnote

(1) Following the year end, the Group received offers from interested parties seeking to acquire TalkTalk Business Direct, its direct B2B business customer base. The Directors are confident that a sale will complete, and intend for the proceeds to be retained in the Group to strengthen liquidity, reduce net indebtedness and support further investment. In the event that a sale of TalkTalk Business Direct does not complete in the near term and the Group is therefore not in receipt of those

expected proceeds, the main shareholders of the Group's ultimate parent company have confirmed their intention to provide such funding support as may be required by the Group until a sale does complete, or alternatively for there to be a sale of TalkTalk Business Direct by the Group to those shareholders at fair market value.

Please see glossary on page 89 for definitions of various acronyms in this section.

Business and financial review

Overview

Our commitment to fast, reliable, and affordable connectivity has never been stronger and our focus remains on accelerating the shift to Full Fibre – a superior product which brings with it increased customer satisfaction and lower cost to serve. In a year marked by extreme inflation, the combination of this increased product capability and TalkTalk's affordable propositions puts TalkTalk in a strong market position.

Our Wholesale Platform business provides access to the network for our own Consumer Direct and B2B Direct customers as well as third-party resellers. The Platform aggregates supply from Openreach and importantly alternative networks and provides access to these services to wholesale partners in both the business and residential wholesale markets. The acquisition of Virtual1 in May 2022 has further strengthened our position in this market as it has added the differentiated technology capability of a customer portal to TalkTalk's existing market positioning (Virtual1 was acquired by a fellow subsidiary of the ultimate parent company, but its economic benefit and technological offering are passed down to TalkTalk Group via a wholesale agreement between the companies).

We are also in the midst of huge market change, with the competitive landscape evolving and copper to fibre transition gathering pace. Whilst these changes bring exciting longer-term opportunities for TalkTalk and its customers, there are nearer term challenges and significant investment required. Inflation has also impacted our financials, with cost of sales significantly increasing year on year due to inflationary price rises, and margin being impacted where these are not fully passed on to our customers either due to contractual or other reasons.

FY23 performance⁽¹⁾

In FY23 our key business metrics of customer base, churn and ARPU, as shown on page 10 have remained broadly stable despite a continued uncertain macro-economic environment. Against a backdrop of high inflation, we are proud of our role as a value-based proposition. The cost of living crisis impacts every one of us and our service propositions are critical to both consumers and businesses. We continue to demonstrate our product reliability. Including the additions gained through the acquisitions made in the year (80k on-net customers migrated to our network in the year) the base is broadly stable at 3.94m (FY22: 3.98m) and churn remains low at 1.7% (FY22: 1.6%).

Revenue has remained flat at £1,457m (FY22: £1,455m) driven by a combination of factors. Price rise increases and growth in our Ethernet circuits (partly as a result of the wholesale agreement with Virtual1), are offset by the ongoing market-wide decline in voice and a small reduction of c.2% in the Consumer base. During the year our costs of sales increased materially as a result of inflationary price increases, and a highly competitive market pricing environment in Consumer Direct impacted profitability. As a result, gross profit decreased to £741m (FY22: £778m) and the Group made a statutory loss before tax of £70m (FY22: £31m loss). These pressures along with the cash investment required for new customer acquisition led to an increase in net debt (excluding leases) from £859m to £892m. The Group was fully compliant with all of its debt covenants during FY23 following inclusion of permitted exceptions from the covenant calculation which are detailed on page 29.

Following the year end, the Group received offers from interested parties seeking to acquire TalkTalk Business Direct, its direct B2B business customer base. The Directors are confident that a sale will complete, and intend for the proceeds to be retained in the Group to strengthen liquidity, reduce net indebtedness and support further investment. In the event that a sale of TalkTalk Business Direct does not complete in the near term and the Group is therefore not in receipt of those expected proceeds, the main shareholders of the Group's ultimate parent company have confirmed their intention to provide such funding support as may be required by the Group until a sale does complete, or alternatively for there to be a sale of TalkTalk Business Direct by the Group to those shareholders at fair market value. These intentions however, are not legally binding at the point of signing the financial statements.

The end of the Openreach 112 deal allows for more disciplined investment in new customer acquisition in the Consumer Direct business which is expected to improve free cash flow. Together with the proceeds from the sale of TalkTalk Business Direct, this will strengthen the Group's financial position to deliver its strategic objectives as we enter the next financial year. A full discussion of the going concern position of the Group and details of the material uncertainty can be found on page 29.

This year both the Group and a fellow subsidiary of the ultimate parent company made further investments in targeted and synergistic companies to consolidate the long-term growth of the Group. This includes the game-changing acquisition of Virtual1. Combining Virtual1's flexible cloud and connectivity capabilities with our national scale has given us a strong market position from both a technological and product offering perspective and provides an excellent offer to our wholesale partners. Additionally, the same fellow subsidiary acquired the broadband base of OVO energy (OVO) – approximately 140k customers. The Group also made an investment in one of our wholesale partners, Telecom Acquisitions Ltd (TAL) where our majority stake supports their growth and broadens our reach into competitor markets.

We have also created a new revenue stream monetising the underlying value of our network asset – selling and leasing IP addresses, leasing backhaul access, and selling security, cloud and other services – which made a material contribution in the year. The most material impact in this financial year is the sale of £33m IPv4 addresses treated as non-headline other income, and in future years we expect to further diversify the sources of income from network monetisation.

Our customer base saw a modest decline of c40k. A reduction of 89k in our Consumer Direct base, driven by the timing of removal of non-paying customers and a slight increase in churn year on year from 1.6% to 1.7%, was partially offset by the acquisition of TAL and migration of OVO customers onto our network following its acquisition by the fellow subsidiary. Our wholesale customer base remained flat at 1.3m customers.

We improved ARPU to £24.45 in FY23 (FY22: £24.23) despite a challenging market, passing a proportion of the increase in Openreach costs on to our customers in line with the rest of the market.

Our customers are at the heart of everything we do, and our customer service and satisfaction measures have further increased our transactional net promoter score by 19 points. In Wholesale, our Customer Satisfaction remains steady at 70% and in B2B Direct the Trust Pilot score is at a record level of 4.7.

We strive to remain true to our challenger roots and in December launched the TalkTalk TV Hub which is a great value product designed to 'break the bundle' for our customers. This is available to all of our Full Fibre customers and take up has been encouraging with 2k sold since launch. We continue to have encouraging sales of our Full Fibre product with FTFP penetration at 9% for the year (FY22: 2%) and our Ethernet base has grown by 17k from 52k to 69k with 11k of these due to the novation of Virtual circuits to TalkTalk Group following the broader Group's acquisition of Virtual1.

(1) See note 1 to the consolidated financial statements for an explanation of APFs and non-headline items and note 6 for a reconciliation of Statutory information to Headline information.

Acceleration of FTFP

The UK broadband market is undergoing a structural change to Full Fibre. The UK Government is committed to this, with a goal of 85% coverage of gigabit capable broadband by 2025. In FY23, 85% of our base was on a fibre product, (fibre net adds of 23k compared to 516k in FY22) and there was a marked increase in FTFP take up with net adds of 257k (compared to 69k in FY22). These next generation FTFP services provide significantly greater speeds and enhanced reliability. This results in fewer faults and fewer calls to our call centres and reduced demand for engineer visits. This transition provides customers with access to vastly superior products that further reduce our cost to serve, enabling us to deliver competitive prices and retain customers for longer. Our Copper to Fibre programme is a multi-year programme to manage the decommissioning of the legacy copper business infrastructure and focus on the industry-wide momentum behind Full Fibre, whilst delivering the best and smoothest possible transition for our customers. This move to Full Fibre allows us to exit unprofitable local exchanges which will significantly reduce the cost base. This project started in the last financial year and this year we began the complex and intensive process of exiting exchanges and have fully exited seven. This experience has helped us to develop a clear process and resourcing plan for the coming year. The costs involved mainly comprise of dual running costs as we continue to run legacy technology, with the expense being recognised as non-headline.

Relationships with key suppliers and customers

Openreach remains our biggest supplier. The 112 deal incentivising FTTC take up is coming to an end and with its conclusion we have pivoted our strategy to one of more disciplined customer acquisition which conserves cash and improves profit over time. The 112 deal is replaced by Equinox which incentivises Full Fibre sales in FTFP enabled areas, further supporting our Copper to Fibre programme. Unlike 112, this deal is not volume based but incentivises the sale of FTFP in FTFP enabled areas. AllNet's, competitors to Openreach in the FTFP space, create a more competitive marketplace to procure connectivity, 23% of our FTFP base is now served by an AllNet and we are becoming the scale aggregator of simple, affordable Full Fibre connectivity. We can migrate customers at scale to these networks, providing infrastructure builders with guaranteed returns in exchange for competitive wholesale pricing. We have partnerships with several alternative networks, including a long-term wholesale agreement with CityFibre to whom we are now connecting a good proportion of our customers. We continue a proactive approach in supporting the development of alternative networks such as North-West based Freedom Fibre, and London based Community Fibre. In October 2022, we signed a 5-year long-term agreement with one of our biggest and longest-standing customers, Utility Warehouse (UW), the UK's leading multi-service utility provider. We are pleased to cement a relationship which brings around 345,000 customers – over a third of our Wholesale Consumer base. They are an important partner for us – and have been for over 15 years. For their part, UW benefits from our scale relationship with BT Openreach as well as a growing network of AllNet fibre relationships.

Acquisitions and Investments

This year both the Group and its fellow subsidiary made further investments in targeted and synergistic companies to consolidate the long term growth of the Group. In May 2022, a fellow subsidiary of the ultimate parent acquired one of the UK's primary wholesalers of high bandwidth services, Virtual1 Limited. Virtual1 is well known in the high-end business to business market. Acquiring the fastest growing high bandwidth provider in the UK has really strengthened our leading market position in this crucial area to our business. They have unrivalled capability in automation and a leading-edge portal experience all built on Software Defined Network services. This offers businesses a unique customer experience and value-added services. The combination of their leading software capability and our superior scale (whilst we operate in c.3000 exchanges, Virtual1 had c.300) is a very powerful partnership. Our partners and direct business customers benefit from increased scale, new propositions and over time enhanced software and technology capabilities. Ethernet circuits held by Virtual1 novated to TalkTalk Group and a wholesale agreement is in place between Virtual1 and TalkTalk Group, increasing the Group's revenue and profit. The same fellow subsidiary acquired OVO Energy in October 2022 to take over their broadband division of approx. 140,000 customers. Similarly to Virtual1, a wholesale agreement is in place between OVO and TalkTalk Group. In October 2022, TalkTalk Group bought a majority stake in one of our partners, Telecom Acquisitions Ltd (TAL). They are a fast-growing wholesale partner, and a supplier of broadband, phone and TV alongside a range of utilities via third party brands. They have around 33,000 customers and a particularly strong presence in the private rental sector. As a result of these acquisition and investments, our position across both Consumer and Business Wholesale services has never been stronger. We have continued to see steady growth in net additions of customers and with the acquisition of Virtual1, our Ethernet pipeline is building strongly.

Resilient network performance

The growth of our network over our 20-year history has been exceptional. FY23 continued this trend and with further increases in customer data appetite this year we tipped over 10Tbps peak network usage.

Improved customer experience

A key strategic objective as we transition to Full Fibre products has been to further improve customer experience. We continued to make excellent progress across all business units over the last twelve months. The progress has been particularly strong in our Consumer business, where we have seen a 19-point improvement in our tNPS and a clear positive trajectory in performance. This performance is, in part, due to the ongoing transition into more reliable Fibre products which naturally leads to lower levels of customer contact. This improvement in customer experience has also been driven by significant investment in digital self-serve channels and 'my account' functionality. We are also optimising our contact centre support team to enable stronger service to our customers through our trusted suppliers. Putting the customer at the heart of everything we do and providing a great customer experience to maximise the value we have from both new and existing customer bases is critical to our strategy. We are focused on transitioning to future products that our customers want, the switch to AltNets, enabling exchange exits across the UK and evolving to a platform based business model.

Environmental, Social and Corporate Governance (ESG)

ESG remains an important part of our strategy. Our environment policy lists TalkTalk's four key pillars of focus to reduce environmental impact; progress was made on all four in FY23. The four pillars are:

1. Our Carbon
2. Our Materials
3. Our People
4. Our Communities

In FY23 TalkTalk published a Carbon Reduction Plan – including a commitment to reduce emissions across scopes 1, 2 and select scope 3 emissions by 31% between FY22 and FY26.

TalkTalk's scope 1 and 2 emissions continue to rapidly decline; we have reduced our emissions by 79% year on year and over 94% compared with 5 years ago.

For the first time, TalkTalk is publishing full scopes 1-3 emissions data, which can be reviewed on page 25.

We were delighted that one of our staff was awarded Sustainability Champion at the Made in Manchester Awards for his work in driving our refurbishment of customer routers. This process has saved 3,000 tonnes of CO₂e compared to manufacturing new devices.

Our sponsorship of the charity Ambitious about Autism continues and our 'Night of Ambition' charity ball was a huge success - thanks to some generous partners we were able to raise £400k for the charity. We also have five people from the Employ Autism scheme now working with us on a six month placement.

We care about keeping our customers safe; we have a responsibility to protect customers from harm where possible. We work with partners including Internet Matters, the Internet Watch Foundation and Stop Scams UK to ensure we are at the forefront of efforts to make the online world as safe as it can be, especially for children.

We are also committed to campaigning and innovating to promote digital inclusion; access to the online world brings immense opportunity – and this opportunity should be available to all. We partner with others, including the Department for Work and Pensions, to promote access to our products, and work to increase skills and confidence to encourage inclusion.

Financial information

	Notes	Year ended 28 February 2023			Year ended 28 February 2022 (restated) ⁽¹⁾		
		Headline ⁽²⁾	Non-headline ⁽³⁾	Statutory	Headline ⁽²⁾	Non-headline ⁽³⁾	Statutory
		£m	£m	£m	£m	£m	£m
Revenue	2	1,457	—	1,457	1,455	—	1,455
Cost of sales		(716)	—	(716)	(677)	—	(677)
Gross profit		741	—	741	778	—	778
Other Income		—	33	33	—	—	—
Operating expenses⁽²⁾		(444)	(39)	(483)	(388)	(56)	(444)
EBITDA⁽²⁾		297	(6)	291	390	(56)	334
Depreciation and amortisation	2	(249)	—	(249)	(281)	—	(281)
Share of results of joint ventures and associates	10	(6)	—	(6)	(6)	—	(6)
Operating profit/(loss)	2	42	(6)	36	103	(56)	47
Net finance costs	4	(106)	—	(106)	(78)	—	(78)
(Loss)/profit before taxation		(64)	(6)	(70)	25	(56)	(31)
Taxation	5	(187)	2	(185)	33	10	43
(Loss)/profit for the year		(251)	(4)	(255)	58	(46)	12
Attributable to:							
Owners of the Company		(251)	(4)	(255)	58	(46)	12
Non-controlling interest		—	—	—	—	—	—

(1) See note 1 for further details on the restatement of prior year.

(2) Operating expenses includes £15m (2022: £8m) of credit losses on financial assets. For further details see note 13.

(3) See note 1 for an explanation of alternative performance measures (APMs) and non-headline items. See note 6 for a reconciliation of Statutory information to headline information.

Throughout this financial review, alternative performance measures (APMs) are presented as well as Statutory measures and these measures are consistent with prior periods. See note 1 to the consolidated financial statements for further explanation of APMs.

This presentation is also consistent with the way that financial performance is measured by management and reported to the Board. Senior Management compensation schemes are also based on financial performance measures presented in this report. It also provides supplementary information that assists the user to better understand the financial performance, position and trends of the Group.

Overview

Headline revenue was £1,457m for the year ended 28 February 2023 (FY22: £1,455m). Revenue remained flat year on year, including an increase due to the wholesale agreements with Virtual1 and OVO (which were acquired by a fellow subsidiary) offsetting a modest base decline as well as continued voice revenue decline.

Headline EBITDA was £297m for the year ended 28 February 2023 (FY22: £390m) with the decrease predominantly due to an increase in cost of sales due to Openreach inflationary increases and increased costs to meet 112 deal targets. Additional decline from a lower base and voice decline were offset by price rise impacts and EBITDA generated from in-year acquisitions by both the Group and the fellow subsidiary. Increases in opex of £56m relate to increase in prior year unwinds of customer acquisition spend (non-cash), inflationary pressure, network expansion and temporary FTTP transition costs.

Statutory loss before tax was £70m for year ended 28 February 2023 (FY22: £31m) with the year on year decline driven by all of the above along with additional finance costs on Ethernet circuits under IFRS 16 partially offset by lower non-headline operating costs and non-headline income relating to sale of IP addresses.

Group revenue

Headline and Statutory revenue was £1,457m for the year ended 28 February 2023 (FY22: £1,455m). Revenue remained flat year on year, with an increase in revenue from the wholesale agreements with Virtual1 and OVO offsetting a modest base decline as well as continued voice revenue decline.

Gross margin

Headline and Statutory gross margin of 50.9% was 260bps lower year on year reflecting margin dilution associated with increased cost of sales inflation and mix shift to Fibre products as well as increased costs to meet 112 deal targets.

Other income

Non-headline other income of £33m (FY22: nil) represents the sale of IPv4 addresses.

Net operating expenses

Headline net operating expenses were £444m for the year ended 28 February 2023 (FY22: £388m). This increase is due to inflationary pressure (payroll and power costs), network expansion and temporary FTTP transition costs as well as higher customer acquisition costs due to unwind of costs previously deferred under IFRS 15.

Statutory net operating expenses were £483m for the year ended 28 February 2023 (FY22: £444m) and non-headline costs in the year of £39m (FY22: £56m). Non-headline costs were primarily made up of the Copper to Fibre transformation (FY22: Copper to Fibre as well as Public to Private Transaction).

EBITDA

Headline EBITDA was £297m for the year ended 28 February 2023 (FY22: £390m), whilst statutory EBITDA was £291m (FY22: £334m). The decrease reflects the factors noted above.

Depreciation and amortisation

Headline depreciation and amortisation expense was £249m for the year ended 28 February 2023 (FY22: £281m); depreciation and amortisation decreased due to large number of network assets fully depreciating in FY22 partially offsetting higher depreciation under IFRS 16 relating to Ethernet circuits following novation of Virtual1 circuits.

Share of results of associates and joint ventures

Our share of results of associates and joint ventures was flat year on year at a loss of £6m (FY22: £6m loss) and predominantly consists of the Group's investment in YouView and in alternative network provider Freedom Fibre.

Net finance costs

Statutory finance costs were £106m for the year ended 28 February 2023 (FY22: £78m). The increase in FY23 is associated with the additional finance costs of Ethernet circuits under IFRS 16, with higher Ethernet circuits year on year due to novation of Virtual1 circuits to the Group.

Taxation

The headline and statutory tax charge for the year ended 28 February 2023 was £187m and £185m respectively (2022: £33m and £43m credit respectively). The charge relates to the deferred tax asset, which was derecognised due to uncertainty over the timing of utilisation.

Non-headline items⁽¹⁾

	Year ended 28 February 2023 £m	Year ended 28 February 2022 (restated) £m
Network Monetisation	33	—
Copper to Fibre transformation	(42)	(31)
Transformational reorganisation programmes	—	(3)
Public to Private Transaction	—	(6)
Merger & acquisitions activity	3	(5)
Impairment of customer assets	—	(11)
EBITDA	(6)	(56)
Depreciation and amortisation	—	—
Taxation	2	10
Non-headline items	(4)	(46)

(1) See note 1 to the consolidated financial statements for an explanation of APMs and non-headline items and note 6 for a reconciliation of Statutory information to headline information.

The Group recognised a non-headline expense of £4m compared to £46m in the prior year. The FY23 charge was driven by the items below:

The technology shift from Copper to Fibre is a 'once in a generation' industry change and we have developed a multi-year programme to manage the transition. The programme will manage the de-commissioning of legacy copper infrastructure as we build the Full Fibre platform which will support our business for years to come. We have incurred £42m (FY22: £31m) of transformation costs in FY23 which primarily relate to dual running costs where we continue to operate the legacy estates during the Fibre transition period.

The sale of IPv4 addresses totalling £33m has been recognised as non-headline other income.

Financial position

Non-current assets reduced to £2,175m (FY22: £2,207m), driven by a reduction to deferred tax asset partially offset by an increase in property plant and equipment due to additional Ethernet circuits capitalised under IFRS 16 and an increase in contract costs due to investment in new customers.

Current liabilities have increased to £826m (FY22: £616m) linked to an increase in trade payables due to timing of supplier payments, and borrowings due to receivables purchase facility being due for renewal in September 2023. Non-current liabilities have reduced to £1,445m (FY22: £1,460m) due to reclassification of receivables purchase facility into current liabilities being offset by an increase in lease liabilities relating to right of use assets.

Net debt and cash flow

	Year ended 28 February 2023 £m	Year ended 28 February 2022 (restated) £m
Headline EBITDA ⁽¹⁾	297	390
Working capital	89	(70)
Capital expenditure	(118)	(97)
Investments	(11)	(9)
Free cashflow	257	214
Non-headline spend	(6)	(56)
Advances to parent company	(62)	(89)
Interest on borrowings	(44)	(37)
Cash payments on leases	(178)	(173)
Sale of shares	—	21
Net cashflow	(33)	(120)

(1) See note 1 to the consolidated financial statements for an explanation of APMs and non-headline items and note 6 for a reconciliation of Statutory information to headline information.

	As at 28 February 2023 £m	As at 28 February 2022 (restated) £m
Borrowings	(899)	(879)
Cash at bank and in hand	7	20
Net debt excluding leases	(892)	(859)
Leases	(712)	(704)
Net debt including leases	(1,604)	(1,563)

Total net debt is £1,604m. Headroom to committed facilities at 28 February 2023 was £209m (FY22: £211m).

The Group had net working capital inflow of £89m (FY22: £70m outflow) largely driven by working capital associated with the timing of customer receipts and supplier payments.

Capital expenditure for the year was £118m (FY22: £97m), representing 8.1% (FY22: 6.7%) of headline revenues. The increase is due to one-off expenditure in FY23, and investment in the rollout of FTTP and our backhaul network which will generate savings in future years.

Investments in the period of £11m (FY22: £9m) include the acquisition of TAL and our investment in YouView.

Non-headline items amounted to an outflow of £6m (FY22: £56m), of which £42m related to the Copper to Fibre transition costs. This was largely offset by £33m of income from sale of IP addresses. The prior year outflow of £56m included amounts relating to the finalisation of the Public to Private Transaction.

Dividends

No dividends were paid in the year ended 28 February 2023 (FY22: nil). The Board will reassess the dividend policy going forwards.

Funding and capital structure

The Group's debt facilities include revolving credit facilities of £330m, loan notes maturing February 2025 of £685m, and a receivables purchase facility of £75m.

The Group was fully compliant with the terms of all its facilities, including all financial covenants, at 28 February 2023.

The Group has reweighted its investment strategy to enable the business to preserve cash, reduce costs and invest selectively for growth in the most attractive market segments. This will also better position the Group to reduce indebtedness over time as it looks forward to refinancing of its bank facilities and loan notes ahead of maturities in November 2024 and February 2025 respectively. The Group's shareholders have confirmed their intention to provide funding support. See page 29 for further information regarding this funding and its effects on going concern, including the material uncertainty.

Following the year end, the Group received offers from interested parties seeking to acquire TalkTalk Business Direct, its direct B2B business customer base. The Directors are confident that a sale will complete and intend for the proceeds to be retained in the Group to strengthen liquidity, reduce net indebtedness and support further investment. In the event that a sale of TalkTalk Business Direct does not complete in the near term and the Group is therefore not in receipt of those expected proceeds, the main shareholders of the Group's ultimate parent company have confirmed their intent to provide such funding support as may be required by the Group until a sale does complete, or alternatively for there to be a sale of TalkTalk Business Direct by the Group to those shareholders at fair market value. These intentions, however, are not legally binding at the point of signing the financial statements.

Looking to the future

The telecommunications industry is in extensive transition to Full Fibre. Our strategy is clear and refinancing will allow us to maximise our potential as the challenger in the market by being the affordable provider of Full Fibre, continuing our penetration in both residential and business markets.

This will lead to sustainable, profitable growth in the medium term.

Key performance indicators

We use the following key performance indicators (KPIs) to measure progress against our strategic objectives. As our strategy evolves, we continue to review these KPIs to make sure they are the best measures to reflect performance against our strategy. In FY23 we have removed the headline revenue excluding carrier and off-net KPI as we no longer track this internally.

Each KPI is linked to the strategic objectives outlined on page 3

In FY21, TalkTalk Telecom Group Limited changed its fiscal year end date from 31 March to 28 February. Therefore, all 2021 comparatives include eleven months compared to twelve months for the 2022 and 2023 metrics. In 2023 we have reassessed the scope of IFRS 16 and determined that Ethernet circuits fall under the scope of IFRS 16. As such, 2022 has been restated on this basis.

Financial metrics

Statutory revenue (£m)

2020	1,569
2021	1,353
2022	1,455
2023	1,457

Definition

Total Statutory revenue.

Comments

Statutory revenue was broadly flat year on year. Increased revenue from the fellow subsidiary's acquisition of Virtual1 and OVO (for which a wholesale agreement is in place between Virtual1/OVO and TalkTalk Group, increasing the Group's revenue), as well as benefit of price rises was largely offset by a lower average base and continued industry-wide voice decline.

1 2 3

Headline^(1,2) EBITDA (£m)

2020	308
2021	249
2022 (restated)	390
2023	297

Definition

Total Headline earnings before interest, tax, depreciation, amortisation and share of results of joint ventures.

Comments

Headline EBITDA is lower year on year due to increase in cost of sales and increased costs to meet 112 deal targets. A lower average base is offset by benefit from price rises and profit generated from fellow subsidiary's acquisition of Virtual1 and OVO, and the Group's investment in TAL. Wholesale agreements are in place between Virtual1 and OVO and the Group therefore increasing the Group's revenue and profit. 2022 and 2023 reflect impact of restatement of IFRS 16. See note 1.

1 2 3

Statutory operating profit⁽²⁾ (£m)

2020	197
2021	32
2022 (restated)	47
2023	36

Definition

Total Statutory operating profit.

Comments

Statutory operating profit reduction year on year due to reduced margin and increased opex offset by network monetisation income. Included in non-headline as well as lower non-headline costs and lower depreciation due to assets having been fully depreciated in 2022. 2020 included proceeds from the sale of Fibre Nation of £206m. 2022 and 2023 reflect impact of restatement of IFRS 16. See note 1.

1 2 3

Net debt^(1,2) (£m)

2020	737
2021	758
2022	859
2023	892

Definition

Represents total borrowings offset by cash and cash equivalents, excluding lease liabilities.

Comments

£257m of free cashflow generated with working capital inflow as result of favourable supplier payment terms. Net cashflow pre intra-group transactions of £29m. This is offset by funding of OVO investment £23m and costs allocated to parent of £39m.

1 2 3

Non-Financial metrics

Customer base (Fibre and Broadband)⁽³⁾ (m)

2019	4.29
2020	4.22
2021	4.04
2022	3.98
2023	3.94

Definition

Total number of On-net broadband customers.

Comments

Customer base broadly in line with decline in the Consumer base due to higher churn offset by the parent company's acquisition of OVO following which customers have largely migrated to the TalkTalk network.

1 2

Fibre base⁽³⁾ (m)

2019	1.77
2020	2.37
2021	2.82
2022	3.33
2023	3.35

Definition

Total number of Fibre (FTTC or FTTP) customers.

Comments

The Fibre base remained stable with 20k net adds, representing 85% of the overall On-net base.

1 2

Fibre penetration⁽³⁾ (%)

2019	41
2020	56
2021	70
2022	84
2023	85

Definition

The percentage of TalkTalk's overall On-net base on a Fibre (FTTC or FTTP) product.

Comments

Fibre penetration remained steady with Consumer base decline being offset by incremental base from acquisitions by the Group and its fellow subsidiary, following which customers have been novated to the TalkTalk network.

1 2

Churn⁽³⁾ (%)

2019	1.7
2020	1.9
2021	1.6
2022	1.6
2023	1.7

Definition

The percentage of our average customer base leaving TalkTalk each month.

Comments

In 2023 churn has increased slightly to 1.7% due to timing of removal of non-paying customers from our Consumer base; excluding this churn remains flat year on year.

1 2

Ethernet base⁽³⁾ ('000)

2019	37.3
2020	42.6
2021	47.3
2022	51.9
2023	69.4

Definition

The total number of high-speed Ethernet connections in our B2B division.

Comments

The Ethernet base grew strongly again with 6.9k organic net adds and 11.5k from the parent company's acquisition of Virtual1 (following which circuits novated to TalkTalk Group) in the period all with an increasing mix of 1Gb connections, with associated higher ARPU.

1

On-net ARPU⁽³⁾ (£)

2019	24.84
2020	24.40

2021	23.47
2022	24.23
2023	24.45

Definition

Average monthly revenue per On-net customer.

Comments

ARPU has grown by £0.22 predominately due to the implementation of price rises.

1 2 3

(1) 2021 was an eleven month year; underlying performance presents 2021 on a pro-rata basis.

(2) 2022 and 2023 impacted by restatement of IFRS 16. See note 1.

(3) All customer KPIs relate to the On-net base. The closing Off-net base represents less than 1% of the total broadband base (FY23: 12k; FY22: 16k).

Our strategic objectives

- 1 Accelerate growth in the wholesale platform
- 2 Disciplined investment in the Consumer Direct business
- 3 Strengthen our balance sheet

Principal risks and uncertainties

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

The Board has identified the following principal risks and uncertainties to the Group. The details of these principal risks are outlined below. The principal risks have been identified and assessed on a gross risk basis with consideration to the impact on the Group's ability to deliver its strategy and therefore its mission.

The Group's risk management framework facilitates continuous and ongoing discussion of risks and is integrated into business planning. Business units and corporate functions maintain their own respective risk registers and operational risk management processes. This ensures the appropriate focus is placed on risk mitigation with significant net risks being assigned an Executive Committee owner and included in the Group Risk Register for review at Board meetings.

The following risk management framework has been in place throughout the year ended 28 February 2023:

Risk management framework

Board
Strategic governance
Board Sub-Committees⁽¹⁾

Operational and financial governance
Senior Management Team (Executive Committee)

First line of defence
Operational management

Second line of defence
Central support functions

Third line of defence

Audit and Risk function
Including Internal Audit, risk management and external advisers

(1) Nominations, remuneration and audit are run principally through the Board with all Directors involved. Separate Committees deal with other areas of the business e.g. Wholesale, Fibrebuild and Tech, Consumer and TTB Direct, Performance and Corporate Development and Security.

Financial

Risk and impact

Mitigation

TalkTalk must actively manage its financial risks in terms of

1. liquidity - managing near term cashflows including terms with key suppliers

2. compliance with debt covenants (principally leverage covenants)

3. refinancing of facilities as they mature

4. other financial risks such as foreign exchange, interest rate, inflation and credit risk.

The Group Treasury function is responsible for managing the Group's liquid resources and managing compliance with the terms of funding agreements. Policies and operating procedures are in place and these are regularly reviewed to ensure they remain appropriate for the business. In addition, the Executive Committee and the Board oversee the liquidity, funding position and covenant compliance of the Group on a regular basis and are required to provide approval on major funding decisions. The Group's main financing facilities are typically renewed 12 months before expiry with new facilities based on the Group's forecast cash flow requirements and liquidity needs to ensure the Group has sufficient available cash.

Following the year end, the Group received offers from interested parties seeking to acquire TalkTalk Business Direct, its direct B2B business customer base. The Directors are confident that a sale will complete, and intend for the proceeds to be retained in the Group to strengthen liquidity, reduce net indebtedness and support further investment. In the event that a sale of TalkTalk Business Direct does not complete in the near term and the Group is therefore not in receipt of those expected proceeds, the main shareholders of the Group's ultimate parent company have confirmed their intentions to provide such funding support as may be required by the Group until a sale does complete, or alternatively for there to be a sale of TalkTalk Business Direct by the Group to those shareholders at fair market value.

The Group has also agreed certain amendments to the terms of its revolving credit facilities, and expects to remain in full compliance with the terms of all of its debt facilities as it implements its strategy, even when projecting downside scenarios. We are also pursuing potential monetisation events across the business that could accelerate that deleveraging profile as we ultimately look towards refinancing of our existing debt which has maturities in November

2024 and February 2025. The Group Treasury function is also responsible for managing foreign exchange and interest rate risks in line with the Group's policy.

As part of the Group's commitment to improving its financial control, we are in the process of implementing a new ERP system.

Customer trust and brand reputation

Risk and impact

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

Business and industry challenges including cyber threats, scam calls or poor customer experience also present a risk to brand reputation and trust.

Damage to customer trust and our reputation could materially adversely impact our business, the ability to attract new customers, churn, operations and financial condition.

Mitigation

TalkTalk remains confident of the role in the market for a well-regarded value operator and is committed to improving the end-to-end customer experience across all touchpoints. We will continue to focus on existing as well as new customers, guided by the four key principles we believe are critical to being a value for money connectivity provider – simple, affordable, reliable and fair.

By increasing the mix of FTTC and FTTP customers in our overall base, providing a more reliable and enhanced product, we have seen a 19-point improvement in our NPS. The future of connectivity is Full Fibre and since FTTP services provide greater speeds and enhanced reliability, we expect that more customers taking this superior service will lead to even better customer experience and NPS. We are also transforming our customer contact with the introduction of our new digital first customer channel to make customer service more convenient for everyone. Using digital channels, such as WhatsApp, has numerous benefits such as allowing customers to respond in their own time.

The Group has attractive customer offerings (see Competitive Landscape Risk) and the organisation also continues to invest in the network and systems to support the provision of reliable products to customers as well as ongoing investment in and focus on security (see Data and Cyber Security Risk). These factors have contributed to a stable risk landscape with steady customer confidence and improving customer satisfaction. In addition, TalkTalk continues to support customers in dealing with the industry-wide issue of scam calls. Initiatives such as the 'Beat the Scammers' campaign and Call Safe are designed to help customers protect themselves from the threat of scams. TalkTalk has also signed up to the Ofcom fairness charter which focuses on price transparency and supporting vulnerable customers.

Competitive landscape

Risk and impact

TalkTalk is established as a value for money connectivity provider in a highly competitive market.

Over the last year, significant competitor activity has continued. The acceleration of the FTTP roll-out may also increase new entrants to the market, which will further intensify the competitive landscape.

Mitigation

A clear pricing and promotional strategy is in place with ongoing monitoring of our pricing position and value proposition. The strategy is reviewed to ensure it remains competitive and continues to support our position against the changing competitor activity landscape. In FY22 we agreed an exclusive partnership with Amazon to provide the award winning eero router to customers to create an outstanding in-home connectivity solution. In FY23 we have introduced the UK's first Android TV Hub which delivers not just live TV and on-demand players but also a world of apps and games with voice activation.

In addition, competitor pricing activity continues to be monitored to understand customer and market impact and plans are revisited if necessary. TalkTalk uses customer communications to promote our simple, affordable, reliable and fair message and is committed to helping customers understand the best positioned package to meet their needs.

People capability

Risk and impact

TalkTalk recognises employees as a key asset and aspires to be a 'Great Place to Work' for all colleagues. We understand the increasing challenges and importance in the market of defining an effective operating model and attracting and retaining the right talent to deliver organisational performance and future growth aspirations.

The main focus continues to be attracting and retaining the required talent and competencies in a very competitive local employment environment. Failure to do so may negatively impact our ability to deliver on performance targets and strategic objectives.

Mitigation

TalkTalk continues to use its values which act as a cultural framework and are embedded through the business in recruitment and performance management processes.

Structured talent forecasting and assessment processes are in place to ensure required talent is proactively understood and action plans are in place to actively manage attrition risks and succession. These processes also ensure a proactive review of the senior management level to ensure the right leadership is in place for motivating, inspiring and leading the workforce to deliver on the corporate objectives leveraging our Objectives and Key Results (OKRs) goal-setting tool.

Changing market structure

Risk and impact

Mitigation

A people scorecard is in place for ongoing monitoring and oversight of people risk and, where required, actions to further mitigate risk exposures are identified and implemented. In addition, Group-wide activities are carried out to assess the level of employee engagement, and insight gained is used to develop action plans to ensure a highly engaged and motivated workforce.

The Government and Ofcom are committed to promoting investment in Full Fibre networks through infrastructure competition in the UK telecommunications market. This could lead to further pricing and proposition challenges from both new market entrants and current communication providers, increasing the risk of TalkTalk not being competitive in the market.

The Government has sought to incentivise network competition by reducing barriers to build and providing funding to stimulate new entrants to the market. Since then, alternative networks have secured significant investment and have extensive FTTP build ambitions, primarily across urban areas in the UK. The Government has a target of 85% gigabit-capable coverage by 2025 and is providing £5bn to subsidise build projects in the hardest to reach 20% of the country.

In 2021, Ofcom set regulation for both the Business Connectivity Market and Wholesale Local Access Market for a five-year period until March 2026, with prices set above costs (by CPI+0) in urban areas to encourage FTTP build by AltNets, and a process of cross-subsidy proposed in rural areas to support Openreach FTTP roll-out.

Regulatory compliance

Risk and impact

Mitigation

The Board has continued to convene throughout the year to monitor the mitigation of operational risks which could give rise to customer complaints and regulatory breaches. There are clear lines of accountability both in first-line operations and in second-line assurance function and there has been continued focus on embedding processes and controls to maintain compliance to industry regulations including focus on delivering improvements in our General Conditions and data legislation, are designed to support customers.

Although previous regulatory change risks around addressing the General Data Protection Regulation (GDPR) and the automatic compensation scheme have reduced year on year, the need to implement the enhanced consumer protection requirements in the European Electronic Communications Code leads to a stable overall risk assessment. Ofcom has mandated the introduction of a customer one-touch-switching (OTS) process which would handle all customers switching between broadband networks. The OTS process requires the establishment of an industry IT switching hub which would manage the relevant messages between gaining and losing providers. Failure to comply with regulatory obligations may result in negative customer impact and/or significant regulatory fines.

Data and cyber security

Risk and impact

Mitigation

Security of customer, commercial and colleague data poses increasing reputational and financial risk to all businesses and the gross risk remains high. In particular, TalkTalk has continued to invest in and focus on actively implementing a programme to build and mature its security capability, including to address the increasing risks around vulnerabilities, third party vendors and TSA.

Ofcom has mandated the introduction of a customer one-touch-switching (OTS) process which would handle all customers switching between broadband networks. The OTS process requires the establishment of an industry IT switching hub which would manage the relevant messages between gaining and losing providers. Failure to comply with regulatory obligations may result in negative customer impact and/or significant regulatory fines.

vulnerabilities and supply chain threats presents a significant challenge in terms of securing data and systems against attacks.

TalkTalk receives most of its revenue through card transactions and like many businesses utilises third parties* as part of doing business. TalkTalk recognises that failure to successfully secure data and systems against attack may have a material impact on brand reputation and financial performance. Other associated costs may also be incurred, including potential regulatory fines.

In addition, the Telecom Security Act (TSA) became law in 2021. The Act outlines new legal duties on telecoms firms to increase the security of the entire UK network and introduces new regulatory powers to the UK Telecoms regulator Ofcom to regulate Public Telecommunications Providers such as TalkTalk in the area of cyber security. This could present a significant threat of disruption to TalkTalk's plans and capital and could increase risk of non-compliance with legal/regulatory requirements.

Investment is also planned to continue in the new financial year and beyond leveraging an updated Security Strategy centred around four focus areas:

- Securing our assets
- Securing our customers
- Securing our operations
- Securing our business

The strategy is underpinned by the widely adopted NIST Cyber Security Framework and is leveraged to continuously improve the security maturity of the organisation. This includes an annual security maturity controls assessment by an independent third party to validate the controls that we've implemented and to provide recommendations on the security roadmap to help us prioritise our work.

Significant investment has been made in expanding TalkTalk's Security team and protective controls. Further projects have been delivered to improve and mature our security control environment and capabilities. These activities and investments are supporting continuous improvement of security and the management of security threats and risks, and also to be compliant with TSA 2021.

In addition, TalkTalk has cyber security insurance in place which is renewed on an annual basis to help protect against losses due to data breaches and security incidents.

Resilience and business continuity

Risk and impact

TalkTalk is reliant on its infrastructure as well as key third party suppliers and partners in order to deliver quality products and services to its customers. Network, system or third party failure could result in significant disruption to services or business processes, which may have a negative impact on customers and therefore damage customer loyalty or result in complaints. It is therefore important to establish resilience in the network, systems and also require resilience from our third parties and partners.

The approach adopted for supporting infrastructure and associated resilience, including the use of third parties, is regularly reviewed to ensure an optimal model is maintained which drives resilience and efficiency. There is a risk that changes to the approach may not be delivered effectively resulting in negative impact to operations.

It is also noted that in the event of an incident, TalkTalk must be able to respond in an efficient and effective manner in order to minimise the impact on customers and performance.

Mitigation

Business Continuity, Crisis Management and Disaster Recovery Plans are in place for key sites. Network resilience is assessed and monitored on a regular basis and again, over the last year, TalkTalk has continued to deliver network analysis, improvements and simplification at pace supporting greater resilience. Continuous monitoring of network availability is also in place to ensure any issues are identified in a timely manner and resilience testing takes place. Where an incident does occur, a robust incident response process is in place and exercised to ensure effective response, followed by a problem management review that is linked to service improvement. The Group recognises that network resilience is also largely reliant on Openreach for the last mile.

Other prioritised critical processes, systems and third parties are identified, and business owners are assigned accountability for assessing resilience and implementing business continuity plans to enable continuity of operations in the event of an incident. TalkTalk also continues to invest in supporting appropriate resilience on critical systems which again will be a key focus for FY23 on a risk-based approach. For third parties, the relationship owners are assigned accountability for requiring critical third parties to have adequate business continuity plans in place and obtaining third party assurance where appropriate that their plans have been reviewed and tested on a regular basis.

With network usage consistently on the rise we constantly monitor the network to forecast and respond to the ongoing demand in order to maintain stability and minimise any congestion. Network usage has increased again this year with a peak recorded at 10.25 Tbps. The TalkTalk network has remained resilient with underlying connectivity performance consistently above 99.995%. We are proud of our role in keeping the nation connected.

Change delivery and execution

Risk and impact

Delivery of performance and strategic objectives and development of the business is reliant on the ability to successfully deliver innovation and other operational changes required to support growth and performance. Failure to effectively deliver significant change programmes and associated benefits critical to TalkTalk's strategy would result in an inability to deliver performance objectives and limit TalkTalk's competitive position in the market.

Mitigation

A formal change framework is in place for delivery of change projects which helps ensure appropriate process and governance is in place to drive successful project delivery. The framework is assessed and improved periodically to ensure a desired level of quality is reached throughout the lifecycle of each project and has continued to support successful delivery of key change programmes.

The Group Transformation function remains a key control to facilitate prioritisation discussions to ensure people and financial resources are appropriately engaged, allocated and focused. Performance measures for key change projects are defined and monitored and regularly reviewed by Group Transformation. Monitoring and oversight of key change projects occurs at both the business unit leadership team level and by the Executive Committee

on a regular basis, enabling real-time consideration of the potential impact of other operational and strategic activities on change projects.

Acquisition opportunities

Risk and impact

Mitigation

We consider investment in value-enhancing acquisitions where market conditions are favourable and where they help support our strategy. The Group's ability to realise anticipated benefits from these transactions depends upon a successful transaction of the acquired business as well as their post-acquisition performance in the markets in which they operate. Acquisitions are targeted which are aligned to the Group's strategy and all transactions require approval by the Board of Directors of our ultimate parent company. Due diligence and post-acquisition plans are in place for newly acquired businesses to ensure they are integrated into the Group. Specific security assessments are completed for all acquisitions and mitigating actions implemented where required.

Emerging risks

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

The Executive Committee meets regularly to review both the currently identified risks and emerging risks which inform our strategic planning process and is reviewed by the Board. For example, emerging risks around the long-term implications of climate change and inflation are being monitored.

Climate change

Long-term climate change and environmental impacts may result in risks due to changes in UK market behaviours and Government actions. TalkTalk's FY24 Annual Report will set out a full UK CFD disclosure, including assessing and financially quantifying risks, but some initial examples include:

- **Physical Risks** – Increased severity and frequency of extreme weather could significantly impact our operations through business disruption, for example if the data centre was flooded, supplier disruption, data centre temperature control, property costs, insurances and our ability to service our customers on-site.
- **Transition Market Risks** – our B2B customers and investors are asking for significant disclosure on our performance on carbon emissions reductions.
- **Transition Policy and Legal Risks** – adherence to UK CFD reporting requirements, with work commencing later this year to ensure compliance.

Our overall response to climate change related risks is to continuously reduce our operational emissions and environmental impact, whilst protecting our operations through specific climate-related mitigations, for example, appropriate flood defences in higher risk areas. The ongoing TalkTalk roll-out of Full Fibre connectivity positively impacts emissions. Our published study found that the switch from Copper to Fibre is up to 80% more energy efficient and produces up to 30% fewer emissions. Our other key responses are:

- We are continuously reducing our operational emissions having already switched to renewable electricity with scopes 1 and 2 down 94% since FY18. By the end of FY23, TalkTalk have green electricity and green gas tariffs, have started the switch to EV fleets and started replacing back-up generator fuel from diesel to HVO.
- TalkTalk is an ISO50001 accredited company for energy management, and our energy efficiency performance continues to be strong, with a 10% year on year reduction in in-house electricity use.
- TalkTalk continues to adopt circular practices and to reduce our impact on the environment through a successful programme of refurbishing our residential routers which continues to grow through improving processes and making returns of equipment more convenient for customers; this has saved circa £9m and 3,000 tonnes of CO₂e per annum compared to manufacturing new routers.
- The majority of TalkTalk's emissions are within the supply chain. TalkTalk has been actively engaged with key suppliers to get commitments and plans to reduce emissions – over 80% of supply chain spend is with companies who have committed to, or set, Science Based Targets.

Inflation and cost of living

Although still not fully quantifiable due to being ongoing and changeable, high inflation and cost of living pressures may result in financial risks due to revenue pressures and an increasing cost base. Our actions to manage this risk include:

- TalkTalk remains confident of the role in the market for a well-regarded value operator. Our competitive offerings and a clear pricing and promotional strategy is in place along with ongoing monitoring of our pricing position and value proposition to ensure they remain attractive.
- We manage our cost base closely and have continued to significantly reduce our cost to serve through the move to Fibre-based technology, which has more resilient connections, leading to fewer faults, engineer visits and calls into the call centre.
- Our largest supplier is BT Openreach on whom we rely on for a number of wholesale products to be able to offer services to our customers. The prices and terms of many of these are set by Ofcom through a number of market review processes which gives us reasonable certainty of future wholesale charges.

Section 172

The success of our business is dependent on the support of all our stakeholders. As part of the Board's decision making process, in line with their duties under Section 172 ('s172') of the Companies Act 2006, the Board considers the potential impact of decisions on relevant stakeholders and the likely consequences of these decisions in the long term.

Illustrations of how a number of s172 factors have been considered and applied by the Board can be found below. Other broader factors considered by the Board, including the impact of the Group's operations on the environment, adherence to responsible business practices and ethical values and expectations are covered elsewhere throughout the Strategic Report in the Corporate Social Responsibility (pages 22 to 25) and Corporate Governance sections (pages 26 to 28).

Shareholders and investors

We operate as a private business and our ongoing intention is to behave responsibly towards all shareholders and investors and treat them fairly and equally, so that they too may benefit from the successful delivery of the Group's strategic objectives.

Why they matter to us

Continued access to capital is of vital importance to the long-term success of our business. Through our engagement activities, we strive to obtain investor buy-in into our strategic objectives and how we go about executing them.

What matters to them

Our investors are concerned with a broad range of issues including, but not limited to, TalkTalk's financial and operational performance, strategic execution, investment plans and capital allocation.

How the Board engages

- Executive Director meetings with Investors to discuss TalkTalk's strategy.
- The majority of Board members are shareholder appointed nominees.
- Annual Report and investor relations mailbox.

How they influence the Board's decision making

- The Board receives periodic reports on performance and strategy.

Colleagues

Read more on pages 23 and 24

At TalkTalk, without our people we wouldn't be where we are today. As an organisation who cares, challenges and commits, it is our people who are the driving force behind our ambitious plans and we've created a working environment where all of our colleagues can be 100% themselves.

Our industry relies on the skills and knowledge of experts in their field and our success depends on them and their commitment to put customers first. We're on a mission to bring simple, affordable, reliable and fair Fibre connectivity to everyone and we want our people to enjoy being part of our business and feel proud to work here.

What matters to them

Our colleagues want a sense of purpose, to know we are all committed to continually improving our products and services for customers and to be as affordable as possible. Colleagues want flexible ways of working, career development opportunities and to be rewarded with competitive pay and benefits. We know that our people are delivering on their commitments to the business, and in return TalkTalk will provide them with a safe and supportive space which takes their health and wellbeing very seriously.

How we engage

- Providing ongoing clarity and openness on strategic priorities and business performance;
- Creating and developing leadership communities for our People Leaders, encouraging the use of the leadership tools for onward cascade of key Group messages;
- Hosting a series of interactive activities throughout the year to establish our employer brand and engage colleagues;
- Continuing to incorporate our values – We Care, We Challenge & We Commit – in everything that we do;
- Providing opportunities for our colleagues to be involved in the local community through our give something back days, ensuring they feel part of the local community;
- Rewarding and thanking our colleagues through our monthly Shout Out, quarterly Be Outstanding and Instant Rewards recognition scheme.
- Allowing colleagues the space and support to grow and develop through learning and development opportunities such as studying apprenticeships and having access to a variety of learning platforms and channels;
- Encouraging the growth of a variety of employee networks to provide a safe, engaging and supportive space for colleagues;
- Driving pride amongst our colleagues both internally and externally; and
- Understanding employee views and measuring employee satisfaction via our employee engagement survey, Peakon.

How the Board engages

- Videos for staff on the TalkTalk intranet, 'The Wire', providing updates on and presentations on the Group's strategy, monthly performance scorecard updates and quarterly performance updates by the Executive Committee;
- Regular blogs from the Executive Committee on Group performance and other activities;
- Monthly or quarterly updates from the Executive Committee to their business units on performance and recognition; and
- There is a 'People' section in Board papers, which has a keen focus on culture, including eNPS scores and other people survey results.

How they influence the Board's decision making

The concerns, views and needs of our employees are regularly fed into the Board via our employee engagement survey and our colleague representative body, One Voice. The Board regularly discusses these matters and takes them into consideration when making decisions and setting strategy, including during our annual Board strategy session.

Customers

Why they matter to us

The demand for faster, more reliable connectivity has never been greater so it is vital that we engage with our customers to ensure we continue to provide great products and services that meet their changing needs.

What matters to them

What we offer has fast become an essential utility, with connectivity being a key part of day to day life for both consumers and businesses. As such our customers expect:

- Resilient connectivity, a seamless experience, where if things do go wrong, they are resolved as soon as possible;
- A product to satisfy all needs, whether that be a reliable connection to work from home, or access to an array of TV content, or superfast connectivity for online gaming;
- The same quality of product as our competitors, in terms of speed and reliability, but at an affordable price; and
- The freedom to choose what products and services they need, with transparent pricing and no hidden charges bundled in.

How we engage

- We focus on Consumer and B2B customers' and Wholesale partners' needs and the issues they face and regularly report on performance;
- We conduct regular customer surveys and market research exercises in Consumer and B2B;
- We monitor and track CSAT and NPS scores for benchmarking purposes in Consumer and B2B. We also review customer comments and utilise in our improvement plans;
- We have a highly active and engaged online community offering help to customers;
- We have enhanced our social media presence to provide both proactive and reactive communications to customers; and
- Our wholesale partners enjoy access to our senior management team, with our CTO regularly engaging with the partner operational teams on service related challenges.

How the Board engages

- Reviews strategy and monitors performance during the year with the aim of meeting customers' needs more effectively;
- Receives regular competitor updates to understand TalkTalk's competitive performance and its strengths and weaknesses as regards meeting customer needs;
- The Executive Chairman sits in monthly review meetings covering the commercial and connectivity performance of the business and is highly engaged with customer metrics;
- Benchmarks TalkTalk's performance in relation to customers using research including CSAT and NPS scores; and
- Executive Chairman and CEO meet regularly with key B2B customers to help maintain good relations and to understand and address their views, needs and concerns.

How they influence the Board's decision making

The Board uses the above engagement methods to help ensure that the customer's viewpoint is taken into account as part of its decision making process.

The views, needs and concerns of our key B2B customers are regularly fed into the Board via our regular CEO reporting process and the Board discusses them and takes them into consideration when making decisions and setting strategy, including during our annual Board strategy session.

Suppliers

Why they matter to us

- Our suppliers are fundamental to the quality of our products and services. Engagement with suppliers and maintaining good relationships is therefore critical to ensuring that as a business we meet the high standards we set ourselves;
- We spend over £1.3bn per annum with suppliers on goods and services, and therefore these relationships are vital to ensuring we get value for money and operate an effective supply chain, to guarantee that our customers get the best end user experience; and

- Ethical behaviour is at the heart of everything we do at TalkTalk. We are committed to identifying and addressing any risks of modern slavery within our business and supply chains, including those of our subcontractors and partners.

What matters to them

- Understanding of TalkTalk's strategy and how their products and services feed into that;
- Ability to resolve potential issues in their relationship with TalkTalk; and
- Creating a trusting environment with TalkTalk, where both sides act with fairness and transparency.

How we engage

- Supplier relationship management – we partner with our key suppliers to ensure that we have common roadmaps and strategy, via a series of face to face meetings;
- Responsible procurement, trust and ethics:
 - Modern Slavery Statement which is reviewed annually to ensure that the content is meaningful and we can work with our suppliers to attest to both the letter and the spirit of the Statement.
- The Group has detailed policies and procedures with respect to:
 - 'Bribery, Corruption and Fraud Control';
 - 'Gift Accepting'; and
 - 'Code of Ethical and Business Conduct'
- Supply chain financing – to improve efficiency for the parties involved in our sourcing transactions; and
- Real Living Wage – TalkTalk is a Real Living Wage accredited organisation, we have legally binding minimum requirements for wage levels, and we apply this to our suppliers.

How the Board engages

- Board approval of Modern Slavery Statement;
- CEO and Executive Chairman meet with biggest suppliers regularly;
- Certain key suppliers are regularly discussed at Board meetings; and
- Our supplier payment policy can be seen in our Directors' Report on page 29.

How they influence the Board's decision making

- The Board recognises that relationships with suppliers are vital to the Group's long term success, so as a Board we carefully consider the selection of, and engagement and continued relationship with, our key suppliers; and
- Supplier issues are regularly fed into the Board via our regular CEO reporting process and the Board discusses them and takes them into consideration when making decisions and setting strategy, including during our annual Board strategy session.

Communities

Read more on pages 22 to 25

Why they matter to us

TalkTalk values our communities and is committed to doing business the right way. Our success depends on strong, active and confident communities, who want to engage with our products and services and trust TalkTalk to respond to their needs and concerns. We are proud to be based in Salford and are committed to supporting the local community in our city to prosper.

What matters to them

Our communities want to see TalkTalk bring forward innovative products, act responsibly and contribute to societal growth. As we come out of the pandemic, community resilience has been severely challenged, and communities want to see TalkTalk contribute to growth opportunities.

How we engage

- Support three national charity partners:
 - Ambitious about Autism, the Internet Watch Foundation and Internet Matters; and
 - providing financial investment as well as support in kind.
- Support our local communities (in Salford and Greater Manchester) across three main pillars; Skills and Talent; Diversity and Inclusion (including working widely to promote the role of Women in Technology); Digital Inclusion;
- Regular engagement with external stakeholders including local government; businesses; charities; academic institutions and schools in order to assess our performance and hear directly from our relevant communities;
- Partnering with other organisations on creating opportunities for all, particularly in relation to local skills and employment opportunities in Salford and the wider Greater Manchester region;
- Working with employee networks to engage with internal communities, as well as supporting external communities on shared priorities, including promoting local volunteering through our Give Something Back policy; and promoting Greater Manchester as a brilliant place to live and work;
- Reviews of processes and operations to ensure adherence to best practice on responsible business.

How the Board engages

- The Board actively supports our major charity partnerships;
- The Board receives regular updates on internet safety and regulation landscape; and
- The Board has endorsed a culture of volunteering and giving back.

How they influence the Board's decision making

- Our operations and decision making are informed by regular engagement with our communities. These influences are incorporated into all reports to the Board, via the regular CEO reporting process, and the Board discusses them and takes them into consideration when making decisions and setting strategy, including during our annual Board strategy session.

The environment

Why it matters to us

As a company, our mission is to connect people and communities. Our role in building a sustainable future is by providing simple, affordable, reliable, and fair Fibre for everyone. We believe climate change needs to be tackled with urgency and we fully back the UK Government's target to become zero-carbon by 2050.

What matters to it

Increasingly all our major stakeholders as listed in this document are requiring action, most pressingly on reducing carbon emissions across both operations (scope 1 and 2) and value chain (scope 3), as well as tackling other environmental challenges such as energy usage and recycling.

How we engage

- Our environmental policy sets out our key strategies for reducing our environmental impact;
- Setting credible long-term decarbonisation targets, which are currently undergoing Science Based Targets validation;
- Have dedicated workstreams in place to reduce energy consumption and decarbonise operations of our offices and data centres;
- Working collaboratively with suppliers and across the telecoms industry as chair of the Digital Connectivity Forum's Sustainability Working Group to tackle value chain emissions.

How the Board engages

- The Board regularly reviews the climate-related risks to the business.
- The Board has assessed and signed off long term decarbonisation goals.

How they influence the Board's decision making

- Our work on the environment impacts the operation and is measured as a company performance indicator. These influences are incorporated into all reports to the Board, via the regular CEO reporting process, and the Board discusses them and takes them into consideration when making decisions and setting strategy, including during our annual Board strategy session.

Government

Why it matters to us

Government bodies have a key role in setting our operating environment and it is imperative that we listen, understand and respond to relevant Government actions. As a broadband provider, the Government's ambitions for gigabit-capable coverage, engaged consumers and a safer online experience have shaped our business strategy and operations.

What matters to it

The Government has an objective for gigabit-capable networks to cover 85% of UK homes and businesses by 2025, as well as launching a subsidy programme to promote roll-out in non-commercial areas. Its priority is to remove barriers to roll-out, while also promoting the consumer case to move to

these new networks. Another key priority is to ensure fairness in consumer markets, including broadband, while also building a safe and secure online environment. More broadly, the Government is increasingly focused on the role that they can play in supporting skills development, rebuilding the economy after COVID-19 and reducing carbon emissions in line with its 2050 target.

How we engage

- Regular engagement with policy-making processes, including responding to consultations, providing briefings and data and meetings; and
- Through cross-industry bodies, including the Broadband Stakeholder Group and the UK Competitive Telecommunications Association.

How the Board engages

- The Board receives regular updates on the political and Government environment and engages with policy makers as appropriate.

How it influences the Board's decision making

- The political and Governmental updates and views of policy makers are fed into the Board via our regular CEO reporting process and the Board regularly discusses them and takes them into consideration when making decisions and setting strategy, including during our annual Board strategy session.

Regulators

Read more on pages 20 and 21

Why they matter to us

Ofcom has a high degree of influence over TalkTalk's commercial and operational environment. It determines many of the prices which we pay Openreach (which constitute a substantial proportion of TalkTalk's cost base), the quality of their wholesale products and requirements around customer service. Regulation is therefore the single most important driver of our cost to serve customers.

The ICO (Information Commissioner's Office) regulates compliance with the Data Protection Act, UK GDPR, the Privacy and Electronic Communications Regulations and the Investigatory Powers Act.

Other relevant regulators include:

- The FCA (Financial Conduct Authority) regulates some aspects of our billing processes; and
- The CMA (Competition & Markets Authority) monitors firms' compliance with competition law and considers the consumer interest.

TalkTalk complies with all relevant regulations.

What matters to them

Ofcom's duties are set out in the Communications Act 2003. Its primary duties are:

- To further the interests of citizens in relation to communications matters; and
- To further the interests of consumers in relevant markets, where appropriate by promoting competition.

When fulfilling these duties Ofcom also needs to have regard to a number of considerations which are of relevance to TalkTalk, including:

- The desirability of promoting competition in relevant markets;
- The desirability of promoting and facilitating the development and use of effective forms of self-regulation;
- The desirability of encouraging investment and innovation in relevant markets; and
- The desirability of encouraging the availability and use of high-speed data transfer services throughout the United Kingdom.

The ICO is responsible for enforcing several information related pieces of legislation. Its primary duties are:

- Upholding information rights in the public interest including data privacy for individuals;
- Promoting openness around data use; and
- Where appropriate, taking enforcement action.

How we engage

TalkTalk continually engages with Ofcom at a variety of levels and in a variety of manners, both formal and informal. At a working level, most contact is via TalkTalk's regulation team, which both regularly meets with Ofcom and co-ordinates responses to Ofcom's consultations and information requests. At a more senior level, TalkTalk's CEO regularly meets and talks with Ofcom's CEO, covering strategic-level issues.

TalkTalk continually engages with the ICO at a variety of levels and in a variety of manners, both formal and informal. At a working level, most contact is via TalkTalk's Data Protection Officer, who both regularly meets and is in contact with the ICO. This engagement involves co-ordinating responses to ICO information requests and complaint responses. At a more senior level, TalkTalk's General Counsel and Company Secretary talks with senior ICO officials covering key topics and issues.

How the Board engages

The primary Board engagement with Ofcom is via TalkTalk's CEO and on some issues the Executive Chairman. Other than that, members of the Board are informed of developments at Board meetings, whilst having no systematic contacts with Ofcom.

Primary Board engagement with the ICO is via TalkTalk's General Counsel and Company Secretary. In addition to this, the Board is regularly updated on any developments.

Regulatory environment

Our business activities and those of our suppliers, including the largest, Openreach, are subject to the laws and regulations of the UK.

The UK electronic communications regulatory framework is mainly contained within:

- The Communications Act 2003; and
- The Wireless Telegraphy Act 2006.

The EU Common Regulatory Framework is implemented through the above legislation.

This domestic legislation governs the regulation of the telecoms markets, guarantees basic user rights, and sets out the powers and duties of Ofcom as the national regulator, including how radio spectrum in the UK is managed.

The EU Common Regulatory Framework has been under review and a new electronic communications directive – the European Electronic Communications Code (EECC) – was adopted by the EU in December 2018 with EU countries applying the new directive to their national law by 21 December 2020. This included the UK given that this date fell within the transition period.

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 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 we currently rely on are LLU (the Copper connections into homes/businesses), Generic Ethernet Access (GEA) (access to Openreach's FTTC and FTTP networks) and Ethernet (dedicated Fibre links used to connect exchanges to our core network and also to connect some business customers). The prices and terms of many of these are set by Ofcom through a number of market review processes which gives us a degree of certainty of future wholesale charges.

We, along with other communication providers, are required to comply with various regulation and legislation. Our compliance with regulation is monitored internally by the Board Sub-Committees, made up of various members of the senior management team.

Electronic communication services

European Electronic Communications Code

Ofcom published a set of new requirements to implement the provisions of the European Electronic Communications Code. TalkTalk is in the process of implementing these new requirements in the required stages from December 2021 to April 2023. The requirements include new customer switching rules (so-called One Touch Switch process), updated contract information at the point of sale, stricter right to contract exit rules, usage notifications, price transparency, emergency video relay and more support for vulnerable/disabled customers.

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 Fixed Telecoms Market Review

Ofcom's Wholesale Fixed Telecoms Market Review (WFTMR) came into effect in April 2021. This sets regulation for both the Business Connectivity Market and Wholesale Local Access Market for a five- year period until March 2026. The rules are aimed at encouraging FTTP investment whilst also protecting customers.

Openreach Equinox Offers

In October 2021 Openreach launched a wholesale FTTP offer (called Equinox) that provided discounts in return for meeting certain FTTP targets. TalkTalk has signed up to the Equinox terms. CityFibre lost an appeal against Ofcom's decision to not use its powers to block Equinox. Openreach has proposed an overlay to Equinox (referred to as "Equinox 2") which provides additional discounts. In May 2023, Ofcom confirmed that they do not intend to prevent "Equinox 2". Openreach has agreed to apply "Equinox 2" discounts effective from 1st April 2023.

Duct and pole access

Openreach is required to provide wholesale access to its ducts and poles so that its rivals can use these assets to roll out their own FTTP networks and Ofcom expects that PIA will be widely used by non-Openreach FTTP builders and make more roll-out viable. Effective duct and pole access will benefit us by reducing the cost and increasing the speed of the roll-out of non-Openreach FTTP networks which we will rely on in certain areas.

FTTP policy

The Government's goal is for at least 85% coverage of 'gigabit capable' broadband by 2025. This term would cover both FTTP connections and Virgin Media's Data Over Cable Service Interface Specification (DOCSIS) 3.1 network. As part of this goal, the

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 Ducts and Poles Access (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.

In December 2020, the Government launched the UK Gigabit Project to incentivise Full Fibre build in more rural areas, in order to reach 85% of the country by 2025. Since then it has launched public procurement opportunities across the country.

In June 2021, the Gigabit Take-Up Advisory Group (GigaTAG) published a report on the barriers to adoption of gigabit-capable networks and recommendations to address them, which are being taken forward by Government, Ofcom and industry.

Automatic compensation

TalkTalk continues to implement this voluntary code which provides customers with automatic compensation in specific instances on broadband and landline services.

Net neutrality

TalkTalk is restricted in its ability to manage traffic due to net neutrality legislation. Ofcom is currently consulting on changes and clarifications how it interprets and enforces the legislation that will allow ISPs such as TalkTalk some more flexibility in managing traffic aimed at improving network efficiency and more innovation.

Television and video-on-demand regulation

As a provider of an 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.

Brexit and future UK-EU trade arrangements

The UK-EU Trade and Cooperation Agreement agreed on 24 December 2020 has brought certainty and clarification about many (but importantly not all) of the changes arising from the UK's departure from the EU. It is assessed that the Group has limited direct exposure to Brexit as it only provides services within the UK, has limited non-UK suppliers and contingency plans are in place for identified risks. In respect of telecoms services, the agreement is relatively restricted, which reflects the fact that the European Electronic Communications Code (EECC) was implemented by all Member States by 21 December 2020, including the UK, so there is a high degree of alignment and shared objectives regarding telecoms. The Agreement limits the extent to which either party can diverge from current EU telecoms regulations.

The EU's decision to award adequacy status to the UK has resolved concerns about potential limits to data-sharing. However, we continue to closely monitor our key potential supply chain exposures and the longer term implications of the new relationship with the EU.

Child online safety

The progress of the Online Safety Bill, first introduced to Parliament in 2021, is nearing completion. The Bill will see Ofcom awarded regulatory powers to oversee a new regime, including the power to levy significant fines and access services remotely to build understanding of algorithmic design. The latter provision aligns Ofcom's powers with those of the Competition and Markets Authority under the current proposals of the Digital Markets, Competition and Consumers Bill.

The Government has tabled a number of amendments to hold technology companies accountable for keeping internet users safe online, especially children. The objective of the Bill has been clarified as protecting children from dangerous content including pornography, content promoting suicide, self-harm, eating disorders and serious violence, and cyberbullying. The Government has also proposed an amendment that will require providers to proactively to ask their registered adult users whether they would like content tools to be applied, to further protect users with disabilities and young adults.

The regulation is for sites which host user-generated content and therefore ISPs will not be in scope. However, the Government proposes that ISPs will be required to play an enforcement role on behalf of a regulator by blocking access to non-compliant sites. This is intended to be a measure of last resort in cases of repeated or particularly egregious non-compliance. To protect freedom of expression, the regulator will be required to obtain a court order ahead of requesting this step.

The Bill is nearing its final stages in the House of Lords, and we are in discussion with Ofcom and Government about the legislation and future implementation of these requirements.

Telecommunications Security

In 2021 the Telecommunications Security Act was passed to establish an enhanced legislative framework for telecoms security, and to provide the Government with the powers to take action on the use of high risk vendors on national security grounds. The Act gives Ofcom new powers to oversee security provision within telecommunications companies. Secondary legislation to determine Ofcom's powers is expected this year, alongside consultation from Ofcom on the compliance framework. The Government has also started a consultation on the use of Huawei equipment by UK telecommunications firms.

We seek to embed our company values – We Care, We Challenge & We Commit – in to our corporate social responsibility strategy and the work that we do to engage and support our customers, (local) people and place.

1. We care... about keeping our customers safe

Internet Matters

We are a founding member and proud partner of Internet Matters, an organisation that provides information, support and advice for parents and carers across the UK about digital safety. TalkTalk is a top-tier funder and is represented on its Board and CEO Governance Committee. We continue to support the organisation's development, including bringing new partners on board and helping with a new membership and funding strategy. In addition to our financial contribution, we also provide in-kind marketing support and regularly promote its work to colleagues and customers, including participating in Safer Internet Day.

Internet Watch Foundation

TalkTalk is also a top-tier member of the Internet Watch Foundation (IWF), the charity which works with technology partners to disrupt and stop the availability of child sexual abuse images. We continue to implement the charity's URL list service to block access to criminal material. In addition to these core services, our funding contributes to the IWF's Hotline, which offers a way for victims and members of the public to report abusive imagery so that it can be removed anonymously.

Online Safety Bill

TalkTalk will not be a regulated entity under the forthcoming Online Safety regime, which will be administered by Ofcom. However, we support the Bill currently in Parliament and are working constructively with Government and Ofcom on implementation.

Preventing scam behaviour

One of the most significant ways we can improve overall digital safety and security is through the products and services we offer. TalkTalk was the first internet service provider to launch a whole-home filtering service, to all residential customers at no extra cost. We continue to offer SuperSafe to customers, providing protection from viruses and malware, plus the peace of mind of secure web browsing. Our new Amazon Echo device includes advanced filtering capability.

Blocking scam and unwanted calls is another priority. CallSafe, a free security feature for customers that screens inbound calls, continues to be popular with our customers. We identify and block millions of scams and unwanted calls every month. We continue to innovate in this area and have made several proactive recommendations to the industry and Ofcom to tackle nuisance calls, including number spoofing. We also work collaboratively to tackle scams. We are members of Stop Scams UK, a body which brings together representatives from the telecoms and banking sectors to share best practice and insight on tackling scams.

2. We commit... to campaigning and innovating on digital exclusion

Department for Work and Pensions partnership

COVID-19 highlighted the prevalence of vulnerable households without a fixed broadband connection, who could not access online services. In response, TalkTalk partnered with the Department for Work and Pensions (DWP) to launch a new product aimed at jobseekers and tailored to their specification. The product is a six-month data connection offered for free to the jobseeker, with costs covered by the DWP. It is offered on a contract-free basis. After an initial successful trial in the North-West, the product launched in England, Scotland and Wales in July 2021. The targeted tariff has been well-received as an innovative way to tackle digital exclusion and promote opportunities for jobseekers.

We work closely with the Greater Manchester Combined Authority to help promote the work that they do around Digital Inclusion, focusing on a project to support social housing tenants in Wigan and Leigh.

We have a long-term relationship with the Hamilton Davies Trust in Cadishead, supporting their 'Tea and Biscuits' sessions. These sessions introduce local residents to IT and technology, covering topics such as buying a computer, browsing the internet, using streaming services and online shopping. Our colleagues regularly volunteer at the sessions, providing one-to-one support to learners.

3. We commit... to building opportunities for all

Ambitious about Autism

We are delighted to continue providing support for Ambitious about Autism, the national charity for children and young people with autism. It provides pioneering education services and campaigns for better outcomes for autistic young people.

TalkTalk is the lead partner for Ambitious about Autism's Employ Autism project in the North-West. This project connects businesses with young autistic people to provide high-quality, paid work placements to support the development of work-based skills. We have made good progress in reviewing our recruitment and employment practices to make them more inclusive for neurodiverse candidates. We have recruited five interns via the programme, who are spending up to six months with TalkTalk.

Every year we host a fundraising gala, Night of Ambition, in support of the charity. Thanks to the enthusiastic participation of colleagues, customers and suppliers, Night of Ambition 2022 was attended by more than 400 guests and raised over £401,000 for the charity.

Skills and young people

TalkTalk is proud to work with a broad consortium of local businesses, academic institutions and schools to help grow the region's pool of tech talent. We have held workplace safaris and employability workshops for local young people from under-privileged backgrounds.

We continue to focus on the role of women in technology. Our 2022 TalkTalk Women in Tech Awards quadrupled in size versus 2021, shining a light on the amazing female tech talent that exists in the North-West. Through the Girls' Network, we are providing mentoring to 10 girls at a local school in Salford.

Our work to support our strategic partners UA92 and the University of Salford continued throughout the year.

4. We care... about our local community

We are proud to be a Salford based business and are committed to building a strong connection to our neighbours and prosperity in our city. We work closely with Salford Council and other local organisations to promote prosperity and opportunity in Salford and across Greater Manchester. We supported Salford CVS' Youth Wellbeing Fund to offer grant funding for projects co-designed, developed and delivered by young people, to boost wellbeing opportunities in the local area.

We have made corporate donations to Salford Foodbank to help support our local residents through the cost-of-living crisis, as well as the Manchester and Salford Samaritans to support their winter appeal. We continue to work closely with the Salford Foundation and Oasis Hub Media City to support the work they do in the city.

We hosted a Firewalk at our HQ to raise money for local cancer charity The Christie. Through the fundraising efforts of our colleagues, we raised over £12,000 for the charity's Cancer Appeal Fund.

Our Give Something Back policy offers all staff three paid volunteering days per year and encourages volunteering in our local area. In 2022, the number of volunteering days used by colleagues quadrupled from the previous year.

5. We care... about our customers/We commit... to supporting our customers

We adapted our customer processes in recognition of the disruption and distress caused by the pandemic. We capped prices for vulnerable customers on a landline only service to ensure they were not penalised for increased reliance on their phoneline during the first lockdown. We also created a dedicated hotline for vulnerable customers to speak to a customer support agent. We have reviewed and adapted our debt and disconnection policies to give flexibility to customers whose income may have been impacted.

This has led to a new financially vulnerable customer policy, taking an individualised approach to the needs of each customer, including enhanced training for customer service colleagues and a range of support mechanisms in place.

As we come out of a pandemic period which has demonstrated the importance of a good broadband connection, we retain our commitment to offering value to customers and promoting affordable connections for all.

Our people

We challenge... ourselves to be a good employer and deliver our purpose

Good employment

TalkTalk is proud to be a good employer. We were awarded Members status of the Greater Manchester Good Employment Charter, in recognition of our commitment to good employment and employee wellbeing including good recruitment processes, strong learning and development opportunities, fair employment terms and a commitment to flexible working. TalkTalk was accredited as a Living Wage employer by the Living Wage Foundation in 2020.

Inclusivity and diversity

At TalkTalk we celebrate diversity and pride ourselves on being a place for everyone. We commit to ensuring that everyone is treated fairly and that there is diverse representation at all levels, and in all areas, of the business. We also ensure there are no barriers to progression or recruitment at TalkTalk and that appointments are based on merit.

Our Equality Policy outlines that it is unlawful to discriminate directly or indirectly in recruitment or employment because of age, disability, sex, gender identity, pregnancy, maternity, race (which includes colour, nationality and ethnic or national origins), sexual orientation, religion or belief, or because someone is married or in a civil partnership. This also extends to discrimination after employment, for example refusing to give a reference for a reason related to protected characteristics.

We are working towards aspirational targets for ethnicity and gender diversity at all levels of our business, with a particular focus on getting women into technology roles. During the year, we were recognised as a leader of equality, diversity and inclusion, by being selected in the 'Inclusive Top 50 UK Employers List' for demonstrating best practice across all strands of diversity including age, disability, gender, LGBT, race, faith and religion.

In the last year, we have embarked on our Employ Autism scheme through our partnership with our main charity Ambitious About Autism. We have provided five six-month paid internships for young people with autism. This involved an assessment of our workplace, and review of our recruitment processes, including our company induction to ensure we are inclusive for neurodivergent people. Two out of these five interns have had their roles extended due to the success of their time with us.

We have also explored other initiatives to diversify our recruitment such as providing work experience for refugees to support them in gaining experience in a large business within the UK to help them to secure employment.

We have a positive approach to attracting, recruiting and developing disabled talent. We are a Disability Confident Committed employer and offer an interview to all disabled candidates who meet the minimum role requirements. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Our Dignity at Work policy addresses issues of bullying and harassment on any grounds, and how complaints of this type will be dealt with. We recognise our obligations not to discriminate for any reason and will not discriminate unlawfully against any of our employees, agency workers, self-employed individuals, contract workers or customers using or seeking to use goods, facilities or services provided by us.

Gender diversity – all colleagues

Female 37% (FY22: 34%)

Male 63% (FY22: 66%)

Gender diversity – senior management (B and C and above)

Female 32% (FY22: 32%)

Male 68% (FY22: 68%)

Gender diversity – Directors

Female 11% (FY22: 11%)

Male 89% (FY22: 89%)

- Our median pay gap is 7.6%. This has declined for several years now and is roughly half the gap from our first report in 2016-17. Our mean pay gap has risen slightly, however this follows several years of decline, and it remains low compared to previous years and industry norms.
- Our gender pay report published in 2023 shows women make up:
 - 38% of Q1 pay quartile
 - 31% of Q2 pay quartile
 - 28% of Q3 pay quartile
 - 29% of Q4 pay quartile

Anti-bribery and corruption

The Group has robust anti-bribery and corruption policies in place. These policies:

- Remind colleagues of the relevant law governing these issues;
- Define the high standards we expect colleagues and suppliers to adhere to;
- Set out scenarios and examples to ensure colleagues can identify instances of bribery or corruption;
- Advise colleagues on how they can ask questions or report concerns; and
- Define the disciplinary consequences for failure to comply with our policies.

The policies cover:

- Offering a bribe – such as offering bribes to potential customers to gain their business and offering discretionary cash rebates to customers in order to inflate their sales/retention bonuses;
- Receiving a bribe – such as accepting a gift to secure new or continued business with our suppliers;
- Bribing foreign officials – such as arranging for the business to pay an additional payment to a foreign official to speed up administrative processes and inappropriate payments relating to customs;
- Facilitation payments/kickbacks – any form of facilitation or kickback payment made in return for a business favour or advantage; and
- Charity donations – whilst TalkTalk does on occasion make charitable donations, our anti-corruption and bribery policy sets out the required approval process to ensure these payments are appropriate and not used to solicit business advantage.

The anti-corruption and bribery policy offers advice and guidance on how colleagues should ask for advice or report concerns. Colleagues can either report concerns to HR, or use a confidential reporting helpline if they wish to remain anonymous. Calls made to this service are regularly reviewed and investigated where appropriate.

Our anti-corruption and bribery policies are available for colleagues to view on the corporate intranet and are reviewed on a regular basis to ensure they remain fit for purpose.

Human rights and modern slavery

Ethical behaviour is at the heart of everything we do at TalkTalk. We are committed to identifying and addressing any human rights risks, such as modern slavery within our business and supply chains, including those of our subcontractors and partners. In 2021 we formed a new cross-functional Steering Committee to review and refresh our modern slavery approach, including enhancing our due diligence process and training.

Our Modern Slavery Statement can be found on the TalkTalk corporate website.

Protecting our environment

Our environment policy lists TalkTalk's four key pillars of focus to reduce environmental impact; progress was made on all four in FY23.

Our Carbon

TalkTalk's first pillar is Our Carbon and in FY23 TalkTalk published a Carbon Reduction Plan – with a commitment to reduce emissions across scopes 1, 2 and select scope 3 emissions by 31% between FY22 and FY26.

TalkTalk's scope 1 and 2 emissions continue to rapidly decline; we have reduced our emissions by 79% year on year and over 94% compared with 5 years ago.

For the first time, TalkTalk are publishing full scopes 1-3 emissions data, which can be reviewed below.

The largest sources of emissions come from TalkTalk's supply chain, and TalkTalk have implemented a series of initiatives to identify and reduce footprint.

Firstly, the move from Copper to Fibre has been found to be up to 80% more energy efficient and a key driver in supply chain emissions reductions, and in FY22 TalkTalk started the process of exiting exchanges.

Indeed, most of TalkTalk's supply chain emissions come from other UK telecom operators. TalkTalk are delighted to be chairing the Climate and Sustainability Working Group in the Digital Connectivity Forum, bringing together all major fixed line and mobile operators with a shared goal of rapid decarbonisation.

TalkTalk also worked with media agency T&P to devise a long-term plan to reduce the carbon footprint of our marketing and advertising by half this decade. TalkTalk will also be participating in WPP's Media Decarbonisation Coalition, to accelerate these efforts.

The result of these initiatives is that over 80% of TalkTalk's supply chain, by spend, have committed to or set Science Based Targets. This gives TalkTalk good confidence on the decarbonisation of its supply chain.

Our Materials

The second pillar of TalkTalk's environmental policy is Our Materials; using our materials wisely.

We were delighted that one of our staff, Daniel Hough, was awarded Sustainability Champion at the Made in Manchester Awards, for his work in driving our refurbishment of customer routers. This process has saved 3,000 tonnes of CO₂e compared to manufacturing new devices.

Our latest Consumer Premises Equipment – the Wifi Booster – comes with fully recycled plastic casing and no single use plastics in packaging.

Our People

Engaging Our People on the drive towards our sustainable future is TalkTalk's third pillar of environmental activity. This year TalkTalk launched an electric vehicle salary sacrifice scheme to allow staff to avail of cleaner ways to commute to the office and reduce TalkTalk's scope 3 footprint at the same time.

TalkTalk also embedded sustainability into daily employee action by switching the company-wide default search engine to Ecosia, meaning that employees doing their jobs can help plant 10,000 trees a year.

TalkTalk has compulsory climate change and energy efficiency training for staff.

Our Communities

Our fourth pillar is Our Communities – where TalkTalk looks to help its customers reduce their own emissions.

To help our SME business customers understand their carbon footprint and how to reach net zero, in the summer of 2022, TalkTalk held a webinar featuring small businesses and expert guidance from world renowned expert, Mike Berners-Lee.

TalkTalk is also delighted to announce a pioneering trial backed by the Department for Energy Security and Net Zero. Tasked with leveraging data to help the UK to net zero, a consortia of members businesses and institutions including Salford University are trialling innovative ways to change how UK homes are heated.

The tables on the following pages cover our mandatory reporting of greenhouse gas emissions pursuant to the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. All emissions refer to UK operations only.

Mandatory greenhouse gas emissions

Emissions source	2023	2022	2021
Fuel combustion: stationary	160	271	220
Fuel combustion: mobile	343	289	236
Facility operation	400	2,697	1,812
Purchased electricity	4,652	5,651	6,382
Total emissions (tCO₂e)	5,555	8,908	8,650

Total greenhouse gas emissions (scope 1, 2 and 3)

As part of our overall commitment to reducing our carbon emissions, we also track specific scope 3 CO₂ emissions: third party electricity, business travel (trains, planes and hotels), water and waste.

	2023	2022	2021
Scope 1 location based	716	3,102	2,221
Scope 1 market based	632	3,000	2,221
Scope 2 market based	3	5	5,135
Scope 2 location based	4,262	5,191	5,876
Total scope 1 and 2 emissions (tCO₂e)⁽¹⁾	635	3,005	7,356

(1) Scope 1 and 2 market-based emissions.

Scope 3	2023
Purchased goods & services	173,257
Capital Goods	11,740
Fuel- and energy-related activities	1,500
Upstream transportation & distribution	3,469
Waste generated in operations	1
Business travel	642
Employee commuting (incl. work from home)	1,745
Upstream leased assets	n/a
Downstream transportation & distribution	n/a
Processing of sold products	n/a
Use of sold products	41,081
End of life treatment of sold products	119
Downstream leased assets	n/a
Franchises	n/a
Investments	952
Total scope 3 emissions (tCO₂e)	234,506

In-house energy consumption

Disclosure of in-house energy consumption in kilowatt-hour (kWh) is a legal requirement introduced with Streamlined Energy and Carbon Reporting.

Emissions source	Consumption 2022/23 (kWh)	Consumption 2021/22 (kWh)	Year on year change %
Electricity	22,039,280	24,449,050	-10%
Natural gas for heating	458,450	556,603	-18%
Transport fuel	1,409,140	1,181,475	19%
Gas oil for backup generation	316,443	712,316	-56%
Total	24,223,313	26,899,444	-10%

This information was collected and reported in line with the methodology set out in the UK Government's Environmental Reporting Guidelines, 2021. Emissions have been calculated using the 2021 conversion factors provided by Department of Business, Energy and Industrial Strategy. There are no material omissions from the mandatory scope 1 and 2 emissions. The reporting period is 1 March 2022 to 28 February 2023.

Climate change risks

Long-term climate change and environmental impacts may result in risks due to changes in UK market behaviours and Government actions. TalkTalk's FY24 Annual Report will set out a full UK CFD disclosure, including assessing and financially quantifying risks, but some initial examples include:

- Physical Risks – Increased severity and frequency of extreme weather could significantly impact our operations through business disruption for example if the data centre was flooded, supplier disruption, data centre temperature control, property costs, insurances and our ability to service our customers on-site.
- Transition Market Risks – our B2B customers and investors are asking for significant disclosure on our performance on carbon emissions reductions.
- Transition Policy and Legal Risks – adherence to UK CFD reporting requirements, with work commencing later this year to ensure compliance.

Our overall response to climate change related risks is to continuously reduce our operational emissions and environmental impact, whilst protecting our operations through specific climate-related mitigations, for example, appropriate flood defences in higher risk areas. The ongoing TalkTalk roll-out of Full Fibre connectivity positively impacts emissions. Our published study found that the switch from Copper to Fibre is up to 80% more energy efficient and produces up to 30% fewer emissions. Our other key responses are:

- We are continuously reducing our operational emissions having already switched to renewable electricity with scopes 1 and 2 down 94% since FY18. TalkTalk has green electricity and green gas tariffs, has started the switch to EV fleets and started replacing back-up generator fuel with diesel from HVO.
- TalkTalk is an ISO50001 accredited company for energy management, and our energy efficiency performance continues to be strong, with a 10% year on year reduction in in-house electricity use.
- TalkTalk continues to adopt circular practices and to reduce our impact on the environment through a successful programme of refurbishing our residential routers which continues to grow through improving processes and making returns of equipment more convenient for customers; this has saved circa £9m and 3,000 tonnes of CO₂e per annum compared to manufacturing new routers.
- The majority of TalkTalk's emissions are within the supply chain. TalkTalk has been actively engaged with key suppliers to get commitments and plans to reduce emissions – over 80% of supply chain spend is with companies who have committed to, or set, Science Based Targets.

Corporate governance

Introduction

TalkTalk Holdings Limited ('TalkTalk Holdings') (previously named Tosca IOM Limited) is the ultimate parent undertaking for the TalkTalk Group of companies ('Group'). The Board of Directors of TalkTalk Holdings oversees the corporate governance for the Group, including the Company, and therefore any references in this Corporate Governance Report to Board refers to the Board of TalkTalk Holdings, rather than the Company's Board and any references to Directors are to the Directors of TalkTalk Holdings.

For the year ended 28 February 2023, pursuant to The Companies (Miscellaneous Reporting) Regulations 2018, the Directors have prepared the Corporate Governance statement under the Wates Principles as our corporate governance framework. The Board has continued to build upon best practice corporate governance, appropriate to a business of our size, recognising that robust corporate governance practices underpin effective management of the business, which are in the best interests of all our stakeholders. Details on how we have applied the six Wates Principles for our corporate governance arrangements for the period are set out below.

Principle 1 – Purpose and leadership

Our purpose is to achieve simple, affordable, reliable, fair fixed connectivity for everyone. Our strategic aim is to strengthen our position as the only affordable scale fixed connectivity provider for consumers and businesses across the UK and we aim to deliver our strategy by focusing on three key areas, further details of which can be found in our Strategic Report on page 3.

Day to day management of the Group rested with the Group's Executive Committee, which was led by the Chief Executive Officer, who had ultimate responsibility for establishing objectives and monitoring executive actions and performance through the Executive Committee. The Board reserved certain matters which required Board/shareholder approval and included approving the Group's strategy, annual budgets and other planning.

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

- Rigorously assess the Group's trading performance;
- Identify and develop to a successful conclusion those large-scale cross-Group projects that were critical to delivering the Group's strategy and maximising shareholder value; and
- Provide a cross-functional forum for the discussion of opportunities and risks arising from business activities, as well as to communicate business performance to stakeholders.

Non-Executive Directors did not form part of the Executive management team. Their responsibilities included: constructive challenge and assistance in developing proposals on strategy; scrutiny of management's performance in meeting agreed goals and objectives; satisfying themselves on the integrity of financial information; and ensuring that controls and risk management systems were robust and defensible.

The Group kept an open line of communication with its stakeholders, with customers and suppliers informed of any service updates through a combination of emails, letters and telephone communications. Our larger customers and suppliers were also connected with their account managers, in addition to dedicated teams that engaged with the Group's regulators and key external stakeholders. The Group's employees had access to 'the Wire'; an internal portal which contains regular updates provided by the Executive Committee and senior management team along with regular email blogs and updates from the business via its employee communication tool 'Yammer'.

Further detail on how the Board engaged with stakeholders and discharged their duties under Section 172 of the Companies Act 2006 can be found under the Strategic Report on pages 16 to 19.

The Board also communicated with employees via 'One Voice'. One Voice is the Group's employee forum, where a group of colleagues from every area of the business meets regularly to give feedback on major projects and business initiatives, with the aim to be the voice of our colleagues; to challenge, represent, help, inform and play a key part in making TalkTalk a great place to work.

The Board receives a 'People' update within Board papers, which has a keen focus on culture, including eNPS scores and other people survey results. The concerns, views and needs of our employees are regularly collated via our employee engagement survey 'Peakon'. The Board regularly discusses these people updates and takes them into consideration when making decisions.

The Group operated a whistleblowing service, which has been in place since 2017, provided by Navex Global, with details available to all colleagues on the Group's intranet. The service provided a confidential phone and web based channel for colleagues to report any incident or activity which they believed should be raised.

Principle 2 – Board composition

As at 1 March 2022, the Board had nine members, which comprised of: Sir Charles Dunstone (Executive Chairman); two Executive Directors, Tristia Harrison (Chief Executive Officer), Phil Eayres (Chief Strategy Officer); and six Non-Executive Directors: John Gildersleeve, Roger Taylor, Paul Reynolds, Steven Scott, Torquil Macnaughton and Martin Hughes. Any shareholder who holds 30% or more of the ordinary shares in the Company may appoint three Directors to the Board and Charles Dunstone, John Gildersleeve, Roger Taylor, Steven Scott, Torquil Macnaughton and Martin Hughes were appointed as Non-Executive Directors pursuant to these rights. Any other appointment of a Director may be made pursuant to the Company's Articles of Association and Tristia Harrison, Phil Eayres and Paul Reynolds were appointed as Directors and Non-Executive Director respectively in this way.

On 1 September 2022, Jonathan Thackray was formally appointed as a statutory director for the Group, following his appointment as Chief Financial Officer in July 2021. On 13 February 2023, Jonathan Thackray resigned as statutory director of the Group however continued in his role as Chief Financial Officer until James Smith, the new incoming Chief Financial Officer was appointed as statutory director of the Group on 17 April 2023.

The Board is led by our Chairman, who is responsible for the effective running of the Board and overall effectiveness in directing the Group. Our Chairman works closely with the General Counsel and Company Secretary to ensure all Directors have appropriate information for each Board meeting and sufficient time is allocated for meaningful and constructive discussions.

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

We are committed to further improving diversity of our Board as opportunities arise, within the constraints of the articles of association for TalkTalk Holdings, which provide that shareholders who hold at least 20% of the ordinary shares of TalkTalk Holdings have rights to appoint Board members as their representatives, so the Board has no control over such appointments.

The Group's Equality Policy applies equally to all appointments of the Group, and the Board continues to believe that appointments should be made on merit, the key criterion being whether or not the appointee would add value to or complement the existing range of skills and experience on the Board. Enhancing diversity at all levels is important and reviewed annually in accordance with relevant guidance.

Further detail on the Group's Equality Policy, its objectives and link to Group strategy and the gender balance of those in the Executive Committee/senior management and their direct reports can be found in the Strategic Report (page 23).

There was a clear division of responsibilities in place between the Chairman and the Chief Executive Officer to ensure that the balance of responsibilities, accountabilities and decision making across the Group is effectively maintained. The composition and size of the Board is considered to be appropriate with all members contributing to a wide variety of experience.

Principle 3 – Director responsibilities

The Directors understand their accountability and responsibilities, and work with the Executive Committee and senior management to ensure that the Group's policies and practices support effective decision making to deliver long-term value.

Eight scheduled Board meetings took place during the period, and the Board met at other times as appropriate for specific matters, including any matters requiring shareholder approval.

Company Director	Role	Attendance
Number of meetings		8
Sir Charles Dunstone ⁽⁶⁾	Chairman	8/8
Tristia Harrison ⁽⁶⁾	Chief Executive Officer	8/8
Phil Eayres ⁽⁶⁾	Chief Strategy Officer	8/8
Jonathan Thackray ^{(1) (6)}	Chief Financial Officer	4/4
John Gildersleeve ⁽²⁾	Non-Executive Director	7/8
Roger Taylor ⁽³⁾	Non-Executive Director	7/8
Paul Reynolds ⁽⁴⁾	Non-Executive Director	7/8
Torquil Macnaughton	Non-Executive Director	8/8
Steven Scott	Non-Executive Director	8/8
Martin Hughes ⁽⁵⁾	Non-Executive Director	6/8

(1) Jonathan Thackray was appointed as member of the Board on 1 September 2022 and resigned on 13 February 2023.

(2) John Gildersleeve was absent from the July Board meeting due to a prior meeting arranged.

(3) Roger Taylor was absent from the July Board meeting due to a prior meeting arranged.

(4) Paul Reynolds was absent from the June Board meeting due to a prior meeting arranged.

(5) Martin Hughes was absent from the March and October Board meetings due to prior meetings arranged.

(6) Director of TalkTalk Telecom Group Limited.

It was important to the Board that Non-Executive Directors had the ability to influence and challenge appropriately. To this end, all Non-Executive Directors took part in Board discussions and received papers to review in advance of meetings.

The Board is supported by the General Counsel and Company Secretary who provides advice on corporate governance matters as well as providing legal advice, updates on new laws, regulations and other information appropriate to the Group to ensure that all Directors continually updated their skills, knowledge and familiarity of the Group in order to fulfil their roles. The Board continually reviews the Group's internal corporate governance practices and seeks the advice of the General Counsel and Company Secretary implementing sound and effective corporate governance practices.

The Company Secretary maintained a register of Directors' interests and external appointments, which included any situational and transactional conflicts of interest. Directors were required to report actual or potential conflicts of interest to the Board for consideration and, if appropriate, authorisation.

The policy relating to the provision of non-audit services by the external auditor specifies the types of work from which the external auditor is excluded; for which the external auditor can be engaged without referral to the Board; and for which a case-by-case decision is required. To safeguard the auditor's objectivity and independence, the ratio of non-audit fees to audit fees has been monitored by the Board. Any work proposed more than £100,000 has been referred to the Board.

Board Committees

Given the composition of the Board, audit functions run principally through the Board with all Directors being involved. In addition, the Board set up certain other Sub-Committees to deal with other areas of the business e.g. TalkTalk Wholesale, Fibrebuild Tech, Consumer Direct and TalkTalk Direct B2B, Performance and Corporate Development, and Security.

Principle 4 – Opportunity and risk

Strategic opportunities are highlighted and assessed for Board approval as they arise, with more shorter term opportunities to improve performance reviewed during the normal course of business.

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

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

The Directors had overall responsibility for the Group's system of internal controls and for reviewing their effectiveness. The Board delegated to Executive management the responsibility for designing, operating and monitoring these systems. The systems were based on a process of identifying, evaluating and managing key risks and included the risk management processes set out above and channels to enable employees to raise concerns about possible irregularities in financial reporting and other issues, and associated processes for those matters to be investigated. Further details are contained in the Strategic Report on pages 11 to 15.

The systems of internal control are supported by the Internal Audit and Risk function. Any significant risks identified in the period were given appropriate priority.

The systems of internal control were designed to manage, rather than eliminate, the risk of failure to achieve business objectives. They could only provide reasonable and not absolute assurance against material errors, losses, fraud or breaches of law and regulations.

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

Principle 5 – Remuneration

The Board is responsible for and approves the remuneration of the Chief Executive Officer and Executive Committee. Fixed remuneration throughout the organisation is guided by Willis Towers Watson benchmark data to ensure fairness and marketplace alignment. Variable pay is approved by the Board for the Chief Executive Officer and Executive Committee and is determined by the KPIs that drive company value growth, with a financial performance underpin. The appointment and remuneration of the Directors and senior Executives are amongst the matters reserved for the Board. The Group is 'Real Living Wage' accredited and other relevant KPIs reported to the Board annually include our Gender Pay Gap, CEO pay ratio, pay review benchmarking and equal pay review outcomes.

Principle 6 – Shareholder relationships and engagement

The Board is committed to stakeholder engagement and the Directors take their responsibilities and duty to them under Section 172 of the Companies Act 2006 seriously. You can read more about the Board's approach to stakeholder engagement in our Section 172 Statement in the Strategic Report on pages 17 to 19.

Directors' Report

Reporting requirements

The Group is required to produce a Strategic Report complying with the requirements of Section 414A of the Companies Act 2006. The Group has complied with this requirement and incorporates a detailed review of the Group's activities, business performance and developments during the year in a way that is fair, balanced and understandable and gives an indication of likely future developments on pages 3 to 5.

The Group has complied with the requirements of Section 414C of the Companies Act 2006 by including certain non-financial information within the Strategic Report. This can be found as follows:

- Our business model is on page 2;
- Information regarding the following matters, including policies, the process implemented in pursuance of the policies and outcomes of those policies, can be found on the following pages:
 - Environmental matters on pages 18 and 24;
 - Employees on pages 16 and 23;
 - Social matters on page 22;
 - Anti-corruption and anti-bribery matters on page 24; and
 - Human rights and modern slavery on page 24.
- Where principal risks have been identified in relation to any of the matters listed above, these can be found on pages 11 to 15, including a description of the business relationships, products and services which are likely to cause adverse impacts in those areas of risk, and a description of how the principal risks are managed;
- Key performance indicators of the Group, including non-financial indicators, are on pages 9 and 10; and
- The business and financial review (pages 6 to 8) includes, where appropriate, references to, and additional explanations of, amounts included in the Group's financial statements.

Suppliers' payment policy

It is the Group's policy to develop and maintain key commercial relationships with its suppliers. The Company has agreed longer commercial credit terms with certain suppliers; this includes an arrangement with a major distribution partner, under which the liabilities continue to be recognised in trade payables. Including this supplier, the average credit year taken on trade payables was 93 days in FY23 (FY22: 55 days¹). Further detail on our engagement with our suppliers can be found in our Strategic Report on page 17.

1. Restated for IFRS 16.

Relationships with customers

Further detail on our engagement with our customers can be found in our Strategic Report on page 17.

Capital structure

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

There is a general right of the Company to purchase its own shares, as set out in Article 15 of the Company's Articles of Association.

The Articles of Association may be changed by special resolution.

The Company had a total of 1,146,269,670 ordinary shares in issue at 28 February 2023.

Details in the movements in authorised and issued share capital during the year are provided in note 19 to the consolidated financial statements.

Going concern

The Directors are required to satisfy themselves that it is reasonable for them to conclude that it is appropriate to prepare the financial statements on a going concern basis. This going concern assessment has given consideration to the Group's committed financing facilities, business model, strategy, regulatory environment, principal risks and uncertainties, recent financial performance and outlook over the going concern period (12 months from the date of signing). These are detailed in the Strategic Report on pages 3 to 15.

Basis of assessment of going concern

The going concern assessment has been carried out as follows:

- The assessment of going concern is carried out with reference to committed liquidity, financing facilities and the associated covenants;
- The Group's annual budget is used to calculate the net debt position, covenant compliance and available headroom over the going concern period;
- Severe but plausible scenarios are modelled to quantify the impact of an individual risk materialising over the going concern assessment period. These are then combined to calculate the impact of multiple risks materialising over the period. These together provide the Group with its 'reasonable worst-case scenario';

- Mitigating actions which could be taken are identified, quantified and included in the assessment; and
- The reasonable worst-case scenario, along with mitigating actions, is then used to test that the Group would continue to have headroom in its available financing facilities and comply with the agreed financial covenants over the going concern assessment period.

Financing facilities and liquidity

At 28 February 2023, the Group had net debt of £892m pre leases including cash of £7m and drawn debt of £899m against total available facilities at that date of £1155m (inclusive of £65m of uncommitted facilities). This going concern assessment is made on the basis of the committed debt facilities currently available to the group totalling £1090m, which include Revolving Credit Facilities (RCF) of £330m, loan notes of £685m, and a receivables purchase facility of £75m.

The maturity dates of the revolving credit facilities and loan notes are November 2024 and February 2025 respectively. The Group will be required to enter into negotiations for the refinancing of the RCF within the going concern period, and plans for this are underway. The receivables purchase facility matures in September 2023, and the base case assumes that this is successfully refinanced. The company has agreed terms for the renewal of that facility and final due diligence is underway with full documentation expected to be completed and financing committed in the near future resulting in a drawable replacement facility prior to the current maturity.

Following the year end, the Group received offers from interested parties seeking to acquire TalkTalk Business Direct, its B2B Direct customer base. The Directors are confident that a sale will complete and intend for the proceeds to be retained in the Group to strengthen liquidity, reduce net indebtedness and support further investment. In the event that a sale of TalkTalk Business Direct does not complete in the near term and the Group is therefore not in receipt of those expected proceeds, the main shareholders of the Group's ultimate parent company have confirmed their intention to provide such funding support as may be required by the Group until a sale does complete, or alternatively for there to be a sale of TalkTalk Business Direct by the Group to those shareholders at fair market value. These intentions are not legally binding at the point of signing the financial statements.

The key debt facility covenants relevant to the going concern assessment are net debt to EBITDA multiple, interest coverage ratio and minimum projected liquidity headroom requirements under the revolving credit facilities which are measured when the Group issues its financial results for the periods ending August 2023 and February 2024. For the purposes of these covenants, the revolving credit facility agreements allow for adjustments to be made for exceptional items which are broader than just non-headline items for statutory reporting which are explained further in note 6.

The exceptional items are judgemental in nature and include amounts invested in meeting supplier agreements or one-off costs associated with large supplier contracts and early termination of sub-leased properties as well as the income generated through network monetisation and certain one-off inflationary costs. The Directors are satisfied these are clearly identifiable, incremental, one-off, non-recurring, unusual or exceptional in nature in line with the contractual terms. Exceptional items were included in the calculations in FY23 and previous periods.

In addition to these exceptional items allowable under the terms of the facilities, the company has agreed with RCF lenders that the covenant tests for FY24 will be further amended for the accounting treatment of new customer acquisition costs in the consumer business, which is expected to be materially lower in cash terms during FY24 than in previous periods. Additionally, following year end the Group has agreed with lenders amendments to permitted covenant levels to create headroom. Forecast covenant compliance is reliant on the inclusion of the expected proceeds from the sale of TalkTalk Business Direct and/or additional funding from shareholders, and inclusion of these proceeds in the banking forecasts has been agreed with RCF lenders. On this basis, under management's reasonable worst case trading assumptions (reasonable worst-case assumptions 1-4 below) these forecasts result in the Group having 5% tolerance to its covenants.

Forecasts, risks and uncertainties

The going concern of the Group has been assessed taking into account the potential impact of certain scenarios arising from the principal risks and uncertainties. In particular, the Board has considered sustainability of the business model, supplier pricing agreements, the impact of customer trust and brand reputation on churn, how the market environment and competitive pressures may impact ARPU, the regulatory environment, advances in technology and the Group's ability to raise long-term funding. These risks and their potential impacts reflect the Group's assessment of its principal risks and uncertainties – further information on these risks can be found on pages 11 to 15.

In making the going concern assessment, the company uses base case financial projections based in its budget and business plan, and also a reasonable worst-case scenario based on an assessment of severe but plausible downside risks to the delivery of the base case plan.

The base case plan makes the following key assumptions:

1. Stable overall volume of customer connections partly as a result of lower customer churn in the consumer business (1.7% excluding non-paying customers, FY23 1.8%). This is due to investment in customer retention strategies, improved customer journeys and an enhanced product offering. This has the benefit of a reduced cash cost as opposed to investing in acquiring new customers
2. Inflationary price rises passed on, with margin improvement in some product areas including the margin benefits of increased take up of full fibre and higher speed products
3. Material growth in the wholesale side of our business predominantly through growth in Ethernet product sales
4. Continuing cost control, larger cost reduction programmes and capex initiatives
5. Favourable terms with key suppliers continuing on a similar basis to previous periods, supporting an improved working capital position
6. The sale of TalkTalk Business Direct

7. Successful refinancing of the receivables purchase facility

In the reasonable worst-case scenario, the base case is adjusted to take account of the potential impact of severe but plausible outcomes relating to the following key risks:

1. Lower improvement in customer churn (1.9% rather than 1.7% in the base case) leading to lower base numbers, particularly in the Consumer Direct business. The reasonable worst-case does not include the benefit of base acquisitions
2. Margin erosion in some areas where price increases cannot be fully passed on
3. Delays to the implementation of cost reduction initiatives or higher upfront costs in delivering those initiatives
4. Less favourable terms with certain key supplier and industry partners worsening the working capital position
5. A delayed sale of TalkTalk Business Direct
6. No renewal of the receivables purchase facility

In a reasonable worst-case scenario and excluding contribution from any of the anticipated refinancing of the receivables purchase facility, the expected proceeds from the sales of TalkTalk Business Direct and any required shareholder funding support, the Group would have a maximum funding requirement (which commences in September 2023 and increases thereafter) during the going concern period of £235m. The liquidity requirement under this scenario occurs prior to the covenant test relating to the period ending February 2024.

Mitigating actions and sources of additional funding

If faced with the reasonable worst-case scenario, the Directors also considered possible mitigating actions available to the Group to maintain liquidity, such as short-term cost reduction actions and reduction or delay of capital expenditure.

Going concern conclusion

Under the reasonable worst-case, if the receivables purchase facility were not renewed or the sale of the TTBD business were not completed, additional shareholder funding would be required to maintain the liquidity of the business. The major shareholders of the ultimate parent company of the Group have confirmed their intention to provide such funding and the process to renew the receivables purchase facility is on track; however these sources of funding are not yet fully documented and legally binding on the counterparties and as such currently represent a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern such that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Notwithstanding this, taking into account the status of the renewal of the receivables purchase facility, the ultimate shareholders' proposed liquidity support and considering the mitigating actions available to the Group under downside scenarios, the Directors have a reasonable expectation that the Group has sufficient resources to continue its operations for the foreseeable future, and accordingly they continue to adopt the going concern basis in preparing these financial statements.

Borrowings and financial instruments

The disclosures required in relation to the use of financial instruments by the Group, including the financial risk management objectives and policies (including in relation to hedging), specific quantitative information on borrowings and financial instruments, and the exposure to foreign exchange risk, interest rate risk, liquidity risk and credit risk can be found in note 17 to the consolidated financial statements and the risks and uncertainties section of the Strategic Report on pages 11 to 15, which are incorporated by reference to this report.

Board

The Board is outlined within the Corporate Governance Report on pages 26 to 27.

Results and dividends

The Group's results and dividends for the year ended 28 February 2023 are set out in the consolidated income statement on page 42.

The Board remains committed to improving profitability and cash generation and reducing leverage. No dividend was declared and paid for the year ended 28 February 2023.

Directors' indemnities

Directors' liability insurance is provided for Directors.

Greenhouse gas emissions reporting

Details of the Group's greenhouse emissions can be found in the Protecting our environment section on pages 24 and 25.

Charitable donations

The Group continues to support a variety of different causes including Ambitious About Autism, local foodbanks and several youth social mobility and inspiring girls into tech initiatives.

Political donations

There have been no political donations during the year.

Employees

Details of the Group's policy with respect to equal opportunities, diversity and inclusivity can be found on page 23 of the Strategic Report.

Details of how the Directors have engaged with employees and how the Directors have had regard to employee interests can be found on page 16 of the Strategic Report.

Audit information

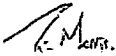
The Board is proposing to re-appoint Deloitte LLP as the Group's auditor. Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

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

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

Approved and authorised for issue and signed on its behalf by:

Tim Morris



Company Secretary

TalkTalk Telecom Group Limited

Soapworks, Ordsall Lane, Salford,

United Kingdom, M5 3TT

11 July 2023

Directors' responsibility statement

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


Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the financial statements in accordance with United Kingdom adopted international accounting standards. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

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

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

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

This responsibility statement was approved by the Board of Directors on 11 July 2023 and is signed on its behalf by:



Tristia Harrison
Chief Executive Officer
11 July 2023

Independent auditor's report

To the members of TalkTalk Telecom Group Limited

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of TalkTalk Telecom Group Limited (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 28 February 2023 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards 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.

We have audited the financial statements which comprise :

- the consolidated income statement;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement;
- The statement of accounting policies;
- The related notes to the consolidated financial statements 1 to 24; and
- The related notes to the Company financial statements 1 to 11.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

2. 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 entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Material uncertainty related to going concern

We draw attention to pages 29 to 30 in the financial statements, which indicates that under the reasonable worst case, if the receivables purchase facility were not renewed or the sale of the TalkTalk Business Direct business were not completed, additional shareholder funding would be required to maintain the liquidity of the business. The major shareholders of the ultimate parent company of the Group have confirmed their intention to provide such funding and the process to renew the receivables purchase facility is on track; however these sources of funding are not yet fully documented and legally binding on the counterparties. As stated in note 1, these events or conditions, along with the other matters as set forth in pages 29 to 30, indicate that a material uncertainty exists that may cast significant doubt on the Group's and parent company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- obtained an understanding of key controls relating to the Group's forecasting process and the preparation of the directors' going concern models including the review and challenge of the key inputs and assumptions used in those models;
- challenged the appropriateness of the exceptional items which are excluded from the covenant calculations (at year end and in the going concern period) over and above those exceptions already reflected in non-Headline within the financial statements, focussing on whether these are deemed to meet the definition of permitted exclusions under the terms of the banking agreements. These include amounts invested in meeting supplier agreements, provisions for onerous contracts, one off payments to employees, increase in energy costs, spend on corporate strategy and differences in judgements and estimates on measurement of certain assets and liabilities;
- challenged the board approved cash flow forecasts and covenant compliance forecasts and assessed the appropriateness of the forecast assumptions by:

- challenging the key assumptions within the base case forecasts and the reasonable worst case forecast and challenging the directors to run further downside scenarios in order to assess the possible impact, including the impact of not achieving forecast price rises and higher churn;
 - assessing additional downside sensitivities and considering the impact on covenants and liquidity headroom;
 - assessing industry data and other external information and comparing these with the directors' estimates to determine if they provided corroborative or contradictory evidence in relation to the directors' assumptions as assess whether there were indicators of management bias;
 - comparing forecast sales, gross margin and other costs with recent historical financial information to consider accuracy of forecasting;
 - enquiring of management regarding their forecast strategic objectives and actions to reduce costs and manage cash flows and challenging the quantum, timing and commitment of those actions with reference to supporting evidence;
 - testing the mechanical accuracy of the forecasts and the underlying data generated to prepare the forecast scenarios and determining whether there was adequate support for the assumptions underlying the forecast;
 - assessing correspondence relating to the availability of the Group's financing arrangements, including recalculating the covenant compliance ratios and both the committed and uncommitted facilities;
 - challenging the level of identified mitigating actions and assessing whether the mitigating actions were within the Group's control;
 - assessing the use of cash management activities to reduce net debt at the reporting dates and whether these were within the directors' control; and
 - involved our debt advisory specialists in our considerations around the liquidity position.
- evaluated the Group's disclosures on going concern against the requirements of IAS1 including the disclosure relating to the material uncertainty.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

4. Summary of our audit approach

Key audit matters	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> • Going concern (see material uncertainty related to going concern section); • Impact of control deficiencies; • Disclosure of non-Headline items and the presentation of alternative performance measures in the financial statements; • Revenue recognition and the application of IFRS 15; and • Completeness of network assets recognised under IFRS 16. <p>Within this report, key audit matters are identified as follows:</p> <p>Newly identified Increased level of risk Similar level of risk Decreased level of risk</p>
Materiality	The materiality that we used for the financial statements was £7.5m (2022: £7.5m) which was determined on the basis of Headline EBITDA, with consideration of other measures including Statutory loss before tax, Headline loss before taxation and Statutory revenue.
Scoping	Based on our assessment of the risks of material misstatement at the Group level, we focused our Group audit scope primarily on the Consumer Direct and Wholesale operating units. Each of these were subject to a full audit and together this covered 98% (2022: 100%) of the Group's total revenues. Together with our audit of the Group balances and specified account balances within other Group entities, our Group audit scope covered 91% (2022: 100%) of statutory loss before taxation and 100% (2022: 100%) of net assets.
Significant changes in our approach	<p>We have identified a new key audit matter for FY23 in relation to the impact of control deficiencies following the further control weaknesses identified in the year. The control deficiencies identified and extent of errors as a result had a significant impact on our audit and was a contributing factor to the time and effort required to complete the audit, which we consider to be a key audit matter.</p> <p>We have also identified a new key audit matter in relation to the completeness of network assets recognised under IFRS 16, following the restatement in the year as explained in note 1 to the financial statements and have concluded that there is an ongoing risk that the portfolio of assets that the entity have identified as leases is not complete.</p>

5. 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. In addition to the matter described in the material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

5.1 Impact of control deficiencies

Key audit matter description In FY22, we reported control weaknesses to those charged with governance which included weaknesses over timesheets to support the capitalisation of time as well the review and approval controls over journal entries.

A number of IT control deficiencies were identified in the 2020 audit, associated with access and change management controls over the Consumer Direct systems which remained unresolved in FY22 and continue to have an impact on the current year audit.

In addition to the control observations reported to the directors in the prior year, in the current year we identified further control weaknesses, primarily in relation to management's review over key accounting judgements, the forecasting and budgeting process and the review of the calculation of customer lifetime value analysis. We have also identified weaknesses in transactional data processing and reconciliations over intangibles, property, plant and equipment and right of use assets and corresponding lease liabilities under IFRS 16.

We planned a controls reliance approach to Wholesale revenue however as we had identified control deficiencies during our previous audits, we had not planned to rely on controls in other areas of the audit.

As a result of the above control deficiencies, a number of errors were identified, including relating to the over capitalisation of items on the balance sheet as well as errors in relation to complex customer and supplier arrangements. All errors that the directors and we considered material, either individually or collectively were corrected.

The extent of the errors and control deficiencies identified had a significant impact on our audit and was a contributing factor to the time and effort required to complete the audit, which we consider to be a key audit matter.

How the scope of our audit responded to the key audit matter As a result of the control deficiencies identified we adopted a fully substantive audit approach in all areas impacted by the deficiencies identified, with no reliance on internal controls. Where new deficiencies were identified, we revisited our risk assessment and changed our planned testing approach accordingly.

In order to respond to the risks arising from the deficiencies in the control environment, we modified the nature, timing and extent of our audit procedures. Specifically we performed the following:

- expanding the types of journal entries that we selected for testing due to failures within the IT environment;
- extending the level of substantive testing to reflect increased risk particularly in relation to Consumer Direct revenue, where we tested 100% of cash received to revenue recognised;
- making more extensive use of specialist teams in tax, forensics, data analytics and debt advisory;
- using data analytics to complete our testing, over key areas such as Consumer Direct revenue; and
- increasing the seniority of our engagement and review teams.

Key observations The Group acknowledges the weakness in the current financial systems and is planning the implementation of a new ERP system to improve the controls in order to improve the accuracy and completeness of the underlying accounting records and reduce the number of misstatements identified.

5.2 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 period, the Group has recognised items classified as 'non-Headline items' amounting to a £6m adverse impact prior to the impact on taxation (2022: £56m adverse). The disclosure of non-Headline items and their presentation on the face of the consolidated 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 EBITDA, which is a key performance indicator used by the Group, and is used in the measurement of covenant compliance.

In 2023, the Group continues to reflect the costs associated with the transition to fibre, known as the 'Copper to Fibre' programme, as non-Headline as well as including the credit following the remeasurement of the contingent consideration and migration costs incurred following the acquisition of OB Telecom. In addition, for the first time, in 2023 the Group is reflecting £33m other income as non-Headline in relation to the sale of IP addresses through their new strategy of network monetisation.

The nature of these costs has been defined in note 6 to the accounts. See note 1 to the financial statements for the related accounting policy and the critical accounting judgement around the classification of the 'Copper to Fibre' programme as non-Headline.

How the scope of our audit responded to the key audit matter	We obtained an understanding of key controls in relation to the disclosure of non-Headline items and presentation of alternative performance measures.
	In addition to understanding the composition of non-Headline items and agreeing a sample of items to supporting documentation, we challenged the entity's rationale for the presentation of items within the consolidated income statement as non-Headline. This included challenging whether there were items included within non-Headline results which were reflective of underlying trading of the Group.
	Our work has also involved testing, on a sample basis, items within the consolidated income statement to identify income and expenses which may be non-Headline by nature but not separately identified. This comprised consideration of credit balances within Headline results, including those in relation to the release of provisions.
	We have also assessed the disclosure of the accounting policy for non-Headline items, description of the items classified as non-Headline and the reconciliations between statutory and non-Headline measures. This was performed in the context of the latest guidance published by the European and Securities Markets Authority and the Financial Reporting Council ("FRC"), determining whether the purpose of using alternative performance measures was set out, that they were clearly defined, consistent over time and included appropriate reconciliations to statutory financial information.
Key observations	We have concluded that the items described as non-Headline in the consolidated income statement meet the requirements of IAS 1 and the Group's accounting policy, and that they are appropriately disclosed.

5.3 Revenue recognition and the application of IFRS 15

Key audit matter description	Revenue represents a significant balance, totalling £1,457m (2022: £1,455m). The balance consists of a high volume of individually low value transactions across both the business and consumer customer bases. We have identified the following types of transactions and assertions related to revenue recognition and the application of IFRS 15 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:
	<ul style="list-style-type: none"> the accounting for one-off customer arrangements which tend to reflect both judgement and complexity in the application of IFRS 15. This is particularly true of multi-year contracts, modifications and terminations, where there is a risk that these are incorrectly accounted for or recognised in the wrong accounting period; other key judgements made in the application of IFRS 15, principally the unbundling of customer contracts for revenue recognition and the estimation of average customer life and customer life value which are used to assess the potential impairment of capitalised costs and contract assets; and the accuracy and completeness of manual revenue adjustments calculated outside the normal billing process, given these will likely carry a higher level of management bias. This includes adjustments in relation to provisioning on customer credit balances and alternative revenue streams processed on top of the billing platform.
	See note 1 to the financial statements for the revenue recognition policy and the key sources of estimation uncertainty relevant to the implementation of IFRS 15 that has been applied by the Group and note 2 for segmental reporting.

How the scope of our audit responded to the key audit matter	We involved our IT specialists to support our testing of automated and non-automated controls over the customer billing systems, generating billed revenue data.
	<p>Complex Customer Arrangements</p> <p>We obtained copies of new contracts signed during the year for the Wholesale division and reviewed each contract to identify any terms or conditions with the potential to lead a new accounting impact under IFRS 15. We challenged the accounting assessment and conclusions reached by the entity to ensure this was appropriate under IFRS 15.</p>
	<p>Judgements made in relation to IFRS 15</p> <p>We challenged the completeness and appropriateness of the key judgements and estimates made in the calculation of both average customer life and customer life value, which are critical components of the amortisation rate applied to contract assets and involve a high level of estimation in the assumptions made. Specifically, we challenged the inputs into these calculations, being the</p>

customer numbers and churn rates used within these metrics, completing testing procedures to assess the completeness and accuracy of the customer numbers and churn and reviewing the outputs against historic trends.

We have assessed the disclosures on the critical accounting judgements and sensitivity analysis as disclosed in note 1 to the financial statements.

The accuracy and completeness of revenue recognised on transactions which are outside the normal billing process

We have assessed and understood each adjustment and noted no material non-recurring revenue adjustments recognised outside the normal billing process when compared to prior years. In line with prior years, we have continued to test each adjustment for accuracy and completeness.

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 in determining the IFRS 15 judgements applied. We consider the disclosures in note 1 relating to critical accounting judgements and key sources of estimation uncertainty to be appropriate.

We noted findings from prior years have persisted in relation to IT access controls and resulted in an inability to take a controls reliance approach to test the output of the billing systems for Consumer Direct. These deficiencies in internal control were mainly in relation to inappropriate access in the year. We have reported our findings to those charged with governance.

5.4 Completeness of network assets recognised under IFRS 16

Key audit matter description The application of IFRS 16 requires management judgement in determining whether assets held by the Group meet the definition of a lease. IFRS 16 defines a lease based on whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. This determination is based on facts and circumstances, but the entity may need to apply reasonable judgement.

In 2022, the Group completed the acquisition of 100% of the share capital of Virtual1 Limited on 26th May 2022, following which it performed a transition exercise from FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ('FRS 102') to International Financial Reporting Standards ('IFRS'). As a result, it was concluded that certain contractual arrangements fell within the scope of IFRS 16 'Leases' ('IFRS 16'), which contradicted the previous conclusion which had been reached for the same existing contractual arrangements held by the Group. As a result, in the current year, these adjustments have been restated in these financial statements.

In considering these adjustments we have concluded that there is an ongoing risk that the portfolio of assets that the entity have identified as leases is not complete. Given the nature of the business, the Group has a large network asset base, and these adjustments display how the directors' application of IFRS 16 can have a material impact on the financial statements. As such, we identified the completeness of network assets recognised as leases under IFRS 16 as a new key audit matter for the FY23 audit.

See note 1 to the financial statements for the restatement, the accounting policy and the critical accounting judgement and note 11, Leases.

How the scope of our audit responded to the key audit matter We obtained an understanding of key controls in relation to ensuring the completeness of network assets identified under IFRS 16.

We obtained the directors' assessment relating to the completeness of assets within the scope of IFRS 16 and challenged the judgements made in determining whether they have appropriately identified all network assets which could be considered within the scope of IFRS 16. We performed testing over the assessment by performing independent research into the nature of the suppliers, understanding the network asset portfolio and reviewing supplier invoices to understand the nature of the services provided and whether they should be recognised as a lease under IFRS 16.

Key observations We have concluded that following the restatements made in 2023 and explained in note 1, the directors has appropriately identified the network assets which meet the criteria for recognition as a lease under IFRS 16 in line with the Group's accounting policy, and that they are appropriately disclosed.

6. Our application of materiality

6.1 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	£7.5m (2022: £7.5m)	£6.75m (2022: £7.1m)
Basis for determining materiality	2.5% of Headline EBITDA (2022: 2.6%).	Parent company materiality equates to 0.6% (2022: 0.7%) of net assets, which is capped at 90% of Group materiality.
Rationale for the benchmark applied	Materiality has been determined on the basis of Headline EBITDA, with consideration of other measures including Statutory loss before tax, Headline loss before taxation and Statutory revenue.	Materiality was determined based on net assets as this is the key metric used by the directors, investors and lenders, with shareholder value being driven by net assets value movements.

<graph>

Headline EBITDA £297m

Group materiality £7.5m

Component materiality range £2.25m to £6.75m

Audit Committee reporting threshold £0.375m

Headline EBITDA

Group materiality

6.2 Performance materiality

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 financial statements	Parent company financial statements
Performance materiality	60% (2022: 60%) of group materiality	60% (2022: 60%) of parent company materiality
Basis and rationale for determining performance materiality	<p>In determining performance materiality, we considered the following factors:</p> <ul style="list-style-type: none"> our risk assessment, including our assessment of the Group's overall control environment in the light of the number of control deficiencies identified during the current and previous audits (as detailed in section 7.3); and our past experience of the audit, including the value and quantum of corrected and uncorrected misstatements in prior periods. 	

6.3 Error reporting threshold

We agreed with the Board that we would report to the Board all audit differences in excess of £375,000 (2022: £375,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Board on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1 Identification and scoping of components

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 98% (2022: 100%) of the Group's total revenues. Specific focused audit work was performed over Group functions, including those covering treasury and taxation as well as on specific account balances within other Group entities. Together this covered 91% (2022: 100%) of statutory loss before taxation and 100% (2022: 100%) of net assets.

7.2 Our consideration of the control environment

We obtained an understanding of the control environment of the Group, including understanding the processes and controls in place over key business processes including financial reporting. In assessing the control environment of the Group, we obtained an understanding of the relevant IT controls associated with the Group's key accounting and reporting systems.

We have identified further weaknesses in the control environment, primarily in relation to management review controls over key accounting judgements, review and approval of journal entries, the forecasting and budgeting process, capitalised time and calculation of customer lifetime value analysis. We have also identified weaknesses in transactional data processing and reconciliations over intangibles, property, plant and equipment and right of use assets and corresponding lease liabilities under IFRS 16.

In line with prior year, we planned and adopted a controls reliance approach to revenue testing on Wholesale non voice revenue streams. For Wholesale carrier and voice revenue and Consumer Direct revenue streams we adopted a non controls reliance approach to our audit testing as we are aware not all previously identified deficiencies have yet been remediated.

As a result of the control deficiencies identified we adopted a fully substantive audit approach in all areas impacted by the deficiencies identified, with no reliance on internal controls. Further details are set out in the "impact of control deficiencies" key audit matter section 5.1 above.

7.3 Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the Group's business and its financial statements. The directors have considered climate change as part of their risk assessment process. Their considerations in this area are set out in the Strategic Report, in the emerging risk section on page 15.

As a part of our audit, we have obtained the Group's climate-related risk assessment and held discussions with the directors to understand the process of identifying climate-related risks, the determination of mitigating actions and the impact on the Group's financial statements. As explained on page 15 the most significant impact on the Group was considered to be the risk that increased severity and frequency of extreme weather could significantly impact the Group's operations through business disruption.

We evaluated the completeness of the identified risks and impact on the Group financial statements and did not identify any reasonably possible risks of material misstatement on specific account balances. We considered the extent to which climate change-related impacts had been reflected in the Group's forecast financial information and considered climate-related risks throughout our risk assessments on each financial statement account balance. As part of our procedures performed, we read the disclosures included in the Strategic Report to consider whether they are materially consistent with the financial statements and our knowledge obtained in the audit.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

We have nothing to report in this regard.

9. 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.

10. 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. 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, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the Board about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their 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 of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including forensic, tax, and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: going concern, disclosure of non-Headline items and the presentation of alternative performance measures in the financial statements, revenue recognition and the application of IFRS 15

and the completeness of network assets recognised under IFRS 16. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the Group's compliance with Ofcom regulation.

11.2. Audit response to risks identified

As a result of performing the above, we identified the following key audit matters related to the potential risk of fraud:

- going concern basis of accounting;
- disclosure of non-Headline items and the presentation of alternative performance measures in the financial statements;
- revenue recognition and the application of IFRS 15; and
- the completeness of network assets recognised under IFRS 16.

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 provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Board and in-house and external 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; 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

12. Opinions on other matters prescribed by 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.

13. Matters on which we are required to report by exception

13.1. 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.

13.2. Directors' remuneration

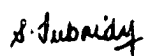
Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

14. 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.



Sara Tubridy FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, UK

11 July 2023

Consolidated income statement

TalkTalk Telecom Group Limited
For the year ended 28 February 2023

	Notes	Year ended 28 February 2023			Year ended 28 February 2022 (restated) ⁽¹⁾		
		Headline ⁽²⁾ £m	Non-headline ⁽³⁾ £m	Statutory £m	Headline ⁽²⁾ £m	Non-headline ⁽³⁾ £m	Statutory £m
Revenue	2	1,457	—	1,457	1,455	—	1,455
Cost of sales		(716)	—	(716)	(677)	—	(677)
Gross profit		741	—	741	778	—	778
Other income		—	33	33	—	—	—
Operating expenses ⁽²⁾		(444)	(39)	(483)	(388)	(56)	(444)
EBITDA ⁽²⁾		297	(6)	291	390	(56)	334
Depreciation and amortisation	2	(249)	—	(249)	(281)	—	(281)
Share of results of joint ventures and associates	10	(6)	—	(6)	(6)	—	(6)
Operating profit/(loss)	2	42	(6)	36	103	(56)	47
Net finance costs	4	(106)	—	(106)	(78)	—	(78)
(Loss)/profit before taxation		(64)	(6)	(70)	25	(56)	(31)
Taxation	5	(187)	2	(185)	33	10	43
(Loss)/profit for the year		(251)	(4)	(255)	58	(46)	12
Attributable to:							
Owners of the Company		(251)	(4)	(255)	58	(46)	12
Non-controlling interest		—	—	—	—	—	—

(1) See note 1 for further details on the restatement of prior year.

(2) Operating expenses includes £15m (2022: £8m) of credit losses on financial assets. For further details see note 13.

(3) See note 1 for an explanation of alternative performance measures (APMs) and non-headline items. See note 6 for a reconciliation of Statutory information to headline information.

There is no other comprehensive income or expenses recognised in either year other than shown in the income statement; consequently, no statement of comprehensive income has been presented.

The accompanying notes 1 to 24 are an integral part of this consolidated income statement. All amounts relate to continuing operations.

Consolidated balance sheet

TalkTalk Telecom Group Limited

Company number: 07105891

As at 28 February 2023

	Notes	28 February 2023 £m	28 February 2022 (restated) ⁽¹⁾ £m	1 March 2021 (restated) ⁽¹⁾ £m
Non-current assets				
Goodwill	7	504	499	495
Other intangible assets	7	192	166	189
Property, plant and equipment	8	862	853	781
Investment in joint ventures and associates	10	—	3	—
Trade and other receivables	13	149	92	3
Contract costs	14	468	409	338
Deferred tax assets	5	—	185	137
		2,175	2,207	1,943
Current assets				
Inventories	12	23	15	33
Trade and other receivables	13	163	182	167
Contract assets	14	33	36	38
Cash and cash equivalents	16	7	20	34
		226	253	272
Total assets		2,401	2,460	2,215
Current liabilities				
Trade and other payables	15	(616)	(461)	(448)
Contract liabilities	14	(25)	(25)	(21)
Lease liabilities	11, 16	(108)	(129)	(118)
Borrowings	16	(71)	—	—
Provisions	18	(6)	(1)	(5)
		(826)	(616)	(592)
Non-current liabilities				
Borrowings	16	(828)	(879)	(773)
Lease liabilities	11, 16	(604)	(575)	(496)
Provisions	18	(13)	(6)	(3)
		(1,445)	(1,460)	(1,272)
Total liabilities		(2,271)	(2,076)	(1,864)
Net assets		130	384	351
Equity				
Share capital	19	1	1	1
Share premium	20	684	684	684
Translation reserve	20	(64)	(64)	(64)
Merger reserve	20	(513)	(513)	(513)
Retained earnings and other reserves	20	21	276	243
Equity attributable to the owners of the Company		129	384	351
Non-controlling interest	9	1	—	—
Total equity		130	384	351

(1) See note 1 for further details on the restatement of prior year.

The accompanying notes 1 to 24 are an integral part of this consolidated balance sheet.

These financial statements were approved and authorised for issue by the Board on 11 July 2023. They were signed on its behalf by:

T Harrison

Tristia Harrison
Chief Executive Officer
 11 July 2023

Consolidated cash flow statement

TalkTalk Telecom Group Limited
For the year ended 28 February 2023

	Notes	Year ended 28 February 2023 £m	Year ended 28 February 2022 (restated) ⁽¹⁾ £m
Operating activities			
Operating profit		36	47
Depreciation of property, plant and equipment	8	196	204
Amortisation of other operating intangible assets	7	53	77
Share of losses of joint ventures and associates	10	6	6
Reversal of cost of inventories previously written down	12	—	(1)
Increase/(Decrease) in provisions		12	(1)
Operating cash flows before movements in working capital		303	332
Decrease/(Increase) in trade and other receivables		25	(20)
Increase in contract assets		(56)	(69)
(Increase)/Decrease in inventories		(8)	19
Increase in trade and other payables		120	1
Increase in contract liabilities		—	4
Cash flows generated from operating activities		384	267
Income taxes paid		—	—
Net cash flows generated from operating activities		384	267
Investing activities			
Investment in joint ventures and associates		(3)	(9)
Acquisition of subsidiaries, net of cash acquired	9	(4)	—
Investment in intangible assets		(61)	(49)
Investment in property, plant and equipment		(57)	(48)
Cash flows used in investing activities		(125)	(106)
Financing activities			
Sale of own shares		—	21
Amounts advanced to parent undertakings		(62)	(89)
Repayments of obligations under leases		(120)	(135)
Repayments of borrowings		(6)	—
Drawdown of borrowings		18	103
Interest paid on borrowings		(44)	(34)
Interest paid in respect of lease obligations		(58)	(38)
Other finance costs		—	(3)
Cash flows used in financing activities		(272)	(175)
Net decrease in cash and cash equivalents		(13)	(14)
Cash and cash equivalents at the start of the year		20	34
Cash and cash equivalents at the end of the year	16	7	20

(1) See note 1 for further details on the restatement of prior year.

The accompanying notes 1 to 24 are an integral part of this consolidated cash flow statement.

Consolidated statement of changes in equity

TalkTalk Telecom Group Limited
For the year ended 28 February 2023

	Notes	Share capital £m	Share premium £m	Translation reserve £m	Merger reserve £m	Retained earnings and other reserves £m	Attributable to the owners of the parent £m	Non-controlling interest £m	Total equity £m
At 28 February 2021 as previously reported		1	684	(64)	(513)	263	371	—	371
IFRS 16 restatement	1	—	—	—	—	(20)	(20)	—	(20)
At 28 February 2021 (restated)⁽¹⁾		1	684	(64)	(513)	243	351	—	351
Profit for the year (restated)		—	—	—	—	12	12	—	12
Total comprehensive income		—	—	—	—	12	12	—	12
Transactions with the owners of the Company									
Sale of own shares		—	—	—	—	21	21	—	21
Total transactions with the owners of the Company		—	—	—	—	21	21	—	21
At 28 February 2022 (restated)		1	684	(64)	(513)	276	384	—	384
Loss for the year		—	—	—	—	(255)	(255)	—	(255)
Total comprehensive expense		—	—	—	—	(255)	(255)	—	(255)
Transactions with the owners of the Company									
Acquisition of subsidiary with NCI	9	—	—	—	—	—	—	1	1
Total transactions with the owners of the Company		—	—	—	—	—	—	1	1
At 28 February 2023		1	684	(64)	(513)	21	129	1	130

(1) See note 1 for further details on the restatement of prior year.

The accompanying notes 1 to 24 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 Limited, a private company limited by shares, is incorporated and domiciled in England and Wales under the Companies Act 2006. The registered office of the Company is Soapworks, Ordsall Lane, Salford, United Kingdom M5 3TT. The principal activities of the Group are the provision of telecommunication services to Consumer and B2B customers. TalkTalk Holdings Limited (formerly Tosca IOM Limited) became the ultimate parent entity of the Group on 12 March 2021 by acquiring the entire shareholding of TalkTalk Telecom Group Limited by way of scheme of arrangement. The Group was delisted from the London Stock Exchange on 15 March 2021. TalkTalk Holdings Limited is owned by a number of private equity investors, none of which has a majority shareholding.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

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 (unless otherwise stated), 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 or associates which are accounted for using the equity method up to 28 February 2023 in the current year and for the previous year to 28 February 2022.

Control is achieved where the Company:

- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in profit or loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

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

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

When the Group loses control of a subsidiary, the gain or loss on disposal recognised in profit or loss is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests or amounts previously recognised in other comprehensive income in relation to that subsidiary. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 when applicable, or the cost on initial recognition of an investment in an associate or a joint venture.

Alternative performance measures (APMs)

The consolidated financial statements include APMs as well as Statutory measures. 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, IFRS 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 and 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 year ending 28 February 2023 as defined in the consolidated annual financial statements for the year ended 28 February 2022 with the exception of headline revenue excluding carrier and off-net which is no longer utilised by management. See note 6 for a reconciliation of Statutory information to headline information.

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 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 year can differ significantly from these normalised measures, you should consider these figures for any year 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 or Headline EBITDA as substitutes for operating profit or cash flows from our operating activities as reported under IFRS. See page 89 for listing and definitions of all APMs used.

Going concern

The Directors are required to satisfy themselves that it is reasonable for them to conclude that it is appropriate to prepare the financial statements on a going concern basis. This going concern assessment has given consideration to the Group's available financing facilities, business model, strategy, regulatory environment, principal risks and uncertainties, recent financial performance and outlook which are detailed in the strategic report on pages 1 to 25 and the Directors Report on pages 29 to 30.

Further information on committed facilities, borrowings, cash and financial management objectives is provided in notes 16 and 17. Under the reasonable worst case, if the receivables purchase facility were not renewed and the sale of the TTBD business were not completed, additional shareholder funding would be required to maintain the liquidity of the business. The major shareholders of the ultimate parent company of the Group have confirmed their intention to provide such funding and the process to renew the receivables purchase facility is on track; however these sources of funding are not yet fully documented and legally binding on the counterparties and as such currently represent a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern such that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Notwithstanding this, taking into account the status of the renewal of the receivables purchase facility, the ultimate shareholders' proposed liquidity support and considering the mitigating actions available to the Group under downside scenarios, the Directors have a reasonable expectation that the Group has sufficient resources to continue its operations for the foreseeable future, and accordingly they continue to adopt the going concern basis in preparing these financial statements.

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 accounting standards, amendments and interpretations, whether these are effective in the current year or later years. In both cases it is explained how they are expected to impact the performance of the Group.

Revenue

Revenue is measured based on the consideration to which the Group expects to be entitled to in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when performance obligations have been met.

Nature of goods and services

The Group's revenues are earned from the provision of fixed connectivity services. The typical length of a contract 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. Hardware is billed as part of the monthly charge to the customer and therefore paid for on a monthly basis over the length of the contract.
- **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 level of variable consideration in the form of tiered pricing arrangements and the impact of any financing component within contracts with customers has been assessed and concluded to be immaterial. The Group does not have any material obligations in respect of returns, refunds or warranties.

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

Foreign currency translation and transactions

In preparing the financial statements of the Group's entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for exchange differences on transactions used to hedge certain foreign currency risks (see below under derivative financial instruments and hedge accounting).

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

	Average		Closing	
	2023	2022	2023	2022
Euro	1.16	1.17	1.14	1.19
United States Dollar	1.21	1.37	1.21	1.34

Financial instruments

Financial assets and financial liabilities, in respect of financial instruments, are recognised in the consolidated 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.

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 financial assets

The Group recognises lifetime expected credit losses for trade receivables, contract assets and lease receivables where relevant. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. Under the 'expected credit loss' model to assess whether an asset is credit impaired, the Group analyses the risk profile of these financial assets based on past experience and an analysis of the receivable's current financial position, potential for a non-payment 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.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. None of the trade receivables that have been written off is subject to enforcement activities.

The Group considers that twelve month expected credit losses are consistent with lifetime expected credit losses, after making an adjustment for any macroeconomic factors.

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.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

Financial liabilities at amortised cost

Trade payables

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

Supply chain financing

Where 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. Various factors are considered in assessing whether such liabilities are more appropriately classified as trade payables or borrowing, including whether an extension of credit terms has been provided, the contractual relationship, any obligation to provide such facility, who bears the cost of the facility, any additional credit enhancements and any impact on other lines of credit held with the relevant banks.

Financial liabilities

Financial liabilities are generally 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 profit and loss. Financial liabilities are derecognised when they are extinguished.

Borrowings

Borrowings represent committed and uncommitted bank loans, Senior Notes, a receivables purchase agreement, supplier working capital finance 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 and are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Equity instruments

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 equity instruments are set out below.

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 Employee Share Ownership Trust (ESOT) were sold in the prior year as a result of the Group delisting.

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. 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 Group chooses to end the hedging relationship.

Cash flow hedges

The Group may use derivative instruments to manage foreign exchange and interest rate risks, and these may be designated 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 are then recycled to the income statement in the period the hedged item will affect profit and loss. Any gain or loss on the hedging instrument relating to any ineffective portion of the hedge is recognised immediately in the income statement.

Measurement

The financial instruments included on the consolidated 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 for going concern review

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 including the impact of external economic factors. In relation to the Board approved plan, 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 treatment of the Group as a going concern.

Classification of items as non-headline

Headline measures represent trading results before non-headline items which are defined in note 6. 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 and 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 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. The decision to classify items as either headline or non-headline is judgemental and requires careful consideration to ensure that the accounts provide a useful indicator of the performance of the Group.

Classification of Copper to Fibre programme as non-headline

During the year ended 28 February 2022, the Group defined its multi-year programme to decommission legacy copper business infrastructure in line with the industry transition to Full Fibre broadband. Management has judged this programme meets its internal

definition of non-headline on the basis the costs are incremental, outside the normal course of business, non-recurring and have an identifiable start and end. The costs are made up of dual running and costs to exit or reduce footprint in Telecommunications Exchanges. Management judged FY22 the appropriate point to start measuring these costs, given the formalisation of plans and linkages to commercial arrangements.

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 the receipt or payment of bonuses, loans, commissions or items of a similar nature. For amounts paid consideration is given as to whether these are treated as a contract cost and therefore deferred on the balance sheet over contract duration 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 assessment.

Capitalisation of customer premise equipment

The terms and conditions offered to the Group's residential customers state that where replacement hardware is issued to customers, it remains the property of the Group and should be returned to the Group once the customer terminates. Judgement has been applied in concluding this hardware remains an asset of the Group and as at 28 February 2023 such assets had a net book value of £6m (2022: £7m) and are recognised within property, plant and equipment from the date issued to the customer. The key factors in determining this treatment are the enforceability of the contractual provisions in place per the terms and conditions evidenced by return rates in respect of customers that have churned and the ability to de-mobilise hardware not returned.

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 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 Direct business have a lower recovery rate and on this basis such revenue (which is not material) 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 and revenue is recognised on a principal basis. 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.

IFRS 16 scope

The Group has assessed in determining the scope of applying IFRS 16 that the 'last mile' of broadband connectivity does not contain a lease given that it is not fully within the control of the Group. As a result, the 'last mile' of broadband connectivity does not meet the criteria for recognition as leases under IFRS 16. The scope has been reassessed for Ethernet circuits during the year, further information can be found in this note below.

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 lifetime value analysis**

Contract costs are deferred and recognised over the expected duration of the customer relationship. At 28 February 2023, deferred contracts costs totalled £468m (2022 restated: £409m). 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.

- **Service level related credits**

The Group continues to recognise, with recoverability assessment made against the criteria of IAS 37, 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 28 February 2023, a receivable of £19m (2022: £17m) 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.

IFRS 16 network asset lease term

The adoption of a five to ten year lease term for network assets is assessed to be a key accounting estimate. In reaching this conclusion the Group has considered historical data and its expectation of future changes in the network landscape and the technologies used. Existing technologies have been assessed as having a five-year lease term and newer technologies that have been utilised in the network for the first time in the year ended 28 February 2022 have been determined as having a seven-ten year lease term as there is less risk of these assets being replaced through obsolescence. At 28 February 2023, the Group held network assets utilising these lease terms with a combined value of £616m (2022 restated: £599m). Sensitivities of these estimates are shown below:

- an increase in one year would impact the balance sheet by increasing the lease liability and right of use assets by £75m (2022 restated: £69m); and
- an increase in one year would impact the income statement by decreasing depreciation by £3m (2022 restated: £3m) and increasing finance costs by £6m (2022 restated: £5m).
- a reduction in one year would impact the balance sheet by decreasing the lease liability and right of use assets by £81m (2022 restated: £74m); and
- a reduction in one year would impact the income statement by increasing depreciation by £4m (2022 restated: £3m) and decreasing finance costs by £6m (2022 restated: £6m).

Capitalisation of operating intangible assets

The Group capitalises development costs incurred when creating internally generated software. Judgement is applied when recognising these assets in relation to them being separately identifiable, the probability that the asset will generate future economic benefits and in the measurement of the development cost recognised. These assets are amortised over an estimated useful economic life (eight years) being managements' best estimate of the period these assets are typically in use for.

Derecognition of deferred tax asset

During the year, the Group de-recognised its deferred tax assets relating to losses and timing differences due to uncertainty over the timing of utilisation. Management considered its forecasts and applied a range of reasonable sensitivities in reaching this conclusion.

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:

- IFRS 17 'Insurance Contracts'
- Amendments to IFRS 17 'Insurance Contracts'
- Amendments to IAS 1 'Classification of Liabilities and as Current or Non-current'
- Amendments to IAS 1 'Classification of Liabilities and as Current or Non-current – Deferral of Effective Date'
- Amendments to IFRS 4 'Extension of the Temporary Exemption from applying IFRS 9'
- Amendments to IAS 1 and IFRS Practice Statement 2 'Disclosure of accounting policies'
- Amendments to IAS 12 'Deferred Tax related to Assets and Liabilities arising from a Single Transaction'
- Amendments to IAS 8 'Definition of Accounting Estimates'
- Amendments to IFRS 17 'Initial Application of IFRS 17 and IFRS 9 – Comparative Information'
- Amendment to IAS 12 'International Tax Reform – Pillar Two Model Rules'

These IFRSs are not expected to have a material impact on the Group's consolidated financial position or performance.

Application of significant new or amended accounting standards

The following amended standards and interpretations were also effective during the year; however, they have not had a material impact on the disclosures or on the amounts reported in these consolidated financial statements.

- Amendment to IFRS 16 'Covid-19 Related Rent Concessions beyond 30 June 2021'
- Amendment to IFRS 16 'Lease Liability in a Sale and Leaseback'
- Amendments to IAS 7 and IFRS 7 'Supplier Finance Arrangements'
- Amendments to IAS 1 'Non-current Liabilities with Covenants'

IFRS 16 prior year restatement including Ethernet

During the year management has reassessed the level of control exerted over its leased network assets including Ethernet circuits utilised in the Wholesale and Direct Business channels.

Management has revisited the IFRS 16 assessment made at the point of transition and believe de-scoping certain network assets from IFRS 16, including Ethernet, was an error. This conclusion is based on the right to control circuit bandwidth and the autonomy around circuit connections.

This has resulted in the recognition of a right of use asset and lease liability and an increase in EBITDA due to the removal of rental costs within cost of sales and operating expenses. Lease acquisition costs, which were previously treated as contract costs under IFRS 15, have now been recognised as part of the right of use asset as directly attributable costs.

Management has computed the impact of this adjustment on the prior year including opening reserves. The impact of this is shown within the financial statements below, restating each of the affected financial statement line items. The method applied for calculating the lease impact is the retrospective approach consistent with the broader historical transition to IFRS 16. Of the restatement, 98% relates to Ethernet circuits.

Summary of financial impact of restating IFRS 16 including Ethernet on the Group's consolidated financial statements

The following tables summarise the financial impacts of restating IFRS 16 including Ethernet on the Group's financial statements:

Consolidated income statement

	2022 Headline			2022 Statutory		
	Previously reported £m	IFRS 16 restatement £m	As Restated £m	Previously reported £m	IFRS 16 restatement £m	As Restated £m
Revenue	1,455	—	1,455	1,455	—	1,455
Cost of sales	(761)	84	(677)	(761)	84	(677)
Gross profit	694	84	778	694	84	778
Operating expenses	(410)	22	(388)	(466)	22	(444)
EBITDA	284	106	390	228	106	334
Depreciation and amortisation	(197)	(84)	(281)	(197)	(84)	(281)
Share of results of joint ventures and associates	(6)	—	(6)	(6)	—	(6)
Operating profit	81	22	103	25	22	47
Net finance costs	(53)	(25)	(78)	(53)	(25)	(78)
Profit/(loss) before taxation	28	(3)	25	(28)	(3)	(31)
Taxation	33	—	33	43	—	43
Profit/(loss) for the year	61	(3)	58	15	(3)	12

Consolidated balance sheet

	Impact of restatement		
	Previously reported £m	IFRS 16 restatement £m	As restated £m
1 March 2021			
Property, plant and equipment	333	448	781
Contract costs	427	(89)	338
Deferred tax asset	135	2	137
Other assets	959	—	959
Total assets	1,854	361	2,215
Current lease liabilities	(66)	(52)	(118)
Non-current lease liabilities	(167)	(329)	(496)
Other liabilities	(1,250)	—	(1,250)
Total liabilities	(1,483)	(381)	(1,864)
Net assets	371	(20)	351
Retained earnings	263	(20)	243
Other equity	108	—	108
Total equity	371	(20)	351

	Impact of restatement		
	Previously reported £m	IFRS 16 restatement £m	As restated £m
28 February 2022			
Property, plant and equipment	322	531	853
Contract costs	504	(95)	409
Deferred tax asset	183	2	185
Other assets	1,013	—	1,013
Total assets	2,022	438	2,460
Current lease liabilities	(66)	(63)	(129)
Non-current lease liabilities	(177)	(398)	(575)
Other liabilities	(1,372)	—	(1,372)
Total liabilities	(1,615)	(461)	(2,076)
Net assets	407	(23)	384
Retained earnings	299	(23)	276
Other equity	108	—	108
Total equity	407	(23)	384

Consolidated cashflow statement

	2022 (restated)		
	Previously reported £m	IFRS 16 restatement £m	As restated £m
Impact on cash generated from operations:			
Operating activities			
Operating profit	25	22	47
Depreciation of property, plant and equipment	120	84	204
Amortisation of other operating intangible assets	77	—	77
Share of losses of joint ventures and associates	6	—	6
Reversal of cost of inventories previously written down	(1)	—	(1)
Decrease in provisions	(1)	—	(1)
Operating cash flows before movements in working capital	226	106	332
Increase in trade and other receivables	(20)	—	(20)
Increase in contract assets	(75)	6	(69)
Decrease in inventories	19	—	19
Increase in trade and other payables	1	—	1
Increase in contract liabilities	4	—	4
Cash flows generated from operating activities	155	112	267
Income taxes paid	—	—	—
Net cash flows generated from operating activities	155	112	267
Investing activities			
Investment in joint ventures and associates	(9)	—	(9)
Investment in intangible assets	(49)	—	(49)
Investment in property, plant and equipment	(26)	(22)	(48)
Cash flows used in investing activities	(84)	(22)	(106)
Financing activities			
Sale of own shares	21	—	21
Amounts advanced to parent undertakings	(89)	—	(89)
Repayments of obligations under leases	(70)	(65)	(135)
Drawdown of borrowings	103	—	103
Interest paid on borrowings	(34)	—	(34)
Interest paid in respect of lease obligations	(13)	(25)	(38)
Other finance costs	(3)	—	(3)
Cash flows used in financing activities	(85)	(90)	(175)
Net decrease in cash and cash equivalents	(14)	—	(14)
Cash and cash equivalents at the start of the year	34	—	34
Cash and cash equivalents at the end of the year	20	—	20

2. Segmental reporting and operating profit/(loss)

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.

	Year ended 28 February 2023 £m	Year ended 28 February 2022 (restated) ⁽¹⁾ £m
Headline EBITDA⁽²⁾	297	390
Depreciation of property, plant and equipment	(196)	(204)
Amortisation of operating intangibles	(53)	(77)
Share of results of joint ventures and associates	(6)	(6)
Non-headline items – other income	33	—
Non-headline items – operating expenses	(39)	(56)
Statutory operating profit (note 6)	36	47

(1) See note 1 for further details on the restatement of prior year.

(2) See note 1 for an explanation of alternative performance measures (APMs) and non-headline items. See note 6 for a reconciliation of Statutory information to headline information.

Total Statutory revenue can be disaggregated as below:

	Year ended 28 February 2023 £m	Year ended 28 February 2022 £m
Equipment	3	42
Services	1,454	1,413
Total Statutory revenue	1,457	1,455

Operating profit is stated after charging/(crediting):

	Year ended 28 February 2023 £m	Year ended 28 February 2022 (restated) ⁽¹⁾ £m
Depreciation of property, plant and equipment (note 8)	34	47
Depreciation of right of use assets (note 8)	162	157
Amortisation of capitalised development costs (note 7)	53	77
Expected credit loss recognised on financial assets (note 13)	15	8
Employee benefit expense (note 3)	118	109
Cost of inventories recognised as expense	32	35
Reversal of cost of inventories previously written down	—	(1)
Lease expenses under the low value exemption	6	5
Auditors' remuneration ⁽²⁾	—	—
Service level disputes	(2)	(3)
Non-headline items (note 6)	6	56

(1) See note 1 for an explanation of alternative performance measures (APMs) and non-headline items. See note 6 for a reconciliation of Statutory information to Headline information.

(2) Audit fees in the current and prior year were paid by TalkTalk Holdings Limited.

3. Employee costs

Accounting policy

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service. Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. A liability for a termination benefit is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

The average monthly number of employees (including Executive Directors) was:

	Year ended 28 February 2023 Number	Year ended 28 February 2022 Number
Administration	1,294	1,430
Sales and customer management	592	480
	1,886	1,910

The aggregate remuneration recognised in respect of these employees excluding non-headline costs of £1m (2022: £5m) comprised:

	Year ended 28 February 2023 £m	Year ended 28 February 2022 £m
Wages and salaries	101	93
Social security costs	12	11
Pension costs (defined contribution plans)	5	5
	118	109

Compensation earned by key management personnel including non-headline costs is analysed below. The key management personnel comprised the Board and the Group's Executive Committee.

	Year ended 28 February 2023 £m	Year ended 28 February 2022 £m
Short-term employee benefits	5	4
Share-based payments	—	3
	5	7

Share-based payments in the prior year reflect cash payments made as a result of the Public to Private Transaction and the close out of long-term share-based incentive plans as well as the IFRS 2 charge for any schemes active during the year.

Directors' emoluments are analysed as below:

	Year ended 28 February 2023 £m	Year ended 28 February 2022 £m
Short-term employee benefits	2	1
Share-based payments	—	1
	2	2

Pension costs are contributions made to the Group's defined contribution Group Pension Plan or cash in lieu paid at 6% of annual base salary. Share-based payments in the prior year reflect cash payments made as a result of the Public to Private Transaction and the close out of long-term share-based incentive plans as well as the IFRS 2 charge for any schemes active during the year.

The highest paid Director's remuneration was £720,129 (2022: £1,399,685) – of which £541,008 (2022: £517,650) was base salary, £129,413 (2022: £nil) was bonuses, £17,248 (2022: £17,243) benefits, £32,460 (2022: £31,059) defined contribution pension payments and £nil (2022: £833,734) cash payments relating to the share plans closed as a result of the Public to Private Transaction.

4. Net finance costs

Net finance costs are analysed as follows:

	Year ended 28 February 2023 £m	Year ended 28 February 2022 (restated) ⁽¹⁾ £m
Interest on Senior Notes, bank loans and overdrafts	44	34
Interest on lease liabilities	58	38
Amortisation of deferred facility fees	4	4
Interest income from Group companies	(5)	—
Other finance costs	5	2
Net finance costs	106	78

1. See note 1 for further details on the restatement of prior year.

The average interest rate in the year was 7.2% (2022: 4.2%).

5. Taxation

Accounting policy

Taxation represents current tax and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

A provision is recognised for those matters for which the tax determination is uncertain, but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Group supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the reporting date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Tax – income statement

The tax charge/(credit) comprises:

	Year ended 28 February 2023 £m	Year ended 28 February 2022 £m
Current tax		
Current year	—	—
Adjustments in respect of prior years	(9)	5
Total current tax (credit)/charge	(9)	5
Deferred tax		
Origination and reversal of temporary differences	—	(5)
Effect of change in tax rate	—	(43)
Derecognition of deferred tax asset	194	—
Total deferred tax charge/(credit)	194	(48)
Total tax charge/(credit)	185	(43)

The tax charge on headline earnings for the year ended 28 February 2023 was £187m (2022: £33m credit), representing an effective tax rate on pre-tax (losses)/profits of -292% (2022 restated: -140%). The tax charge on Statutory earnings for the year ended 28 February 2023 was £185m (2022: £43m credit), representing an effective tax rate on pre-tax (losses)/profits of -264% (2022 restated: -139%). The reconciliation between the Statutory and headline tax charge is shown in note 6.

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. The proposal to increase the rate to 25% has been substantively enacted at the balance sheet date, therefore its effects are included in these financial statements. The Group has recognised all deferred tax assets and liabilities at the substantively enacted corporation tax rate of 25%.

The principal differences between the tax charge and the amount calculated by applying the standard rate of UK corporation tax of 19% (2022: 19%) to the loss before taxation are as follows:

	Year ended 28 February 2023 £m	Year ended 28 February 2022 (restated) ⁽¹⁾ £m
Loss before taxation	(70)	(31)
Tax at 19% (2022: 19%)	(13)	(6)
Items attracting no tax relief or liability	(1)	2
Acquisition of subsidiary	(2)	—
Group relief claimed for nil compensation	—	(1)
Effect of change in tax rate	—	(45)
Movement in deferred tax asset not recognised	210	—
Movement in unrecognised tax losses	—	2
Adjustments in respect of prior years	(9)	5
Tax charge/(credit) through income statement	185	(43)

(1) See note 1 for further details on the restatement of prior year.

No tax charge/(credit) 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:

	Acquisition intangibles £m	Temporary differences on capitalised costs £m	Tax losses £m	IFRS 16 £m	IFRS 9 £m	Short-term temporary differences £m	Total £m
At 1 March 2022 (restated)⁽¹⁾	—	62	117	3	2	1	185
Adjustments in respect of prior years	—	7	—	—	—	2	9
Acquisition of subsidiary (note 9)	(2)	—	—	—	—	—	(2)
Charge to the income statement	—	(69)	(117)	(3)	(2)	(1)	(192)
At 28 February 2023	(2)	—	—	—	—	2	—

(1) See note 1 for further details on the restatement of prior year.

	Share-based payments £m	Temporary differences on capitalised costs £m	Tax losses £m	IFRS 16 £m	IFRS 9 £m	Short-term temporary differences £m	Total £m
At 1 March 2021 as previously reported	3	41	88	1	2	—	135
IFRS 16 restatement	—	—	—	2	—	—	2
At 1 March 2021 (restated)⁽¹⁾	3	41	88	3	2	—	137
Adjustments in respect of prior years	—	(1)	1	—	—	—	—
Effect of change in tax rate	1	12	29	—	—	1	43
Credit/(charge) to the income statement	(4)	10	(1)	—	—	3	5
At 28 February 2022 (restated)⁽¹⁾	—	62	117	3	2	4	185

(1) See note 1 for further details on the restatement of prior year.

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:

	Year ended 28 February 2023 £m	Year ended 28 February 2022 (restated) ⁽¹⁾ £m
Deferred tax assets	2	185
Deferred tax liabilities	(2)	—
Total deferred tax	—	185

(1) See note 1 for further details on the restatement of prior year.

During the year, the Group de-recognised its deferred tax assets relating to losses and timing differences due to uncertainty over the timing of utilisation. Management considered its forecasts and applied a range of reasonable sensitivities in reaching this conclusion.

No deferred tax asset has been recognised in respect of £130m (2022: £24m) of losses as there is insufficient evidence that there will be no suitable taxable profits against which these losses can be recovered. All losses may be carried forward indefinitely.

No deferred tax asset has been recognised in respect of £81m (2022: £nil) of fixed asset differences and £7m (2022: £nil) short-term timing differences.

A deferred tax asset as at 28 February 2023 of £4m (2022: £1m) has not been recognised in respect of Research and Development Expenditure Credits as there is currently insufficient evidence that there will be suitable taxable profits against which this asset can be recovered.

6. Reconciliation of Statutory information to Headline 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

Non-headline items are items that based on their size, nature and/or incidence are assessed to warrant separate disclosure to provide supplementary information to support the understanding of the underlying trading results and performance of the Group. Non-headline items typically comprise discontinued operations, material exited businesses, costs/profits/losses on material acquisitions/disposals/business exits, transformational reorganisation programmes and other material exceptional events. Certain transformation and rationalisation programmes are so fundamental they may impact a number of years. Items that do not have these characteristics are reported within headline results.

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

Year ended 28 February 2023	Revenue £m	Gross profit £m	EBITDA (1) £m	Depreciation, amortisation and results of joint ventures £m	Operating profit £m	(Loss)/profit before taxation £m	Taxation £m	(Loss)/profit for the year £m
Statutory results	1,457	741	291	(255)	36	(70)	(185)	(255)
Copper to Fibre (a)	—	—	42	—	42	42	(8)	34
Merger & acquisitions activity (b)	—	—	(3)	—	(3)	(3)	—	(3)
Network Monetisation (c)	—	—	(33)	—	(33)	(33)	6	(27)
Headline results	1,457	741	297	(255)	42	(64)	(187)	(251)

Year ended 28 February 2022 (restated) ⁽¹⁾	Revenue £m	Gross profit £m	EBITDA ⁽¹⁾ £m	Depreciation, amortisation and results of joint ventures £m	Operating profit £m	(Loss)/profit before taxation £m	Taxation £m	Profit for the year £m
Statutory results (restated)⁽¹⁾	1,455	778	334	(287)	47	(31)	43	12
Copper to Fibre (a)	—	—	31	—	31	31	(6)	25
Merger & acquisitions activity (b)	—	—	5	—	5	5	(1)	4
Transformational reorganisation programmes (d)	—	—	3	—	3	3	—	3
Public to Private Transaction (e)	—	—	6	—	6	6	(1)	5
Accelerated amortisation of contract assets (f)	—	—	11	—	11	11	(2)	9
Headline results (restated)⁽¹⁾	1,455	778	390	(287)	103	25	33	58

(1) See note 1 for further details on the restatement of prior year.

(a) Copper to Fibre programme

During the year ended 28 February 2022 the Group defined its multi-year programme to decommission the legacy copper business infrastructure in line with an industry wide transition to Full Fibre broadband and as a result concluded the programme has met its definition of non-headline. This project is estimated to last for the next four years. The project is leading to duplicated expenditure where legacy copper costs continue to be incurred in the existing local exchanges (mainly for voice) as well as initiating new Fibre costs in the modern metro exchanges. Non-headline costs relating to this project totalled £42m (2022: £31m) for the current year.

A taxation credit of £8m has been recognised on these costs (2022: £6m).

Cash adjusting items were an outflow of £35m (2022: £25m).

(b) Merger & acquisitions activity

During the year, the Group acquired one (2022: one) subsidiary. Please see note 9 for more information on these acquisitions. These transactions gave rise to £2m (2022: £5m) of directly attributable costs including transaction fees, redundancy costs, impairment charges and dual running costs.

During the prior year, the group acquired 100% of the issued share capital obtaining control of OB Telecom Limited, a retailer and distributor of Telecommunications. The entire purchase consideration was in the form of contingent consideration. The amount settled will be cash flows generated by OB Telecom Limited for the first three years trading, plus a payment for a "terminal value". The terminal value is based on a mixture of average margin per unit and customer churn over the three years. During the current year, the fair value of the contingent consideration was reduced from £7m to £2m. The corresponding £5m credit (2022: £nil) has been recognised within non-headline items.

A taxation credit of £nil has been recognised on these costs (2022: £1m).

Cash adjusting items were an outflow of £2m (2022: £1m).

(c) Network monetisation

During the year, as part of a broader strategy to monetise the Group's network, the Group disposed of IP addresses. This resulted in other income of £33m (2022: £nil) for the current year.

A taxation impact of £6m has been recognised on this income (2022: £nil).

Cash adjusting items were an inflow of £33m (2022: £nil).

(d) Transformational reorganisation programmes

Following the emergence of the Covid-19 global pandemic and the Public to Private Transaction described in section (e) below, the Group continued to review its operating model. This resulted in costs of £nil (2022: £3m) in the financial year ended 28 February 2023.

The costs incurred in the prior year included redundancy payments, dual-running costs, recruitment costs, retention payments and consultancy costs.

A taxation credit of £nil has been recognised on these costs (2022: £nil).

Cash adjusting items were an outflow of £nil (2022: £7m).

(e) Public to Private Transaction

On 17 December 2020, the Directors recommended an offer from TalkTalk Holdings Limited to acquire the entire ordinary share capital of TalkTalk Telecom Group Limited. The acquisition was implemented by way of a Court-approved Scheme of Arrangement. The Scheme became effective on 12 March 2021 and as a result of the transaction the Group has incurred £nil (2022: £6m) of directly attributable costs in respect of broker and financial advice, legal advice, consultancy services, tax and accounting advice and due diligence services.

A taxation credit of £nil has been recognised on these costs (2022: £1m).

Cash adjusting items were an outflow of £nil (2022: £14m).

(f) Accelerated amortisation of contract assets

During the period ended 28 February 2021, a material customer contract was terminated early giving rise to an impairment charge of £8m against the deferred cost asset held in respect of that contract. Amortisation of the remaining value of the deferred cost asset was accelerated to match the contribution to profits of the contract during the prior year. This acceleration resulted in an incremental charge of £11m being recognised in the prior year. Deferred costs relating to this contract were fully amortised at the end of the prior year.

A taxation credit of £nil has been recognised on these costs (2022: £2m).

Cash adjusting items were an outflow of £nil (2022: £9m).

7. 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 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.

At the commencement of the year, the Group had three CGUs (2022: four), of which three (2022: three) had 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. In prior years, the Group had identified its mobile operations as a separate CGU given that the results of this business could be separately identified and the cashflows were largely independent. Given this is no longer the case, mobile operations is no longer considered to be a separate CGU for the Group.

Cash inflows for the CGUs are generated as follows:

CGU	Services provided
TalkTalk Consumer Direct	Telecommunication services to retail customers
TalkTalk Wholesale	Telecommunication services through partner or wholesale channels
TalkTalk Direct B2B	Telecommunication services to B2B customers through direct channels

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, where a terminal value is then included. 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.

	2023 £m	2022 £m
Opening	499	495
Acquisitions (note 9)	5	4
Closing cost and net book value	504	499

The goodwill acquired in business combinations is allocated at acquisition to the CGUs that are expected to benefit from that business combination as follows:

	2023 £m	2022 £m
TalkTalk Consumer Direct	351	351
TalkTalk Wholesale	93	88
TalkTalk Direct B2B	60	60
	504	499

Impairment review

Following an annual test of impairment, no impairment was recognised in the current or prior year, since the value in use for each CGU was identified to be greater than carrying value of the asset.

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 1.8% (2022: 1.5%).
- **Discount rate**

The underlying discount rate for each CGU is based on the UK 20-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 8.6% (2022: 7.2%) is used to discount the forecast pre-tax cash flows, this discount rate incorporates the impact of the additional debt following the application of IFRS 16. 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 new connections, churn, ARPU, direct costs including acquisition costs, and changes in product mix. These key assumptions are based on the Group's budget and three-year plan, and reflect management's expectations based on the Group's operational plans, customer and competitor behaviour, historical trends and other available external information on expected trends in future market developments.

- **Profitability**

Forecast profitability over a three-year period to February 2026 has been taken from the Group's Board approved forecasts. Future 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, lower than expected cost savings or the failure to deliver strategic initiatives. 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

Capitalised development costs

Capitalised development costs 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. Any research expenditure is also expensed 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. Capitalised development costs 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 ten 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:

	Capitalised development costs £m	Acquisition intangibles £m	Total other intangibles £m
Opening balance at 1 March 2022	163	3	166
Additions	73	—	73
Acquisition of subsidiary (note 9)	—	6	6
Amortisation	(53)	—	(53)
Closing balance at 28 February 2023	183	9	192
Cost (gross carrying amount)	874	9	883
Accumulated amortisation	(691)	—	(691)
Closing balance at 28 February 2023	183	9	192

	Capitalised development costs £m	Acquisition intangibles £m	Operating intangibles £m
Opening balance at 1 March 2021	189	—	189
Additions	51	3	54
Amortisation	(77)	—	(77)
Closing balance at 28 February 2022	163	3	166
Cost (gross carrying amount)	796	3	799
Accumulated amortisation	(633)	—	(633)
Closing balance at 28 February 2022	163	3	166

Acquisition intangibles

Acquisition intangibles relate to customer bases and brand names acquired from Telecom Acquisitions Limited in the current year and the customer bases acquired from OB Telecom Limited in the prior year (note 9). These assets were valued using an excess earnings valuation methodology.

8. Property, plant and equipment

Accounting policy

Plant, machinery, fixtures and fittings are stated at cost less accumulated depreciation and accumulated impairment loss.

Depreciation is recognised so as to write off the cost or valuation of assets (other than assets under construction) less their residual values over their useful lives, using the straight-line method, on the following bases:

Fixtures and fittings and short leasehold improvements	10–20% per annum or lease term if shorter
Network and customer premise equipment and computer hardware	12.5–67% per annum
Right of use network equipment	14.3–20% per annum
Right of use land and buildings	3.5–100% per annum

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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 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 and reviews this annually. The right of use assets are presented as part of Property, plant and equipment within the same line item as that with which the corresponding underlying assets would be presented if they were owned.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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 7 for operating and acquisition intangibles.

	Land and buildings	Short leasehold improvements	Network and customer premise equipment and computer hardware	Fixtures and fittings	Total
	£m	£m	£m	£m	£m
Property plant and equipment					
Opening balance at 1 March 2022	46	3	802	2	853
Additions	—	—	274	—	274
Transferred from company under common control (note 23)	—	—	92	—	92
Disposals	(1)	—	(160)	—	(161)
Depreciation	(4)	—	(191)	(1)	(196)
Closing balance at 28 February 2023	41	3	817	1	862
Cost (gross carrying amount)	61	9	1,803	13	1,886
Accumulated depreciation and impairment charges	(20)	(6)	(986)	(12)	(1,024)
Closing balance at 28 February 2023	41	3	817	1	862

Included in the above table are the following right of use assets:

	Land and buildings	Network and customer premise equipment and computer hardware	Total
	£m	£m	£m
Right of use assets			
Opening balance at 1 March 2022	46	719	765
Additions	—	256	256
Transferred from company under common control (note 23)	—	92	92
Disposals	(1)	(160)	(161)
Depreciation	(4)	(158)	(162)
Closing balance at 28 February 2023	41	749	790

	Land and buildings	Short leasehold improvements	Network and customer premise equipment and computer hardware	Fixtures and fittings	Total
	£m	£m	£m	£m	£m
Property plant and equipment					
Opening balance at 1 March 2021 as previously reported	47	2	280	4	333
IFRS 16 restatement	—	—	448	—	448
Opening balance at 1 March 2021 (restated)	47	2	728	4	781
Additions (restated) ⁽¹⁾	3	1	332	—	336
Acquisition of subsidiary (note 9)	—	—	1	—	1
Disposals (restated) ⁽¹⁾	—	—	(61)	—	(61)
Depreciation (restated) ⁽¹⁾	(4)	—	(198)	(2)	(204)
Closing balance at 28 February 2022 (restated)⁽¹⁾	46	3	802	2	853
Cost (gross carrying amount)	61	9	1,885	13	1,968
Accumulated depreciation and impairment charges	(15)	(6)	(1,083)	(11)	(1,115)
Closing balance at 28 February 2022 (restated)⁽¹⁾	46	3	802	2	853

(1) See note 1 for further details on the restatement of prior year.

Included in the above table are the following right of use assets:

	Land and buildings	Network and customer premise equipment and computer hardware	Total
	£m	£m	£m
Right of use assets			
Opening balance at 1 March 2021	47	175	222
IFRS 16 restatement	—	448	448
Opening balance at 1 March 2021 (restated)	47	623	670
Additions (restated) ⁽¹⁾	3	309	312
Acquisition of subsidiary (note 9)	—	1	1
Disposals (restated) ⁽¹⁾	—	(61)	(61)
Depreciation (restated) ⁽¹⁾	(4)	(153)	(157)
Closing balance at 28 February 2022 (restated)⁽¹⁾	46	719	765

(1) See note 1 for further details on the restatement of prior year.

Right of use assets as are pledged as security for corresponding lease liabilities in note 11.

9. 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.

(a) Investments

The Group 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	Soapworks ⁽²⁾	Holding company	100
TalkTalk Brands Limited	England & Wales	Soapworks ⁽²⁾	Telecommunications	100
TalkTalk Group Limited	England & Wales	Soapworks ⁽²⁾	Holding company	100
TalkTalk Business (2CCH) Limited	England & Wales	Soapworks ⁽²⁾	Dormant	100
TalkTalk Communications Limited	England & Wales	Soapworks ⁽²⁾	Telecommunications	100
CPW Network Services Limited	England & Wales	Soapworks ⁽²⁾	Telecommunications	100
TalkTalk Corporate Limited	England & Wales	Soapworks ⁽²⁾	Holding company	100
Core Telecommunications Limited	England & Wales	Soapworks ⁽²⁾	Dormant	100
Telco Global Limited	England & Wales	Soapworks ⁽²⁾	Dormant	100
Vartec Telecom Europe Limited	England & Wales	Soapworks ⁽²⁾	Dormant	100
Video Networks Limited	England & Wales	Soapworks ⁽²⁾	Dormant	100
World Online Telecom Limited	England & Wales	Soapworks ⁽²⁾	Dormant	100
TalkTalk Direct Limited	England & Wales	Soapworks ⁽²⁾	Dormant	100
Opal Business Solutions Limited	England & Wales	Soapworks ⁽²⁾	Dormant	100
UK Telco (GB) Limited	England & Wales	Soapworks ⁽²⁾	Dormant	100
Onetel Telecommunications Limited	England & Wales	Soapworks ⁽²⁾	Dormant	100
V Networks Limited	England & Wales	Soapworks ⁽²⁾	Dormant	100
Green Dot Property Management Limited	England & Wales	Soapworks ⁽²⁾	Dormant	100
Virtual1 Communications Limited (formerly Executel Limited)	England & Wales	Soapworks ⁽²⁾	Dormant	100
Greystone Telecom Limited	England & Wales	Soapworks ⁽²⁾	Dormant	100
Pipex Internet Limited	England & Wales	Soapworks ⁽²⁾	Dormant	100
Pipex Communications Services Limited	England & Wales	Soapworks ⁽²⁾	Dormant	100
Pipex UK Limited	England & Wales	Soapworks ⁽²⁾	Dormant	100
TalkTalk Telecom Limited	England & Wales	Soapworks ⁽²⁾	Telecommunications	100
Telco Holdings Limited	England & Wales	Soapworks ⁽²⁾	Holding company	100
Tiscali UK Limited	England & Wales	Soapworks ⁽²⁾	Dormant	100
TalkTalk TV Entertainment Limited	England & Wales	Soapworks ⁽²⁾	Telecommunications	100
tIPicall Limited	England & Wales	Soapworks ⁽²⁾	Telecommunications	100
Nottingdale Receivables Limited ³	England & Wales	6 St Andrew Street ⁽⁴⁾	Receivables financing	—
Adventure Telecom Limited	England & Wales	Soapworks ⁽²⁾	Telecommunications	100
Treetop Telecom Limited	England & Wales	Soapworks ⁽²⁾	Dormant	100
TalkTalk Direct B2B Limited	England & Wales	Soapworks ⁽²⁾	Telecommunications	100
OB Telecom Limited	England & Wales	Soapworks ⁽²⁾	Telecommunications	100
Telecom Acquisitions Ltd	England & Wales	Global House ⁽⁵⁾	Telecommunications	50.1
Hive Telecom Limited	England & Wales	Global House ⁽⁵⁾	Dormant	50.1
Fleur Telecom Limited	England & Wales	Global House ⁽⁵⁾	Telecommunications	50.1
Home Telecom Limited	England & Wales	Global House ⁽⁵⁾	Telecommunications	50.1
Eclipse Broadband Limited	England & Wales	Global House ⁽⁵⁾	Telecommunications	50.1

(1) Directly held subsidiary.

(2) Full address: Soapworks, Ordsall Lane, United Kingdom M5 3TT

(3) Consolidated on the grounds of substance (see note 16).

(4) Full address: 5th Floor, 6 St Andrew Street, London EC4A 3AE.

(5) Full address: Global House, 60b Queen Street, Horsham, England, RH13 5AD.

(b) Acquisitions and disposals

(i) Acquisitions

Outlined below is a summary of the consideration paid, the fair value of acquired intangible assets, the fair value of other acquired assets and liabilities assumed at the acquisition date and the resulting goodwill for each acquisition made during the current year, with further detail provided for each acquisition below.

Acquisition	Goodwill £m	Intangible assets recognised on acquisition £m	Acquired deferred tax liabilities £m	Fair value of other identifiable assets and liabilities £m	NCI £m	Consideration £m	Cash acquired £m	Contingent consideration £m	Net cash outflow £m
Telecom Acquisitions Limited	5	6	(2)	(2)	1	6	—	2	4
Total	5	6	(2)	(2)	1	6	—	2	4

On 31 October 2022, the Group acquired 50.1% of the issued share capital of Telecom Acquisitions Limited and its subsidiaries, a provider in the Telecommunications sector. The transaction has been assessed as qualifying as a business as defined by IFRS 3 'Business Combinations' and therefore the acquisition has been accounted for under IFRS 3. An assessment against IFRS 10 'Consolidated Financial Statements' has established the Group has met the criteria of control. The acquisition is complementary to the Group's existing business model.

The transaction was settled by £4m cash, with a further £2m consideration contingent on an exit event. Intangible assets recognised on acquisition are existing customer books and trade names.

Acquisition related costs of £nil were recognised in relation to the transaction.

The Group has recognised £5m of revenue and £nil profit within the consolidated income statement relating to Telecom Acquisitions Limited in the current year.

If Telecom Acquisitions Limited had been purchased on 1 March, revenue contribution would have been £14m and profit contribution would have been £1m.

The assets and liabilities recognised on acquisition are as follows:

Intangible assets recognised on acquisition	6
Trade and other receivables	2
Total assets	8
Deferred tax liability	(2)
Debt	(4)
Trade creditors and accruals	-
Deferred revenue	-
Total liabilities	(6)
Net assets acquired	2
Non-controlling interest in net assets acquired	1
Controlling interest in net assets acquired	1
Goodwill recognised	5
Total net assets	6
Satisfied by:	
Cash consideration	4
Contingent consideration	2
Total consideration	6

The provisional goodwill recognised is representative of future opportunities arising from the customer base and brand names.

Provisional goodwill has been allocated to the Wholesale CGU. None of the goodwill is expected to be deductible for tax purposes. If new information is obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition, or any additional provisions that existed at the date of acquisition, then the accounting for the acquisition will be revised.

OB Telecom Limited

On 24 September 2021, the Group acquired 100% of the issued share capital obtaining control of OB Telecom Limited, a retailer and distributor of Telecommunications. OB Telecom Limited was assessed as qualifying as a business as defined under IFRS 3 'Business Combinations' and therefore the acquisition has been accounted for under IFRS 3. The acquisition is complementary to the Group's existing business model.

Acquisition related costs of £2m (2022: £5m) were recognised in the year in relation to the transaction (note 6). The entire purchase consideration was in the form of contingent consideration. The amount settled will be cash flows generated by OB Telecom Limited for the first three years trading, plus a payment for a "terminal value". The terminal value is based on a mixture of average margin per unit and customer churn over the three years. During the current year, following a change in migration plan, the fair value of the contingent consideration was reduced from £7m to £2m. The corresponding £5m credit (2022: £nil) has been recognised within non-headline items (note 6).

The goodwill recognised is representative of future opportunities arising from the customer base acquired. Goodwill has been allocated to the Consumer CGU.

(iii) Disposals

During the year the Group made no disposals of investments.

10. Investment in joint ventures and associates

Accounting policy

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Interests in joint ventures and associates 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 for the year.

In the Group consolidated balance sheet, the Group's interest in joint ventures and associates shown as a non-current asset, representing the Group's investment in the share capital of the joint ventures, as adjusted for post-acquisition changes in the Group's share of the net assets or liabilities less provision for any impairment.

In addition to the carrying amount of the investment, the Group's interest in joint ventures includes, where applicable, any long-term interests in the venture that, in substance, form part of the Group's net investment in the joint venture. An item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension of the Group's interest in that joint venture.

Any loans advanced to a joint venture that, in substance, do not form part of the Group's net investment are shown separately in the balance sheet as a receivable to the Group. Losses recognised using the equity method in excess of the Group's investment in ordinary shares are applied to the other components of the Group's interest in the joint venture in the reverse order of their seniority (i.e. priority in liquidation).

The Group has investments in the following joint ventures and associates:

Joint venture and associates undertakings	Country of incorporation or registration	Registered office	Principal activity	Percentage of ordinary shareholding
YouView TV Limited	England & Wales	10 Lower Thames Street ⁽¹⁾ 6th Floor, One London	Telecommunications	14.3
Internet Matters Limited	England & Wales	Wall ⁽²⁾	Telecommunications	25.0
Freedom Fibre Limited	England & Wales	145-147 Liverpool Road ⁽³⁾	Telecommunications	40.0

(1) Full address: 10 Lower Thames Street, Third Floor, London EC3R 6YT.

(2) Full address: 6th Floor, One London Wall, London EC2Y 5EB.

(3) Full address: 145-147 Liverpool Road, Cadishead, Manchester, M44 5BT.

Freedom Fibre Limited

On 13 September 2021, the Group acquired 40% of the share capital of Freedom Fibre Limited, an associate who provide internet services in all locations, for consideration of £4m. During the year ended 28 February 2023, the Group recognised a £3m share of losses (2022: £1m).

YouView TV Limited 'YouView'

The Group holds 14.3% (2022: 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. During the year ended 28 February 2023, the Group recognised a £3m share of losses (2022: £5m).

Internet Matters Limited

The Group has an equal share of a joint venture with BSkyB, BT and Virgin Media in Internet Matters Limited. The joint venture is a not-for-profit company set up as an industry-led body to promote and educate parents about internet safety for children. All four partners share overall control under this agreement, having equal ownership rights.

YouView and Internet Matters Limited have a reporting period ended 31 March while Freedom Fibre has a reporting period ended 30 November. When calculating the share of losses their results are amended to align to the Group's reporting period. The reporting periods aren't aligned to the Group given the requirements of the other participating partners.

Interest in joint ventures and associates is analysed as follows:

	2023 £m	2022 £m
Opening balance at 1 March	3	—
Additions	3	9
Share of results	(6)	(6)
Closing balance at 28 February	—	3

The Group's share of the results, assets and liabilities of its joint ventures and associates are as follows:

	2023 £m	2022 £m
Group share of results of joint ventures and associates		
Expenses	(6)	(6)
Loss before taxation	(6)	(6)
Taxation	—	—
Loss after taxation	(6)	(6)
Group share of net assets of joint ventures and associates		
Non-current assets	—	—
Net assets	—	—

11. Leases

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 the 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 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.

Management has revisited the IFRS 16 assessment made at the point of conversion and believe de-scoping certain network assets from IFRS 16, including Ethernet, was an error. As such, all Group Ethernet circuits are now within scope of IFRS 16. For more information on this, and its impact to the Group's financial statements, please see note 1.

The Group has used the exemption for leases of low value assets resulting in an expense being recognised straight line in operating expenses. The Group has applied this exemption to tie cables and laptops leading to an expense of £6m (2022: £5m) being recognised in operating expenses.

The Group has entered into lease agreements as a lessor with respect to property which it leases (the Group subleases some property). As the Group is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right of use asset arising from the head lease. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases.

Where the Group is a lessor and the sub-lease has been classified as a finance lease a non-current receivable has been recognised of £nil (2022: £2m) and a current receivable has been recognised of £1m (2022: £1m).

Where the Group is a lessor and the sub-lease has been classified as an operating lease the associated land and buildings of £nil (2022: £2m) continue to be recognised within property, plant and equipment. The Group has recognised rental income for these leases of £nil (2022: £1m). Rental income in future periods are expected to be £nil.

Right of use asset movements in the year ended 28 February 2023 are illustrated in note 8.

Lease liabilities

Lease liabilities movements in the year ended 28 February 2023 is as follows:

	Land and buildings £m	Network and customer premise equipment and computer hardware £m	Total £m
Opening balance at 1 March 2022	60	644	704
Additions	—	208	208
Transferred from company under common control (note 23)	—	92	92
Repayments	(6)	(172)	(178)
Interest	3	55	58
Disposal	(3)	(169)	(172)
Closing balance at 28 February 2023	54	658	712

	Land and buildings £m	Network and customer premise equipment and computer hardware £m	Total £m
Opening balance at 1 March 2021 (as previously reported)	62	171	233
IFRS 16 adjustment	—	381	381
Opening balance at 1 March 2021 (restated)⁽¹⁾	62	552	614
Additions (restated)	1	288	289
Acquisition of a subsidiary (note 9)	—	1	1
Repayments (restated)	(7)	(166)	(173)
Interest (restated)	4	34	38
Disposal (restated)	—	(65)	(65)
Closing balance at 28 February 2022 (restated)	60	644	704

(1) See note 1 for further details on the restatement of prior year.

The Group's outstanding liability can be further analysed as follows:

	2023 £m	2022 (restated) ⁽¹⁾ £m
Less than 1 year	108	129
1 to 2 years	105	118
2 to 3 years	103	107
3 to 4 years	94	93
4 to 5 years	87	71
>5 years	215	186
Total lease liabilities	712	704

(1) See note 1 for further details on the restatement of prior year.

12. Inventories

Accounting policy

Inventories are stated at the lower of cost and net realisable value. Cost comprises purchase price of the inventory and, where applicable, any costs that have been incurred in bringing the inventories to their present location and condition. Cost is calculated on a FIFO basis. Net realisable value represents the estimated selling price, less all estimated costs to be incurred in marketing, selling and distribution.

A provision is made for obsolete items where appropriate, taking into account technical obsolescence and the level of technical supplier support.

The inventories consist primarily of set top boxes, power line adaptors and routers.

	2023 £m	2022 £m
Goods for resale	23	15

The carrying value of inventory expected to be recovered or settled after more than twelve months at 28 February 2023 is £3m (2022: £1m).

During the year ended 28 February 2023, the Group recognised a gain within operating costs of £nil (2022: £1m) relating to the release of a stock provision against items expected to be utilised within twelve months.

13. Trade and other receivables

Trade and other receivables comprise:

	2023 £m	2022 £m
Non-current – trade and other receivables		
Amounts owed by other Group undertakings	146	89
Other receivables	3	3
Total Non-current trade and other receivables	149	92
Current – trade and other receivables		
Trade receivables – gross	78	81
Less expected credit losses	(22)	(14)
Trade receivables – net	56	67
Other receivables	85	69
Prepayments	8	24
Accrued income	14	22
Total current trade and other receivables	163	182
Total trade and other receivables	312	274

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 16 days (2022: 17 days).

Amounts owed by other Group undertakings arise on the provision of funding to other Group undertakings. Interest charged on balances is calculated at the Group's borrowing cost plus a margin. All balances disclosed are held at amortised cost.

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.

At 28 February 2023, a receivable of £19m (2022: £17m) 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.

The Group's trade receivables are all denominated in UK Sterling in both the current and prior year.

The ageing of gross trade receivables is as follows:

	2023 £m	2022 £m
Not yet due	59	53
0 to 2 months	11	14
2 to 4 months	3	4
Over 4 months	5	10
	78	81

The ageing of the expected credit losses of trade receivables is as follows:

	2023 £m	2022 £m
Not yet due	(3)	(1)
0 to 2 months	(11)	(3)
2 to 4 months	(3)	(4)
Over 4 months	(5)	(6)
	(22)	(14)

The following table details the risk profile of trade receivables:

	2023 %	2022 %
Not yet due	5	2
0 to 2 months	100	21
2 to 4 months	100	100
Over 4 months	100	60

Movements in the expected credit losses of trade receivables are as follows:

	2023 £m	2022 £m
Opening balance	(14)	(12)
Changes in loss allowance due to new trade and other receivables	(26)	(12)
Derecognised due to settlement	3	2
Receivables written off as irrecoverable	15	8
Closing balance	(22)	(14)

The Group has made provisions based on expected rates of recoverability and all unprovided amounts are considered to be recoverable. The ageing analysis of these trade receivables is as follows:

	2023 £m	2022 £m
0 to 2 months	—	11
2 to 4 months	—	—
Over 4 months	—	4
	—	15

14. Contract balances

Accounting policy

Contract assets and liabilities

The recognition of revenue 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 (50–120 months depending on product) 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 lifetime value analysis.

The contract assets and liabilities from contracts with customers were as follows:

	2023 £m	2022 £m
Contract assets	33	36
Contract liabilities	(25)	(25)
Net contract asset	8	11

The movement on contract assets can be explained as below:

	2023 £m	2022 £m
Opening balance	36	38
Additions	25	35
Disposals	(5)	(6)
Amortisation	(26)	(36)
Contract modifications	3	5
Closing balance	33	36

The movement on contract liabilities can be explained as below:

	2023 £m	2022 £m
Opening balance	(25)	(21)
Additions	(37)	(36)
Amortisation	37	32
Contract modifications	—	—
Closing balance	(25)	(25)

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.

Revenue expected to be recognised in future periods for performance obligations that are not complete (or are partially complete) as at 28 February 2023 is £25m (2022: £25m). This relates to service contracts and equipment and will substantially be recognised as revenue within three years.

Revenue recognised in the reporting year that was included in the contract liability balance at the beginning of the year was £20m (2022: £20m).

Contract costs

The movement on contract costs can be explained as follows:

	Costs to obtain £m	Costs to fulfil £m	Total £m
Opening balance at 1 March 2022 (restated) ⁽¹⁾	250	159	409
Additions	159	46	205
Amortisation	(96)	(50)	(146)
Closing balance at 28 February 2023	313	155	468

(1) See note 1 for further details on the restatement of prior year

	Costs to obtain £m	Costs to fulfil £m	Total £m
Opening balance at 1 March 2021 (restated) ⁽¹⁾	188	150	338
Additions (restated) ⁽¹⁾	138	87	225
Amortisation (restated) ⁽¹⁾	(76)	(78)	(154)
Closing balance at 28 February 2022 (restated) ⁽¹⁾	250	159	409

(1) See note 1 for further details on the restatement of prior year.

The increase in contract costs relates to marketing investment in Fibre products. There has also been an increase in the average customer tenure compared to earlier years, with customer tenure forming the basis of contract costs amortisation.

During the year ended 28 February 2023, the Group recognised accelerated amortisation of £nil (2022: £11m) on contract costs following a material customer contract being terminated (note 6).

15. Trade and other payables

Trade and other payables comprise:

	2023 £m	2022 £m
Current – trade and other payables		
Trade payables	442	253
Other taxes and social security costs	3	5
Other payables	11	16
Accruals	100	128
Deferred income	60	59
Total trade and other payables	616	461

The Group has agreed longer commercial credit terms of up to 300 days with certain suppliers, under which the liabilities continue to be recognised within trade payables. Including these suppliers, the average credit period taken was 93 days (2022 restated: 55 days). Included in trade payables are payables relating to capital expenditure amounting to £36m (2022: £24m).

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, bears 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 on the original invoice due date. The supplier will manage the timing profile of when it receives funds directly with the sponsoring bank independently of the Group; if election to receive payment early is made, it 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. Given there is no impact on Group cash flows from such arrangements there are no concentrations of liquidity risk which could arise from losing access to this facility. At 28 February 2023, the Group recognised an amount of £67m (2022: £52m) within trade payables, where the supplier had elected to utilise the supply chain facilities. As the liabilities are not classified as borrowings they have not been included within net debt or any associated key performance indicators.

Included in other payables is £2m contingent consideration relating to the acquisition of Telecom Acquisitions Limited (note 9) and £2m of contingent consideration relating to the acquisition of OB Telecom Limited (note 9).

16. Cash and cash equivalents and borrowings

Cash and cash equivalents comprise:

	2023 £m	2022 £m
Cash at bank and in hand	7	20

The effective interest rate on bank deposits and money market funds was 0.0% (2022: 0.0%).

(a) Lease liabilities comprise:

	2023 £m	2022 (restated) ⁽¹⁾ £m
Current lease liabilities	108	129
Non-current lease liabilities	604	575
	712	704

(1) See note 1 for further details on the restatement of prior year.

(b) Borrowings comprise:

	Maturity	2023 £m	2022 £m
Current			
£75m receivables purchase agreement facility	2023	64	—
Supplier working capital arrangement	2025	7	—
		71	—
Non-current			
£685m Senior Notes	2025	685	685
£330m revolving credit facility	2024	132	124
£75m receivables purchase agreement facility	2023	—	70
Supplier working capital arrangement	2025	11	—
		828	879
Total borrowings		899	879

Net debt comprises:

	2023 £m	2022 (restated) ⁽¹⁾ £m
Cash at bank and in hand	(7)	(20)
Lease liabilities	712	704
Borrowings	899	879
Net debt	1,604	1,563

(1) See note 1 for further details on the restatement of prior year.

Undrawn available committed facilities are as follows:

	Maturity	2023 £m	2022 £m
Undrawn available committed facilities (excluding leases)	2023, 2024	209	211

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

	2023 £m	2022 (restated) ⁽¹⁾ £m
Less than 1 year	179	129
1 to 2 years	928	188
2 to 3 years	107	916
3 to 4 years	94	93
4 to 5 years	88	71
>5 years	215	186
Total borrowings	1,611	1,583

(1) See note 1 for further details on the restatement of prior year.

The fair value of borrowings is not materially different to its amortised cost.

Borrowing facilities

At 28 February 2023, the Group's committed facilities were £1,090m (2022: £1,090m).

The Group's uncommitted facilities were £65m (2022: £65m) giving headroom on committed facilities and uncommitted facilities of £209m (2022: £211m) and £65m (2022: £65m) respectively.

Following the year end the uncommitted facilities have been reduced to £nil.

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.

The Group was in compliance with its covenants throughout the current and prior year. The Group has agreed certain amendments to the terms of its revolving credit facilities, including to the definition and level of covenant ratios. See page 29 for a full explanation.

Where fees are paid in arranging facilities these costs are capitalised and amortised over the period of the facility. At 28 February 2023, these costs amounted to £8m (2022: £11m).

Details of the Group's borrowing facilities as at 28 February 2023 are set out below:

£685m Senior Notes

In February 2020, TalkTalk Telecom Group PLC (now TalkTalk Telecom Group Limited) issued £575m Senior Notes due 2025. The Senior Notes include incurrence-based covenants customary for this type of debt, including limitations on the Group's ability to incur additional debt and make restricted payments, subject to certain exceptions. The Group is permitted to incur additional debt and pay dividends subject to compliance with a net debt to EBITDA ratio. Regardless of the Group'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 3.875% payable semi-annually. In February 2021, additional notes of £110m were issued increasing the 2025 Senior Notes from £575m to £685m. The additional notes have been used to reduce borrowings in the £430m RCF and cancel commitments down to £330m.

£330m revolving credit facility (RCF)

In April 2020, the Group signed a £430m RCF agreement, which matures in November 2024. The interest rate payable in respect of drawings under this facility is at a margin over SONIA with the actual margin dependent on the ratio of net debt to EBITDA calculated in respect of the most recent accounting year.

In February 2021, following the £110m additional notes raised due 2025 the Group cancelled £100m of commitments against its RCF agreement reducing the total RCF facility size from £430m to £330m, the maturity date remains as November 2024.

£75m receivables purchase agreement

In November 2021, the Group extended its receivables purchase agreement (£75m committed and £5m on an uncommitted basis) to mature in September 2023. Under this arrangement 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.

Supplier working capital arrangement

During the year the Group entered a multi-year supplier contract which included working capital finance. The arrangement advanced £22m to the Group, repayable over three years without interest. The balance was initially recognised at fair value by applying the Group's average borrowing rate, with subsequent measurement at amortised cost.

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 applicable borrowing rate. Following the year end, these uncommitted facilities have been cancelled.

Leases

The value of the Group's lease arrangements at 28 February 2023 was £712m (2022 restated: £704m). See note 11 for more details.

17. 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:

	2023 £m	2022 (restated) ⁽¹⁾ £m
Cash and cash equivalents	7	20
Contract costs	468	409
Current trade and other receivables ⁽²⁾	163	182
Non-current trade and other receivables	149	92
Contract assets	33	36
Financial assets at amortised cost	820	739
Derivative financial instrument	—	—
Fair value through profit and loss	—	—
Contract liabilities	(25)	(25)
Current trade and other payables	(616)	(461)
Current borrowings	(71)	—
Non-current borrowings	(828)	(879)
Financial liabilities at amortised cost	(1,540)	(1,365)
Total financial instruments	(720)	(626)

(1) See note 1 for further details on the restatement of prior year.

(2) Accrued income has been included within 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. Other products, such as interest rate swaps and 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 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 (2022: 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 28 February 2023 was £nil (2022: £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 the purchase of inventory, 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. Foreign exchange derivatives had no impact on borrowings in the current or prior year.

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. 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, with the exception of the Senior Notes, and thus expose the Group to cash flow interest rate risk. These floating rates are linked to SONIA 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 UK Sterling, being the currency in which almost all of the Group's cash and borrowings are denominated. 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.

	Year ended 28 February 2023 £m	Year ended 28 February 2022 £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.

The Group's core bank debt facilities, 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 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	>5 years £m	Total £m
Year ended 28 February 2023							
Borrowings	(109)	(866)	(5)	—	—	—	(980)
Leases	(180)	(169)	(155)	(136)	(118)	(267)	(1,025)
Trade and other payables	(616)	—	—	—	—	—	(616)
	(905)	(1,035)	(160)	(136)	(118)	(267)	(2,621)

	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	>5 years £m	Total £m
Year ended 28 February 2022							
(restated)⁽¹⁾							
Borrowings	(34)	(102)	(850)	—	—	—	(986)
Leases	(161)	(143)	(128)	(112)	(87)	(259)	(890)
Trade and other payables	(461)	—	—	—	—	—	(461)
	(656)	(245)	(978)	(112)	(87)	(259)	(2,337)

(1) See note 1 for further details on the restatement of prior year.

(f) Credit risk

The Group's exposure to credit risk is regularly monitored against a reasonable approximation of future changes. 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 13.

At 28 February 2023, the Group's maximum exposure to credit risk arises from the carrying amount of the trade receivables as stated in the consolidated statement of financial position.

The Group has no externally imposed capital requirements. Working capital is managed through a Group wide cash pooling arrangement and careful monitoring of short-term cash flow.

(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, 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 receivables 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.

18. Provisions

Accounting policy

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

The tables below analyse the Group's provisions:

	2023 £m	2022 £m
Current	6	1
Non-current	13	6
	19	7

	Property £m	Contract and other £m	Total £m
Year ended 28 February 2023			
Opening balance	7	—	7
Charged to income statement	3	14	17
Released to income statement	(1)	—	(1)
Utilised in the year	(4)	—	(4)
Closing balance	5	14	19

	Property £m	Contract and other £m	Total £m
Year ended 28 February 2022			
Opening balance	3	5	8
Charged to income statement	4	3	7
Released to income statement	—	(1)	(1)
Utilised in the year	—	(7)	(7)
Closing balance	7	—	7

Provisions are categorised as follows:

Property

Property provisions relate to dilapidations and similar property costs, and costs associated with onerous property contracts. All such provisions are assessed by reference to the terms and conditions of the contract and market conditions at the balance sheet date. Onerous property contracts are expected to be utilised over the next four years. Dilapidation provisions are expected to be utilised as and when properties are exited.

Contract and other

Contract and other provisions relate to onerous contracts and contracts with unfavourable terms. All such provisions are assessed by reference to the best available information at the balance sheet date.

19. Share capital

	Year ended 28 February 2023 million	Year ended 28 February 2022 million	Year ended 28 February 2023 £m	Year ended 28 February 2022 £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.

All other class of shares do not have any voting or dividend rights attached to them (unless the Company determines otherwise). There are no capital distribution rights (including on winding up) unless certain conditions are met in accordance with the Articles of Association of the Company. They do not confer any rights of redemption.

20. 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.

Merger reserve

The merger reserve primarily reflects the £513m (2022: £513m) profits or losses arising on the transfer of investments and net assets of Carphone Warehouse Group PLC (now Currys PLC) on demerger.

Retained earnings

Retained earnings are made up of accumulated reserves.

21. Analysis of changes in net debt

	Opening £m	Net cash flow £m	Non-cash movements £m	Closing £m
Year ended 28 February 2023				
Borrowings	(879)	(12)	(8)	(899)
Lease liabilities	(704)	178	(186)	(712)
Total borrowings	(1,583)	166	(194)	(1,611)
Cash and cash equivalents	20	(13)	—	7
Net debt	(1,563)	153	(194)	(1,604)

	Opening £m	Net cash flow £m	Non-cash movements £m	Closing £m
Year ended 28 February 2022 (restated)⁽¹⁾				
Borrowings	(773)	(103)	(3)	(879)
Lease liabilities (restated)	(614)	173	(263)	(704)
Total borrowings (restated)	(1,387)	70	(266)	(1,583)
Cash and cash equivalents	34	(14)	—	20
Net debt (restated)	(1,353)	56	(266)	(1,563)

(1) See note 1 for further details on the restatement of prior year.

For the year ended 28 February 2023, non-cash movements are £8m (2022: £3m) and relate to the deferral of facility fees on borrowings and the amortisation of such costs of £4m (2022: £4m) and £4m (2022: £nil) relating to the debt acquired as part of the acquisition of Telecom Acquisitions Limited (see note 9), and non-cash movements related to leases entered totalling £128m (2022 restated: £225m) and an interest expense of £58m (2022 restated: £38m).

22. 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. The Group has also entered into agreements to provide funding to its joint ventures. As at 28 February 2023, expenditure contracted but not provided for in these financial statements amounted to £37m (2022: £34m). Of this amount, £nil (2022: £nil) related to supply for core network, IT and customer equipment, £32m (2022: 30m) related to capital and lease commitments and £5m (2022: £4m) to fund its joint ventures. Of the capital commitments £10m (2022: £14m) related to intangible assets.

23. Related party transactions

(a) Subsidiaries and joint ventures

Details of subsidiaries and joint ventures are disclosed in notes 9 and 10 respectively.

In June 2022, a novation of Ethernet circuits to the Group was made by Virtual1 Limited, a company under common control. The novation was made at a fair value of £92m, with the equal and opposite lease liability also being transferred.

(b) Directors

The remuneration of the Directors and the remuneration of all key management personnel, which includes Directors, is disclosed in note 3.

The freehold interest of certain properties leased to the Group is owned by a company of which the Executive Chairman is a controlling owner. The terms of these leases are considered to be at market rates by reference to rental charges offered on other similar properties. In July 2022, the Group paid to surrender the lease and extinguish the liabilities related to a property owned by Freston Property TM Limited.

24. Post balance sheet event

Following the year end the Group has agreed certain amendments to the terms of its revolving credit facilities. See page 30.

Company balance sheet

TalkTalk Telecom Group Limited

Company number: 07105891

As at 28 February 2023

	Notes	28 February 2023 £m	28 February 2022 £m
Non—current assets			
Investments in subsidiaries and joint ventures	3	1,221	1,215
Financial asset under amortised cost	4,7	557	496
		1,778	1,711
Current assets			
Cash and cash equivalents	5	—	—
Trade and other receivables	4	110	171
		110	171
Total assets		1,888	1,882
Current liabilities			
Bank overdraft	5	(9)	(5)
Trade and other payables	6	(17)	(20)
		(26)	(25)
Non-current liabilities			
Borrowings	5	(817)	(808)
Total liabilities		(843)	(833)
Net assets		1,045	1,049
Equity			
Share capital	8	1	1
Share premium	9	684	684
Retained earnings & other reserves ⁽¹⁾	9	360	364
Total equity		1,045	1,049

(1) The Company's loss for the year was £4m (2022: £12m).

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

These financial statements were approved and authorised for issue by the Board on 11 July 2023. They were signed on its behalf by:



Tristia Harrison

Chief Executive Officer

11 July 2023

Company statement of changes in equity

TalkTalk Telecom Group Limited
For the year ended 28 February 2023

	Share capital £m	Share premium £m	Retained losses £m	Total equity £m
At 28 February 2021	1	684	376	1,061
Loss for the year	—	—	(12)	(12)
Total comprehensive expense	—	—	(12)	(12)
At 28 February 2022	1	684	364	1,049
Loss for the year	—	—	(4)	(4)
Total comprehensive expense	—	—	(4)	(4)
At 28 February 2023	1	684	360	1,045

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

Notes to the Company financial statements

1. Accounting policies and basis of preparation

Basis of preparation

TalkTalk Telecom Group Limited is incorporated and domiciled in England and Wales under the Companies Act 2006. The Company was de-listed from the London Stock Exchange on 15 March 2021. The registered office of the Company is Soapworks, Ordsall Lane, Salford, United Kingdom, M5 3TT. The principal activity of the Company is that of an intermediate holding company within the Group. The company acts as a Treasury function for the Group and holds and manages debt instruments.

The Company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' issued by the Financial Reporting Council. Accordingly, these financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework'.

As permitted by FRS 101, the Company has taken advantage of the below listed disclosure exemptions available under that standard.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- i. the requirements of IFRS 7 Financial Instruments: Disclosure, as the equivalent disclosure are included in the consolidated financial statements of the Group, in which the Company is consolidated;
- ii. the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement as the equivalent disclosure are included in the consolidated financial statements of the Group, in which the Company is consolidated;
- iii. the requirements of paragraphs 38 of IAS1 Presentation of Financial Statements to present comparative information in respect of:
 - Paragraph 79(a)(iv) of IAS1;
 - The requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS1;
- iv. the requirements of IAS7 Statement of Cash Flows;
- v. the requirements of paragraphs 30 and 31 of IAS8 Accounting Policies, Changes in Accounting Estimates and Errors;
- vi. the requirements of IAS24 related party disclosures;
- vii. The requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), 64(q)(ii), B66 and B67 of IFRS 3 Business Combinations provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated; and
- viii. the requirements of IAS 24 related party disclosures.

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

The financial statements have been prepared on the going concern basis. Details of the considerations undertaken by the Board in reaching this conclusion are set out in note 1 to the Group consolidated financial statements.

Accounting policies

The Company's accounting policies are in line with the Group's accounting policies as set out in note 1 to the consolidated financial statements. Where an accounting policy is generally applicable to a specific note, the policy is described within that note.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to exercise judgement in applying the Company'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.

Key sources of estimation uncertainty

IFRS 9

In accordance with IFRS 9, management has reviewed all financial assets held at amortised cost, including amounts owed by Group undertakings, to assess whether any expected credit losses should be recognised taking into account future expected cash flows of other Group undertakings.

The principal items in the financial statements involving critical accounting judgements:

Going concern – Company forecast assumptions

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. These judgements are subjective in nature, but such considerations are necessary for the Directors to confirm the viability of the Company and the treatment of it as a going concern. See the Directors' report on pages 29 to 31 for further detail.

Impairment reviews on investments in subsidiaries

The Company is required to test for impairment when carrying amounts of its investments have any indication of impairment which requires judgement. If an indication of impairment is identified, further judgement is required to assess whether the carrying amounts can be supported by the recoverable value of that asset which is done via estimating the value in use of that asset.

The value in use calculation involves estimation of both the future cash flows and the selection of appropriate discount rates to use to calculate present values.

Impairment reviews on the investment in YouView TV Limited

The Company is required to test for impairment when carrying amounts of its investments have any indication of impairment which requires judgement. If an indication of impairment is identified, further judgement is required to assess whether the carrying amounts can be supported by the recoverable value of that asset.

The Directors consider the recoverable amount as fair value less costs to sell of £23m (2022: £23m). The Directors have applied judgement in considering whether indicators of impairment exist and in assessing whether the recoverable amount remains appropriate for the 2023 year end.

2. Loss for the year

The Company has not presented its own profit and loss account as permitted by Section 408 of the Companies Act 2006.

The Company reported a loss of £4m for the year ended 28 February 2023 (2022: £12m loss).

The Company does not have any employees and therefore all Director and key management personnel remuneration is borne by another Group entity.

3. Investments

Accounting policy

Investments in subsidiaries and joint ventures are recorded at cost, being the fair value of consideration, acquisition charges associated with the investment and capital contributions by way of share-based payments, less any provision for impairment.

	2023 £m	2022 £m
Subsidiaries	1,194	1,188
Joint ventures and associates	27	27
	1,221	1,215

	2023 £m	2022 £m
Opening net book value	1,215	1,211
Additions	6	4
Closing net book value	1,221	1,215

Joint ventures

The Company holds a 14.3% of the ordinary share capital of YouView TV Limited, a joint venture with the British Broadcasting Corporation, ITV Broadcasting Limited, British Telecom PLC, Channel Four Television Corporation, Arqiva Limited and Channel 5 Broadcasting Limited.

Principal Group investments

A full list of subsidiaries, joint arrangements, associated undertakings and any significant holdings (as defined in the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008) is presented in note 9 to the consolidated financial statements.

Additions

The additions in the current year comprise:

- £6m in relation to the 50.1% acquisition of Telecom Acquisitions Limited.

The additions in the prior year comprise:

- £4m relating to the 40% acquisition of Freedom Fibre Limited.

Telecom Acquisitions Limited

On 31 October 2022, the Group acquired 50.1% of the issued share capital of Telecom Acquisition Limited and its subsidiaries, a provider in the Telecommunications sector. The transaction has been assessed as qualifying as a business as defined by IFRS 3 'Business Combinations' and therefore the acquisition has been accounted for under IFRS 3. An assessment against IFRS 10 'Consolidated Financial Statements' has established the Group has met the criteria of control.

The transaction was settled by £4m cash, with a further £2m consideration contingent on an exit event.

The net assets and liabilities recognised because of the acquisition are as follows:

	£m
Intangible assets recognised on acquisition	6
Trade and other receivables	2
Total assets	8
Deferred tax liability	(2)
Debt	(4)
Trade creditors and accruals	—
Deferred revenue	—
Total liabilities	(6)
Net assets acquired	2
Non-controlling interest in net assets acquired	1
Controlling interest in net assets acquired	1
Goodwill recognised	5
Total net assets	6
Satisfied by:	
Cash consideration	4
Contingent consideration	2
Total consideration	6

The provisional goodwill recognised is representative of future opportunities arising from the customer base and brand names. Provisional goodwill has been allocated to the Wholesale CGU. None of the goodwill is expected to be deductible for tax purposes.

If new information is obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition, or any additional provisions that existed at the date of acquisition, then the accounting for the acquisition will be revised.

4. Trade and other receivables

	2023 £m	2022 £m
Non-current – trade and other receivables		
Amounts owed by Group undertakings	557	496
Current – trade and other receivables		
Amounts owed by Group undertakings	110	171
Total trade and other receivables	667	667

Amounts owed by Group undertakings comprise amounts due from the following entities:

	2023 £m	2022 £m
TalkTalk Brands Limited	433	413
TalkTalk Communications Limited	103	168
TalkTalk Group Limited	3	2
Telecom Acquisitions Limited	4	—
TalkTalk Holdings Limited (formerly Tosca IOM Limited)	57	52
TalkTalk Finco Limited (formerly Tosca IOM Finco Limited)	67	32
	667	667

Amounts owed by Group undertakings arise on the provision of funding to subsidiary undertakings. Movements in amounts receivable are driven by costs borne by the Company settled by other Group undertakings, cash balances generated by the Group's pooling arrangements with subsidiary undertakings and interest charged on amounts receivable. No interest is charged on intercompany trading balances generated by TalkTalk's accounts payable function and bank sweeping arrangements, these balances are repayable on demand. Interest charged on certain intercompany loan balances is calculated at the Group's borrowing cost plus a margin. All balances disclosed are held at amortised cost.

5. Cash and cash equivalents and borrowings

(a) Cash and cash equivalents comprise:

	2023 £m	2022 £m
Cash at bank and in hand	—	—
Bank overdrafts	(9)	(5)
	(9)	(5)

The effective interest rate on bank deposits and money market funds was 0.00% (2022: 0.00%).

(b) Borrowings comprise:

	2023 £m	2022 £m
Non-current		
Loans	817	808

The movement in borrowings is the same as described in note 21 to the consolidated financial statements with the exception of the £6m cash inflow relating to the Group's £75m receivables purchase agreement facility and the £18m net cash outflow relating to the Group's supplier working capital arrangement (note 16 to the consolidated financial statements).

The table below analyses the Company's financial liabilities into relevant maturity groupings. The amounts disclosed in the table are the contractual undiscounted gross cash flows including interest, assuming that period-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	>5 years £m	Total £m
2023							
Borrowings	(36)	(859)	—	—	—	—	(895)
Trade and other payables	(17)	—	—	—	—	—	(17)
	(53)	(859)	—	—	—	—	(912)

	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	>5 years £m	Total £m
2022							
Borrowings	(32)	(35)	(850)	—	—	—	(917)
Trade and other payables	(20)	—	—	—	—	—	(20)
	(52)	(35)	(850)	—	—	—	(937)

6. Trade and other payables

	2023 £m	2022 £m
Amounts owed to Group undertakings	14	19
Other payables	2	—
Accruals	1	1
	17	20

Amounts owed to Group undertakings comprise amounts due to the following entities:

	2023 £m	2022 £m
TalkTalk Telecom Limited	11	19
Virtual1 Limited	2	—
Origin Communications Limited	1	—
	14	19

Amounts owed to Group undertakings arise in respect of cash balances generated by the Group's pooling arrangements with subsidiary undertakings.

No interest is charged on intercompany trading balances generated by TalkTalk's accounts payable function and bank sweeping arrangements, these balances are repayable on demand. Interest charged on certain intercompany loan balances is calculated at the Group's borrowing cost plus a margin. All balances disclosed are held at amortised cost.

Included in other payables is £2m contingent consideration relating to the acquisition of Telecom Acquisitions Limited (note 3).

7. Financial risk management and derivative financial instruments

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

	2022 £m	2022 £m
Cash and cash equivalents	—	—
Non-current trade and other receivables	557	496
Current trade and other receivables	110	171
Financial assets at amortised cost	667	667
Trade and other payables	(17)	(20)
Financial liabilities at amortised cost	(17)	(20)
Total financial instruments	650	647

The details of the Company's risk management activities are disclosed within note 17 to the consolidated financial statements and should be regarded as an integral part of these financial statements.

8. Share capital

	2023 million	2023 £m	2022 million	2022 £m
Authorised, issued and fully paid				
Ordinary shares of 0.1p each	1,146	1	1,146	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.

All other class of shares do not have any voting or dividend rights attached to them (unless the Company determines otherwise). There are no capital distribution rights (including on winding up) unless certain conditions are met in accordance with the Articles of Association of the Company. They do not confer any rights of redemption.

9. 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.

Retained earnings

Retained earnings are made up of accumulated reserves.

Retained earnings are considered to be distributable reserves.

Dividends

No dividends were paid in the year ended 28 February 2023 (FY22: £nil).

10. Ultimate parent undertaking and controlling party

The Company is a subsidiary of TalkTalk Finco Limited (formerly Tosca IOM Finco Limited). The ultimate parent undertaking and controlling party is TalkTalk Holdings Limited (formerly Tosca IOM Limited), a company incorporated in England and Wales. The full year results of the Company are included in the 2023 Annual Report of TalkTalk Holdings Limited.

The principal place of business of TalkTalk Holdings Limited is at Soapworks, Ordsall Lane, Salford, United Kingdom, M5 3TT. The consolidated financial statements of the Group are available to the public and may be obtained from Companies House.

The smallest and largest group for which consolidated financial statements are prepared of which the Company is a member is that headed by TalkTalk Holdings Limited.

11. Post balance sheet event

Following the year end the Group has agreed certain amendments to the terms of its revolving credit facilities. See page 30.

Alternative performance measures

APMs are the way that financial performance is measured by management and reported to the Board, the basis of financial measures for senior management's compensation schemes, and provide supplementary information that assists the user in understanding the underlying trading results.

APM	Closest equivalent IFRS measure	Adjustments to reconcile IFRS measure	Note reference for reconciliation	Definition and purpose
Income statement measure				
Earnings before interest, tax, depreciations and amortisation (EBITDA)	Operating profit or loss	Operating profit or loss, before depreciation and amortisation, share of joint ventures, net finance costs and taxation.	Note 6 to the consolidated financial statements.	Represents operating profit before depreciation, amortisation and share of results of joint ventures.
Headline EBITDA	Operating profit or loss	Operating profit or loss before non-headline items, depreciation and amortisation, share of joint ventures, net finance costs and taxation.	Note 6 to the consolidated financial statements.	Represents operating profit before non-headline items, depreciation, amortisation and share of results of joint ventures. The purpose of this APM is to allow the user to understand the Group's underlying financial performances measured by management and reported to the Board. In addition, it is a financial measure for senior management's compensation schemes
Balance sheet measure				
Net debt	Total borrowings after derivatives offset by cash and cash equivalents.		Note 16 to the consolidated financial statements.	Represents total borrowings after derivatives offset by cash and cash equivalents. It is a useful measure of the progress in generating cash and strengthening of the Group balance sheet position and is a measure widely used by various stakeholders.

Glossary

ADSL	Asymmetric digital subscriber line technology enables data transmission over existing copper wiring at data rates several hundred times faster than analogue modems, providing for simultaneous delivery of voice, video and data
AltNets	Alternative Networks - Competitors to Openreach in the FTTP space
APM	Alternative performance measure
ARPU	Average revenue per user on a monthly basis
CGU	Cash generating unit
Churn	A measure of the number of subscribers moving out of a product or service over a specific period of time
The Company	TalkTalk Telecom Group Limited
Companies Act	Companies Act 2006
EBITDA	Earnings before interest, taxation, depreciation and amortisation
ECL	Expected credit loss
Ethernet	Ethernet is a protocol that controls data transmission over a communications network often referred to as a family of frame-based computers
FRC	Financial Reporting Council
FTTC	Fibre to the Cabinet
FTTP	Fibre to the Premise
Gbps	Gigabits per second - Unit of data transfer rate equal to 1,000,000,000 bits per second
GEA	Generic Ethernet access
The Group	The Company, its subsidiaries and entities which are joint ventures
Headline information	Headline information represents the Group's income statement, stated before the amortisation of acquisition intangibles and exceptional items that are considered to be one-off and non-recurring in nature and so material that the Directors believe that they require separate disclosure to avoid distortion of underlying performance and should be separately presented on the face of the income statement
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
LLU	Local loop unbundling
Mbps	Megabits per second - Unit of data transfer rate equal to 1,000,000 bits per second
Net debt	Borrowings net of cash held on deposit at financial institutions
On-net	The Group's unbundled network
Operating profit	Profit before finance costs and taxation
PIK	Payment in kind
RCF	Revolving credit facility
SoHo	Small office Home office
SME	Small and Medium Enterprise
SONIA	Sterling Overnight Index Average
Tbps	Terabytes per second - Unit of data transfer rate equal to 1,000,000,000,000 bits per second

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